

Arab Republic of Egypt

FY2016 Ex-Post Evaluation of Japanese ODA Loan Project

“Micro Enterprise Assistance Project”

External Evaluator: Yukiko Sueyoshi, Global Link Management Inc.

## **0. Summary**

The objective of ‘Micro Enterprise Assistance Project’ (hereafter referred to as “the project”) was to increase income generation activities and to enhance employment opportunities by financing to micro and small enterprises in Egypt through intermediary financial agencies. The project was implemented by the Micro, Small and Medium Enterprise Development Agency<sup>1</sup> (hereafter referred to as “EDA”). The relevance of this project is high since it has been consistent with Egypt's development policies and development needs both at the time of appraisal and the ex-post evaluation, as well as with Japan's ODA policy at the appraisal stage. The efficiency is fair as while the loan conditions for the intermediary financial agencies and end-borrowers were mostly as planned and the project cost was within the plan, the project period exceeded the original plan due to the Egyptian Revolution in 2011 and its after-effects<sup>2</sup>. With regard to effectiveness and impact, the targets set at the appraisal stage for the number of loans, the total loan amount and repayment rate were largely achieved. In addition, positive impacts such as increased revenue and inventory, and stability of livelihood through the increase in income were reported. Therefore, the project’s effectiveness and impact are evaluated as high. Finally, the sustainability of the effects of this project is also considered high as there are no noticeable problems with the institutional, technical or financial aspects of EDA, and the revolving funds<sup>3</sup> established under the project is being operated smoothly.

Overall, this project is evaluated to be highly satisfactory.

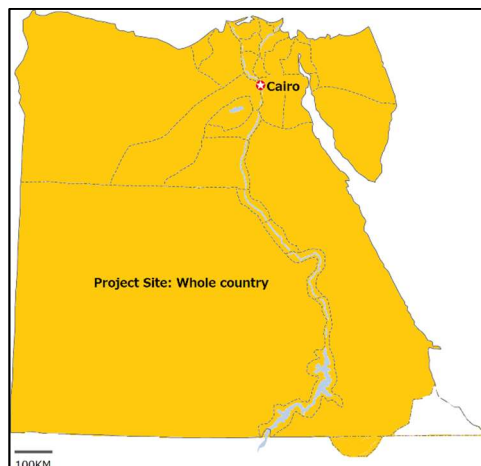
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<sup>1</sup> Social Development Fund, the executing agency at the time of appraisal, was merged into the Micro, Small and Medium Enterprise Development Agency (EDA) established in June 2017. The executing agency is referred to as EDA, the current agency name, in this report.

<sup>2</sup> The People’s Revolution in Egypt, triggered by the ‘Jasmine Revolution’ in Tunisia, brought about the collapse of the Mubarak regime in February 2011, and Egypt went under the interim military rule of the supreme council of the armed forces.

<sup>3</sup> Repayment (principal and interest) from the intermediary financial agencies go into the revolving fund account, then EDA uses it to re-finance the end-borrowers through the intermediaries and for repayment of ODA loan.

## 1. Project Description



Project Location



A Man Who Built Work Space of Pottery by Using EDA loan

### 1.1 Background

At the time of project appraisal in 2008, Egypt had been recording a real GDP growth of more than 7% per year since 2006 and was expected to continue to grow at 7 to 8% per year at least until 2012. There were, however, quite a few people left behind by such growth, as indicated by indexes such as the unemployment rate and population below the poverty line. In 2005, it was estimated that about 11% of the labor force was unemployed, and about 44% of the total population was living on less than \$ 2 per day<sup>4</sup>. Therefore, while the country realized a steady growth at the macroeconomic level, there were potentially destabilizing factors that may affect the socio-economic stability of Egypt. In light of these circumstances, the government established the Social Development Fund (currently 'EDA') under the Prime Minister's Office in 1991 in order to create job opportunities and to alleviate poverty by providing loans to micro and small enterprises, which were the largest sources of employment absorption in Egypt. JICA provided ODA Loan 'Social Fund for Development Project' in February 2002 to EDA to support micro and small enterprises' development. As a continuation of such assistance, the project was implemented with the objective to address further financial needs of micro enterprises.

### 1.2 Project Outline

The objective of this project is to increase income generation activities and job opportunities by providing financial resources to micro and small enterprises through the EDA, thereby contributing to alleviating poverty and promoting socio-economic stability in Egypt.

Loan Approved Amount/ Disbursed Amount	3,760 million yen / 3,747 million yen
Exchange of Notes Date/ Loan Agreement Signing Date	December 2008 / December 2008

<sup>4</sup> UNDP, Human Development Report 2007/2008

Terms and Conditions	Interest Rate	0.65%
	Repayment Period	40years (Grace Period 10years)
	Conditions for Procurement	General Untied
Borrower / Executing Agency	The Government of the Arab Republic of Egypt / Micro, Small and Medium Enterprises Development Agency	
Project Completion	December 2014	
Main Contractor(s) (Over 1 billion yen)	None	
Main Consultant(s) (Over 100 million yen)	None	
Feasibility Study, etc	“Study on the Microfinance Sector of the Social Fund for Development” (JICA, December 2007)	
Related Projects	“Social Fund for Development Project”(JICA, February 2002)	

## 2. Outline of the Evaluation Study

### 2.1 External Evaluator

Yukiko Sueyoshi, Global Link Management Inc.

### 2.2 Duration of Evaluation Study

This ex-post evaluation study was conducted with the following schedule.

Duration of the Study: December 2016 – December 2017

Duration of the Field Study: February 5, – February 17, 2017 and July 8 – July 12, 2017

## 3. Results of the Evaluation (Overall Rating: A<sup>5</sup>)

### 3.1 Relevance (Rating: ③<sup>6</sup>)

#### 3.1.1 Consistency with the Development Plan of Egypt

The main development issues under the *Long-Term Development Vision 2022*, which was the Egypt's development policy at the time of appraisal, were job creation and poverty alleviation. In the *Five-Year Plan for Socio-Economic Development in phase six 2007-2012* developed in 2007, which presented concrete action plans of the above vision, job creation through the development of private enterprises was focused to be a top priority issue and, furthermore, creating 3.8 million jobs and reducing the unemployment rate to 5.5% were established as goals. This plan also stipulated that the development of micro enterprises was particularly important to achieve its goals.

In the *Sustainable Development Strategy: Egypt's Vision 2030*, the development policy at the time of the ex-post evaluation, the top priority is economic development and one of the goals is to improve the unemployment rate from 12.8% in 2015 to 5% in 2030. It also clearly states that the government aims to improve job opportunities and increase revenues by providing

<sup>5</sup> A: Highly satisfactory, B: Satisfactory, C: Partially satisfactory, D: Unsatisfactory

<sup>6</sup> ③: High, ②: Fair, ①: Low

loans to small and micro enterprises<sup>7</sup> to achieve its goals.

Considering the above, this project was clearly consistent with Egypt's development policy at the time of appraisal and ex-post evaluation.

### 3.1.2 Consistency with the Development Needs of Egypt

At the time of appraisal, in Egypt, 99.7% of all private enterprises were micro or small-sized, and about 6.4 million people, equivalent to about 40% of the total labor force, worked in these enterprises. Furthermore, at least about 2 million of them were estimated to be working in informal<sup>8</sup> micro enterprises<sup>9</sup>. Micro enterprises were particularly limited in access to funds, and the proportion of micro enterprises that could raise business start-up capital from private commercial banks was reported to be 9% in urban areas and 7% in rural areas.<sup>10</sup> The majority of them were dependent on self-financing and borrowing from their relatives. Given the situation, it was necessary for public institutions to support micro enterprises from the viewpoint of job creation and poverty reduction in the country.

Even at the time of the ex-post evaluation, the development of micro and small enterprises is expected to promote consumption and purchasing activities of the low-income groups and contribute to the revitalization of rural economies. Thus, support for micro and small enterprises is deemed indispensable for economic growth and job creation in the country. However, with regard to support for micro and small enterprises, there are remaining challenges such as limited access to public funds, insufficient provision of business development services (market support, quality improvement, training on entrepreneurship, etc.) and inadequate support for exporting.<sup>11</sup> Furthermore, according to the Global Competitiveness Index (2015-2016)<sup>12</sup> published by the World Economic Forum, Egypt ranked 129<sup>th</sup> out of 140 target countries in the availability of financial services and ranked 128<sup>th</sup> in the ease of access to loans. It is therefore suggested that improvement of financial access is necessary to stimulate economic activity.

In light of the above, this project was consistent with the development needs of Egypt at the time of appraisal and ex-post evaluation.

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<sup>7</sup> In accordance with Egyptian Law No. 141, capital size of micro enterprises is less than 50,000 Pound, and that of small enterprises is between 50,000 and 1,000,000 Pound.

<sup>8</sup> The definition of 'formal sector' shall meet all the following requirements: (1) having business license, (2) an enterprise registration, (3) keeping regular accounts for tax purposes and (4) compulsory health insurance to workers. Other enterprises are categorized as 'informal sector'

<sup>9</sup> EDA, "Framework for the National Strategy for Micro and Small Enterprise Development", July 2007

<sup>10</sup> Economic Research Form Working Paper Series, "The Changing Economic Environment and the Development of the Micro and Small Enterprises in Egypt", October 2007

<sup>11</sup> Results of interview with the Ministry of Trade and Industry.

<sup>12</sup> The World Economic Forum, a Swiss-based non-profit organization, calculates the Global Competitiveness Index based on more than 100 indicators in the 12 categories for each country's: Institutions, Infrastructure, Macroeconomic Environment, Health and primary education, Higher education and training, Goods market efficiency, Labor market efficiency, Financial market development, Technological readiness, Market size, Business sophistication, Innovation. .

### 3.1.3 Consistency with Japan's ODA Policy

In the *Country Assistance Program for the Arab Republic of Egypt* developed in June, 2008 at the appraisal stage, expanding and improving public services to reduce poverty and improve living standards were listed as priority issues. In response to this, *JICA's Country Assistance Strategy* aimed at providing employment opportunities and improving income through financing to micro and small enterprises and intermediary financial institutions.

As shown above, this project was highly relevant to the country's development plan and development needs, as well as Japan's ODA policy. Therefore, its relevance is high.

## 3.2 Efficiency (Rating: ②)

### 3.2.1 Project Outputs

The project subleased funds for loans to EDA, the executing agency, and adopted the two-step loan method, by which loans were financed from intermediary financial agencies selected by EDA to micro and small enterprises (See Fig. 1). In the project, two loan schemes of EDA were targeted. One was the Small Enterprise Development Organization (SEDO), which mainly uses banks as intermediaries and is responsible for financing micro and small enterprises in the formal sector with a capital of less than 50,000 Egyptian Pounds<sup>13</sup> (pound). The other was the Micro Finance Sector (MFS), which uses NGOs as intermediaries and is in charge of financing micro enterprises in both formal and informal sectors.

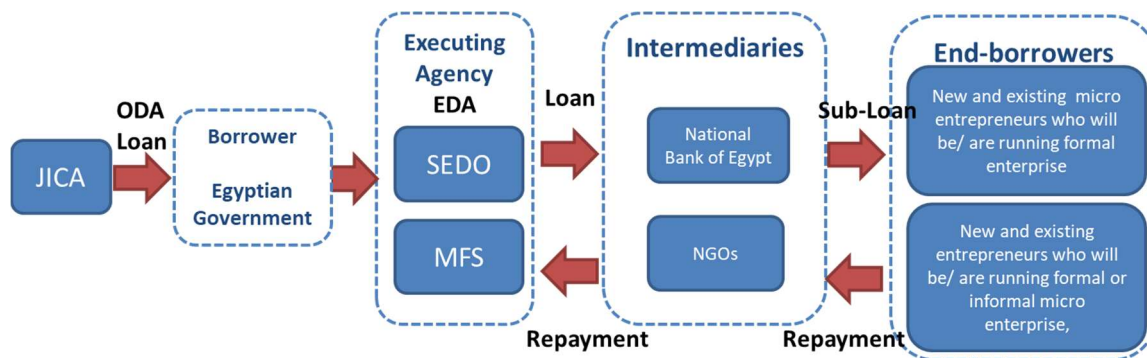


Figure 1 Loan Scheme of the Project

The plan and actual results of the loan conditions of the above two schemes are shown in Tables 1 and 2. The project activities were carried out almost as planned, while some loan conditions were changed in accordance with the market and customers' needs by JICA's consent. The breakdown of the financing results of this project is shown in Table 3 and 4. By the time of the ex-post evaluation, 8,313 loans for SEDO (average loan amount per contract was about 27,000 pound) and 26,163 loans for MFS (average loan amount per contract was

<sup>13</sup> EDA sets the ceiling of capital at 50,000 pounds specifically for this project. They allow up to 100,000 pounds in their regular services.

about 14,000 pound, the actual number excluding re-financing loan from the revolving fund was 2,844), a total of 34,476 loans were provided for micro and small companies.

Table 1 Loan Conditions Toward Intermediaries

Schemes	Loan condition	Plan	Actual
SEDO	Interest rate	5-7%	As planned (7%)
	Loan period	Maximum 5 years (including 1 year grace period)	Changed (maximum 6 years, no grace period)
MFS	Interest rate	7-10%	Almost as planned (10.5%)
	Loan period	6-18 months (no grace period)	Changed (maximum 5 years including 6 months grace period)

Source: documents provided by JICA and EDA

Table 2 Loan Conditions Toward End-borrowers

Schemes	Loan condition	Plan	Actual
SEDO	Interest rate	7-9%	Almost as planned (10%)
	Loan period	Maximum 5 years (including 1 year grace period)	As planned
	Maximum Amount	50,000 pound	As planned
	Eligible end-users	New and existing entrepreneurs who will be /are running formal enterprise, capital less than 50,000 pound.	As planned
	Business categories	The following activities are not eligible for financing: arms manufacture and trade, speculation, real estate, religious and political activities, gambling and nightclubs business, and all legally prohibited business.	As planned
MFS	Interest rate	8-19%	As planned (16%)
	Loan period	6-18 months (no grace period)	Changed (maximum 24 months)
	Maximum Amount	10,000 pound	Changed (25,000 pound)
	Eligible end-users	New and existing entrepreneurs who will be /are running both formal and informal micro enterprise.	As planned
	Business categories	The following activities are not eligible for financing: arms manufacture and trade, speculation, real estate, religious and political activities, gambling and nightclubs business, and all legally prohibited business.	As planned

Source: Documents provided by JICA and EDA

Table 3 Actual Outputs on SEDO

Unit: Thousand Pound

	Male				Female				Total			
	amount	ratio	number (#)	ratio	amount	ratio	#	ratio	amount	ratio	#	ratio
Commercial	75,741	33%	2,715	33%	37,530	16%	1,401	17%	113,272	50%	4,116	50%
Service	30,641	13%	1,050	13%	7,413	3%	250	3%	38,055	17%	1,300	16%
Manufacturing	10,615	5%	364	4%	2,016	1%	78	1%	12,631	6%	442	5%
Animal Production	39,209	17%	1,506	18%	24,007	11%	924	11%	63,216	28%	2,430	29%
others	671	Under 0.1%	20	Under 0.1%	202	Under 0.1%	5	Under 0.1%	873	Under 0.1%	25	Under 0.1%
Total	156,878	69%	5,655	68%	71,169	31%	2,658	32%	228,048	100%	8,313	100%

Source: Documents provided by EDA

Table 4 Actual Outputs on MFS

Unit: Thousand Pound

	Male				Female				Total			
	amount	ratio	number (#)	ratio	amount	ratio	#	ratio	amount	ratio	#	ratio
Commercial	31,694	23%	5,667	22%	28,003	20%	5,363	20%	59,697	43%	11,030	42%
Service	19,631	14%	3,475	13%	6,881	5%	1,258	5%	26,512	19%	4,733	18%
Manufacturing	2,211	2%	393	2%	976	1%	174	1%	3,187	2%	567	2%
Animal Production	28,547	21%	5,474	21%	20,759	15%	4,259	16%	49,307	35%	9,733	37%
others	382	Under 0.1%	75	Under 0.1%	137	Under 0.1%	25	Under 0.1%	519	Under 0.1%	100	Under 0.1%
Total	82,465	59%	15,084	58%	56,757	41%	11,079	42%	139,222	100%	26,163	100%

Source: Documents provided by EDA

### 3.2.2 Project Inputs

#### 3.2.2.1 Project Cost

As public security deteriorated due to the 2011 Egyptian Revolution, the risk for the micro-finance business became high. Therefore, some portion of the credit of MFS was transferred to a fund for more stable activity in line with the project purpose (approximately 30 million pounds was allocated to SEDO in January 2013). The final project cost was 3,747 million yen (74 million yen in foreign currency and 3,673 million yen in local currency), which was as planned (100%).

Table 5 Planned and Actual Project Cost

Unit : Million yen<sup>14</sup>

Items	Plan	Actual
Credit (SEDO)	2,371	3,170
Credit (MFS)	1,277	503
Interest during construction, commitment charge	112	74
Total	3,760	3,747

Source : Documents provided by EDA

### 3.2.2.2 Project Period

According to the ex-ante evaluation sheet, the planned project period was 58 months from December 2008 (Loan Agreement signing (L/A)) to September 2013 (loan completion). The actual project period was 73 months from December 2008 (L/A signing) to December 2014 (loan completion), which exceeded the plan (128%). The main reasons for the prolonged project period were: (1) it took time for the Parliament of Egypt to approve the loan agreement; (2) loan commencement was delayed due to the time taken for the selection of an external audit committee, restructuring within the National Bank of Egypt, as well as screening and confirming the list of NGOs as intermediaries; and (3) the deterioration of the economy and public security caused by the Egyptian Revolution in 2011 slowed down the activities of intermediaries and entrepreneurs, especially the micro-finance business.

In sum, although the project cost was within the plan, the project period exceeded the plan. Therefore, efficiency of the project is fair.

## 3.3 Effectiveness<sup>15</sup> (Rating: ③)

### 3.3.1 Quantitative Effects (Operation and Effect Indicators)

The target and actual<sup>16</sup> values of the indicators set at the time of appraisal are shown in Table 6. The number of MFS loans was lower than the target value because the maximum loan amount assumed at the time of appraisal was raised and, as a result, the average amount of the loan per contract exceeded the initial assumption<sup>17</sup>. The financing activities have been carried out almost as planned and the actual total loan amount exceeded the target. As for the reason of this achievement, from the start of the project, EDA has been the main government agency that

<sup>14</sup> Exchange rate at the time of appraisal: Pound1=JPY20.4 (February 2008), exchange rate at the time of ex-post evaluation: Pound1=JPY 14.8 (average between 2008-2016)

<sup>15</sup> Sub-rating for Effectiveness is to be put with consideration of Impact.

<sup>16</sup> The target value is shown to be the number of loans for this project (primary loan), but on the EDA database, the number of MFS loans includes primary loan and refinancing by revolving fund, making it difficult to identify the numerical value of only the former. For this reason, the actual value was estimated from the total loan amount (actual results) and the average loan amount (estimate). Therefore, the number of MFS loans in the table is an estimated value. Because SEDO does not use the revolving fund for refinancing under EDA's loan policy, the number is the actual number of primary loans.

<sup>17</sup> The maximum loan amount was 10,000 Pound at the beginning. However, it became difficult to meet the needs of end-borrowers to start or expand their business due to inflation after the revolution. To respond the needs, EDA decided to change the maximum loan amount with the consent of JICA in January 2013.



supported micro and small enterprises in Egypt, providing intermediaries and end-borrowers with better financing conditions compared with commercial banks and major NGOs. In addition, the National Bank of Egypt which has the largest number of branches in the country was selected as an intermediary under the SEDO scheme, and about 40 NGOs conducting local community oriented activities were selected under the MFS scheme. This selection of the intermediaries made it possible to provide loans to small and micro enterprises dispersed in rural areas.

The repayment rate within due date was very high at 98% or more, which could be attributed to the appropriate performance of EDA regarding credit decisions and monitoring activities. Particularly with regard to MFS that targeted micro enterprises, utilizing local NGOs that have a deep understanding of the credit information of the end-borrowers also contributed to the high repayment rate. In addition to the financial support<sup>18</sup>, the regional EDA offices also offered nonfinancial assistance to end-borrowers and intermediary financial institutions, especially NGOs, specifically on project formulation surveys, commercial registration procedures, business matching, marketing, and product exhibition. Providing such diverse support was considered to have contributed to the EDA's solid financing performance.

Regarding the female borrower ratio, SEDO almost achieved its target (91%), but this was not the case for MSF (64%). According to MFS personnel, the target was set high because the baseline value was higher than the annual average of the female borrower at 30 to 40%. EDA established a gender unit in 2013 and began working on promoting gender equality in loan programs, which gives expectations for future improvement.

Table 6 Achievement Status of Effect Indicators

Indicators	Baseline (2007)	Target :2015 (2 years after the project completion)	Modified target <sup>19</sup> (2 years after the project completion)	Actual : 2016 (2 years after the project completion)
Total number of loans for the end-borrowers (contract base)	NA	SEDO : 3,321 MFS : 11,380	SEDO : 4,184 MFS : 5,891	SEDO : 8,313 MFS : 2,844
Total amount of loans for the end-borrowers (LE)	NA	SEDO : 116,235,294 MFS : 62,588,235	SEDO : 146,425,294 MFS : 32,398,235	SEDO : 228,048,538 MFS : 39,110,000
End-borrowers repayment rate within the final due date (%)	SEDO : 92 MFS : 98	SEDO : 95 MFS : more than 98	No change	SEDO : 99 MFS : 98
Percentage of female end-borrowers (contract base, %)	SEDO : 35 MFS : 65	SEDO : more than 35 MFS : more than 65	No change	SEDO : 32 MFS : 42

Source: documents provided by JICA and EDA

<sup>18</sup> In addition to the sublease loans supported by the project, the regional EDA offices usually provide the direct loan for the enterprises which face difficulties in receiving financial service from banks and NGOs.

<sup>19</sup> The number of loans borrowed is calculated by the total loan amount by scheme ÷ the assumed average loan amount (SEDO: 35,000 Pound, MFS: 5500 Pound). As the total amount of loans for each scheme changed, the target value was corrected using the same calculation method as planning stage based on the amendment.

Since the project objective was to increase income generation activities and improve employment opportunities, in addition to the above effect indicators, it was attempted to verify the extent to which income generation and job creation were realized by this project. However, since the baseline data were not collected at the appraisal stage, it was difficult to make comparisons and only the actual data at the time of the ex-post evaluation were reviewed.

According to EDA, out of 34,476 companies financed by the project including re-finances using revolving funds, the number of new enterprises was 8,514, which was about 25% of the total, and the number of new employees was 16,976 for new enterprises. Looking at the data by scheme, SEDO brought the larger number of both created jobs and new entrepreneurs. By gender, male entrepreneurs had the larger number of both created jobs and new entrepreneurs in SEDO, whereas there was not much difference in MFS. According to EDA, one of the reasons for this trend could be that women often work in their house or the neighborhood with fewer working hours and shorter commuting distances due to a general tendency in Egypt for women to take more time to do household chores or childcare than men. Therefore, the financial scheme of MSF was easier to be used by female entrepreneurs.

Table 7 Jobs(# of person) and New Entrepreneurs(# of company) Created by the Project

Scheme	Items	Male	Female	Total
SEDO	Created jobs	9,264	4,697	13,961
	New entrepreneurs	3,776	1,980	5,756
MFS	Created jobs	1,596	1,419	3,015
	New entrepreneurs	1,455	1,303	2,758
Total	Created jobs	10,860	6,116	16,976
	New entrepreneurs	5,231	3,283	8,514

Source: Documents provided by EDA

### 3.3.2 Qualitative Effects (Other Effects)<sup>20</sup>

**Strengthening of the financing capacity of EDA :** EDA reported that the repayments (principal + interest) from the intermediaries which were saved in the revolving fund account opened by EDA were used for re-financing end-borrowers, thereby contributing to securing necessary financial resources to support micro and small companies and to the continuation of loan activities.

**Strengthening of the capacity of intermediaries :** The intermediaries stated that the project contributed directly to the expansion and stabilization of micro-finance funds and benefited indirectly to increase the number of full-time staff, establish new branches, expand the scope of activities, acquire trust from customers (end-borrowers), and strengthen staff capacity through financial training by EDA.

<sup>20</sup> Regarding qualitative effects of the project, it was expected to enhance financial capacity to conduct loan activities of EDA, intermediaries and end-borrowers. In this report, the effects on EDA and intermediaries are described in the part of Effectiveness, and the effects on the end-borrowers are described in the part of Impact.

### 3.4 Impacts

#### 3.4.1 Intended Impacts<sup>21</sup>

**Impact on the end-borrowers level:** In this ex-post evaluation study, a beneficiary survey was conducted<sup>22</sup> for some of the end-borrowers who used the loans from this project to confirm its impact. According to the results of the beneficiary survey, the main purpose of the loans in this project was securing working capital (67%) followed by purchase of equipment (30%). The biggest impact by the loan was the increase in business revenue (43%), followed by the stabilization of livelihood through improved income level (33%).

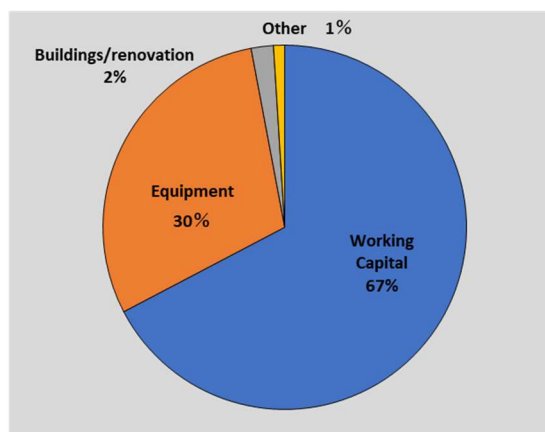


Figure 2 Main Purposes of the Loan

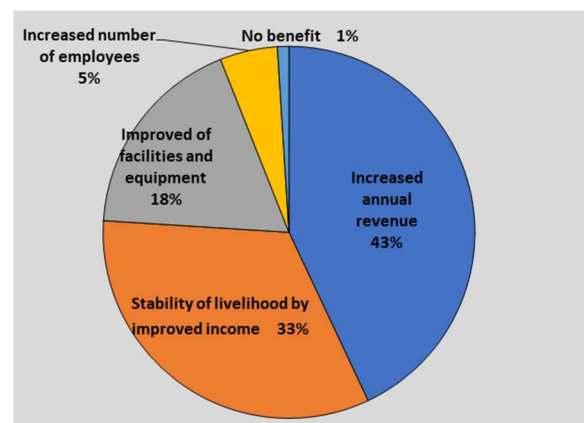


Figure 3 Impacts by the Loan

**【Increase in business revenue】** The interviews to the end-borrowers revealed that the most end-borrowers experienced refinancing by EDA (according to the beneficiary survey, about 60% of respondents received refinancing). The intermediaries selected borrowers who managed to raise revenue more than the initial loan amount for refinancing. Thus, the fact that many end-borrowers experienced refinancing suggests that many of them generated revenues exceeding the investment amount, steadily repaid principal and interest, and stabilized business or income. This finding indicates that this project has contributed to the improvement of the business revenue of the end-borrowers to a certain degree.

**【Stabilization of livelihood】** The interviews revealed that the enterprises in the informal sector usually don't have their financial statements and face difficulties in receiving loans from public financial institutions. From this reason, EDA's loan was easier to access due to

<sup>21</sup> According to the document at the time of appraisal, the impact of this project is to contribute to alleviating poverty and promoting socio-economic stability through job creation. Relevant macro data was confirmed in order to assess the long-term impact of the project.

<sup>22</sup> As the targets of the beneficiary survey were the end-borrowers of the project, respondents were extracted according to the financial scheme, region, and gender within the project (effective number of responses: 100). Breakdown of respondents by gender was 40% female, 60% male, and by loan scheme was 76% micro enterprises, 24% small companies. Based on the sample list (specified loan scheme, business type, region and gender) of 110 end-borrowers prepared by the evaluator, each EDA's regional office selected the end-borrowers who accepted the survey. Interpretation of the results should be done carefully as beneficiary selection could be biased toward the preferred or better performers.

the simple procedures to process the documents and the lower interest rate than the other public financial institutions. Especially from the female enterprisers who used EDA's loans, positive impacts such as stability of livelihood through improved income were frequently reported.

**Impact on macro level :** In the long term, this project was expected to contribute to the stabilization of society and economy through poverty reduction and employment creation. Looking at the macro-level data related to the long-term impact, unemployment rate had increased from 9.0% in 2010 when lending began to 12.8% in 2015. Similarly, the poverty rate had worsened from 25.2% in 2010-2011 to 27.8% in the latest statistics in 2014-2015. During the project implementation period. Both the unemployment rate and the poverty rate worsened during the project implementation period, which would have been largely influenced by the Egyptian Revolution of 2011 and the subsequent political unrest and economic recession. It was difficult to verify the project effects on the macro level impacts based on the statistical data due to the influences of external factors.

#### 3.4.2 Other Positive and Negative Impacts

As of the ex-post evaluation, no negative impact toward natural environment had been reported. Also, since the targets of the project are micro and small enterprises, there were no cases of resettlement or land acquisition.

In light of the above, the project overall has achieved its objectives. Therefore, its effectiveness and impact are high.

### 3.5 Sustainability (Rating: ③)

#### 3.5.1 Institutional Aspects of Operation and Maintenance

Social Development Fund, the executing agency at the time of appraisal, was merged into EDA established in June 2017. From the appraisal stage to the ex-post evaluation, no major changes were made to the structure of EDA. The section in charge of SEDO has increased the number of personnel from 79 at the time of appraisal to 204 at the time of the ex-post evaluation and the section in charge of MFS has also increased it from 53 to 62 respectively. According to the Ministry of Industry and Trade, main institution in charge of micro, small and medium enterprise development together with EDA, the existing functions of EDA will remain as it is, and their scope of business is expected to be diversified to include cooperation toward the medium-sized enterprises and industrial trainings under the new structure in the future.

The end-borrowers are monitored by the regional office of EDA on whether the project are carried out according to the application, through examination of the monitoring report drawn up by the intermediary financial institutions within 90 days after the approval of the loan.

Thereafter, a follow-up survey is conducted once a year (three times a year if some possibilities of a delay in repayment). These findings are sent to the EDA headquarters monthly, and specific measures are examined by the Credit Risk Management Sector for the borrowers with high risks.

The intermediaries are assessed based on EDA Credit Policy and selected with the approval of the EDA Higher Credit Committee. Even for these intermediaries, monitoring of loan and repayment performance is carried out monthly, and the details of contracts between EDA and the intermediaries are reviewed as necessary.

Considering the above, there are no problems with the institutional aspects of EDA financing project.

### 3.5.2 Technical Aspects of Operation and Maintenance

The Human Resources Department of EDA provides various training programs such as communication skills, language, monitoring and evaluation in addition to programs related to financing operations for new staff and incumbents. A variety of technical assistance is also provided from various international donors including JICA's group training courses. At the time of the ex-post evaluation, "Technical Assistance for Micro and Small Businesses" by the African Development Bank and "Organizational Improvement Support for EDA" by the Islamic Development Bank have been implemented, among others. There is Credit Policy that is used as a manual for daily work, and it is updated as necessary. All financial projects are implemented in accordance with the same guidelines.

In addition to day-to-day advisory work to the intermediaries by the International Cooperation Group and the Planning and Monitoring group of EDA, capacity building training on community development and micro-finance business is provided for the intermediaries through the support of international donors<sup>23</sup>.

Based on the above, it is clear that EDA has been working on maintaining and improving its operation and maintenance capacity, and no problems can be seen.

### 3.5.3 Financial Aspects of Operation and Maintenance

The financial status of EDA from the year before project completion from 2013 to 2015 is as shown in Table 8. The main sources of revenues of EDA are business assistance by international donor agencies and the amount has been increasing year by year. According to EDA, most international aid organizations decided to implement loans up to the next few years (2-4 years) and there is no prospect of withdrawal of the agencies or shrinking of the projects. In addition, "bad debts expenses" occupy a small share of the expenditure because of high repayment rate and interest income from the loan projects is stable.

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<sup>23</sup> Since 2013 training courses organized by the African Development Bank and the Islamic Development Bank have been conducted about 2 to 10 times a year.

Moreover, EDA has selected excellent institutions as intermediaries based on examination criteria such as debt status, fundraising records and information management system. Even after the conclusion of the contract, loan and repayment performance is regularly monitored. Financial consultation is directly given to the institutions in poor financial condition by EDA.

Table 8 Financial Status of EDA

Unit : Million Pound

Items		2013	2014	2015
Revenues	Grants and contributions to project	178	522	867
	Interest on loans	351	397	496
	Interest on time deposits	92	126	162
	Dividends from investment trust	1	5	2
	Other income	5	4	5
	<b>Total revenue</b>	<b>627</b>	<b>1,053</b>	<b>1,532</b>
Expenses	Borrowing interest and bank charges	86	102	132
	Project expenses	178	520	868
	Depreciation expenses	5	5	6
	General administration expenses	199	224	254
	Bad debts expenses	1	0	0
	Other expenses	4	2	2
	<b>Total expenses</b>	<b>474</b>	<b>853</b>	<b>1,262</b>
<b>Balance</b>		<b>154</b>	<b>200</b>	<b>271</b>

Source : Documents provided by EDA

Note : "Grants and contributions to project" includes grant and loan from international aid agencies.

#### 3.5.4 Current Status of Operation and Maintenance

The figures below show the performance of revolving fund account opened in 2010. The balance of the account has increased from 354,769 pound at the time of opening to 133,596,289 pound at the end of 2015, indicating that repayment from the intermediaries and refinancing have been smoothly carried out. An external audit has been carried out every year, and the reports have been submitted to the JICA. The revolving funds are used mainly for MFS scheme for poverty reduction in accordance with the Credit Policy like this project. According to EDA, the account will be integrated into the pooled fund account<sup>24</sup> after the completion of ODA loan repayment and the usage policy will be discussed at the time of integration.

<sup>24</sup> Like the revolving fund account opened under the project, special accounts under the projects by the international donors are integrated into the pooled fund account several years after the completion of the projects.

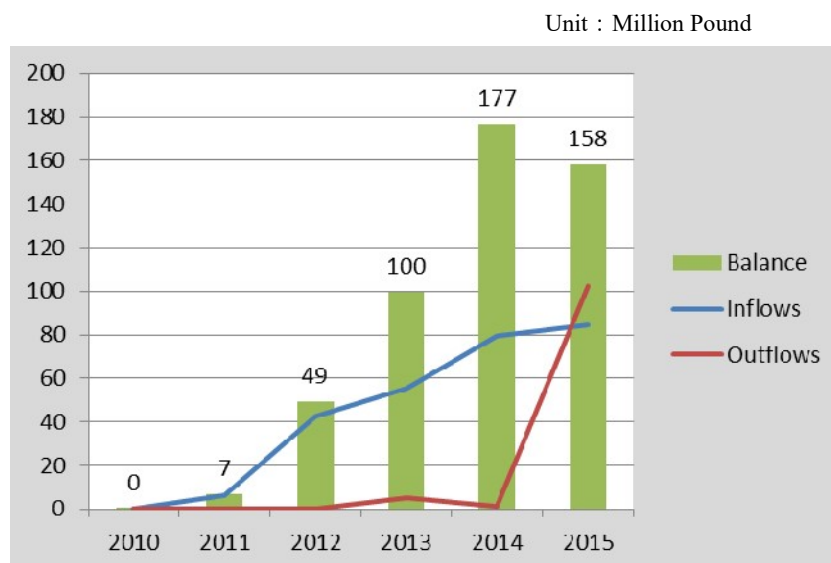


Figure 4 Operation Status of the Revolving Fund

Source : Documents provided by EDA

Note : "Inflow" includes "repayment from the intermediaries" and "interest payment from the intermediaries".

"Outflow" includes "disbursement of the repeat loans" and "bank charge".

No major problems have been observed in the institutional, technical, financial aspects and the current status of the operation and maintenance system. Therefore, sustainability of the project effects is high.

#### 4. Conclusion, Lessons Learned and Recommendations

##### 4.1 Conclusion

The objective of the project was to increase income generation activities and to enhance employment opportunities by financing to micro and small enterprises in Egypt through intermediary financial agencies. The project was implemented by EDA. The relevance of this project is high since it has been consistent with Egypt's development policies and development needs both at the time of appraisal and of ex-post evaluation, as well as with Japan's ODA policy at the appraisal stage. The efficiency is fair as while the loan conditions for the intermediary financial agencies and end-borrowers were mostly as planned and the project cost was within the plan, the project period exceeded the original plan due to the Egyptian Revolution in 2011 and its after-effects. With regard to effectiveness and impact, the targets set at the appraisal stage for the number of loans, the total loan amount and repayment rate were largely achieved. In addition, positive impacts such as increased revenue and inventory, and stability of livelihood through the increase in income were reported. Therefore, the project's effectiveness and impact are evaluated as high. Finally, the sustainability of the effects of this project is also considered high as there are no noticeable problems with the institutional, technical or financial aspects of EDA, and the revolving funds established under the project is

being operated smoothly.

Overall, this project is evaluated to be highly satisfactory.

## 4.2 Recommendations

### 4.2.1 Recommendations to the Executing Agency

None.

### 4.2.2 Recommendations to JICA

None.

## 4.3 Lessons Learned

The importance of understanding the lending structure of executing agencies and intermediaries and of the needs assessment of the intermediaries and end-borrowers for non-financial services

This project, which supported loan projects for micro and small enterprises through EDA, was carried out in midst of the unstable economic and political situation brought about by the Egyptian Revolution in 2011. Nonetheless, in general the project was implemented as planned with the repayment rate from the end-borrowers being very high.

One of the promoting factors was abundant business experience and technical ability of the executing agency. Since its establishment, EDA has been providing loans for micro and small companies for many years with financial and technical assistance from a number of overseas aid organizations such as the World Bank and UNDP. This experience of EDA contributed to the smooth implementation of the project.

In addition, financing for micro and small companies that are dispersed in rural areas was made possible by selecting appropriate intermediaries, namely the National Bank of Egypt, which has the largest number of branches across the country, and about 40 NGOs that operate with close ties to local communities. Also, while credit screening for micro and small enterprises is particularly important to avoid default risks since they usually do not have finance-related statements, it is relatively easy for the above-mentioned lending institutions that operate with close ties to their communities to have an understanding of the end-borrowers' credit. This would have contributed to high repayment rates. Furthermore, EDA uses an internationally widespread rating system to judge the eligibility of microfinancing institutions. Under this system, intermediary NGOs are categorized according to their creditworthiness and past achievements, and if they belong to a superior category, they can receive loans under better conditions. However, if repayment is delayed, the system will not approve the next loan. This sort of system has been creating an incentive for the NGOs to repay. Therefore, one of the factors that contributed to the success of the project was an appropriate selection of the intermediaries.

Finally, in addition to financial assistance, EDA's regional offices provide non-financial assistance to end-borrowers and intermediaries (especially NGOs), specifically on project



formulation surveys, commercial registration procedures, business matching, marketing, and product exhibitions, among others. It was reported that the combination of such diverse services has improved the business performance of the end-borrowers and made refinancing possible, thus showing the effects of the project.

Therefore, when preparing similar projects to support financing for micro and small enterprises, it is important for JICA to grasp not only the executing agency's lending structure, but also the past loan performance of intermediaries. Furthermore, in addition to financial services, assessing the needs of the intermediaries and end-borrowers for non-financial services, as much as possible, such as training for marketing, accounting management, business planning and portfolio is suggested. Thereby, if necessary, financial cooperation could be combined with technical assistance that aims to enhance non-financial services, which would be effective for expanding the project effects.

### Comparison of the Original and Actual Scope of the Project

Item	Plan	Actual
<b>1. Project Outputs</b>		
(1) Loan conditions toward intermediaries - SEDO		
Interest rate	5-7%	7%
Loan period	Maximum 5years (including 1 year grace period)	maximum 6 years, no grace period
(2) Loan conditions toward intermediaries - MFS		
Interest rate	7-10%	10.5%
Loan period	6-18months (no grace period)	maximum 5years including 6 months grace period
(3) Loan conditions toward end-borrowers - SEDO		
Interest rate	7-9%	10%
Loan period	Maximum 5 years (including 1 year grace period)	As planned
Maximum amount	50,000 Pound	As planned
Eligible end-users	New and existing entrepreneurs who will be /are running formal enterprise, capital less than 50,000 Pound.	As planned
Business categories	The following activities are not eligible for financing: arms manufacture and trade, speculation, real estate, religious and political activities, gambling and nightclubs business, and all legally prohibited business.	As planned
(4) Loan conditions toward end-borrowers - MFS		
Interest rate	8-19%	16%
Loan period	6-18months (no grace period)	maximum 24 months
Maximum amount	10,000 Pound	25,000 Pound
Eligible end-users	New and existing entrepreneurs who will be /are running both formal and informal micro enterprise.	As planned
Business categories	Same as SEDO	As planned
<b>2. Project Period</b>	December 2008 – September 2013 (58 months)	December 2008 – December 2014 (73 months)
<b>3. Project Cost</b>		
Amount Paid in Foreign Currency	112 million Yen	74 million Yen
Amount Paid in Local Currency	3,648 million Yen (178 million Pound)	3,673 million Yen (248 million Pound)
Total	3,760 million Yen	3,747 million Yen
ODA Loan Portion	3,760 million Yen	3,747 million Yen
Exchange Rate	1 Pound = 20.4Yen (As of February 2008)	1 Pound = 14.8 Yen (Average between 2008 and 2016)
<b>4. Final Disbursement</b>	December 2014	

### **Considerations on Assisting Project for Female Entrepreneurs**

From an international viewpoint, Egypt has a high enrolment ratio of boys and girls going to primary, secondary, and on to higher education. On the other hand, the rate of women's employment, income disparity between males and females, and the percentage of women in managerial positions or professional occupations are poor. According to the Ministry of Trade and Industry, the supervisory body of the micro and small enterprises sector, women have limited access to public financial service and business activities compared to men. To solve the problem, it is necessary to dispel social and cultural resistance to women participating in economic activities. EDA established a Gender Unit in 2013 and has been working on assisting women's entrepreneurship, however so far these activities are focused on awareness reform of EDA officials and intermediary financial institutions and have not yet reached female entrepreneurs on the ground. This section is a compilation of the results of considerations based on the interviews and beneficiary survey conducted during the ex-post evaluation that are thought to be effective for micro and small enterprise assistance for women, carried out by JICA in the future.

- **Discussing about concrete activity to achieve effect indicator:** In this project, "the increase in the number of loans to women" was set as an effect indicator, but concrete activities necessary for achieving the indicator were not discussed and as a result, the target could not be achieved. For this reason, when setting similar targets, it is necessary to conduct a needs assessment on female entrepreneurs at the time of appraisal and to discuss concrete measures, realistic target values and external support (both financial and technical aspects).
- **Utilizing media:** The interview with female entrepreneurs revealed that they heard about micro-finance through friends and relatives. Their motivation for borrowing was the fact that friends and relatives had utilized and been able to properly repay the loan. Therefore, for projects promoting loans to female entrepreneurs, it would be effective to conduct briefing sessions that share the experiences of female entrepreneurs and publicize success stories through the media.
- **Combination with non-financial services:** In addition to financial assistance, there were many voices suggesting the necessity of assistance in such areas as securing sales channels, selecting products with high profitability, and marketing advice. The intermediary financial agencies (mainly NGOs in the case of this project) with close connections to the communities should be the ones taking this role. However, as non-financial services are provided free of charge in many cases, the conduct of those services would depend greatly on the financial situation of the agencies. Therefore in projects aiming to foster female entrepreneurs, it would be effective to not only provide loan funds but also combine technical support for non-financial services.
- **Awareness raising activities for the families and relatives of female entrepreneurs:** Especially in rural areas in Egypt, there are still many women who are unable to go to school or work in a remote area because of a psychological resistance among family and

relatives about women going out alone. Therefore, for the assistance of female entrepreneurs, it is considered necessary to provide long-term awareness raising activities for the families and relatives to create enabling environment for working women.



She runs a children's cloth store, bought inventory from wholesaler by using SEDO loan introduced by her relatives.



She heard MFS loan from a friend, and purchased animal (duck) to make a living.