Egypt

Social Fund for Development Project

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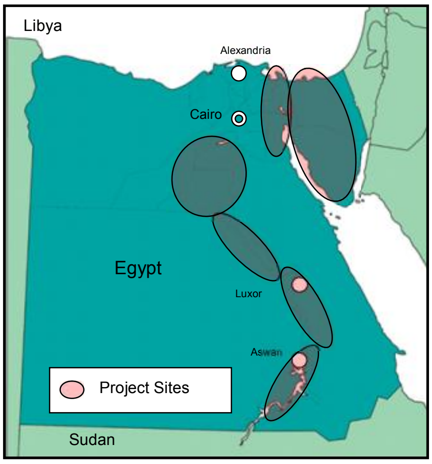
0. Summary

This project was carried out with the objective of satisfying the financial needs of micro and small enterprises in the poverty-stricken regions of Egypt and thereby encouraging job creation and poverty reduction, which is highly consistent with the relevant policies. In the initial stage of the project, it was found that the loan terms did not meet the needs of the users. However, owing to the modification of the loan terms and other efforts, both the cumulative amount of sub-loans (sub-projects) disbursed and the cumulative number of sub-loans approved exceeded the target value. To date, over 30,000 job opportunities have been created, which contributed to some extent to the decline in the unemployment rate in the target areas. In addition, the implementation of the project generated many positive impacts, including substantial improvement in the business conditions of end users. Although the economic disorder caused by the people's revolution in February 2011 is expected to affect debt collection in the future, the ratio of sub-loans in arrears remains low so far, and there is no problem with the operation and maintenance system of the executing agency and intermediary banks. In terms of efficiency, although the implementation period was longer than planned, the project cost did not exceed the planned amount. In light of the above, this project is evaluated to be satisfactory.

1. Project Description



Map of Project Area

Automobile Repair Shop (End-User) in Quena

1.1 Background

Egypt received structural adjustment loans from the World Bank and the IMF in 1991, which resulted in the country's macro economic recovery. However, the radical economic structural reform required as a condition led to deterioration into poverty and unemployment, and the development of a safety net became an urgent necessity. Under these circumstances, the Social Fund for Development (SFD) was established in 1991 to finance projects for the development of small enterprises, human resources, and the country's regions, with the main objectives of reducing poverty and alleviating the negative impacts of the economic structural reform through the creation of job opportunities and community development.

At the time of project appraisal in 2002, 550,000 jobseekers were pouring into the labor market every year due to: 1) the weakening appeal of working in the agricultural sector and the outflow of young people from farming villages as a result; 2) the slowing down of economic growth in oil-producing countries and the return of redundant migrant workers from those countries; and 3) massive job cuts in the public sector as a result of the privatization of public enterprises. Thus, providing and ensuring job opportunities for these unemployed people had been the top priority for the Egyptian government.

In the Upper Egypt area, comprising the governorates such as in Assuit and Minya, the poverty rate was particularly high. The Sinai and Suez Canal areas were suffering from high unemployment. These areas were regarded as those where poverty reduction and unemployment measures should be promoted with high priority.

1.2 Project Outline

The objective of this project is to meet financial needs of micro and small enterprises (MSEs) and to promote job creation in Upper Egypt and the Suez Canal & Sinai Peninsula by providing soft loans on concessionary terms by way of two financial intermediaries under the Small Enterprise Development Organization (SEDO) of SFD, established by the Government of Egypt, thereby encouraging the reduction of poverty and socio-economic inequalities of the target governorates.

Loan Amount / Disbursed Amount	5,194 million yen / 5,194 million yen
Exchange of Notes / Loan Agreement Signing Date	June 2001 / February 2002
Terms and Conditions	Interest Rate: 0.75% (for borrower) Repayment Period: 40 years (Grace Period:10 years) Conditions for Procurement: General Untied
Borrower / Executing Agencies	The Government of Arab Republic of Egypt / Social Fund for Development (SFD)

Final Disbursement Date	November 2008
Main Contractors (over 1 billion yen)	(Not applicable because the project provides soft loans on concessionary terms by way of financial intermediaries)
Main Consultant (over 100 million yen)	(The same as the above)
Feasibility Studies, etc.	1999 Preliminary Study on Social Fund for Development Project (by JICA) 2000 Financial Conditions Study (by JICA) 2004 - 2005 Special Assistance for Project Implementation (SAPI, by JICA)

2. Outline of the Evaluation Study

2.1 External Evaluator

Hajime Onishi (Mitsubishi UFJ Research & Consulting)

2.2 Duration of Evaluation Study

Duration of the Study: December, 2010 – December, 2011

Duration of the Field Study: June 7, 2011 – June 16, 2011 / September 20, 2011 – September 21, 2011

2.3 Constraints during the Evaluation Study

The people's revolution, triggered by the "Jasmine Revolution" in Tunisia, brought about the collapse of the Mubarak regime in February 2011, and Egypt is under the interim military rule of the Supreme Council of the Armed Forces as of November 2011. The "Socio-economic Development: Long-term Vision 2022" and the "6th Five-year National Programme" referred to in the "Relevance" section below were formulated under the former regime. Since a new government has not yet been formed, the aforementioned national strategy and plan as well as the policies for related sectors were analyzed for this evaluation, for the reader's convenience.

3. Result of the Evaluation (Overall Rating: B[1])

3.1 Relevance (Rating: ②[2])

3.1.1 Relevance with the Development Plan of Egypt

Relevance with the national policies

At the time of the project appraisal in 2002, the Egyptian government treated the expansion

[1] A: Highly satisfactory, B: Satisfactory, C: Partially satisfactory, D: Unsatisfactory

[2] ③: High, ②: Fair, ①: Low

of employment opportunities (creating 550,000 job opportunities a year) as a key issue in the long-term development plan, “Egypt and the 21st Century” (launched in 1997 with the target year set at 2016/17), along with private sector-led high economic growth and the full implementation of compulsory education. At the time, it was emphasized that poverty and the job crunch faced by the young generation was creating a hotbed for Islamic extremists, and therefore, poverty reduction through job creation was indispensable for Egypt in order to remove factors of social unrest.

At the time of the ex-post evaluation, the “Socio-economic Development: Long-term Vision 2022” for the target year of 2022 (formulated in April 2002 shortly after the project appraisal) set the main objectives of: 1) poverty reduction and the improvement of income distribution; and 2) human resource development and job increase (targeting the creation of 750,000 job opportunities a year), therefore showing that poverty reduction and job increases remain the main pillars of the long-term national strategy.

Also in the “6th Five Year National Programme” (2007/08–2011/12), 1) achievement of high economic growth (8% a year); 2) job creation (3.8 million job opportunities in five years); and 3) reduction in the unemployment rate (5.5%) are listed among major policy objectives, and thus, employment measures are regarded as an issue of high priority.

As stated above, poverty reduction in the poverty regions and job increases have been the major national strategy since the time of project planning through to the ex-post evaluation, and therefore, this project aiming to “reduce poverty and eliminate regional disparities through job creation” is extremely consistent with the national strategy.

<u>Relevance with the sector policies</u>

At the time of the project appraisal in 2002, no policy concerning the development of micro, small, and medium-sized enterprises was put in place. The new SME Law No.100141, enacted in 2004 and “Enhancing Competitiveness for SMEs in Egypt – General Framework and Action Plan”, drawn up by the SME Unit of the Ministry of Finance, became the first policy framework for the development of small and medium-sized enterprises in Egypt, which is still in effect at the time of the ex-post evaluation. This policy is oriented toward poverty reduction and income generation through the development of small and medium-sized enterprises, and it underlines the importance of social consideration in enterprise development.

In addition, the “Multi-Donor Review” conducted by SFD donors in 2004 reiterated 1) poverty reduction and 2) job creation as the long-term mission goals of the SFD.

From the above, at the time of the ex-post evaluation, the sector policy concerning the development of small and medium-sized enterprises is oriented toward poverty reduction and income generation through enterprise development, and is completely in line with the direction aimed at by this project.

3.1.2 Relevance with the Development Needs of Egypt

Table 1 below shows the poverty and unemployment rates in the governorates and the city covered by the project (12 governorates/one city in total, comprising six governorates and said one city in Upper Egypt, including Beni Suef and five governorates in Suez Canal & Sinai Peninsula) in 2001, shortly before the launch of this project, and in 2008, soon after project completion (also detailed in the "Impacts" section).

Table-1: Poverty and Unemployment Rate in Target Governorates and City of the Project

Target Governorates / City	Poverty Rate (%, Population Ratio)		Unemployment Rate (%)	
	2000/01	2007/08	2000/01	2007/08
Upper Egypt				
Beni Suef	51.2	41.5	8.1	3.5
Minya	24.4	30.9	7.8	5.5
Assuit	58.1	61.0	11.2	8.3
Soharg	45.5	47.5	9.6	9.4
Quena	33.3	39.0	10.9	7.5
Luxor City	Not known	40.9	11.7	17.2
Aswan	24.5	18.4	14.9	12.9
Suez Canal & Sinai Peninsula				
Port Said	2.6	4.4	9.6	11.2
Suez	4.2	1.9	7.6	9.7
Ismailia	7.9	18.8	7.5	11.1
North Sinai	Not known	Not known	5.9	3.8
South Sinai	Not known	Not known	2.0	7.8
National Average	20.1	21.6	9.0	8.9

Source: Prepared from Institute of National Planning "Egypt Human Development Report"
Note): The Loan Agreement (L/A) of the project was concluded in February 2002 and the date of final disbursement of yen loan from JICA to SFD was November 2008.

As shown in Table 1, the poverty rates and unemployment rates in the target governorates were still high in 2008.[3] As governorate-related data is only available up to 2008, the situation in 2011 is unknown. However, in view of the slowing down of the Egyptian economy after 2008 in the wake of the global financial crisis, the situation in 2011 is assumed to be similar (or deteriorated). Therefore, the needs for job creation and poverty reduction are considered to be present today.

On the other hand, as described later in the "Efficiency" and "Effectiveness" sections, this project was designed to provide capital investment loans to the manufacturing industry, but the industrial structure in Upper Egypt and Suez Canal & Sinai Peninsula was not exactly

[3] The poverty rate (percentage of the population below the poverty line out of the total population) remains high for governorates in Upper Egypt, particularly in Assuit, which has a high rate of over 60%. All six governorates except Aswan have poverty rates above the national average (21.6%). In Minya, Assuit, Sohag, and Quena, the percentage of the population below the poverty line increased from 2000/2001 to 2007/2008. The unemployment rate has declined substantially in the governorates in Upper Egypt, with the exception of Luxor City and Aswan, while relatively high rates are recorded in Suez Canal & Sinai Peninsula, as was observed in 2002. In Port Said and Ismailia, in particular, the unemployment rate is over 10%, well exceeding the national average of 8.9%.

what was assumed for the scheme. Therefore, in the initial stage of the project, a situation arose where the loan terms did not meet the needs of the enterprises. In hindsight, it can be said that the needs assessment prior to the project was not sufficiently reflected in the project design.[4]

3.1.3 Relevance with Japan's ODA Policy

At the time of the project appraisal in 2002, the former Japan Bank for International Cooperation (JBIC) in its implementation policy for overseas economic cooperation projects referred to the development of a social safety net for the socially vulnerable as one of the priority areas of its support for economic structural reform. This project, which aimed to promote job creation by micro and small enterprises and to eliminate regional disparities, is highly consistent with the above policy.

3.1.4 Relevance with Application of Two-Step Loan Scheme and Consistency with Similar Program

At the time of project appraisal in 2002, which was about 10 years after the start of the SFD projects, the SFD had received a total of 157.1 billion yen in funding from over 20 donors and international organizations, including the World Bank, the EU Fund, and the Arab Fund. Given these circumstances, this project was formed by: 1) limiting the target of support to micro and small enterprises (see the "Efficiency" section for details); 2) limiting the geographic target areas to the particularly underdeveloped Upper Egypt and Suez Canal & Sinai Peninsula; and 3) setting the main objectives of job creation and economic development in underdeveloped regions. Under the "select and focus" strategy, which had not been taken in the programs of other donors, the program adopted an approach clearly different from that of other donors.

The prime rate (the prime lending rate for enterprises in good standing) quoted by commercial banks in Egypt was around 12% as of the time of project appraisal, a situation that encouraged the use of the SFD, a public fund, for loans to small and medium-sized enterprises. This project was also relevant in that it offered concessional rates for the end users (planned at 7–11%).[5]

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[4] According to JICA's internal documents, the background factors that led to the formation of this project include: 1) high expectations of the Egyptian government for the new scheme provided by the former JBIC (softening of the conditions for providing funds in the cases where loans are extended to human resource development and small and medium-sized enterprise development projects); 2) the urgent need to form the first project after the resumption of ODA lending to Egypt; and 3) the need to secure the presence of Japan in an unfavorable environment where many donors were involved and where Japan was lagging behind in SFD projects.

[5] As mentioned later, the original loan limit of 200,000 L.E. did not meet the needs of end users in many cases, and as a result, customers defected to other programs and fund sources in the project's beginning.

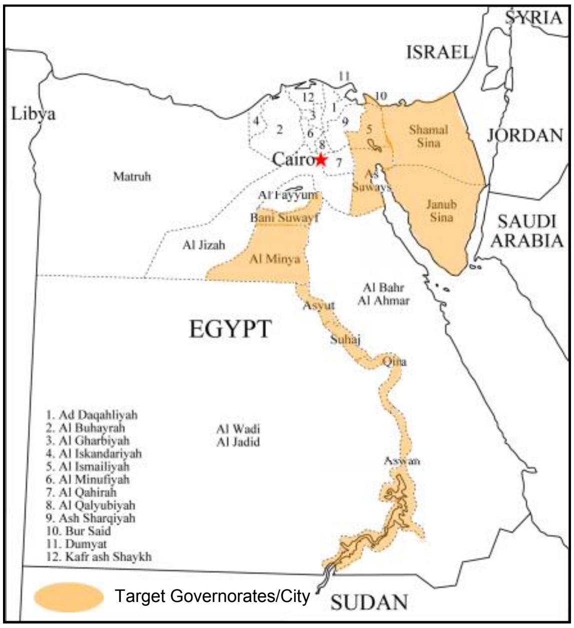

Figure-1: Location of the Project Site

3.1.5 Appropriateness of Selection of Intermediary Banks

At the time of project appraisal, the candidates for intermediary banks were rated based on a scoring system, and the National Bank of Egypt (NBE[6]) and Bank of Alexandria (BOA[7]) were finally selected as the intermediary banks.

The NBE was appropriate as the intermediary bank for this project in that: 1) the ratio of nonperforming loans in the SFD programs (not covered by this project) had been on the decline; and 2) it considered small and medium-sized business financing as a priority sector. In this regard, the right decision was made at the time.

As for BOA, on the other hand, various new facts concerning its business performance[8] unfolded one after another in 2004. Even though it was difficult to foresee such situations at

[6] The National Bank of Egypt (NBE) is the oldest bank in Egypt founded in 1898 and had functioned as the central bank until 1961. After the separation and independence of the central bank, it has been operating as a commercial bank. As of 2011, it exists as a national bank and is involved in the financing of 84% of the total loans (in terms of monetary amount) provided.

[7] The Bank of Alexandria (BOA) is a national commercial bank founded in 1957 to take over the operations of Barclays Bank, which pulled out of Egypt, and BOA became nationalized in 1960. In October 2006, it became an affiliate of the Bank of Intesa Sanpaolo Group of Italy by selling 80% of its outstanding shares to the group, and was converted to a private bank (the name of "Bank of Alexandria" remains unchanged).

[8] The following four facts were found in 2004 (the source is JICA internal document for each case): 1) The asset inspection conducted at the time of the management change in 2004 revealed a high ratio of irregularly performing loans (48%), and the bank suspended the issuance of new loan commitments for one and a half months in the first quarter of 2004; 2) In the SFD programs (not covered by this project) in Suez Canal & Sinai Peninsula that BOA was involved in, many loans became nonperforming regarding cattle-rearing and other sectors, and the approval of new loans in these sectors was suspended for a year; 3) The ratio of nonperforming loans in the SFD programs (not covered by this project) that BOA was involved in as of December 2003 was high, at 17.2% for Upper Egypt, 52.7% for Suez Canal & Sinai Peninsula, and 45.5% for other regions; and 4) When the SFD investigated the causes of the increase in the ratio of the nonperforming loans of BOA, it was determined that the factor of a lack of experience cannot be removed, and thus the SFD announced a policy to order BOA to discontinue loans in the livestock industry.

the time of appraisal due to insufficient information disclosure and other reasons, there remains the question as to whether it was proper to select BOA as a candidate for an intermediary bank and to give high scores to it in ratings at the time of appraisal. BOA was acquired by an Italian investor in 2006 and was converted to a private bank. The new BOA is now proceeding with operational improvements.

Based on the above, the implementation of this project has been sufficiently consistent with Egypt's development policy and Japan's support policy, both at the time of project appraisal and ex-post evaluation. On the other hand, the project design did not meet the development needs in some respects, such as the loan terms, which did not meet the needs of the users in the initial stage of the project. Therefore, the relevance of the project is rated as moderate.

3.2 Efficiency (Rating: ②)

3.2.1 Project Outputs

Table 2 below shows a comparison between the planned and actual outputs of the project. Major changes have been made in the following two points, and others were carried out as planned.

- Regarding the restrictions on the purposes for which the sub-loan is used, the limit of use for working capital was raised to 70% from 30% of the total amount of each sub-loan after 2008.
- The loan limit was raised to 500,000 L.E. from 200,000 L.E. (Egyptian pounds) per sub-loan after 2008.

Table-2: Changes in Output

Project Components	Original	Actual	Differences
(1) Sub-Loans Disbursement			
・ Type of end-users	Micro and small enterprises (MSEs)	The same	As planned
・ Sub-loan amount per end-user	5,000 L.E. to 200,000 L.E.	Maximum loan amount: Increased up to 500,000 L.E. after 2008	Changed after 2008
・ Eligible end-users of sub-loan	i) Private entities ii) Total asset of existing end-users: 5,000 to 200,000 L.E. (excl. land and building)	i) The same ii) Total asset: Increased up to 500,000 L.E. after 2008	As planned Changed after 2008
・ Conditions for sub-loan use	Basically for capital investment For working capital: Not exceeding 30% of the total amount of each sub-loan	The limit of working capital: Increased up to 70% of the total amount of each sub-loan, after 2008	Changed after 2008
・ Collateral	Land, building, equipment, etc.	In addition to the left, third party guarantor	Mostly as planned
(2)Sub-Loan from SFD to IBs			
・ Intermediary banks (IBs)	National Bank of Egypt (NBE), and Bank of Alexandria (BOA)	The same	As planned
・ Interest rate	4 to 8.5%	The same	As planned

Project Components	Original	Actual	Differences
・ Repayment period	Up to seven years (incl. two years grace period at maximum)	The same	As planned
(3) Subsidiary Loan from IBs to End-Users			
・ Interest rate	7-11%	Almost the same (6.5% for some cases)	Mostly as planned
・ Repayment period	Up to five years (incl. one year grace period at maximum)	The same	As planned
(4) Target Governorates for Sub-Loan			
・ Upper Egypt	Six Governorates and one City (Beni Suef, Mynia, Assuit, Sohag, Quena, Aswan and Luxor City)	The same	As planned
・ Suez Canal & Sinai Penninsula	Five Governorates (Port Said, Ismailia, Suez, North Sinai and South Sinai)	The same	As planned

Source: JICA internal documents and answers to the questionnaires to NBE and BOA

The background and detailed reasons for the abovementioned changes are as follows.

Changes in the restrictions on the purposes for which the sub-loan is used: As this project was oriented toward providing funds for capital investment mainly in the manufacturing industry, a restriction was imposed to "limit the use of loans for working capital to 30% of the total sub-loan amount." On the other hand, as it turned out, the industrial structure of the target areas was not necessarily reflected in the selection of target industries,[9] and as a result, the restrictions on the use of sub-loans imposed in this project did not work to meet the needs of the enterprises that were seeking funding mainly for working capital. Subsequently, based on the results of the analysis conducted through Special Assistance for Project Implementation (SAPI), it was determined appropriate to raise the limit on the use for working capital to 70% of the total amount of the sub-loan.

Increase in the loan limit: While the situation was as described above, financing needs for capital investment existed to some extent. However, the initially set loan limit of 200,000 L.E. (equivalent to about six million yen based on the exchange rate at that time) did not meet the needs of the end users in many cases, and as a result, customers defected to other programs and fund sources.[10] In light of these circumstances, and based on the results of the analysis conducted through SAPI, it was determined appropriate to raise the loan limit to 500,000 L.E.

It can be highly appreciated that these two problems were detected early on, and that: 1)

[9] In Upper Egypt and Suez Canal & Sinai Peninsula: 1) commerce and service industry accounts for a higher percentage than the national average, while the industries requiring capital investment account for only a small percentage; and 2) the major customers of the SFD in these regions have been traditionally those in the livestock industry, apiculture, and the agricultural products processing industry. (Source: JICA internal documents)

[10] This is pointed out as one of the factors that held down the growth of lending between 2002 and 2004. In addition, according to JICA internal documents, the following two factors are pointed out as the reasons for little growth in lending from the SDF as a whole: 1) Restructuring of the entire SDF was initiated, based on the report of the Multi-donor Review Mission in 2000; and 2) in the process of restructuring, various restrictions were imposed on the operations of the SFD, such as that the signing authority of the managing director of the SFD (the *de facto* head of the SFD) was limited to the disbursement of up to 50,000 L.E. in 2001. (Source: JICA internal documents)

SAPI was carried out in a timely manner and that 2) the experts in long-term residence at the project site were engaged in SAPI to define the problems in detail, which led to the suggestion of the specific solutions as described above.

3.2.2 Project Inputs

3.2.2.1 Project Cost

The total cost of the project was originally 5,194 million yen (the Japanese ODA loan share was 5,194 million yen) and the actual project cost was 5,194 million yen (the Japanese ODA loan share was 5,194 million yen), which was equivalent to 100% of the original plan. Table 3 shows the amount actually disbursed by JICA to the SFD each year.

Table-3: The Amount Disbursed by JICA to the SFD

Year	Loan Disbursement from JICA (million yen)
2002	0
2003	1,145
2004	0
2005	1,434
2006	0
2007	1,270
2008	1,340
Total	**5,189**

Source: JICA Internal documents
Note-1): Exchange rate: 1L.E. = 19.64 yen (Average between 2003 and 2008)
Note-2): The difference between 5,194 mil. yen and 5,189 mil. yen includes the miscellaneous charges, etc.

Loan disbursements by JICA to the SFD were made only in the four years of 2003, 2005, 2007, and 2008. In the last two years, 2007 and 2008, a total of 2.610 billion yen was disbursed, which accounts for 50% of the total amount disbursed.

No disbursement was made by JICA to the SFD in 2002 and 2004, probably due to: 1) the incompatibility between the loan terms and the needs caused by a gap between the target industries and the industrial structure of the target areas; and 2) the mismatch between the loan amount needed by end users and the loan limit, which resulted in sluggish disbursement by the SFD to the intermediary banks. In addition, no disbursement was made in 2006 because of the contract problem regarding the external auditor of the special account (see the “Project Period” section below for details).

3.2.2.2 Project Period

The project was scheduled from February 2002 to December 2006, a period of 59 months, but it extended to 82 months, from February 2002 to November 2008,[11] which was equivalent

[11] The project is deemed to have started in February 2002 when the signing of the L/A took place and completed with the disbursement deadline in November 2008.

to 139% of the original plan. As a result, the project period was longer than planned.

The main causes of delay were: 1) delay in procedures at the start of project (delayed by about a year); 2) sluggish growth in lending during the early years of the project; and 3) the suspension of disbursement from JICA (for two years) due to the contract problem concerning the external auditor of the special account.

Regarding the delay in procedures in 1) above, after the signing of the L/A for the project in February 2002 as scheduled, a series of procedures were taken, including i) ratification by the parliament, ii) publication of a government gazette, iii) establishment of the special account, iv) negotiation with the intermediary banks on terms & conditions and the consent of JICA, and v) the effectuation of a Presidential Decree concerning the project. According to SFD-SEDO (SEDO: Small Enterprise Development Organization), which is responsible for the project, they could not start work relating to the project until the process of i) to v) was cleared. As a result, the start of the full operation of the project was delayed until February 2003.[12]

The main reasons for the sluggish growth in lending during the early years of the project as mentioned in 2) above are summarized as follows, based on JICA internal documents and the interview with the SFD staff concerned: i) restructuring of SEDO and confusion in its operation; ii) the gap between the aim of the loan scheme and the industrial structure of the target area;[13] iii) the loan limit (up to 200,000 L.E); iv) flaws in the selection of intermediary banks[14] and delay in understanding lending conditions;[15] v) the limit on the use of loans for working capital; and vi) competition with the programs of other donors.

Regarding vi) above, it is pointed out that the program by the EU that was implemented around the same time as this project was given higher priority at SEDO and the NBE, and, as a result, this project was slow in progress.[16]

The contract problem regarding the external auditor of the special account in 3) occurred as

[12] SEDO insists that "it is appropriate to consider the date of effectuation of v) to be the start of the project. (Source: Answers to the questionnaire to SFD and results of interviews with SFD) If their views were adopted, the actual project period would have been 70 months from February 2003 to November 2008 (119% of the planned period). Even so, the rating of efficiency (②) would not be affected.

[13] Details are as already stated in "Outputs." As the target areas of the project were underdeveloped, the manufacturing industry had not yet developed sufficiently, while the enterprises in agriculture and related industries, commercial, and service industries accounted for the majority of enterprises in the target areas. Therefore, lending for capital investment, which was initially the main objective of the project, was not expected to be promoted under such an industrial structure as described above.

[14] As of 2004, BOA made all the sub-loans in Suez Canal & Sinai Peninsula subject to headquarter approval, which substantially prevented the formation of sub-projects and also led to the suspension of lending to the agriculture-related sectors. (Source: JICA internal documents)

[15] The lack of sufficient instructions to the intermediary banks on the conditions for lending (the percentage of the amount to be used for working capital in the total amount of the sub-loan, the types of end users eligible for sub-loans, and loan limits, etc.) made it difficult for them to carry out business operations in an efficient manner and also constituted an obstacle in the acquisition of new customers. (Source: Results of interviews with the JICA Egypt Office, intermediary banks, and the regional offices of the SFD, etc.)

[16] Since the deadline for disbursement under the EU program for SEDO was set at the end of 2004, the resources of SEDO and the NBE as the intermediary bank were used intensively in order to use up the funds provided under the program before the deadline. (Source: JICA internal documents)

the SFD terminated the contract with the existing auditor due to difficulties in the negotiations for an additional contract and as the SFD invited bids to select a new auditor. The position of the external auditor was left vacant for some period of time during which no disbursement was made according to the provisions of the L/A.

Although the project cost was lower than planned, the project period was longer than planned (139% of the original plan), therefore efficiency of the project is fair.

3.3 Effectiveness (Rating: ③)

3.3.1 Quantitative Effects

3.3.1.1 Results from Operation and Effect Indicators

(1) Cumulative amount of sub-loans disbursed[17]

Under this project, 5,395 sub-projects were approved and a total of 264.41 million L.E. was disbursed as sub-loans from the SFD. Thus, the quantitative target for fund supply to micro and small enterprises in the target areas has been achieved. Most of the funds were disbursed in 2005, 2006, and 2008. It is assumed that the increase in disbursement in 2005 and 2006 is attributable to the leverage effect of SAPI (intended to promote lending through the long-term dispatch of experts) by the former JBIC, and the disbursement in 2008 was boosted by the easing of lending conditions and the jump in the number of sub-loans approved toward the disbursement deadline of the project.[18] The fact that about 40% of the total amount disbursed was concentrated in 2008 indicates that a sort of "last-minute push" was made.

Table-4: Achievement Rate of Main Indicators

Operation and Effect Indicators (Unit)	Target Value (Expected Completion Year, 2009) a	Actual Value (As of 2011) b	Achievement Ratio b/a
Operation Indicators			
Cumulative Amount of Sub-Loans Disbursed	187 million L.E.	264 million L.E.	141%
For National Bank of Egypt (NBE)	n.a.	223 million L.E.	
For Bank of Alexandria (BOA)	n.a.	41 million L.E.	
The Number of Sub-Loans (Sub-Projects) Approved	5,342	5,395	101%
For National Bank of Egypt (NBE)	n.a.	4,657	
For Bank of Alexandria (BOA)	n.a.	738	
The Number of Sub-Loans (Sub-Projects) in Arrear	Not known	285	n.a.
For National Bank of Egypt (NBE)	Not known	278	
For Bank of Alexandria (BOA)	Not known	7	
Effect Indicators			
Cumulative Number of Job Opportunities Created	18,700	31,320	167%

Source: JICA internal documents, and answers to the questionnaire to SFD and National Bank of Egypt (NBE)

[17] It is argued that the achievement of sub-loan disbursement should be evaluated as an efficiency item. Given that the main objective of this project is to satisfy the financial needs of micro and small enterprises, it is decided to be evaluated as an effectiveness item.

[18] As mentioned in the "Efficiency" section, sub-loan disbursement concentrated in 2008 largely because the funds for lending were not available until late 2007 due to the suspension of disbursement from the former JBIC to the SFD from 2005 to the middle of 2007.

Note): The percentage of the number of sub-loans in arrear to the total number of sub-loans (sub-projects) approved is 5.3% (=285/5,395)

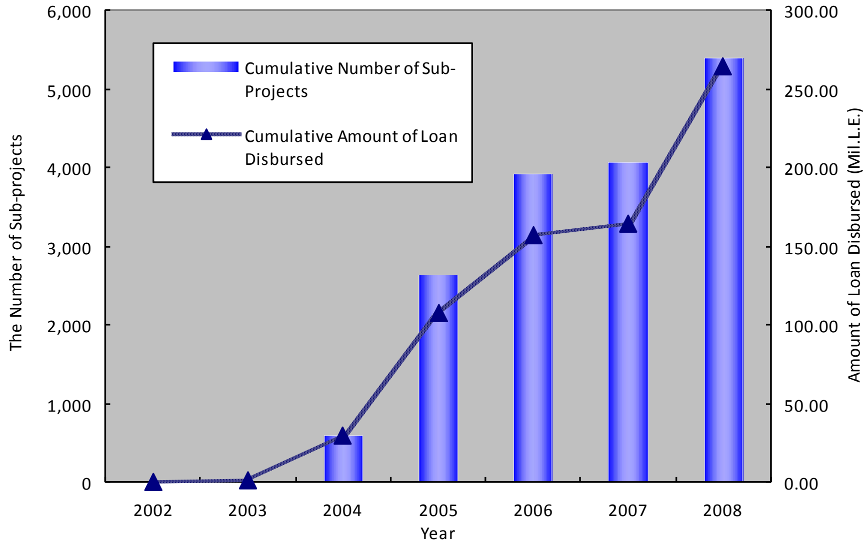

Figure-2: Cumulative Number of Sub-projects and Amount of Loan Disbursed

The data of sub-loans disbursed in each governorate and city in the target areas shows that the amount disbursed is unevenly distributed, as the disbursement was concentrated in specific governorates. About 70% of the number of sub-loans and 63% of the amount is concentrated in the top three governorates (Minya, Assuit, and Quena). In order to examine the situation of the uneven distribution of sub-loan disbursement, the number of sub-loans and the amount disbursed per 100,000 people below the poverty line were calculated using the data on population below poverty line for each governorate/city in 2008/2009. As shown in Table 5, a conspicuously large amount was disbursed in Suez, Aswan, Port Said, and Minya. The above facts show an excessive concentration of lending in Minya. Assuming that there was no specific strategic intention (or no region-wise target set for the amount of disbursement), efficiency in lending and the fair implementation of the project are questioned.

Table-5: Annual Sub-Loan Disbursement by Target Governorates and City

Unit: Million L.E.

Target Governorates / City	2002	2003	2004	2005	2006	2007	2008	Cumulative Amount	Amount Disbursed Per 100,000 People Below the Poverty Line
Upper Egypt									
Beni Suef	0	0	1.77	6.54	2.63	1.32	11.24	**23.50**	2.39
Minya	0	0.69	6.21	23.5	16.39	1.91	40.00	**88.70**	6.66
Assuit	0	0	3.91	18.77	12.10	1.03	11.66	**47.47**	2.19
Soharg	0	0	2.31	5.56	4.33	0.06	14.71	**26.97**	1.46
Quena	0	0.11	4.15	7.72	7.26	0.92	10.92	**31.08**	2.57
Luxor City	0	0	0	0	0	0	4.73	**4.73**	2.46
Aswan	0	0.18	4.67	8.54	4.96	0.98	5.72	**25.05**	11.11
Sub-Total	**0**	**1.06**	**33.36**	**85.13**	**52.27**	**7.12**	**102.38**	**247.50**	

Target Governorates / City	2002	2003	2004	2005	2006	2007	2008	Cumulative Amount	Amount Disbursed Per 100,000 People Below the Poverty Line
Suez Canal & Sinai Peninsula									
Port Said	0	0	0.7	0.32	0.13	0.37	0.33	**1.85**	7.14
Suez	0	0.02	0.84	1.24	0.58	0.01	0.39	**3.08**	29.90
Ismailia	0	0.02	2.36	2.64	0.32	0.02	0.60	**5.96**	3.20
North Sinai	0	0	0.71	1.76	0.23	0.01	0.38	**3.09**	N.A.
South Sinai	0	0	0.56	1.29	1.04	0.04	0	**2.93**	N.A.
Sub-Total	**0**	**0.04**	**5.17**	**7.25**	**2.30**	**0.45**	**1.70**	**16.91**	
Total	**0**	**1.02**	**28.19**	**77.88**	**49.97**	**6.67**	**100.68**	**264.41**	

Source: Answers to the questionnaire to SFD (The data of "amount disbursed per 100,000 people below the poverty line" were calculated by the evaluator.)

Also as mentioned above, about 40% of the total amount disbursed was concentrated in 2008—the year when the conditions for lending were eased. The rapid increase in the number of sub-loans approved over a short period of time raises the concern that the examination of loan applications may have not been strict enough. A close watch needs to be kept on the repayment situation of the sub-loans approved in 2008.

(2) Sub-loans disbursed by sectors

As shown in Table 6, lending to tertiary industries accounted for nearly 70% of the total amount disbursed, with the wholesale and trading industry making up nearly 40% and the service industry accounting for 26%. Lending to the manufacturing industry, which was designated as the main target industry at the project design phase, accounted for less than 10% of the total, due to the abovementioned issue of loan limit and other factors that held back the growth in the number of sub-loans extended.

Table-6: Sub-Loans Disbursed By Sectors

Indicators	Service	Trading	Manufacturing	Agriculture	Others
Cumulative Amount (Mil. L.E.)	68.8	104.9	26.1	62.0	2.1
Percentage (%)	26.1	39.8	9.9	23.5	0.8

Source: Answers to the questionnaire to SFD

(3) Satisfaction of financial needs of MSEs in the target governorates/city

As stated in the "Relevance" section, the poverty rate is high in the governorates in Upper Egypt. As of 2008, all six governorates in the target areas of the project except Aswan have poverty rates higher than the national average (21.6%). In Minya, Assuit, Sohag, and Quena, the percentage of population below the poverty line increased over 2000/2001. As the data on the financial needs of micro and small enterprises is not available, this is only speculation, but there was presumably a strong need for funds to micro and small enterprises in Minya, Assuit, Sohag, and Quena where the percentage of the population below the poverty line was increasing.

In this project, although the disbursement of sub-loans was concentrated in Minya, a certain amount of sub-loans were disbursed also in Assuit, Sohag, and Quena. It can be said that this project made a certain contribution to satisfying the financial needs of micro and small enterprises in these regions.

On the other hand, further financing may have been needed for the end users in Sohag (where the amount disbursed per 100,000 members of the population below the poverty line is 1,460,000 L.E., the lowest among target governorates).

(4) Job creation

The number of job opportunities created was probably calculated by dividing the total amount disbursed by a certain coefficient, as shown in Table 7. Therefore, the number of job opportunities created presented in Table 4, or 31,320, is not the actual figure. In the meantime, the results of the in-depth interviews with end users[19] suggest that the coefficient established by the SFD is higher than the actual value. In other words, as explained in footnote 19, the actual number of job opportunities created is estimated to exceed the abovementioned figure calculated by the SFD

Table-7: Job Creation Co-efficient - Calculating Method for Job Creation under SFD Program

Indicators (Unit)	SFD's Estimate[1)] (Average from 2000 to 2003)	MDRM's Estimate[2)] (Average from 1997 to 1999)	MDRM's Estimate[3)] (For 2004)	Post Evaluator's Estimate #1[4)] (Average from 2002 to 2008)	Post Evaluator's Estimate #2[5)] (Average from 2002 to 2008)
The number of job creation per sub-project (people)	3.97	2.15	2.68 (4.1 for new loans)	5.81	7.88
The average amount of sub-loan per sub-project (L.E.)	21,924	20,775	31,273	49,010	49,010
The amount of loan needed to create unit (1) employee (L.E.)	5,516	9,656	11,666	8,442	6,216

Source: Prepared from JICA internal documents and answers to the questionnaire to SFD
Note-1): Data of the whole SFD program including this project after 2002 (Original source: SFD)
Note-2): Data of the whole SFD program (Original source: Multi Donor Review Mission (MDRM) Report in 2000)
Note-3): Data of the whole SFD program including this project after 2002 (Original source: Report prepared by impact assessment team at the Multi Donor Review Mission-II (MDRM-II) in 2004)
Note-4): Data relates only to this project. Estimated from answers to the questionnaire sent to the SFD.
Note-5): Data relates only to this project. Estimated from results of in-depth interviews with end-users.

To monitor the number of job opportunities created, the following three methods are available to the SFD, in addition to the coefficient method described above: 1) actual counting by field officers; 2) the acquisition of data based on quarterly reports submitted by intermediary banks; and 3) checking against the employment data owned by the social

[19] The "amount of loan needed to create employment for one person" is estimated at 8,442 L.E. for this evaluation, as shown in Table 7. This amount is a little lower than those estimated by the Multi-Donor Review Mission (9,656 L.E./person in 2000, 11,666 L.E./person in 2004). As described later in the "Impacts" section, according to the results of the in-depth interviews with a total of 23 enterprises as end users, the average number of job opportunities created per sub-project (sub-loan) is 7.88. Based on this figure, the total number of job opportunities created should be 42,538 (=7.88 x 5,395). Suppose that those end users interviewed represent an average sample of population (5,395), SFD's estimation for the number of job opportunities created, or 31,320, seems to be an overly severe estimation.

insurance offices of the target regions. Methods 1) and 2) have faults in terms of the frequency of counting and reliability, while 3) is considered impractical because it is complicated, although accurate. However, considering that the number of job opportunities created is the most critical indicator for SFD-SEDO to determine the relevance of the project and the meaning of its existence, it is advisable to establish a more precise data collection system.[20].

(5) Market interest rate and sub-loan amount

In a previous two-step loan project, it was pointed out that, "As the market interest rate declined substantially during the project period, the sub-loan interest rate neared the market interest, and as a result, the growth of loan disbursement slowed down." Whereas in this project, no situation arose where the sub-loan interest rate came closer to the market interest rate,[21] and there is no correlation between the sluggish growth of disbursement at the beginning of the project with changes in the market interest rates.

3.3.1.2 Results of Calculation of Internal Rates of Return (Economic Internal Rate of Return)

This project is to provide soft loans on concessionary terms; therefore the EIRR was not recalculated.

3.3.2 Qualitative Effects

The effects of unemployment reduction and the elimination of regional disparities, etc., have been generated. Details are to be discussed in the "Impacts" section.

3.3.3 Conclusion of Effectiveness Evaluation

As shown in Table 4, the target values set at the time of appraisal have been achieved in all of the three indicators for operation and effect, namely: 1) Cumulative amount disbursed under sub-projects (sub-loans), 2) cumulative number of sub-projects (sub-loans) approved, and 3) the number of job opportunities created. Judging from these achievements, the project was highly effective.

With respect to indicators 1) and 2) above, the uneven distribution of sub-loans by region was observed. The objective of this project was to "satisfy the financial needs of micro and small enterprises and thereby encourage job creation in Upper Egypt and Sinai Peninsula & Suez Canal." However, the differences among regions in benefits were too large to be attributed solely to the problem of efficiency (i.e. targets were achieved while there was a

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[20] In this regard, SEDO started monitoring the number of job opportunities created as of September 2011. (Source: Results of interview with an official in charge at SEDO)

[21] The prime lending rate in Egypt hovered around the 13–14% range from 2002 to 2010. (Source: World Development Indicators)

problem in the process of project implementation). As mentioned in the “Efficiency” section, there were presumably some problems with the selection of target areas and the establishment of the conditions for lending at the time of appraisal.[22]

By sector, lending to the wholesale and trading industry accounts for by far the largest part (nearly 40%) of all lending under sub-projects (sub-loans), while lending to the manufacturing industry, which was initially the target industry, accounts for slightly less than 10% due to the abovementioned reasons. Looking at the number of job opportunities created, the number exceeded by more than 1.5 times that expected at the time of project appraisal. As explained above, 31,320 is not the actual number of job opportunities created, though it is not an unrealistic figure either. The actual number of job opportunities created is estimated to have exceeded the above figure. The proportion of the number of sub-loans that became irrecoverable is low at 5.3%.

This project has largely achieved its objectives; therefore its effectiveness is high.

3.4 Impact

3.4.1 Intended Impacts

(1) Reduction in the unemployment rate and the situation of poverty reduction in the target governorates/city

As shown in Table 8, changes in the unemployment rate and the situation of poverty reduction during the period from 2003/04 to the completion of the project differ greatly by governorates/city.

Looking at the unemployment rate in Minya, Assuit, Quena, and Aswan, which ranked high in the number of sub-projects of this project, the rate has improved between 2003/2004 when the economy bottomed out[23] and between 2007/2008 when the project was completed. In Minya, Quena, and Aswan in particular, the unemployment rate declined by more than 40%,

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[22] At first glance, the benefits brought to Sinai Peninsula & Suez Canal seem to be much smaller than those brought to Upper Egypt both in terms of the number of sub-projects and the amount disbursed. However, when comparing those figures per 100,000 people below the poverty line, for example (see Table 5 for details), the results indicate that those regions received larger benefits than Upper Egypt.

[23] Economic situation in Egypt in the 2000s: In Egypt, the Luxor incident in 1997, etc., caused a significant economic downturn in the late 1990s. In addition, other factors such as: 1) a sharp drop in the tourism revenue, 2) the slump of export of oil products due to weak oil prices on the global market, and 3) the downward trend of remittances from workers overseas that resulted from a decrease in Egyptian workers in Gulf countries restrained economic growth at a low level around the lower end of the 3% range until 2002/2003. Then, the introduction of the floating exchange rate system in 2003, which helped stabilize the macro economy, and the economic reform pushed through by the Nazif administration that took office in July 2004 put the economy back on track during the period from 2005/2006 until the wake of the global financial crisis in the second half of 2008. Such deterioration in the macro economy as described above has a critical impact on indicators such as the unemployment rate and poverty rate. Therefore, due attention must be paid to the movement of various indicators during the period from 2002, when the project started, to 2004. In addition, as mentioned in “Project Period” and “Efficiency,” disbursement under the project was slow until boosted by SAPI in 2004. All these things considered, it would be appropriate to focus on changes in various indicators after 2003/2004 when evaluating the impacts of this project.

which is much higher than the national average rate of decrease in the unemployment rate (from 9.9% to 8.9%, a decreased of 10%). Considering that various factors including economic recovery contributed to the improvement of these indicators, it cannot be said that only this project had impacts that caused these improvements. Even so, this project is believed to have made a certain contribution to the decline in unemployment rates in these regions through the lending to micro and small enterprises and through the promotion of job creation as described later.[24]

Table-8: Poor Persons of Total Population, Gini Co-Efficient, Unemployment Rate and Wages of Poor Household of Total Wages in Target Areas

Target Governorates / City	Poor Persons of Total Population (%)			Gini Co-efficient			Unemployment Rate (%)			Wages of Poor Households of Total Wages (%)		
	2000/01	2003/04	2007/08	2000/01	2003/04	2007/08	2000/01	2003/04	2007/08	2000/01	2003/04	2007/08
Upper Egypt												
Beni Suef	51.2	43.7	41.5	0.252	0.259	0.210	8.1	3.4	3.5	22.7	26.1	33.1
Minya	24.4	38.2	30.9	0.243	0.248	0.240	7.8	12.9	5.5	25.3	31.1	23.7
Assuit	58.1	61.0	61.0	0.233	0.246	0.270	11.2	9.8	8.3	35.3	49.2	48.3
Soharg	45.5	45.8	47.5	0.220	0.253	0.230	9.6	9.2	9.4	33.7	32.2	36.3
Quena	33.3	33.0	39.0	0.228	0.264	0.230	10.9	13.3	7.5	25.4	16.5	28.5
Luxor City	Not known	12.5	40.9	Not known	0.218	0.240	11.7	13.1	17.2	Not known	8.0	30.8
Aswan	24.5	27.4	18.4	0.262	0.232	0.270	14.9	21.9	12.9	22.6	13.0	13.9
Suez Canal & Sinai Peninsula												
Port Said	2.6	8.8	4.4	0.337	0.309	0.340	9.6	24.1	11.2	0.3	2.4	2.4
Suez	4.2	8.4	1.9	0.287	0.260	0.290	7.6	17.9	9.7	0.4	9.5	1.5
Ismailia	7.9	12.6	18.8	0.229	0.217	0.270	7.5	19.4	11.1	3.5	7.2	13.7
North Sinai	Not known	Not known	Not known	Not known	Not known	Not known	5.9	12.7	3.8	Not known	Not known	Not known
South Sinai	Not known	Not known	Not known	Not known	Not known	Not known	2.0	9.4	7.8	Not known	Not known	Not known
National Average	20.1	20.2	21.6	0.293	0.352	0.310	9.0	9.9	8.9	12.4	8.7	15.2

Source: Prepared from Institute of National Planning "Egypt Human Development Report"
Note-1): Some data are the same with those in Table 1.
Note-2): The fiscal year in Egypt runs from July 1 through June 30. "2000/01" in the above table demonstrates the date from July 2000 to June 2001.

Among the data related to poverty, the percentage of the population below the poverty line, for example, shows improvement only in three governorates of Aswan, Minya, and Beni Suef (although improvement was observed also in Port Said and Suez, they are excluded for the reason described below). As for Gini coefficient, the national average improvement rate (from 0.352 to 0.310, an improvement of 12%) was exceeded only in the two governorates of Beni Suef (improved by 19%) and Quena (improved by 13%) in the same period. In the target areas of the project, the unemployment improved very rapidly between 2003/2004 and 2007/2008. However, the redistribution of income did not take place accordingly, and poverty reduction was not brought about with the exception of a few regions.

In Suez Canal & Sinai Peninsula, as already stated in the "Effectiveness" section, 1) the

[24] In Miniya, Quena, and Aswan, for example, the number of unemployed decreased by 133,000 in total from 2004 to 2007 (Data source: Calculated based on the Institute of National Planning's "Egypt Human Development Report"). In the meantime, employment for an estimated 17,000 persons was created in the above-named three governorates (Data source: Questionnaire answers by SFD), indicating that this project greatly contributed to the decline in the unemployment rate in those three governorates.

number of subprojects was far smaller than in Upper Egypt, 2) sub-loan disbursement was concentrated in a specific period (2005/2006), and 3) in these sparsely populated regions, changes in external conditions such as the political and economic situations, etc., are probably more strongly reflected in the various indicators than in other regions. Because of these reasons, it is difficult to evaluate the impacts of the project.

(2) Cumulative number of job created in the target governorates and city

As mentioned in the "Effectiveness" section, at least 31,320 job opportunities were created in total under this project. These job opportunities are believed to have partially contributed to the abovementioned decline in the unemployment rate. A breakdown by region and by year for job opportunities created is shown in Table 9. According to this information, 93% of the job opportunities created occurred in Upper Egypt, and a particularly large number of job opportunity were created in Minya and Assuit.

Table-9: The Number of Job Created in Target Governorates/City

Target Governorates / City	2002	2003	2004	2005	2006	2007	2008	Total by Governorates / City
Upper Egypt								
Beni Suef	0	0	209	773	310	156	1,328	2,776
Minya	0	8	733	2,724	1,937	228	4,728	10,358
Assuit	0	0	462	2,218	1,430	121	1,378	5,609
Soharg	0	0	273	657	511	7	1,738	3,186
Quena	0	13	490	912	859	109	1,290	3,673
Luxor City	0	0	0	0	0	0	559	559
Aswan	0	21	552	1,009	586	116	676	2,960
Sub-Total	**0**	**42**	**2,719**	**8,293**	**5,633**	**737**	**11,697**	**29,121**
Suez Canal & Sinai Peninsula								
Port Said	0	0	86	272	15	9	39	421
Suez	0	2	99	147	68	1	46	363
Ismailia	0	3	279	312	37	2	70	703
North Sinai	0	0	84	208	27	1	46	366
South Sinai	0	0	66	152	123	5	0	346
Sub-Total	**0**	**5**	**614**	**1,091**	**270**	**18**	**201**	**2,199**
Total	**0**	**47**	**3,333**	**9,384**	**5,903**	**755**	**11,898**	**31,320**

Source: Answers to the questionnaire to SFD

Note): The Loan Agreement (L/A) of the project was concluded in February 2002 and the date of final disbursement of yen loan from JICA to SFD was November 2008.

(3) Impact on business environment of end-users

Looking at the status of end users at the time of lending, the results of the beneficiary survey[25] show that nearly half (47%) of respondent enterprises used the loaned funds to start a new business, and 24% were in the first year after the start of their business start-up. These

[25] The outline of the beneficiary survey is as follows:
Conducted in: Seven governorates in the target areas (Minya, Assuit, Quena, Beni Suef, Ismailia Suez, and North Sinai)
Surveyed: Target end users of the project
Total number of samples: 205, selected by stratified two-stage random sampling
Data collection method: Face-to-face interviews

two categories accounted for about 70% of all end users, suggesting that the project contributed to an increase in employment opportunities.

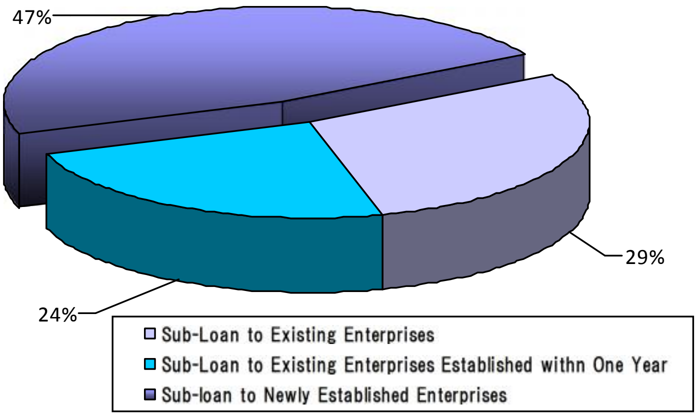

Figure-3: Status of End-Users at Time of Loan Disbursement (N=205)

Regarding the impacts on the businesses of end users, the results of the beneficiary survey are shown in Table 10. These results indicate that the use of sub-loans had various positive impacts on many end users and helped improve their business environment. In particular, about half of the 205 enterprises surveyed in the beneficiary survey mentioned positive impacts regarding the creation of employment, expansion of business, and sustainability of business, far exceeding those that mentioned negative impacts on these three items (24, 16, and 11 enterprises, respectively).

Table-10: Impact on End-Users' Business after Using Sub-Loans (N=205, Multiple Answers)

Answers by End-Users	No. of Responses	%
New employees can be hired after receiving sub-loan.	109 out of 205	53.2%
Business continuity including financial performance was improved after receiving sub-loan.	105 out of 205	51.2%
Business operation was expanded after receiving sub-loan.	103 out of 205	50.2%
Total assets of the company were increased after receiving sub-loan.	68 out of 205	33.1%
Sub-loan disbursement did not help to increase employees.	24 out of 205	11.7%
Sub-loan disbursement did not improve business continuity including financial performance.	16 out of 205	7.8%
Sub-loan disbursement did not contribute to expand business operations.	11 out of 205	5.4%
Sub-loan disbursement did not contribute to increase the assets of the company.	22 out of 205	10.7%

Source: Results of beneficiary survey for 205 end-users

Note): Type of business of respondents: Wholesale retailing, livestock farming, manufacturing, grocery retailing, transport, food and pharmacy, etc.

In addition, in-depth interviews were conducted with 23 end users in total[26] in the four governorates/cities of Aswan, Luxor, Quena, and Beni Suef during the field survey, in order to

[26] A total 23 enterprises including six in Aswan, seven in Luxor, five in Quena, and five in Beni Suef; by industry, six enterprises in the manufacturing industry (two in steelmaking, two in sewing, one in food processing, and one in marble manufacturing) and 17 enterprises in the service industry (pharmacies, restaurants, laundromats, photo studios, consumer-electronics retailers, IT devices retailers, vehicle and mechanical repair, gas stations, and retail supermarkets, etc.)

grasp the actual state of the use of sub-loans and the current business conditions. The results are shown in Table 11.

Table-11: In-Depth Interviews with End-Users in Aswan, Luxor, Quena and Beni Suef

Characteristics of Responded End-Users	Data / Information
Total number of sub-loans/sub-projects (for 23 end users)	26 sub-loans in total
Average amount of sub-loan disbursed per sub-project	194,808 L.E.
The case for new start-up business (among 23 end users)	13 end-users
The number of job creation in total Average number of job creation per sub-project	205 employees 7.9 employee per sub-loan
Reasons for Using SFD Loans to Start New Business (for 13 End-Users)	**No. of Respondents**
The interest rate was lower than similar loans by other banks.	8 end-users
Tax exemption of 5 years can be applied.	1 end-user
Collateral conditions were much more favorable than other banks' loan.	1 end-user
Loan appraisal process was much faster than other banks' loan.	1 end-user
Financial advisory services by SFD were much attractive (including supports for starting-up new business, etc.)	1 end-user
Grace period of loan was much attractive than other banks' loan.	1 end-user
Current Situation of End-Users' Business (for 23 End-Users)	**No. of Respondents**
The business condition of my company is very good after receiving sub-loan , even after the revolution	1 end-user
The business condition of my company was very good after receiving sub-loan , but it becomes serious situation after the revolution.	16 end-users
The business condition of my company was good to some extent after receiving sub-loan. After the revolution, it becomes serious situation.	1 end-user
No answers	5 end-users

Note: All the new employees mentioned in the table are the full-time workers.

According to the results of the interviews, about half of the end users started up a new business using the sub-loan. The reason they mentioned this was that the interest rate of the sub-loan was lower than that of the loans provided by commercial banks. These results suggest that this project significantly contributed to the creation of new business through the provision of highly concessionary loans. On the other hand, 16 end users, accounting for 70% of all respondents, said that “business performance has deteriorated significantly after the revolution in February 2011.” With an eye toward the collection of the last sub-loans that become due in 2013, the SFD is expected to enhance its monitoring activities.

3.4.2 Other Impacts

3.4.2.1 Impact on Natural Environment

This is a development loan project targeting micro and small enterprises, and therefore no negative impact on environment was expected at the time of project appraisal in 2002. No funds have been provided for so-called blacklist projects (projects that may have large-scale and significant environmental impacts),[27] which was mentioned as an issue requiring careful attention. Considering that the scale of sub-projects under this project was limited to 500,000 L.E. (approximately seven million yen) even after the loan limit was raised in 2008, it is assumed that there was no such case.

[27] Source: Questionnaire answers received by the SFD and interviews with the SFD

In the in-depth interviews with 23 end users in Aswan, Luxor and other locations, it was confirmed that no specific impact on the environment was caused on the sub-project level. In Beni Suef, visits were made to the plant premises of two steelmakers that are end users. Their plants were located in an industrial complex equipped with all related infrastructure, and there was no problem with the treatment of wastewater from the plant, etc. In addition, no noise or vibration impact on residents has been reported.

3.4.2.2 Implementation Status of Resettlement and Land Acquisition

No relocation of residents took place in this project. Land acquisition was conducted on an extremely small scale for the expansion of plant premises, etc., in the 48 sub-projects under the Bank of Alexandria (BOA), and no specific problem has occurred.

Based on the above, at least 31,320 job opportunities in total are estimated to have been created under this project through lending to micro enterprises, and these job opportunities are believed to have partially contributed to the decline in the unemployment rate in the target regions. In addition, the implementation of this project had a number of positive impacts including the substantial improvement in the business conditions of the end users.

3.5 Sustainability (Rating: ③)

3.5.1 Condition of Revolving Fund[28]

In this project, a special account was established to separate the yen loan from the loans provided by other donors. The SFD established and maintains special accounts for each project as agreed upon with the donors. The income and expenditure of each project is managed under each account in an ensuring manner.

The state of revolving fund management is as shown in Table 12. The management of revolving funds started in 2009, and the balance of the secondary sub-loans outstanding as of 2010 was 1.52 million L.E. The SDFD is required to monitor the revolving fund during the project implementation and for a certain period of time after project completion (stipulated by the L/A to be four years after completion). According to the JICA Egypt Office, a monitoring report is submitted by the SFD at regular intervals and monitoring is conducted appropriately.

Thus, no problem is found with the management of both the special and the revolving fund.

[28] A revolving fund is a mechanism for utilizing liquidity resulting from the gap between the repayment period of the sub-loans and the repayment period of the JICA loan, whereby the liquidity funds are managed under a special account and lent to the end users repeatedly while managed under a special account. This is expected to further enhance the effects of the JICA loans.

Table-12: Management Status of Revolving Fund (From 2002 to 2010)

Indicators (Unit: Million L.E.)	2002	2003	2004	2005	2006	2007	2008	2009	2010
a. Balance carried from the previous year	0	0	-0.33	-0.33	12.90	44.04	104.50	100.44	-6.84
b. Disbursement received from JICA	0	55.67	0	75.32	0	60.80	67.70	0	0
c. Principal collections on SFD sub-loan (from NBE / BOA to SFD)	0	0	0	13.61	31.14	29.47	29.47	44.65	46.09
d. Principal collections on Revolving Fund	0	0	0	0	0	0	0	0.34	15.45
Total amount of money received (a+b+c+d=A)	0	55.67	-0.33	88.60	44.04	134.31	201.67	145.43	54.71
e. SFD sub-loan disbursement (from SFD to NBE / BOA)	0	56.00	0	75.70	0	29.80	101.23	0	0
f. Revolving Fund loan disbursement	0	0	0	0	0	0	0	152.27	0
g. Principal repayment to JICA	0	0	0	0	0	0	0	0	0
Total amount of money repaid (e+f+g=B)	0	56.00	0	75.70	0	29.80	101.23	152.27	0
Balance carried to the next year (A-B)	0	-0.33	-0.33	12.90	44.04	104.50	100.44	-6.84	54.71

Source: Prepared from JICA internal documents and answers to the questionnaire to SFD

3.5.2 Executing Agency

3.5.2.1 Status of Cash Collection

As concerns about the current status of the operation and maintenance of sub-loans extended by the SFD and two intermediary banks under this project, there is presumably no problem with the capital repayment status as shown in Table 13 below. In addition, as already mentioned in the “Effectiveness” section, only 5.3% of the total number of sub-loans had became irrecoverable.

Regarding the performance of the SFD on a whole, including this project, the proportion of the number of loans in arrears is maintained at a low level of 4.1%, with the amount at 1.9%, as shown in Table 14. As stated later in the analysis of the operation and maintenance status, there is no problem with the loan monitoring system of the SFD and the intermediary banks, at present. According to the in-depth interviews with 23 enterprise end users, all enterprises have been repaying sub-loans as scheduled without incurring arrears.

Table-13: Repayment of Sub-Loans for SFD (This Project Only, From 2002 to 2010)

Indicators	2002	2003	2004	2005	2006	2007	2008	2009	2010
a. Principal (Cumulative amount, Mil.LE)	0	1.02	28.6	108	158	164.4	264.4	264.4	264.4
b. Cash repaid (Cumulative amount, Mil.LE)	0	0.03	2.2	25.8	63.3	93.1	125.7	178.4	211.1
c. Cash Collection Ratio (%) b/a*100	0.0	2.9	7.7	23.9	40.1	56.6	47.5	67.5	79.8

Source: Prepared from answers to the questionnaire to SFD
Note: Repayment status of interest was not disclosed.

Table-14: Status of Non-Performing Loans (NPLs, in default more than 90 days) for SFD

Indicators	2002	2003	2004	2005	2006	2007	2008	2009	2010
a. Number of subprojects/loans (Cumulative)	0	10	599	2,630	3,918	4,060	5,395	5,395	5,395
b. Number of subprojects/loans in arrear (Cumulative)	0	0	1	24	120	139	228	280	219
c. Arrears ratio by number of subprojects/loans b/a*100	0.0%	0.0%	0.2%	0.9%	3.1%	3.4%	4.2%	5.2%	4.1%
d. Amount of loans disbursed (Cumulative, Mil.LE)	0.00	1.02	29.21	107.09	157.06	163.73	264.41	264.41	264.41
e. Amount of loans in arrear (Cumulative, Mil.LE)	0	0.002	0	0.45	1.4	2.79	5.56	6.16	4.99
f. Arrears ratio by amount of sub-loans e/d*100	0.0%	0.2%	0.0%	0.4%	0.9%	1.7%	2.1%	2.3%	1.9%

Source: Prepared from answers to the questionnaire to SFD

As explained above, the rate of sub-loans in arrears has been maintained at a low level, and the repayment status is good so far. According to the results of the beneficiary survey of 205 enterprises, 103 have completed the repayment of sub-loans. The remaining 102 have not incurred arrears as of October 2011.

Meanwhile, in the in-depth interviews with 23 end users, those who replied that "the business performance has deteriorated significantly after the revolution in February 2011" account for 70% of all end users interviewed. Deterioration in business performance is particularly serious for the enterprises in tourism-related industries in Aswan and Luxor. If the economic disorder triggered by the people's revolution prolongs, as a matter of course, it will inevitably have a great influence on the collection of sub-loans in the future.

Supposing the influence of the revolution will continue, the intermediary banks and the SFD are advised to enhance monitoring activities with an eye toward the collection of the last sub-loans that become due in 2013. For example, it would be necessary to increase the frequency of monitoring or conduct monitoring in a more careful manner while taking into consideration the human and physical resources of the regional offices of the SFD and the intermediary banks.

3.5.2.2 Structural Aspect of Operation and Maintenance

The collection of sub-loans is primarily the responsibility of the intermediary banks (NBE and BOA), and the SFD does not bear the risk of collection. The monitoring of end users is carried out jointly as necessary by the NBE, BOA, and the SFD, as described below.

<u>Operation and Maintenance System of SFD</u>

At the SFD,[29] SEDO is responsible for this project. Prompted by the Multi-Donor Review Missions (MDRM)[30] that were conducted several times and by the enactment of the New SME Law in 2004, SEDO has been making continuous efforts to improve the project implementation system.[31] As part of this process, they are now establishing a One-stop Service (OSS) Center at each regional office, thus proceeding with the development of a system for delivering services for micro and small business financing in an integrated manner.

For the monitoring of end users, the SFD has regional offices in 29 governorates/cities throughout the country, where a field officer is posted, in order to engage in monitoring

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[29] The SFD, which was established in 1991, has four programs including SEDO functioning as its divisions. The supreme decision-making body is the board of directors. In addition to cabinet ministers including the minister of finance, representatives of financial circles and NGOs are appointed directors by Prime Ministerial Decree.

[30] As stated in the "Relevance" section, Multi-donor Review Mission II, carried out in 2004, reiterated 1) poverty reduction and 2) job creation as the mission goal of the SFD.

[31] In the Multi-donor Review Mission carried out in 2000, it was suggested that SEDO be separated as an independent organization. The Egyptian government at first accepted this suggestion but later rejected it, and with this as momentum, the restructuring of the entire SFD was promoted. In addition, with the enactment of the New SME Law 2004, it became necessary to take systematic measures in order to comply with the new law. As part of such measures, the reshuffle and expansion of middle management was conducted. In addition the, "Integrated Finance Package Service" is actively promoted to provide comprehensive services to micro and small enterprises, including loans, micro finance, technical support, and business startup advisory services, etc. In this process, the introduction of "One-stop Shop" (OSS) Centers" is under way.

activities. SEDO, the organization responsible for this project, requires initial monitoring to be carried out within 90 days after the disbursement of sub-loans and subsequent monitoring to be conducted once or twice a year. For end users falling into arrears, monitoring is conducted three or four times a year.[32]

With respect to the system for monitoring sub-projects, it was pointed out in SAPI in 2005 that "in the monitoring activities, most of the effort is spent on first visits and the handling of problematic cases, leaving limited capacity to cover those customers who are making payment as scheduled." On the other hand, according to the in-depth interviews with 23 end users, all of them are visited for monitoring about twice a year without exception and are receiving advice as necessary. There seems to be no problem with the current monitoring system of the SFD.

Operation and Maintenance System of NBE and BOA

No problem is found with the monitoring system of the NBE[33] and BOA[34] in general. The NBE has been taking part in SFD projects since 1992, in the fund's early days of establishment. From the mid-2000s onward, it has been reinforcing its credit management system focusing on financing for small and medium-sized enterprises as a core of its business strategy. In this process, it has been strengthening its involvement in SFD projects. As of 2011, over 40% of all employees are engaged in SFD projects. BOA became an affiliate of an Italian investor in 2006 and was converted to a private commercial bank. The activities of this project have been continuing, and the collection of sub-loans has been conducted continuously. The inefficiency that was observed when it was a state-owned bank has been improving substantially, and the SFD is now negotiating with BOA toward a new project. This fact also suggests that the operation performance of BOA has improved.

In the in-depth interviews, several end users pointed out that "The loan appraisal period is rather long." In this regard, the NBE submits its loan applications to the SFD in hard copy. As the work and time needed at the SFD to examine these documents and approve the loan is the largest bottleneck in shortening the examination period,[35] improvements such as the computerization of the process are expected.

[32] Monitoring is conducted in cooperation with the intermediary banks as necessary. After the revolution in February 2011, SEDO increased the frequency of monitoring. (Source: Interview with the officials in charge at SEDO)

[33] Divisions involved in SFD projects are: 1) Business Development Division, 2) Follow-up Division, 3) Risk Analysis Division, and 4) regional branch offices. The SFD has 32 branch offices in Suez Canal & Sinai Peninsula and 50 in Upper Egypt. Of its 1,400 employees working as of 2010, 600 are involved in SFD-related projects.

[34] After it became an affiliate of the group of the Bank of Intesa Sanpaolo of Italy in 2006, tools related to SME financing have been carried on. The financing under this project continued until project completion in 2008. As of 2011, the collection of sub-loans continues. The Collection & Recovery Division is in charge of the collection of sub-loans.

[35] Source: Interviews with the SFD head office and regional offices

From the above, there is no specific problem regarding the operation and maintenance system. The organizational system necessary for the future continuation of similar two-step loan projects through revolving funds is maintained.

3.5.2.3 Technical Aspects of Operation and Maintenance

The SFD and the intermediary banks NBE and BOA have various training programs in place for employees on the methods and tools for the credit evaluation of loan customers and project feasibility studies, while regional offices are strengthening the ability of employees through OJT.[36] Considering that efforts are made to enhance the ability of employees through such training, etc., and also considering the to-be-mentioned trends in the number of sub-loans in arrears, there is no specific problem regarding the examination skills, etc., of the employees of the SFD and the intermediary banks.

Since its establishment to date, the SFD has been implementing many programs for the financing for micro and small enterprises, in particular with the funds provided by various donors including the UNDP, JICA, the EU, AFDB, the World Bank, the Kuwait Fund, and the Islamic Development Bank has accumulated sufficient skills and experience in loans, from examination through to monitoring. In addition, the succeeding Micro Enterprise Assistance Project (the L/A was signed in December 2008) has planned to enhance the ability of the employees of SFD regional offices and intermediary banks, while also planning to strengthen SEDO's system for monitoring intermediary banks.

Therefore, there seems to be no problem with the technical level concerning operation and maintenance.

3.5.2.4 Financial Aspects of Operation and Maintenance

The SFD, the NBE, and BOA all reported increases in both income and profit in the last three years, and their financial indicators of profitability are good in general. As for the NBE and BOA, the gross income, return on equity (ROE), and return on assets (ROA) are all on the increase, as shown in Table 15 and Table 16, indicating that they are soundly operated banks. There are, however, concerns over the future impact of the revolution. It is necessary to keep a careful watch on the financial position of the intermediary banks.

Although the financial statements of the executing agency, the SFD, were furnished, the SFD requested not to disclose information externally. Information disclosure is indispensable for an entity in the financial sector, and even higher transparency is required for a public entity. With the people's revolution as a turning point, the SFD is expected to disclose currently undisclosed data such as financial statements and organizational structure.

[36] At the SFD, about 110 employees participated in some kind of training program from 2008 to 2011. Through these training programs, 60 employees of regional offices assumed the position of credit officer. (Source: Interviews with the regional offices of the SFD and intermediary banks)

Table-15: NBE's Financial Status

Indicators	FY2007	FY2008	FY2009
Gross Income (Mil.L.E.)	14,703	14,939	17,807
Net Income (Mil.L.E.)	373	385	900
Net Income to Gross Income (%)	2.5	2.6	5.1
ROE (%)	5.2	5.0	10.3
ROA (%)	0.18	0.17	0.35

Source: Prepared from the NBE Annual Report
Note): Financial year runs from July 1 through June 30.

Table-16: BOA's Financial Status

Indicators	FY2007	FY2008	FY2009
Gross Income (Mil.L.E.)	1,215	1,502	2,368
Net Income (Mil.L.E.)	382	409	506
Net Income to Gross Income (%)	31.4	27.2	21.4
ROE (%)	18.1	16.2	17.3
ROA (%)	1.02	1.05	1.57

Source: Prepared from the BOA Annual Report, etc.
Note-1): Financial year runs from July 1 through June 30.
Note-2): Data includes from January to December for FY2009.

3.5.3 Sustainability of the Whole SFD Program

Regarding the sustainability of the SFD as a whole, the SFD should ideally function independently, without relying on donor loans, by issuing long-term bonds or raising funds on the stock market in the presence of loan-term financial markets. However, the long-term financing markets (stock and bond markets) in Egypt are still under development, and, particularly, the bond market is much less liquid than the stock market. It is rarely the case that a private enterprise issues bonds, and the environment is not ready for the SFD to issue bonds and raise funds. The privatization of the SFD is not planned in the short-to-medium term, in light of its social position, etc.

Even though the importance of the diversification of the SFD's fundraising menu is recognized by some in the parties involved in the SFD, "operating the fund with donor loans" seems to be the only option effective for the time being.

Based on the above analysis, no specific problem is found regarding the operation of special accounts and revolving funds. In addition, there is no problem with the management structure of the executing agency and the intermediary banks, and the ratio of sub-loans in arrears remains low. If the economic disorder caused by the people's evolution is prolonged, it would somehow affect the collection of sub-loans in the future. As of the time of the ex-post evaluation, however, the repayment status is generally good.

Therefore sustainability of the project is high.

4. Conclusion, Lessons Learned and Recommendations

4.1 Conclusion

This project was carried out with the objective of satisfying the financial needs of micro and small enterprises in the poverty-stricken regions of Egypt and thereby encouraging job creation and poverty reduction, which is highly consistent with relevant policies. In the initial stage of the project, it was found that the loan terms did not meet the needs of the users. However, owing to the modification of the loan terms and other efforts, both the cumulative amount of sub-loans (sub-projects) disbursed and the cumulative number of sub-loans approved exceeded the target value. To date, over 30,000 job opportunities have been created, which contributed to some extent to the decline in the unemployment rate in the target areas. In addition, the implementation of the project generated many positive impacts, including substantial improvement in the business conditions of end users. Although the economic disorder caused by the people's revolution in February 2011 is expected to affect debt collection in the future, the ratio of sub-loans in arrears remains low so far, and there is no problem with the operation and maintenance system of the executing agency and intermediary banks. In terms of efficiency, although the implementation period was longer than planned, the project cost did not exceed the planned amount.

In light of the above, this project is evaluated to be satisfactory.

4.2 Recommendations

4.2.1 Recommendations for Executing Agency

Recommendations for SFD #1

There is no problem with the loan monitoring system of the SFD and the intermediary banks so far. However, it is assumed that the business conditions of the loan customers have largely deteriorated after the people's revolution in February 2011. In addition, considering that the disbursement of about 40% of the total amount disbursed was concentrated in 2008 (the year when the loan conditions were eased), there are concerns over the various impacts that such a last-minute push may have caused. Based on the above analysis, the further strengthening of the monitoring system is expected for the future. Particularly close attention needs to be paid from now on to the repayment status of those sub-loans that were agreed during 2008. It would be necessary, for example, to increase the frequency of monitoring or conduct a more careful monitoring (more detailed analysis of the financial data of loan customers, etc.) taking into consideration the human and physical resources available at the regional offices of the SFD and the intermediary banks.

Recommendations for SFD #2

In grasping the number of job opportunities created, the SFD calculates the figure using a method of "dividing the total amount disbursed by a certain coefficient," instead of counting the actual number accurately. Based on the results of the in-depth interviews with end users, etc., the coefficient established by the SFD is determined to be higher than the actual value (i.e., the number of job opportunities created is underestimated). The following three methods are available to the SFD in the monitoring of the number of job opportunities created: 1) actual counting by field officers; 2) the acquisition of data based on quarterly reports submitted by intermediary banks; and 3) checking against the employment data owned by the social insurances office of the target region. Considering that the number of job opportunities created is the most critical indicator for SFD-SEDO to determine the relevance of the project and meaning for its existence, it is advisable to establish a more precise data collection system, including, for example, imposing reporting obligations on end users, seeking "organic cooperation" with social insurance offices, or increasing the frequency of the monitoring by field officers.

Recommendations for SFD #3

Information disclosure is indispensable for an entity in the financial sector, and even higher transparency is required for a public entity. With the people's revolution as a turning point, the SFD should attempt to disclose currently undisclosed data such as financial statements and organizational structure through websites and other means.

Recommendations for SFD #4

Currently, the documents necessary for the approval of a new loan are submitted to the SFD in hard copy, and the work and time needed at the SFD to examine these documents and approve the loan is the largest bottleneck in shortening the examination period. Therefore, and also in order to increase customer satisfaction and improve the operational efficiency of the intermediary banks, the SFD should encourage the NBE to computerize the procedure.

4.2.2 Recommendations for JICA

If the economic disorder triggered by the people's revolution is prolonged, it would inevitably have great influence on the collection of sub-loans in the future. It is necessary to observe the monitoring activities of the SFD and the intermediary banks closely with an eye toward the collection of the last sub-loans that become due in 2013.

4.3 Lessons Learned

There have presumably been some flaws in grasping the needs at the project's beginning. There was no problem with targeting regions where the need for job creation was high, from the perspective of poverty reduction. However, applying the loan conditions designed to promote capital investment to under-developed regions where financing for working capital was needed resulted in the slow growth of lending in the early years of the project. When planning and designing a similar project in the future, it is advisable to grasp the needs for the project accurately, carefully consider the conditions based on the needs, and make a proper choice.

On the other hand, it is highly appreciated that the serious state of the project was detected early and that a series of problems were solved through the prompt implementation of SAPI.

In addition, in the implementation of SAPI, engaging the experts in long-term residence at the project site contributed to not only defining the problems in detail but also suggesting effective and concrete solutions in the recovery stage later on. As detailed investigation of the current conditions and practical proposals are indispensable for SAPI, this is expected to be handled in the same way in the future.

Comparison of Original and Actual Scope

Item	Plan	Actual
A) Output		
1.1 Sub-Loans Disbursement		
・ Type of end-users	Micro and small enterprises (MSEs)	As originally planned
・ Sub-loan amount per end-user	5,000 L.E. to 200,000 L.E.	As planned up to 2008, and then maximum loan amount was increased up to 500,000 L.E. after 2008
・ Eligible end-users of sub-loan	i) Private entities (excl. public ones), ii) Total asset of existing end-users: 5,000 to 200,000 L.E. (excl. land and building)	i) The same, ii) Total asset: Increased up to 500,000 L.E. after 2008
・ Conditions for sub-loan use	Basically for capital investment For working capital: Not exceeding 30% of the total amount of each sub-loan	As planned up to 2008, and then the limit of working capital: Increased up to 70% of the total amount of each sub-loan, after 2008
・ Collateral	Land, building, equipment, etc.	In addition to the left, third party guarantor
1.2 Sub-Loan from SFD to IBs		
・ Intermediary Banks (IBs)	National Bank of Egypt (NBE) and Bank of Alexandria (BOA)	As originally planned (BOA changed from a national bank to a private one in 2006)
・ Interest rate	4 to 8.5％(Contingency cost of foreign exchange risk and administration cost were added as a spread.)	As originally planned
・ Repayment period	Up to 7 years (incl. 2 years grace period at maximum)	As originally planned
1.3 Subsidiary Loan from IBs to End-Users		
・ Interest rate	7 to 11％(Allowance for NPLs and administration cost were added.)	As mostly originally planned (6.5% for some cases)
・ Repayment period	Up to 5 years (incl. one year grace period at maximum)	As originally planned
1.4 Target Governorates for Sub-Loan		
・ Upper Egypt	6 Governorates and 1 City (Beni Suef, Mynia, Assuit, Sohag, Quena, Aswan and Luxor City)	As originally planned
・ Suez Canal & Sinai Penninsula	5 Governorates (Port Said, Ismailia, Suez, North Sinai and South Sinai)	As originally planned
B) Project Period	Feb. 2002 - Dec. 2006 (59 months)	Feb. 2002 - Nov. 2008 (82 months)
C) Project Cost		
Foreign currency	None	None
Local currency	170 million L.E.	264 million L.E.
Total	5,194 million yen	5,194 million yen
Japanese ODA loan portion	5,194 million yen	5,194 million yen
Exchange rate	1 L.E. ＝ 30.55 yen (As of Feb. 2002)	1 L.E. ＝ 19.64 yen (Average between 2002 and 2008)