

## **JBIC Signs ODA Loan Agreement with Egypt**

### **--First ODA Loan after Reduction of Official Lending--**

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1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) signed in Cairo February 2, with the Government of the Arab Republic of Egypt an ODA Loan agreement amounting to 5,194 million yen for the Social Fund for Development (SFD) Project in Egypt.
2. After the Paris Club agreed on debt reduction for Egypt in May 1991, the Government of Japan suspended new ODA loan provisions for the country.\* Subsequently Egypt embarked on the economic reform program in October 1996 under an IMF arrangement. As the debt reduction process entered the final stage, the Government of Japan announced its intention to resume new ODA lending in November 1996. Since then, both governments engaged in a series of discussions and subsequently reached agreement on extending the first ODA loan after the resumption of official lending to this project. Accordingly, JBIC and the Government of Egypt made discussions on details of the loan, leading to the signing of this loan agreement. The loan will provide funds for financing micro and small enterprises for business start-ups and expansion in the regions of Upper Egypt and the Suez Canal and Sinai Peninsula by way of financial intermediaries under the Small Enterprise Development Organization (SEDO), a program of the Social Fund for Development (SFD).

\*An agreement to provide an ODA loan for the Beni-Suef Cement Factory Project (III) was made between two countries in March 1992 (the loan agreement with JBIC, former OECF, was signed in June 1992) in view of the fact that it was an ongoing project.

3. Strategically located in the Arab world, Egypt plays a key role in the region's politics and economy. The country's stable and sustainable development has significant implications for peace in the Middle East and a stable supply of natural resources for Japan. Upon receiving debt reduction measure in May 1991, Egypt undertook structural reforms with the guidance of IMF and the World Bank and brought the economy back to a stable growth path during the 1990s. At the same time, structural reforms have exacerbated poverty and unemployment, which engendered social unrest. Thus poverty reduction and job creation are seen as pressing issues for the country. Under these circumstances, the Government of Egypt established the Social Fund for Development in 1991 and, with support from the World Bank and other donors, SFD has been making efforts to create employment and reduce poverty primarily through business start-ups and expansion of micro and small enterprises.
4. This project is expected to create employment in areas where poverty is disproportionately concentrated, thereby reducing poverty, alleviating regional disparities and promoting economic and social stability in Egypt.

Loan appraisal for this project was conducted in September 2000. Therefore, this project did not require preparation of the Ex-Ante Evaluation Report. Projects for which appraisal is conducted after April 1, 2001 require preparation and public disclosure of their Ex-Ante Evaluation Reports.

(See Appendix for details.)

## JBIC Signs ODA Loan Agreement with Egypt —First ODA Loan after Resumption of Official Lending—

Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) signed in Cairo February 2, with the Government of the Arab Republic of Egypt an ODA Loan agreement amounting to 5,194 million yen for the Social Fund for Development (SFD) Project in Egypt. The signing took place between H.E. Fayza Abul Naga, Minister of State for Foreign Affairs of Egypt, and Mitsuyasu Iwata, Senior Executive Director of JBIC.

### 1. Loan Amount and Conditions

Project Name	Amount (Mil. Yen)	Interest Rate (% per annum)	Repayment Period/ Grace Period(Years)	Tying Status
Social Fund for Development Project	5,194	0.75	40/10	*

\*The project does not involve procurement.

### 2. Political Conditions

#### (1) Political and Social Conditions

As a result of the national referendum in September 1999, which confirmed his nomination to a six-year presidential term for the fourth time, President Mubarak's long-running, stable government has now entered its 20th year since it began in 1981. While Egypt adopted nonalignment as one of the tenets of its foreign policy, the pro-Soviet stance under President Nasser was succeeded by the pro-U.S. stance of the Sadat-Mubarak administrations. Having strong contacts with Arab countries as well as Israel, Egypt has played a positive mediating role in the Middle East peace process. On the domestic front, structural reforms led by the IMF and World Bank began in 1991 and brought the economy back to the growth path. At the same time, this policy exacerbated poverty and unemployment, and growing social unrest served as the background for anti-government terrorist attacks, as represented by the attack in Luxor. Thus poverty reduction and employment measures are indispensable to ensure social stability.

#### (2) Economic Conditions

Since the 1990s, Egypt has shown good macroeconomic performance. GDP grew from less than 3 percent in 1993 to more than 6 percent in 1999. The balance of payments has a structure where trade deficits are offset by (a) tourist revenues, (b) toll revenues from the Suez Canal and (c) transfers from Egyptian workers in oil-producing countries. The government has maintained a tight fiscal stance, reducing the deficit from more than 15 percent relative to GDP in 1991 to a slightly above 3 percent in 1998. External debt decreased significantly relative to GDP as a result of debt reduction based on the agreement in 1991 at the Paris Club and growing GDP. At the end of 1999, the ratio of external debt to GDP was around 34 percent, and the debt service ratio was down to less than 10 percent. However, the multiple terrorist attacks on September 11, 2001, resulted in a plunge in oil and tourist revenues. This has given rise to some concern over a shortage of foreign currency liquidity. Thus careful observation is called for on the prospects of its economic situation.

### 3. Brief Description of the Project

Social Fund for Development Project

#### (1) Background and Necessity of the Project

The Government of Egypt set up the Social Fund for Development (SFD) under the Prime Minister's Office in 1991, receiving full support from the World Bank, United Nations Development Programme (UNDP) and other donors. It has thus set up an institutional framework for putting in place a multi-dimensional safety net that aims at poverty reduction through job creation. SFD's programs consist of four components: (a) Small Enterprise Organization; (b) Public Works Program; (c) Community Development Program; and (d) Human Resources Development Program.

Poverty and unemployment will continue to be serious social problems for Egypt, with 22.9 percent of the population below the country's poverty line and unemployment hovering well above 10 percent. Thus the financial needs of the SFD will remain high in the foreseeable future, and Japanese financial assistance is expected to make a significant contribution.

#### (2) Purposes and Description of the Project

This project will provide funds for financing micro and small enterprises for business start-ups and expansion in the regions of Upper Egypt and the Suez Canal and Sinai Peninsula on concessionary terms by way of financial intermediaries under the Small Enterprise Development Organization (SEDO), a program of the SFD. It will thereby encourage job creation and poverty reduction. Since this project will support particular regions where poverty is disproportionately concentrated, it is expected to have a positive impact on the country's economic and social stability.

The implementing agency is the Social Fund for Development (SFD). Address: Off El Kasr Aini St., Cairo, Egypt, TEL:20-2-794-0077, FAX:20-2-795-9877

