Government of Egypt

Social Fund for Development

Multi-Donor Review of SFD

Final Draft Report

28 October 2004

Map of Egypt

Base 802524 (R00622) 5-97

Table of Contents

Annexes

Abbreviations and Acronyms

ABA	Alexandria Businessmen Association
ADF	Arab Development Fund
AfDB	African Development Bank
BBSA	Basic Business Skills Acquisition
BdC	Banque du Caire
BDS	Business Development Services
BEN	Beneficiary Evaluation Network
BoA	Bank of Alexandria
BoD	Board of Directors
BS	Business Services (Department)
CAPMAS	Central Agency for Public Mobilization and Statistics
CBE	Central Bank of Egypt
CAD	Computer Aided Designing
CDA	Community Development Association
CDP	Community Development Programme
CEQOMA	Contact Enquiry Quotation Order Monitoring After sales service
CIS	Cooperation Insurance Society
CRS	Catholic Relief Services
CSO	Civil Society Organization
DAG-SFD	Donor Advisory Group-subgroup on SFD
EC	European Commission
EDD	Environment and Development Department
EDP	Enterprise Development Programme
EDU	Environment and Development Unit
EEAA	Egyptian Environment Affairs Agency
EIA	Environmental Impact Assessment
EIA	Egyptian Incubator Association
ERSAP	Economic Reform and Structural Adjustment Programme
ET	Entrepreneurship Training
EU	European Union
Feddan	4200 m2 (approx. one acre of land)
FX	Foreign Exchange
GALAE	General Authority for Literacy and Adult Education
GoE	Government of Egypt
HCDG	Human and Community Development Group
HO	Head Office
HRDP	Human Resource Development Programme
IA	Impact Assessment
IAS	International Accounting Standards
IB	Institutional Business (Department)
ICMPR	International Cooperation, Media, and Public Relations Group
IDP	Institutional Development Programme
IGA	Income-generating Activities
IIAE	International Impact Assessment Expert
ILAD	Integrated Local Area Development
JBIC	Japanese Bank for International Cooperation
KDF	Kuwait Development Fund
KfW	Kreditanstalt für Wiederaufbau

LE	Egyptian Pound
LFA	Logical Framework Approach
MDRM I	First Multi-Donor Review Mission
MDRM II	Second Multi-Donor Review Mission
MFA	Micro-Finance Activities
MFI	Micro Finance Institution
MFS	Micro-Finance Sector
MIS	Management Information System
MMG	Marketing and Management Group
MOH	Ministry of Health
MOSA	Ministry of Social Affairs
MSE	Micro and Small Enterprise
MSEA	Ministry of State for Environmental Affairs
NBE	National Bank of Egypt
NGO	Non-Governmental Organization
O&M	Operation and Maintenance
p.a.	Per annum (per year)
PAR	Portfolio-At-Risk
PBDAC	Principal Bank for Development and Agricultural Credit
PCM	Project Cycle Management
PCU	Programme Coordination Unit
PFA	Productive Families Association
PIU	Project Implementation Unit
PRA	Participative Rural Appraisal
PRA	Participatory Rural Appraisal
PWP	Public Works Programme
SA	Sponsoring Authority with PWP (ministry, governorate)
SEDO	Small Enterprise Development Organization
SFD	Social Fund for Development
SME	Small and Medium Enterprises (usual meaning)
SME	Small and Micro Enterprises (meaning in the SFD context)
TASFD	Technical Assistance for the Social Fund for Development
TfE	Training for Employment
TOR	Terms of Reference
TOT	Training of Trainers
UNDP	United Nations Development Programme
URSOL	Unit for Research in Improvement of Standards of Living
USD	United States Dollars
VET	Vocational Education and Training
VTC	Vocational Training Centre

Exchange rates

(September 2004)

1 €	=	7.61 LE
US$ 1	=	6.20 LE
1 Yen	=	0.056 LE

Preface

This Draft Report of the Multi-Donor Review Mission is based on an earlier preliminary report prepared for the participants of the workshop of 14 October 2004. It has been substantially improved and completed taking into account comments expressed by the participants during the workshop and comments and clarifications received in writing.

The mission would now like to receive comments by the 15th of November on the changes incorporated in this Draft Report in order to prepare the Final Report which will be submitted on 30 November 2004.

The mission was sponsored by the following donors: European Union, Kreditanstalt für Wiederaufbau, United Nations Development Programme, Japanese Bank for International Cooperation, African Development Bank and World Bank.

The review mission was preceded by an Impact Assessment Study funded by the EU. The results of this impact assessment study provided an extremely helpful input to the review mission.

The mission comprised the following experts:

Eddy BYNENS	Team Leader
Karim Y GOHAR	Community development, health, education, and NGOs
Søren HOLM	Institutional development, monitoring and evaluation
Taissir HOSAM	HRD, training and gender
Rauf KHALAF	SME Enterprise Development
Yasuhisa KURODA	SME Enterprise Development
Graham PERRETT	Microfinance
David E. SIMS	Labour based public works, poverty and environment

The team members gratefully acknowledge the great assistance and collaborative spirit extended to it by SFD's leadership and staff at all levels in the headquarters and branch offices. Thanks go also to the partners organizations of SFD for the precious time they spent with the team and to the beneficiaries of SFD for their patience, and finally to the PCU office for the logistical support and precious advice.

The report was drafted in accordance with the EU guidelines and the Terms of Reference that are attached as annex 1. The evaluators/team members are presented in annex 2. A list of persons met, institutions consulted and projects visited is included as annex 3, and the list of documents consulted is included as annex 4.

Executive Summary

In this executive summary the mission first introduces (1) the highlights of the review; then examines (2) the implementation of the recommendations of the first Multi Donor review mission; presents (3) the findings and recommendations related to the different SFD programmes; and finally summarizes (4) the governance, and (5) the cross-cutting issues.

1 Highlights of the review

"Creating jobs for the population with limited income and improving their standard of living" is the objective of the Social Fund for Development since its creation in 1991 (article 2 of the Presidential Decree 40/1991), this objective remains relevant and SFD plays effectively a significant role in poverty reduction and employment creation. The creation of SEDO within SFD in 1999 and the enactment of the law 141 in 2004, give SFD a public mandate for developing the small enterprises sector. SFD uses this mandate to help create durable, permanent employment in the private sector mainly for low-income groups. SFD has developed a mission statement, programme objectives and strategies and is preparing a five-year budget and an annual budget for 2005 for discussion with the Government and the donors. This will be an excellent occasion to further refine objectives, strategies and budgets.

The Impact Assessment study carried out just prior to the review mission provided interesting insights into the activities of SFD. For example the survey showed that of the 3 billion LE SEDO loaned to 145 000 clients since 1997, more than half went to poor people. Two thirds of the loans went to start-up businesses that each created four new jobs on the average. The household survey indicated that these loans have a considerable impact on the different forms of poverty and contribute significantly to poverty reduction. Micro-finance is a very small activity compared to SEDO, it loaned about 177 million LE to 125 000 beneficiaries since its inception, but it is even more efficient in reaching the poor: the survey indicated that 70% of its beneficiaries are poor and the generated income helped 50% of the sampled families to cross the poverty line. The survey of the training programmes indicated that they were efficient in reaching poor and women but that the impacts on employment creation were disappointing. Finally concerning the social infrastructure activities that invested one billion LE since the beginning of SFD, the survey found that they responded generally to the local needs of poor communities although sometimes the very poor did not profit from services such as house connections to water and sewerage systems, and maintenance and operation was often problematic. Since about 25% of the investments go to wages it is estimated that this created the equivalent of about 66 000 person years of employment, most of it temporary. In the past, very few impact studies of SFD activities were done but this exercise is reassuring it shows that SFD's impact is important in quantity and in quality.

For most social funds the World Bank uses a simple indicator of efficiency which is the ratio of "operating costs" of the social fund compared to the "cost of the projects executed". This indicator can be used for the activities of the HCD Group but for SEDO another indicator is needed such as the ratio of "operating costs" to the "amount of outstanding loans". If these ratios could be determined, then SFD could be compared with other social funds and other organizations. Unfortunately SFD uses an accounting system that does not provide separate operating costs for SEDO and HCDG. However by using hypothetical ratios the operating cost of a well run, efficient social fund can be calculated and compared with SFD's. If an operating ratio of 7% for HCDG and 2% for SEDO is used, an average yearly operating costs of LE 55.5 million is obtained. The actual operating costs of SFD were as follows: year 2000: LE 32.8 million, 2001: LE 49.2 million, 2002 LE 36.0 million, 2003: LE 58.6 million or an average of LE 44.2 million which is 20% lower than the estimated operating cost for an efficient social funds. These figures do not allow to draw conclusions about HCDG or SEDO individually but since the ratios used relate to well run operations the conclusion is that SFD as a whole is an efficiently run Social Fund in comparison with similar organizations.

One of the major constraints SFD and other social funds around the world are facing has been caused recently by the donors, it is the "procurement problem".
When social funds were created ten to twenty years ago, social funds could define their own procurement procedures. Usually this was done with the assistance of the donors that helped create the social fund. When new donors joined the social fund they accepted the existing procedures. It made sense for social funds to have their own simplified procedures because of the flexibility and speed it allows them and the small sizes of the contracts also justify simplified procedures. Governments accepted the simplified procedures of their social funds and some donors such as the World Bank even expected that these simplified, efficient and effective procurement procedures might inspire governments to overhaul their own rigid and antiquated procurement procedures. The system worked well and although some donors expected some abuse of the system no serious wrongdoings were exposed in social funds.
But less than ten years ago the procurement departments in most funding organizations were reinforced and beginning with the World Bank, started to look into the procurement rules. The result was that many social funds were forced to adapt their procurement procedures to more stringent World Bank procedures, which they did. The procurement department of the EU went further, procedures that were acceptable to the World Bank and the other donors were not acceptable to the EU, only EU procedures were to be used with EU funds. The Social Funds accepted, but it must be said that the EU procedures are rather complicated, even the "simplified" procurement rules of the EU cause a lot of debate in their application, also amongst EU Delegation staff and international consultants. And even the simplified EU rules for small expenditures are cumbersome and not very well suited to the functioning of a social fund. The result of the introduction of EU procurement rules for SFD has been that extra delays have been accumulating to the extent that some of the funds of the EU may not be spent before the end of the agreements. The World Bank has over the last years made its position clear and procurement rules have been changed and extensive training in World Bank rules has taken place. Other donors are more flexible but they may also want to look into these issues and come to a clear position with SFD related to procurement rules used when spending their funds.
Since there seems to be little chance of changing the EU position on procurement it is recommended to implement following measures: (i) the EU should provide more time and accept that the speed of implementation of its projects will be slower than before; (ii) the EU should provide intensive theoretical and practical training of all agents of SFD involved in procurement matters. Because of the decentralization of SFD this will involve training of an estimated 300 persons; (iii) in addition the EU should

provide TA to help with problems in procurement. The PCU is trying to do this but it is not really set up to do this. It should be clearly mentioned in their TOR and they should have the necessary specialized staff to do this; (iv) SFD should seriously reinforce its procurement capacity by hiring and training qualified procurements experts, defining responsibilities at each level and making optimal use of the MIS in procurement.
All in all, prescribing strict procurement procedures does not come cheap, there is a high price to pay and this price should be included in the projects' cost.

During the mission the team members have had many exchanges with SFD and its partners about all aspects of their activities. Out of these discussions a large number of recommendations have come. Some of these recommendations have come from the experts, many others have come from SFD staff at all levels, and still some others came from partner organizations and from beneficiaries. All recommendations have been discussed with SFD and all recommendations that are formulated in this report are seen by all parties as being helpful contributions to improve the operations of SFD. Ahead lies the hard work for SFD namely the implementation of the recommendations. These recommendations must now be sorted according to their area of application, prioritized and structured into an action plan that is compatible with the overall strategy of SFD. Regularly the effect of the recommendations should be examined and the action plan adapted. This is work that can only be done by SFD. However for some aspects the donors could help and the mission recommends the creation of a task force composed of SFD staff and donor representatives assisted by high level experts with significant experience in social funds and in the different areas of operation of SFD. The task force should probably also have smaller groups that can focus on special areas of interest. The periodic meetings of the task force will present a forum where SFD can show its progress in implementing the recommendations and where the donors can provide assistance in specific areas as required by SFD.

It is up to the donors and SFD to decide whether an exercise such as this MDRM is useful. An MDRM mission is expensive and time-consuming for all the participants especially for SFD but also for the donors. Therefore its results must justify the investment. In the case it would be decided that an MDRM is a useful exercise then the following recommendations could be taken into account for the preparation of a next MDRM. An MDRM should probably not be repeated too often, and every four year, such as between the first and the second MDRM is probably an acceptable period. Although the mission worked closely together with SFD, more direct participation of SFD in the mission by providing full-time counterparts participating in the writing of the report could be envisaged. One of the weak points of this MDRM has been the limited interaction with government representatives, for a next MDRM the terms of reference could specify more interaction but also Government representatives could be asked to participate as experts in the MDRM team.

2 *Implementation of MDRM I recommendations*

In February 2000, a first Multi-Donor Review Mission (MDRM) took place. The review was carried out by a group of independent experts financed by a multiplicity of donors. The conclusions and recommendations of the mission were accepted by the Government of Egypt (GoE), SFD's Board of Directors and SFD Management.

The MDRM I final report summarizes its recommendations in eight main messages (on pages 1 and 2 of its Executive summary). In this section the follow-up of these recommendations will be examined. The MDRM I report also makes detailed recommendations regarding each of the different SFD programmes, and regarding SFD's mission, governance and management (see pages 6 to 15). The implementation of these detailed recommendations will be discussed in the corresponding sections of this report.

At the time the MDRM I took place a Task Force was appointed by the Sub-group on SFD of the Donors Advisory Group (DAG-SFD). The DAG-SFD and its Task Force followed closely the proceedings of the mission and after the reception of the final report dated April 2000, this Task Force prepared it's report (dated 6 July 2000) that included an "Implementation Plan" based upon the detailed recommendations of the MDRM I and outlining the actions, actors, preconditions, resources required as well as a timetable. Implementation of the recommendations started immediately. The EU funded PCU mobilised a group of consultants to help SFD prepare its mission statement, programme objectives, strategies and budgets. However during this exercise the Managing Director of SFD was replaced in June 2002. This in turn produced further changes in the top management, a regrouping of the activities and a reinforcement of internal controls. During 2003 and 2004 a complete rethinking was undertaken of the mission statement, programme objectives, strategies and budgets and a subsequent reorganization of SFD was started in 2004. The new law on SME development of June 2004 is being taken into account in this reorganization which will most probably take until 2006 to be completed. The MDRM II mission has thus arrived in the middle of a major reorganization effort of SFD. This has not made the review easier but the fact that the team members were able to discuss options available and choices being made with the higher management was enlightening for the team members and helpful (it is hoped) for the management of SFD.

The situation in relation with the eight main messages is now as follows:

Message 1: SFD has played and should continue to play a significant role in poverty reduction, employment creation and small enterprise development in Egypt. SFD should be viewed as an autonomous, permanent, social development organization with a public mandate. SFD needs a clear corporate mission, with related programme objectives, strategies and resources. It is no longer appropriate to assess SFD's development in terms of formal, successive phases. Instead, SFD should prepare annual corporate plans, with clear priorities, strategies and budgets, for review and discussion with Government and donors.

SFD has to a large degree implemented this recommendation. It is playing a significant role in the areas of poverty reduction, employment generation and small enterprise development in Egypt. SFD is a legally autonomous, permanent development organization with a public mandate. SFD was created by Presidential Decree number 40 in 1991 and in 1999 the Presidential Decree 434 created SEDO under the umbrella of SFD. The recent law nr. 141/2004 published in July 7 2004 gives SFD a major role in the development of SME's.

As mentioned above, the formulation of SFD mission statement was interrupted in 2002, however SFD has taken up the exercise again, this time without the help of external consultants, and SFD has developed a mission statement, programme objectives and strategies (see SFD presentation to the MDRM II of 12 September 2004) and is preparing a five-year and an annual budget for 2005 for discussion with the Government and the donors. These budgets will be completed before the end of year 2004.

Message 2: The available evidence indicates that SFD is effective in the Egyptian context, with respect to channelling resources to deprived and needy areas, institutions and people. SFD organization is small and flexible, with a competent and committed staff. However, SFD needs to strengthen its strategic management; acquire modern and integrated, yet simple planning and financial systems, and – above all – deepen its attention to practical poverty analysis and impact assessment. It is a significant weakness that relatively little is known about the real impact of SFD on poverty reduction and employment generation.

The statement is still valid even if SFD has integrated its field workers (pioneers) into SFD and has now a staff of about 1 000. SFD staff remains very competent and committed. It took some time to implement the above recommendations but now the process is well under way: the cash based accounting system will be replaced in early 2005 by an accrual based accounting system, the unified upgraded MIS is being established through a major effort with substantial hardware, software and development being funded by the EU. The different MIS components should become fully operational during 2005. Practical poverty analysis remains a weak area, as is impact assessment, but in this last area the Impact Assessment Study implemented in advance of the MDRM II has provided interesting insights that are globally positive.

Message 3: SFD should retain a broad mandate within poverty reduction, addressing most dimensions of poverty (lack of income, inequitable access and social exclusion) and unemployment. SFD should involve female-headed households in its activities as a particular target group, while at the same time allowing its individual programmes to focus on target groups of direct relevance to them. At national level, SFD should engage in strategic, policy-oriented discussions on the dynamics, dimensions and processes of poverty in Egypt.

The recommendation remains valid. However most Social Funds in the world do not have such a broad mandate and for example the distribution of payments to the poor that are unable to enter the workforce because of old age or sickness, and children, is usually not part of their mandate. However supporting female heads of households and other particular target groups is part of the mandate. There are no distinct consolidated programmes or fund especially targeted to address the needs of specific vulnerable population groups or segments. SFD could do more to participate in strategic policy oriented discussions on poverty.

Message 4: SFD's four main programmes (community development, public works, human resource development, and small enterprise development) have a logical role under SFD's broad mandate. Yet their different developments have been influenced more by ad hoc Government and donor preferences and the flow of resources, than by strategic priority setting. The separation of SEDO has been partial only, and its predominant role within SFD in terms of resources (55% of SFD funds in phase 2) is due in part to internal resource generation (loan deposits and repayments). While SEDO's full independence is desirable in the medium-term (with respect to governance, management, and resources), its lending system is unlikely to become financially sustainable before significant, market-oriented changes have been made in SEDO's interaction with the banks as its financial intermediaries. The separation of SEDO will have major effects on the 'remaining' SFD in terms of asset distribution and overhead costs – effects that yet have to be addressed.

Institutional changes have been made that allow progress with respect to these recommendations. The Presidential Decree No 83/2004 was issued with the aim of providing the Social Fund the right to participate in institutionalizing share holding companies operating in the development field and contributing to the realization of its objectives. Under the umbrella of SFD as a holding company, SEDO could thus operate as a legally separate entity. In the meantime SEDO will be set up as a separate "profit centre". The new accrual based Finance and Accounting module of the new MIS will allow for this. The sustainability of SEDO may ultimately be achieved but this will only happen if it gradually becomes independent of subsidised funding. Other groups in SFD will also constitute separate "profit centres" allowing for periodic evaluations of their operational costs and their sustainability.

Message 5: SFD should concentrate its project activities at the local level (governorates and below). SFD is too small to play a major role in national programmes and projects such as the reform of the public sector and capacity-building in line ministries. SFD's strength lies in its network of sponsoring and implementing agencies at local levels: governorates, banks, training institution, NGOs and community development associations (CDAs). SFD should play a catalytic and capacity building role vis-à-vis these institutions and involve itself in innovative, well-targeted policy implementation at local levels.

This recommendation is still valid. By far the greater share of SFD funds for community and social development are implemented through central contracts with a ministry or other governmental agency. Local communities do not make any considerable contribution to the identification of solutions and design of projects or exercise control over their performance. Most of the modest resources made available to NGOs went to them as implementers of these central projects, with minimal real control or significant influence exercised by them. SFD can become a far more effective change facilitator by providing space – at the lowest tier of local communities and dispossessed social groups – for the identification of opportunities and the initiation of innovative solutions. It remains for SFD to assume their comparative advantage role of incubator, advocate, and sharer of models of successful development.

Message 6: SFD is unlikely to become financially sustainable in the medium-term irrespectively of the extent of SEDO separation. SEDO itself may be sustainable, *because banks are likely to repay their loans, but the banks may not be eager to expand their small enterprise lending, if they lack the incentives or their loan portfolio with small entrepreneurs proves to be of poor quality. The Community Development and Public Works Programmes (CDP and PWP) deliver much needed services to poor people – and should do so even more in future. They are in need of additional grants from Government and donors. The Human Resource Development Programme (HRDP) can mobilize some resources through fees for training activities etc., but needs public funds for most of its activities.*

It is the opinion of the MDRM II that sustainability of the CDP and PWP operations (and of HCDG in general) should be viewed as attained when SFD is seen by the Government and by the donors as a most efficient and effective organization for implementing programmes in favour of the poor. The result of this would be that donors and the Government continue to use SFD as an organization for the implementation of their programmes aimed at poverty alleviation and employment creation. It is also the opinion of the MDRM II that SFD is actually one of the most efficient and effective organizations in this field amongst a few NGOs and banks with whom SFD has to compete for donor attention. The implementation of the recommendations contained in this report would ensure - it is hoped -, a continuing leading position of SFD.

Message 7: Thus SFD must diversify its resource mobilisation strategy. In the short- to medium-term, CDP and SEDO may face absorption and disbursement difficulties (though for different reasons), whereas PWP and HRDP could deliver more with only a limited increase in staff at SFD. This would however, require a clear mission statement and corporate strategies for SFD. The institutional Development Programme (IDP), which in the past has been used mainly to finance SFD secretariat, should in future be used more for capacity-building activities in SFD's network of institutional partners. Capacity-building activities would be appropriate for donor support, whereas the Government should show its commitment to SFD as a permanent institution by: a) meeting in full its commitment to SFD's Phase 2; b) matching all future donor contributions on a 1 USD = 1 LE basis; and c) taking over the full financing of SFD secretariat (including its present privileges).

SFD receives funds from more than 15 different donors and from the Central and Local Governments. SEDO may in the future explore tapping into the local markets for funding its operations while HCDG will remain dependent on funding agencies and the Government using its services. SFD has unfortunately not been very successful in using the EU funded IDP for capacity-building activities of its staff and its partners.

The MDRM II is of the opinion that the operational expenses of SFD should not be funded by the Government but, as most other social funds in the world, SFD should fund its operations through a service charge included in the agreements with the funding agencies (and the Government) and be provided with an appropriate remuneration for the services rendered. The Government can show its appreciation of the quality of SFD by channelling project funds through SFD as other donors do.

Message 8: External donors have made an important contribution to SFD's achievements. Today, SFD is a competent, self-contained organization. Still, SFD *should welcome external advice at both policy and technical levels. In terms of policy, the Government, SFD and donors should review the governance and coordination structure (Board of Directors, Policy Committee, and DAG Sub-Group on SFD) with the aim of developing and protecting SFD's mandate, involving broad segments of the Egyptian society, and strengthening the regular (preferably annual) dialogue with donors on priority-setting and resource allocation. At the technical level, SFD and donors should collaborate to simplify SFD's management information systems and implementation procedures and the donor specific review and reporting requirements. Building upon the experience of the MDRM, future reviews could be joint, involving Government, SFD and donors. Initially, the Government, SFD and donors should prepare a Plan of Action for SFD's development, based in part on the findings and recommendations of the present review.*

SFD has achieved much, and the help provided by donors and the Government has been substantial. External advice has been plentiful at both the policy and technical levels, but it must be recognised that the advice provided has been in part donor driven, with not enough coordination with SFD and often by experts without experience in social funds. At times this has resulted in an overload of only marginally useful and sometimes conflicting advice. Donors should regard SFD as a mature organization and an equal partner providing services essential to the donors and the country. The dialogue between SFD and the donors as equal partners should be intensified. The Government did not participate in the MDRM II but as other donors channelling resources through SFD, the Government should also participate in future review meetings. As mentioned above a plan of action was prepared by the DAG-SFD after the MDRM I for follow-up.

3 Summary of findings and recommendations

3.1 Small Enterprise Development (SEDO/MMG)

One of the major outcomes of SFD Phase I evaluation was the need to transform the Enterprise Development Programme (EDP) into a sustainable and focused institution for the development of the small enterprise sector in Egypt. The Small Enterprise Development Organization (SEDO) was instituted 1999 as a quasi-autonomous organization within SFD. SEDO acts as a second tier financial institution that grants credit lines to banks and NGO for refinancing loans to SME. It also provides technical support to small businesses to facilitate their access to credits and improve their business development. SEDO's assets and liabilities comprise approximately 70% of SFD's balance sheet.

<u>Relevance:</u> The objectives of SEDO are fully consistent with the overall objective of SFD to reduce poverty by reducing the vulnerability of the poor and by supporting income-generating activities particularly for the low-income groups as well as by contributing to securing already existing income sources. SME account for the bulk of the Egyptian private sector, which in turn is acknowledged to be the major growth engine of the economy. The focus of SEDO on SME is also relevant to a pro-poor growth strategy for the Egyptian economy.

SEDO also maintains its relevance to donors. Poverty alleviation through job creation and income generation continues to be Egypt's principle challenge. Donors did not need to change their overall objectives or project objectives during Phase II.

SEDO particularly addresses the growing unemployment of new entrants in the labour market, primarily young graduates, who make up over 80% of the total unemployed population. However, facilitating the access of jobless graduates to credits is a double-edged sword, since it tempts mostly penniless people to start their career with an exposure to a credit risk. SEDO and the financial intermediaries jointly bear the responsibility of a careful selection of eligible borrowers and their support during the early project phase.

Contrary to the MDRM I recommendation SEDO has maintained its risk adverse differentiated interest rate structure. SEDO's policy to allow the lowest interest rates to the smallest, high-risk loans (and vice versa) reflects its social rather than financial orientation. SEDO thereby violates its own stated goals on financial sustainability and by the same token deprives the banks of appropriate, commercial incentives to market the SEDO funds. With the present interest policy remaining, banks are unlikely to strengthen their efforts to market the SEDO credit schemes. In turn SEDO is constrained from reaching its objectives in terms of loan disbursements and job creations.

Advocating subsidized lending confirms banks' perception on the non-viability of commercial lending to SME and keeps them from servicing SME from own resources. SEDO's decision to increase the on-lending rate by 1% point is insufficient to encourage banks to more SME lending. Furthermore, loans up to 20,000 LE are specifically exempted from the interest rate increase. Since the average loan size during Phase II was just under 22.000 LE, the effect of the interest increase should not be too significant. SEDO is encouraged to continue reforming its interest policy until full compliance with prevailing market conditions in accordance with internationally acknowledged best practices is achieved. Soft Loans to SME should be phased out during a specifically defined transition period, within which such loans should be restricted to a narrow, clearly defined group for particular poverty related purposes.

By increasing its loan limit to 1 million LE SEDO entered into a direct competition with banks regarding the larger SME. SEDO runs the risk of tempting banks to using scarce donor resources instead of their own abundant liquidity for lending to enterprises that are not in need of donor funds. In general, the scope of targeting of SEDO is very broad in terms of clientele, loan types and sizes, economic sectors and outreach. A strategy for a selected targeting and timely monitoring of the allocation and proper use of SEDO funds is advisable.

Efficiency: The number of loans and the amount of loans disbursed by SEDO has fallen from a peak in 2000 of 37 265 loans (amount of disbursement LE 724 million) to a low in 2003 of 9 870 loans (amount of disbursement LE 249 million), this reduction in activities is mainly due to reasons such as the severe economic recession and the restructuring of the banking sector. Despite the decline in the amount of loans disbursed, the outstanding balance of loans has increased 27% from LE 1 472 million in 2000 to LE 1 876 million in 2003. During the same period, interest income from loans rose 33%, while administrative expenses fluctuated and eventually decreased by 24%. The average gross margin of interests received and paid is 3.8% of the average outstanding balance of loans, whereas that of administrative costs is 0.8% and foreign exchange loss is 4.6%. The administrative cost is well covered by the interest margin but foreign exchange losses are responsible for resulting deficits. Measures taken by SEDO to increase the volume of loans are having a positive impact in 2004 and SEDO hopes to reach again the levels achieved in 2001 by next year.

It should be noted in relation to the above figures that the accounting methods of SEDO were cash based, and accrual based accounting will start as of 2005. Therefore the costs recognized for each year fluctuate and do not represent a consistent trend, and it is of less value to calculate the annual changes of the ratio of overhead cost against outstanding portfolio. However if we calculate the average ratio for the past four years, we obtain a representative figure of 0.8%, which the mission considers to be acceptable. The only reservation is that in order for this ratio to be fully representative it should also include the administrative costs incurred for SEDO at SFD's Headquarter and Regional Offices, but these figures are not yet available.

SEDO has during the late 1990s developed its MIS system called "CEQOMA" to follow up its lending operations. The system allowed the monitoring of efficiency indicators such as the ratio of loan applications accepted versus the number of feasibility studies made and loan processing time. However after the restructuring of SFD/SEDO in 2001 and 2002, the system was not used systematically any more by the Regional Offices and therefore the information became fragmentary. Since the functionalities of the CEQOMA system are now being integrated into the new MIS system, it is expected that the new MIS will again provide the necessary information for effective management control.

Under the current reorganization process of SEDO, One-Stop-Shops and Integrated Finance Centres are set up to help entrepreneurs with start-up businesses. These units should improve customer satisfaction and efficiency. Improvement of operational efficiency depends much upon the capacities of the Field Officers and the intermediaries. Therefore SEDO has initiated recently a capacity building project for Field Officers, and has re-established its policy for conducting capacity building programmes for financial intermediaries. These efforts should be continued and amplified.

SEDO and the Marketing and Management Group (MMG) are also providing training courses to clients as a part of the non-financial services. Similar training programmes exist also under HRDP. Efficiency of these programmes could probably be increased by closer coordination.

<u>Effectiveness</u>: The exposure of the majority of SEDO's portfolio (97%) is with banks and has no arrears. SEDO has also a small volume of loans (3% of its portfolio) to non-bank financial intermediaries (third party organizations) that present some arrears. The arrear ratio of the on-lent funds in these cases stands at 50% of the portfolio. But more important is that the loan portfolios of the intermediary banks to their end-beneficiaries continue to be in need of serious attention. The arrear ratio of the SEDO loans of all banks is on the average 15%. It should be noted that this figure is based on the actual arrears recognized by the banks. International practice for risk management of loan portfolio however requires banks to classify loan portfolio on Portfolio-At-Risk (PAR) basis. Should the PAR basis be adopted, then the above figure could be much higher. The Central Bank of Egypt (CBE) is now considering

the adoption of the PAR based risk management for all banks in its regulatory guidelines; this would result in a better control of the loan portfolio quality both at financial intermediaries and at SEDO. This issue of PAR is also a matter of concern to CIS whose credit risk management relies upon the loan portfolio quality reported by banks and, therefore, is substantially weakened by the banks' practice of not following the PAR based approach. Another related problem is that there are still about 10% of the banks' branches that fail to meet reporting requirements and this adds to the problem of controlling the loan portfolio quality at SEDO and at CIS. Immediate action is required in this respect.

Impact: The Impact Assessment Study executed prior to this Review Mission has concluded that more than half the beneficiaries of SEDO loans were classified as poor: 34% were ultra poor; 23% poor; and 43% non-poor. Other findings relate to: (i) youth: 62% of all clients were below 35 years when they received their loans; (ii) gender: 30% of all clients were female, and 68% of this group were young women; (iii) rural areas: 57% of the clients are from rural areas and of which 62% are youth. The findings further indicate that the SEDO Programme is having a positive impact on the poor.

SEDO's records also show that 66% of the total amount of loans is delivered to new enterprises while 82% of the total amount goes to micro enterprises (with a paid-up capital of less than LE 50 000 according to the new MSE Law). The above findings show that SEDO uses mechanisms that effectively help reaching the target group. Especially effective are intermediaries such as NGOs having networks in the targeted location and they should be further promoted. In particular, the mission observed that the Institutional Business (IB) support scheme appears to be an effective tool in reaching the target groups, therefore the mission recommends its expansion.

The objective of SFD is to alleviate poverty by creating employment and improving the living conditions of the poor. SEDO concentrates on job creation and therefore the number of jobs created represents the most important indicator of the impact of SEDO's activity. SEDO calculates the aggregate number of jobs created between 2000 and 2003, as approximately 350 000 in full time employment equivalent. This is a very good result, however it should be stressed that this number was obtained by applying a predetermined ratio of jobs created to the average amount of loans. The Impact Assessment Study reveals that in fact there is a considerable variation in this ratio depending upon the type of end-beneficiaries. The mission recommends that this ratio should be closely studied in order to measure the real impact but also in order to direct the efforts of SEDO towards those activities that provide most impact.

In addition to financial services, SEDO and MMG are also providing non-financial services. While indications are that most benefit of job creation result when both services reinforce each other, it is not known what the actual impact is of each of the services separately. SEDO and MMG should study the impact of both financial and non-financial services allowing the provision of an optimal mix of both services to each client.

Sustainability: The exact extent of autonomy that was thought feasible or desirable for SEDO has ever since been a matter of on-going debate between donors, the GoE and SFD.

Financial sustainability: In spite of heavily subsidized loans and grants received from donor countries and organizations SEDO suffered heavy consecutive losses during Phase II. It continues to be highly dependant on cheap funding through grants and soft loans. SEDO's policy on the determination of sufficient lending margins needs to be refined. SFD/SEDO face a substantial foreign exchange (FX) risk due to the ongoing raising of debts denominated in foreign currency. SEDO's risk management policy is inconsistent; it dilutes its status as a second tier financial institution by sharing the credit risk of the financial intermediaries (directly and through CIS). So far no contingent liabilities have been disclosed or loan loss provisions booked. MMG is not attempting to reach financial self-sufficiency but nevertheless endeavours to increase the coverage ratio from 25% to 80% of the direct costs of the non-financial services. SEDO's achievement of financial sustainability is dependant on its ability to increase the cost efficiency of its operations, to secure a lending margin that at least allows break even and to deliver its services in a market oriented manner.

Institutional sustainability: The adoption of an accrual based accounting system in accordance with the Egyptian Accounting Standards (similar to IAS) should considerably improve the transparency on the true financial status of SFD/SEDO. The preparations for establishing SEDO and the other SFD units as independent profit centres are under way. So far none of the SEDO/MMG departments have documented systems and procedures to qualify for an internal audit. In respect of future donor assistance it is essential to know which units operate financially sustainable and to which extent cross-subsidization takes place. SEDO will continue to be dependent on the data supplied by banks, which so far is weak. SEDO has no accurate knowledge on the quality of its refinanced loan portfolio and hence cannot undertake appropriate risk containment measures. Prudential limits for lending to banks are reported to be under consideration.

The sustainability of SEDO will ultimately be achieved, if SEDO manages to establish itself as an integral part of the Egyptian finance sector (1) which matured to a financially and institutionally autonomous organization; and which (2) provides refinance facilities in a manner supportive to market mechanisms and (3) encourages financial intermediaries to commercially capitalize on the loan demand potential of SME – even without subsidized funding. The institutional sustainability of SEDO is also linked to the institutional capacity of its partner banks and NGO and their preparedness to service SME. Sufficient institutional strengthening measures for both SEDO and its financial intermediaries should be ensured. The risk adverse and differentiated interest structure neither supports a sustainable integration of SEDO as an autonomous institution nor the achievement of its overall objectives of poverty alleviation and job creation.

The CIS concept of providing a guarantee for the major part of the credit risk over the full duration of the loan may temporarily increase SME lending. But in the long run it keeps banks from adopting a cash flow oriented lending methodology, which has worldwide proven to be more conducive to sustainable SME lending. Banks will maintain their collateral based lending policy and just substitute pledges or mortgages by a CIS guarantee. The CIS policy should therefore be modified to a scaling down guarantee concept combined with a systematic technical assistance to banks to adapt their institution building to SME lending. With the exception of a regional programme financed by KfW comprising a long-term technical support package to a number of banks assistance provided to banks was mostly restricted to training courses, lectures and workshops.

The New SME Law manifests SFD as Egypt's principle agency for SME development and provides SFD with additional powers but also increases its responsibility towards the SME, the banks and the donors. SEDO is in the process to formulate its strategy on how to accommodate to the New SME Law; it needs to define the verifiable objectives to be pursued, the methodology to be executed and to determine the necessary prerequisites for the fulfilment of its mission. Unfortunately both the Law and its Executive Regulations are unclear on the authorization and obligation of SFD to offer soft loans to the SME. The executive regulations also commit SFD to cater for the guarantee of the loans to SME. De facto SFD/SEDO is now obliged to guarantee its own loans.

The intention of SEDO to engage in direct lending is a double-edged sword. It could lead to a showcase of a successful finance institution focused on SME. Experience in other countries – particularly in East Europe and the NIS region – of finance institutions specialized on micro and small enterprises provides encouraging examples in this respect. On the other hand to date SEDO has no institutional capacity for embarking on a direct lending strategy. SEDO cannot afford its direct lending pilot project to fail in terms of either loan volumes and loan quality or the profitability of its operation. SEDO should carefully take into account the lessons learnt from previous experiences and particularly factor in the main success elements, which mainly comprise a clear commercial approach, a professional and risk oriented banking management as well as prudent and transparent corporate governance.

In accordance with the above, the mission makes the following recommendations:

1. SEDO should establish and execute a clear methodology for the identification of eligible borrowers by providing verifiable screening and selection patterns as well as – in collaboration with MMG – tailoring individual post disbursement support programmes to the borrowers including quantified objectives and outputs. Timely monitoring and analysis of failures or dropouts should support the continued refinement of the SEDO/MMG services.
2. SEDO should place particular focus on an SME oriented institution building of its partnering financial intermediaries. Technical assistance provided should follow a systematic approach securing the commitment of the financial intermediary towards SME lending and linking the support provided to verifiable qualitative and quantitative objectives.
3. SEDO should adopt an interest policy tailored to the capabilities of its SME borrowers in a risk and market oriented manner. Subsidized lending should be phased out and in a specifically defined interim period should be restricted to a narrow defined target group with clear and verifiable features, whereas other SME borrowers should be serviced at market conditions. SEDO should

carefully monitor whether its credits reach exclusively the targeted beneficiaries as well as evaluate the impact of these credits.

4. SEDO is additionally encouraged to deviate from the differentiated interest structure and allow banks to decide on the on-lending rate independently. Liberalization of interest rates provides a tangible performance incentive and in addition allows more competition amongst banks. SEDO may additionally commit the banks to pursue a particular structure of its refinanced loan portfolio (type of clientele, loan size, sectoral and regional diversification) in order to ensure an ultimate loan portfolio that is in line with the SEDO strategy.
5. SFD/SEDO should implement a cost accounting system that will allow the management of SFD/SEDO to effectively control and manage the operational cost and the cost efficiency of its operations.
6. SEDO should make sure the new MIS system effectively includes the functionalities of CEQOMA and should then further improve these functionalities for efficient monitoring of operations.
7. Capacity building of Field Officers needs continuous efforts. The strategic skills development programme of Field Officers should be reviewed, updated and augmented. Programmes for capacity development of financial intermediaries need to be reviewed and strengthened.
8. Training programmes of different Groups in SFD need to be coordinated and the training of entrepreneurs should be further rationalized.
9. The selection and reviewing process and the criteria for contracting third party institutions as sponsoring agencies should be reviewed and made more restrictive.
10. SEDO should urge its intermediaries to launch an all-out effort to reduce the arrears. SEDO should also enforce the reporting obligations of intermediaries.
11. The use of NGOs as intermediaries should be further promoted and adequate capacity building should be included for enhancing the capability of third party institutions in efficient and effective delivery of services.
12. The methodology for capturing the data of jobs created should be reviewed to effectively reflect the actual performance of the SEDO Programme.
13. SEDO and MMG should effectively assess the impact of non-financial services and provide an optimal mix of both services.
14. SEDO should maintain a clear status as a second tier finance organization and refrain from creating precedence by allowing ad hoc credit loss sharing arrangements for single cases: (1) it should define and adopt a consistent risk management policy. (2) It should establish a cost accounting of loan loss provisions guided by the prudential regulations of CBE.
15. SFD in conjunction with SEDO should develop and execute a FX-risk strategy to be harmonized with the donors and the GoE. Future funding contracts should include hedging mechanisms against FX-risks.
16. SEDO should continue developing its 5-year strategic budgeting tool and refine its strategy, policy, methodology and objectives for achieving its financial sustainability. SEDO's planning should be documented in a strategic business plan including a budget quantifying SEDO's pursued financial sustainability. The business plan should be discussed with the donors to secure necessary funding as well as with the partnering banks to ensure a harmonization of business policies and objectives.

17. In view of the major size of SEDO's operations in comparison to the other parts of SFD and its ongoing dependence on donor funding it is crucial to ensure a transparent corporate governance of its institution building including the establishment of governing bodies and the definition of clear affirmative and negative covenants of each. In addition SFD/SEDO is again recommended to continue strengthening the autonomy of SEDO and establish its own Board of Directors.
18. The CIS policy should be modified to a scaling down guarantee concept combined with a systematic technical assistance to banks to downscale their institution building to SME lending.
19. SEDO should continue its strategic planning process and define its priorities, objectives, policies and action plans in view of the New SME Law. SEDO is recommended to comprehensively involve donors and financial intermediaries in this process in order to secure their long-term commitment to a mutual objective.
20. SEDO should carefully consider its direct lending approach and secure sufficient institution and capacity building for this purpose. It is particularly advised to bank on the experience and success factors of similar projects in other countries.

3.2 The Community Development Programme

CDP has achieved progress on issues raised by MDRM I since its conclusion in February 2000, and seeks greater progress in some areas.

Geographic targeting continued as the principal means for reaching the poor. While there are projects supporting NGOs dealing with needs of the disabled, more consolidated programmes or fund earmarks would be useful for addressing the needs of specific vulnerable population segments. Through the *Technical Assistance for the Social Fund Project (TASFD)* in Aswan and Qena governorates, CDP efforts been imbibed with a sustained PRA approach and processes. CDP has the opportunity to use the success of TASFD to draw up a concerted policy reorientation and realign its human resources towards social and political inclusion of the poor.

On the issue of gender, CDP analyses and studies indicate that women and children constitute the majority of beneficiaries of health clinics established or renovated by CDP. All micro-finance projects target stipulate that at 25% of beneficiaries should be women. Over 30% has been achieved. Furthermore, a number of micro-finance projects (group lending) were restricted to female-headed households.

CDP has influenced long-established partners such as MOHP and GALAE which now works in partnership with 500 CDAs in delivery of literacy classes. This, a first for GALAE, increased programme efficiency. Another contribution to quality has been better targeting to more needy communities for the MOHP and GALAE programmes. Greater progress may be strived after for bottom-up and literacy-for-empowerment approaches.

Training and Training of trainers (TOT) in Participative Rural Appraisal (PRA), in collaboration with NGOs, is taking place in four governorates, in addition to Aswan and Qena. Further scaling-up and broadening of efforts in this direction is needed.

Still a higher proportion of work needs to be channelled through NGOs. Networking and learning between NGOs also requires greater attention. There is room for more pursuit of greater community ownership and governance of development processes and resources as a priority. CDP's effectiveness would increase with a greater strategic focus.

The objectives of CDP well address problems and real needs for services. They suitably identify and incorporate the relevant needs for access to basic social services. On the other hand, objectives and project design accord community and civic participation a secondary value. The general trend has been to treat community participation only as a means to achieve objectives. Lack of channels of representation for effective governance, and the consequent weak accountability at the local level, is one of the root causes of poverty.

CDP's efficiency is satisfactory, given its (a) broad mission, (b) extremely wide range of operational modalities and partners, and (c) limited workforce at the regional level. Training seems to be the only modality for staff capacity enhancement. Contracting training providers appears to be carried out more wholesale and is HQ-induced instead of being tailored for the specific group (which may be regional) at the time it needs it. CDP could make a quantum leap through greater validation of the individual and collective experience of its field practitioners and the legitimisation of the "field" as the authority and the reference for evolving CDP policies and procedures.

CDP projects have been reasonably effective, but greater clarity and a strategy vis-à-vis CSOs and "participation" would achieve greater potential effectiveness. CDP can become a far more effective change facilitator by assuming as principal the mission of providing space – at the lowest tier of local communities and dispossessed social groups – for the identification of opportunities and the initiation of innovative solutions.

CDP has had a positive impact on large numbers of people spread over all the main regions of Egypt. In pursuing its services-oriented objectives and high disbursement targets, CDP has allocated 54% of its funds to ministries and public agencies. Overall, SFD has made available only modest resources to NGOs, amounting to less than 17% of its total funds. CDP should capitalise on the proper value and comparative advantage role of the civil society organizations as representative, initiator, and leader of local development.

Access to the positive outcomes of physical infrastructure services supported by CDP will endure for a long time. Given the secondary emphasis – compared to service provision – placed on participation and governance, the longer-term impact on the wider development process is assessed as slight. There is limited durable impact on the broad-based community ownership and management of development resources and facilities.

Recommendations:

1. That SFD consider the adoption of increased broad-based citizen representation, influence, and governance in development as a full-fledged objective of particular relevance to its Community Development Programme.

2. That CDP substantially increase opportunities for both informal and formal exchange and learning:
   - Between CDP field practitioners across SFD Regional Offices;
   - From other development agencies in their own region; and
   - From other Social Funds in other countries.
3. That CDP elevate the standard and scope of decentralisation and delegation, and consider for its promotion all available means including:
   - Delegation of final project approval to Regional Managers;
   - Allocation of training budget, utilisation, and contracting to Regional Offices;
   - Launching regional task forces composed of CDP field practitioners to review adequacy and practicality of proposal review and monitoring tools and forms, and present to management their recommendations; and
   - Developing and institutionalising flexible channels and mechanisms for (a) bottom-up flow of lessons learned and proposed innovative approaches and working tools, and (b) timely implementation of modifications in policy and working procedures.
4. That HCDG use a bottom-up approach involving CDP field practitioners to determinate, elaborate, and formulate CDP's overall:
   - Governing values;
   - Identity and comparative advantage role as a change facilitator;
   - 3-5 year operational strategy with special attention to the governance objective; and
   - Implementation parameters, simple instrumentalities, criteria, and indicators for the application of the strategy.
5. That CDP assume as principal the mission of providing space at the lowest tier of local communities and dispossessed social groups to allow them to identify opportunities, and to initiate and own innovative solutions.
6. That CDP minimise to the extent possible its assistance to public programmes owned and designed by ministries and public agencies, and increase assistance to NGO-led community development interventions.
7. That SFD consider for CDP the comparative advantage role of incubator, advocate, and sharer of models of successful process with stakeholders from other regions, and promoter of their wider application by ministries and public agencies.

3.3 The Microfinance Component

Introduction: At the time of this review, the Microfinance activities of SFD were being upgraded from a Unit to a Sector within HCDG. Concurrent with this change; its mission, operating structures, staffing, and information systems are under review, and a new leader of the sector has just been recruited. Whilst undertaking this review, the mission team has taken into account the current situation, and the prospective changes, and is addressing most of its recommendations as a guide to assist management as it repositions the microfinance operations.

Conclusions: The current, and prospective, goal of using microfinance as a tool for helping the poorer segments of society remains highly relevant to the overall goals of SFD, and provides strong support to the GoE's development policies. With its outreach into rural areas of Egypt, and an established mode of operations, SFD remains relevant to those donors especially interested in rural microfinance.

The relevance of its classification as a sector within HCDG, thereby operating separately from the other financial services provider, namely SEDO, should be further reviewed either now, or at a later date. Considerable economies of scale could be achieved through a consolidation of their support operations, to the benefit of SFD as a whole. Moreover, centralizing all microfinance activities within the Microfinance Sector (MFS) would concentrate expertise, and ensure more uniform standards, than is the case when several arms of SFD are involved in microfinance activities.

Until recently, the main criteria of success for MFS has been the disbursement of funds, the number of job opportunities created and the number of businesses supported. While lacking the volume, in terms of the number of loans of other microfinance providers, SFD has been efficient at extending microfinance to more remote communities. Furthermore, it has a flexible mechanism for adopting its lending methodology to local circumstances. It does not, however, comply with certain important microfinance best practices (for example, eschewing subsidized credit) and currently lacks the resources to effectively undertake its evolving responsibilities. SFD/MFS will need to address these issues as a matter of urgency.

As noted in the Impact Assessment, the MFS has been effective in providing financial outreach to the ultra-poor and poor segments of society, although some questions remain about the validity of the agreed statistics. In relation to its internal operations, the new credit policy and structure manual is a positive step. More work, however, needs to be done in strengthening the effectiveness of its credit analysis and loan tracking procedures.

The Impact Assessment also notes that the MFS has helped considerable numbers of borrowers to cross poverty lines, and to help create or sustain jobs. The impact amongst the various types of implementers, though, has varied. The Productive Family Associations (PFA) have had a greater impact on income generating activities, the NGO supported Community Development Associations (CDA) have impacted smaller borrowers, and the Principal Bank for Development and Agricultural Credit (PBDAC) may not have clearly differentiated the MFS client base from its existing base.

Sustainability, at both the level of the MFS and the intermediary level, remains an issue. The policy of using subsidizing credit is undermining the sustainability of both, and is fostering a dependency on cheap, subsidized credit.

The main recommendations are as follows:

1. The mission statement of the MFS needs to emphasise the goal of achieving operational self-sufficiency for MFS at the sector level, and for the intermediaries.

2. Both donors and SFD/MFS must commit to the adoption of best practices for both microfinance activities and for Social Funds.
3. Consideration be given, either now or at a more opportune time, to combining some or all of the operations of the two financial services activities, and of placing all microfinance activities of SFD under the umbrella of MFS.
4. MFS to prepare an implementation plan for redefining its mission and strategy, recruiting the necessary staff, and assembling the necessary infrastructure to achieve that mission. Thereafter, it should prepare an annual business plan.
5. The submitted requirements for the new MIS system should be reviewed at the earliest opportunity (recommend within two weeks).
6. SFD/MFS should not become a direct provider of microfinance to end users. Rather, it should concentrate on its role as a wholesaler of funds, and acting as an APEX institution.
7. The draft Credit Policy manual should be completed as soon as possible (recommend within two months) and standardized, documented policies, practices, and procedures be adhered to by both the HO and the Regional Offices.
8. Strong emphasis be placed on training and capacity building at the field agent level, for both SFD and the Ministry of Social Affairs Staff.
9. The definitions for certain statistics used as criteria for success be reviewed by both the donors and SFD.

3.4 The Public Works Programme

The Public Works Programme (PWP) is one of SFD's main programmes, and it has had a truly impressive record of achievement, especially in terms of installed physical infrastructure. Since 2000 PWP has disbursed LE 350.6 million, and there remains approximately LE 200 million of committed funds. PWP funds a number of discrete social infrastructure interventions: rural road paving, drinking water sub-systems, wastewater sub-systems, environmental projects (canal and drain covering, plus canal and river embankments), and public building renovation. General budget allocations by PWP are set at 50% for Upper Egypt, 30% for Lower Egypt, and 10% for each of Metropolitan and Frontier regions, reflecting the rural bias and higher incidences of poverty in Upper Egypt.

PWP is tightly embedded in government services delivery systems. More than any other SFD programme, PWP is closely entwined with government, both on the demand side (articulation of needs and identification of discrete subprojects coming up through local government and community bodies) and the supply side (project implementation agreements with Sponsoring Agencies such as governorates and ministries and execution through Intermediary Agencies such as local administrative units and technical directorates). Actual execution of sub-projects is tendered to local contractors, with an emphasis on labour-based methods. PWP commissions a private Project Implementation Unit (PIU) in each governorate to oversee the implementation of individual projects.

The present review was asked to look at PWP's achievements according to five criteria: relevance, efficiency, effectiveness, impact, and sustainability

Relevance: It was found that PWP's system and choice of outputs was in general well designed to meet its goals of addressing poverty through provision of social structure to those in need and to generate employment. There needs to be a shift towards, and more concentration on, certain outputs which by nature are more targeted to the poor and towards labour-intensiveness.

Efficiency: Overall, the efficiency of PWP operations has been and continues to be quite good, especially given the context of Egypt and in comparison to other infrastructure service providers operating in the country.

Effectiveness: Overall, PWP is effective in achieving its immediate purposes. One area that needs more attention is geographic targeting to poor areas and poor households. Also, more emphasis should be placed on encouraging labour intensive systems among small and youth contractors. It should be underlined that, due to the sharp devaluation of the Egyptian pound, labour-intensive construction is even more attractive in Egypt than ever.

Impact: The impact of PWP interventions themselves cannot begin to solve Egypt's social infrastructure problems, and although there are a number of promising initiatives, more strategic role as innovator and propagator of best practices needs to be incorporated into PWP operations.

Sustainability: Although extremely difficult in the Egyptian context, PWP should deepen and expand its innovative approaches to ensuring better operations and maintenance of its completed infrastructure investments and services.

The real role of PWP in the ocean of government is one which is best described as catalytic within the wider environment, one which can influence and improve government service delivery, making it more pro-poor and more labour intensive. Unfortunately, over the last four years the catalytic or innovative successes of PWP have been only scattered and anecdotal. Given the overwhelming weight of government and its resistance to change, the strategic choice is whether to continue as is, trying to improve general targeting (including real community participation) and impact and wider influence with SAs and impact assessments, or to shift to more innovative and selective approaches. More movement towards the latter approach is recommended, and in fact there is already some shift in this direction which should be reinforced. The following recommendations should strengthen this strategic shift:

1. Innovative pilot schemes for O&M are needed, especially those that might be replicable in the wider Egyptian context.
2. A strategy of local area concentration, both in rural areas and in urban slum pockets, as is already being considered by HCDG. In fact, many of the social and economic benefits inherent in PWP's menu of infrastructure services (and in HCDG's wider menu of social and human development services) are more cost-effective in very dense and deprived urban slums, where levels of poverty equal those in rural areas and where there are definite geographic concentrations of poverty.
3. There needs to be more combined PWP and CDP projects using integrated approaches. Some of PWP's best practices which combine community participation with service delivery are found in integrated subprojects with

CDAs and other elements of civil society, especially in rural villages, and particularly in terms of impact on poverty and sustainability. One aspect would be to use PRAs and other community-based techniques for needs identification

4. On the demand side for labour, there is first of all the need for better choice of labour-generating interventions, rather than simply mechanistic requirements for labour which might lead to inefficiencies. On the supply side for labour, there is a need to deepen the experience with small contractor capacity building.
5. More innovation in water and wastewater interventions are needed, especially as concerns house connections and other labour-intensive methods, especially since these tend to be self-targeting towards the poor. Non-conventional low-cost wastewater systems in rural areas should continue to be stressed
6. There should be a better use of consultants and technical assistance; less for mechanistic project feasibility studies and more to inform PWP if they are doing things right (e.g. impact assessments) and to strengthen SFD activities and relevance at the regional level
7. Better geographic targeting, down to the small village and slum pocket level, in the selection of interventions, using practical indicators and simple mapping
8. There needs to be better feedback from projects and incorporating experienced learned, both for PWP and HCDG to improve their own effectiveness and impact but even more to be a strong voice on innovative solutions and best practices vis-à-vis other persons and agencies involved in the delivery of social infrastructure in Egypt. In fact, SFD needs to develop the capacity for effective dissemination of its experiences and best practices, both to relevant government agencies and civil society, but also to donors.
9. PWP should be more strict in accepting candidate subprojects which come up from local political structures and are forwarded by governors. In addition to the normal PWP and Regional Office screening process, additional subjective criteria should be added: does this subproject have a wider, innovative effect, and does it serve as an improved model (both in terms of community participation as well as in more relevant and pro-poor service delivery)? Or is it simply more of the same, without any value-added?

3.5 Human Resource Development Programme (HRDP)

The HRDP aims at enabling its target groups, namely redundant public workers and unemployed youth, to attain or maintain available job opportunities.

Achievement of MDRM I Recommendations: To accomplish the recommendations stated by the MDRM I, the HRDP developed a database for the labour market needs in all sectors. However, this database does not provide accurate estimates for the demand of the labour market since there is no clear plans in most of the sectors due to the rapid changes have taken place in the laws of taxes, customs…etc. To overcome this, SFD uses the demand driven approach to develop and provide customized technical training as required by the various sectors. The entrepreneurship development programme currently provided training for potential entrepreneurs who need technical assistance to start their business regardless of their need for capital. To enable the public workers to maintain job opportunities, the HRDP is currently developing an agreement with the EU using the labour pool methods to help public workers meet challenges in adjusting to industrial changes.

Relevancy: HRDP objectives are fully in line with the main corporate objective adopted by SFD to reduce poverty and increase employment opportunity. The focus of HRDP has been and will be clearly on increasing employment opportunity. The services of the HDRP are relevant to the needs of the target groups in terms of training and re-training or support of self-employment and technical advice for setting up an economic activity. The entrepreneurship training, skills training and training for employment have been developed as a response to the structural adjustment policies initiated by the government of Egypt in the late 1980s and continued during the 1990s and phase III of SFD.

Efficiency: The total employment opportunities achieved is 3788 through the programme of training for employment. The entrepreneurship programme includes management, accounting, marketing and feasibility study. About 10,900 of youth completed the training and 10,113 have been employed of whom 45% started their own business. The cost of trainee reached about L.E 500 on average. The HRDP assists the national employment offices to improve the services that are provided to job-seekers. Under this component eleven offices were upgraded and equipped, staff trained and a National Occupational classification system for the Egyptian labour market was developed. In addition to these three services, the HRDP is currently working in improving the national training and accreditation system to be more responsive to the rapid developments in the labour market. The monitoring and evaluation system developed by the HRDP focuses on monitoring the progress of the programme itself against the developed outputs indicators but there is no monitoring system to monitor the trainees themselves after a specific period of time following the training (mostly one to two years).

Effectiveness: In general, the HRDP as a part of SFD mostly achieved its goal which is generating employment through labour adjustment for enterprise workers, training programmes for the unemployment, entrepreneurship training and improvement of the national training system. In phase III, a lot of changes and modifications have taken place within the HRDP to be more responsive to the employees and labour market needs. Various studies were conducted under the technical assistance provided by the donors. Most of the recommendations were taken seriously and have been implemented or are under implementation.

Impact: An impact assessment study was carried out prior to the MDRM II to provide the review mission team with pertinent information about the impact of the investments of SFD. The study assessed two programmes; the training for employment and the entrepreneurship development programme. The assessment concluded that the impact on employment, as well as impact on income/economic status is 0-10%, which is very low. In terms of employment level, at present, 54% of the trainees are working (52% entrepreneurship trainees and 61% of training for employment group). On average, 52% work in temporary jobs, (79% of training for employment and 43% of entrepreneurship training programme graduates).

Sustainability: During phase III of SFD life, the HRDP has been up taken more responsibilities to run labour adjustment programmes and to work as technical secretariat to the executive committee of the supreme council for human resource development. This would increase the need for rationalizing resources to ensure the sustainability of the HRDP. Although the HRDP implemented various programmes in cooperation with different ministries such as Ministry of Labour, Ministry of Petroleum, Ministry of Insurance and Social Affairs and Ministry of Industries, there is no sustained cooperation plans with these ministries or other governmental bodies or stable sources of funds.

Recommendations:

1. To develop monitoring and evaluation system to (i) monitor the application of the new skills acquired and the results of the training, (ii) to identify new areas of required training and (ii) to recommend improvements of the existing training.
2. The vocational training centres should be subject to project evaluation and impact assessment as well.
3. Internal mechanism should be developed in SFD to promote the role of the HRDP as a training counsellor for other programmes and their beneficiaries.
4. The HRDP should plan to conduct a comprehensive impact study to measure the impact of the programme on employment and poverty reduction.
5. The HRDP should work as a resource centre and technical assistant for the concerned ministries and get revenues to be self financed and ensure its sustainability.
6. The vocational training centres should market their products to increase income generated and in turn level of sustainability.
7. An operation and financial sustainability for each programme component should be developed

3.6 The Environment and Development Unit

The Environment and Development Unit (EDD) aims at integrating the environmental dimension into SFD operations and the entire life cycle of SFD projects. Although it is mainly designed to deal with the environment as an issue which cuts across all SFD operations, the EDD has been located within HDCG and has carried out pilot environmental projects in the governorates.

<u>Relevance</u>: It was found that the design of the operations of EDD and its main objectives are appropriate to address the real need for better environmental awareness and management at three levels: At the level of community and local officials dealing with SFD projects, at the level of the staff and units of SFD as well as CDP's local NGOs and PWP's PIUs, and at the level of partner agencies (including EEAA).

<u>Efficiency</u>: It appears that EDD's activities aimed at strengthening the environmental dimension in SFD and partner operations are efficient. In other words, things were done right, in terms of day to day management, in terms of value for money, and in terms of a judicious recourse to outside local consultants for specific tasks. In addition, the use of guidelines and manuals for dissemination of environmental control and verification procedures appears to be appropriate.

<u>Effectiveness</u>: It appears that EDD's activities aimed at strengthening the environmental dimension in SFD and partner operations are effective, i.e. that their

guidelines and environmental management programmes have been activated and are being used. However, there seems to be an implicit faith that dissemination equals full use which in turn equals effectiveness, and there have been no attempts yet to check that such is the case.

Impact: It is difficult to ascertain to what extent EDD's operations have achieved EDD's overall purpose of helping all SFD stakeholders and other development partners to implement projects and activities which respect the environment as they seek to improve livelihoods. This is an issue which is wider than EDD and SFD.

Sustainability: Sustainability in the case of EDD concerns mainly the post-project sustainability of its demonstration environmental projects. No systematic post-project assessments of these have been carried out, and they are of such diverse nature and scope that it would be difficult to come to any useful conclusions. In any event, EDD is planning on phasing out its own demonstration projects, and concentrating on adding value to environmental projects carried out by other SFD programmes.

Based on the analysis of EDD according to these five criteria, the following recommendations are made:

1. EDD should stay balanced and responsive; it should not attempt to overload SFD with environmental concerns. SFD cannot be a leader in environmental affairs in Egypt. (This recommendation is fully consistent with the present EDD philosophy).
2. EDD should carry out simple and rapid spot assessments as to whether EMP and environmental guidelines are in fact understood and are being applied in the different SFD programmes at the various levels and with the various partners, with a means for feedback from these assessments to improve the effectiveness of delivery mechanisms. In other words, are manuals appropriate and understood, how effective are seminars & workshops, etc.?
3. This review strongly supports the policy change that EDD phase out its demonstration projects and concentrate on mainstreaming environmental policy throughout SFD. It is understood that as of 27 September 2004 (Decree 37/2004) EDD is officially phasing out environment demonstration projects.
4. It would be prudent for EDD (and SFD) to restrict its focus in the field of SWM to rural, community-based solid waste collection and disposal initiatives which are demand driven and which come up through PWP and, in particular, CDP activities. These pilot initiatives, if successful and sustainable, should be fed by EDD into the wider national SWM debate.

3.7 The Institutional Development programme

Establishing IDP was of great relevance for SFD, since it concentrated on institution and capacity building in SFD. However, a number of internal and external factors resulted in lack of efficiency so only a few projects have been implemented and a substantial amount of pledged donor funds have remained unused. The internal factors relate to IDP's difficulty in presenting project proposals and TORs of an acceptable standard and of sufficient relevance. The external factors relate mainly to EU's elaborate and time consuming procurement procedures and its hesitation to make decisions locally on problems encountered.

The mission recommends that:

1. The IDP programme be continued, but based on the lessons learned from implementing the previous IDP.
2. A unit be established in the ICMPR group to assist in writing project proposals and TORs for future institutional development projects.

4 The Global Governance level

SFD has shifted its emphasis from being a short-term emergency fund to become a long-term permanent institution. The new mission statement is pertinent to its new objectives, and reorganization will take place in the near future, whereby SEDO, HCDG and the MMG, become self-sustaining entities.

At the time of the mission no final decision has been made as to the reorganization, so any reference to the future organization and the roles of the new self-sustaining entities is made on the basis of expectations obtained through numerous interviews with relevant SFD staff and the mission's recommendations. At the same time it should be understood that no policy and procedures, operational manuals, approved long-term strategy including annual targets, level of decentralization, delegation of decision making authority, HR staff requirements and training plans exist for the new organization.

An important special issue that also needs to be addressed in the near future is the development of a strategy for SFD to assume the responsibility for future salaries and benefits. UNDP is presently funding salaries and since SFD is operating under the umbrella of that organization it also enjoys tax exemption for its staff.

The main issue for SEDO is to generate enough annual disbursements in a credit worthy manner that will guarantee its sustainability. Analyses show that annual disbursements of some 1 250 billion LE will be needed. This is a five-fold increase in comparison with 2003, and an expected three-fold increase to expected 2004 disbursements. This requires a strengthening and increase in lending intermediaries and an increase of qualified staff in the Regional Offices. A new overseeing role for the staff is therefore necessary. Instead of the current role of supporting the individual SME client, which becomes infeasible due to the sheer number of loan applications that is the consequence of such a high level of disbursements, the future role of the Regional Office staff would be one of training and overseeing intermediaries.

HCDG operates completely different from SEDO. With the exception of Micro-finance it can in general only initiate projects if there is a donor willing to fund it. Thus, its operations fluctuate from year to year, depending on donors' commitments. However, as a result of the marked increase in SEDO's operations it is also expected that HCDG's operations will increase noticeable, since otherwise SFD would be transformed into a lending institution rather than maintaining its mission of being a social fund committed to reducing poverty by supporting community level initiatives.

The main issues facing HCDG deal with delegation of authority to the Regional Offices and implementing the adopted Integrated Local Area Development approach in a bottom-up or demand driven manner involving the local communities, and avoiding its activities from being supply driven and top-down, which is an inherent danger in the adopted approach.

The mission recommends that with the foreseen increase in HCDG's activities, HCDG should gradually decentralize and increase delegation of authority to the Regional Offices, but in doing this ensure that SFD's objectives regarding poverty alleviation is maintained. This should be done through monitoring and targeted evaluations. Moreover, when developing the ILAD approach for HCDG, it must at every step be based on genuine community initiatives and demands.

MMG is facing a completely new market situation for its non-financial post-loan services, since it will start charging for these services. In the beginning 25% of the actual cost will be charged increasing to an average 80%. The main issue is whether it should continue to deliver these services itself from the Regional Offices or it should become a norm setting and guiding entity that relies on NGOs and local marketing consulting firms for the actual post-loan services performed for SMEs.

The mission recommends that a two pronged approach be adopted in a pilot phase for the types of services that are provided by the Regional Offices. In selected Regional Offices the Marketing and Management unit will be outsourcing these services to NGOs and private marketing consulting firms, while in the remaining Regional Offices it will be providing the services themselves. In this way experience can be gained with respect to the level of demand for these types of post-loan services.

The Planning and Monitoring Group has started to develop rolling strategic 5-year investment plans that provides a much needed tool to determine a survival strategy for SEDO and SFD as a whole. On this basis annual work plans will be developed for SFD and the three operating groups, including the required staffing and their roles in the Regional Offices. The mission recommends that the present gap filling 5-year strategic investment model be utilized on a permanent basis and work on extending it to include facilities for 'what-if' queries with respect to size of disbursements and employment opportunities generated should be encouraged.

Monitoring is undertaken by the Planning and Monitoring Group and all operating departments, while only sporadic evaluations have been done. The mission recommends that the Planning and Monitoring Group be delegated to propose evaluation studies and impact assessments on its own initiative. These should be targeted and specific in order to focus on essential problems, whether they are in the business sectors or deal with SFD organization as such.

International Cooperation, Media and Public Relations Group (ICMPR) should continue its important work in securing funds from external sources and maintain its dialogue with the donors and GoE. It should be further supported by the introduction of the rolling 5-year strategic investment plan that will make it fully transparent where there are financial gaps to be filled by interested donors. This should in particular be a help when raising funds for HCDG's activities.

The Finance and Administration Group will change from cash based to an accrual based accounting system from 2005 that will make it possible to allocate costs and overheads to the three operating groups. The group is also in charge of organizational and staff development and will together with the three operating groups determine their staff requirements and training. It is vital that the new organizational structure reflects the different requirements from the three operating groups and that the required qualified staff is in place without delays at HO and the Regional Offices to ensure that the level of disbursements that is needed can actually be achieved. The mission recommends that staff training and upgrading be undertaken irrespective of whether external support can be obtained, since it is a prerequisite for achieving the required level of activities for sustainability. The Regional Office Sector has until now been an important link between the Regional Offices and HO. With the restructuring of the organization it is unclear what its precise tasks will be in future, so the mission recommends a clear definition be made of its tasks and responsibilities in relation to the three operating groups.

The Regional Offices will need to be strengthened and assume new tasks, since the three operating groups will have a more direct representation in their respective units and will set targets for not only each Regional Office but also for each unit and staff. Moreover, the line of instructions and communications will go directly from the operating groups to their respective units. The working of the SEDO unit will change the most in the new organizational set-up in the Regional Offices.

The mission recommends that the tasks, staffing, training, targets and monitoring procedures for Regional Offices and SEDO's field staff be determined in conjunction with the annual plans for 2005.

The MIS project is of great relevance since it integrates most of the data presently collected at the various levels and allows managers to have the same, comprehensive information in the areas which the system covers. In addition it proposes new databases for future requirements, in particular within monitoring, evaluation and impact studies, but also in administration and human resource management. However, due to time limitations there have been no proper business reengineering performed and the data requirements, cost and relevance of data differ considerably from group to group. The mission finds that there is still a substantial amount of work to be done before the MIS can be implemented and accepted throughout SFD, especially in regards to testing and defining points of data entry, but also in data availability, maintenance and flow and cost of data.

The mission recommends that:

1. For SEDO to reach annual disbursements of 1 250 billion LE, this requires a strengthening and increase in lending intermediaries and an increase of qualified staff in the Regional Offices. Moreover, instead of the current role of supporting the individual SME client the future role of the Regional Office staff would be one of training and overseeing intermediaries.
2. HCDG will experience an increase in its activities, since otherwise SFD would be transformed into a lending institution rather than maintaining its mission of being a social fund committed to reducing poverty by supporting community level initiatives.

3. HCDG should gradually decentralize and increase delegation of authority to the Regional Offices, but in doing this ensure that SFD's objectives regarding poverty alleviation is maintained.
4. When developing the ILAD approach HCDG must at every step ensure that it be based on genuine community initiatives and demands.
5. Do to the uncertainty of the demand for MMG's non-financial services a two pronged approach be adopted in a pilot phase for the types of services that are provided by the Regional Offices. In one set of Regional Offices these services will be outsourced, while in the remaining ones the MM units will perform these services themselves.
6. The gap filling 5-year strategic investment model be utilized on a permanent basis and work on extending it to include facilities for 'what-if' queries with respect to size of disbursements and employment opportunities generated should be encouraged.
7. The Planning and Monitoring Group be delegated to propose evaluation studies and impact assessments on its own initiative.
8. ICMPR should utilize the rolling 5-year strategic investment plan in its dialogue with donors, since it will make it fully transparent where there are financial gaps to be filled by interested donors.
9. The Finance and Administration Group should design the new organizational structure to reflect the different requirements from the three operating groups and that the required qualified staff is in place without delays at HO and the Regional Offices to ensure that the level of disbursements that is needed can actually be achieved.
10. That staff-training and upgrading be undertaken irrespective of whether external support can be obtained, since it is a prerequisite for achieving the required level of activities for sustainability.
11. That the tasks, staffing, training, targets and monitoring procedures for Regional Offices and SEDO's field staff be determined in conjunction with the annual plans for 2005.
12. A clear definition be made of the Regional Office Sector's tasks and responsibilities in relation to the three operating groups.

5 Crosscutting Issues

Poverty

The first MDRM Final Report pointed out that SFD needed a more strategic approach towards poverty reduction, including a better understanding of the dynamics of structural poverty, and particularly how to target interventions more effectively, better utilizing the different targeting tools which are available to SFD and in use by other social funds.

How well has this strategy been carried out and institutionalized in the subsequent four years? Within SFD's separate programmes it is clear there has been considerable progress in being more effective in addressing the causes and consequences of poverty. However, it cannot be said that SFD has institutionalized its anti-poverty approach, nor has it made it an over-arching, explicit focus of its interventions.

First of all, in SFD's more recent statements on mission and objectives, explicit reference to poverty reduction and fighting poverty does not figure prominently. Secondly, there has been no apparent movement to improve SFD's capacities to analyze dimensions of poverty as a cross-cutting issue, to keep abreast of the considerable poverty investigation work going on in Egypt, and to focus on more effective techniques to reach poor households and communities in its targeting strategies. For example, the Unit for Research on Improvement in Standards of Living (URSOL), which in 2000 was gearing up to become the centre within SFD on cross-cutting poverty issues, no longer functions, even though it carried out useful work (e.g. SFD Impact Assessment Manual). The EC-funded SFD Impact Assessment just completed is the first known effort to measure the impact of SFD programmes in terms of benefits on poor families.

This is to some extent understandable, since poverty itself has not attained the focused attention of Government. There is no evidence that there are any preparatory movements towards developing the national Anti-poverty Action Plan, referred to in the MDRM II Terms of Reference as something "to be eventually developed by the GoE". Also, although the idea of poverty mapping as a tool for more focussed geographic interventions has been referred to for several years, no concrete steps are known to have been taken.

This is not to infer that that analyzing and targeting poverty is an easy task. But one would have thought that SFD, with its considerable capacities as a leading national development organization, could have achieved more. Thus it is recommended that SFD should consider setting up a small "cross-cutting" poverty unit located centrally within the organization whose main function would to provide SFD with a needed focus on poverty and its dimensions. It would not itself have a large statistical and household survey capacity, but could commission small targeted studies. It functions would include: (1) Carrying out sample poverty impact assessments of the effectiveness of SFD programmes, and feeding the results back into programme design; (2) Liaison with other actors and individuals in the growing "poverty field" in Egypt, in particular INP, Min Plan, and the UNDP and World Bank offices in Egypt, and also with active national NGOs and the considerable number of Egyptian academics carrying out research on poverty, (3) Tracking the findings of ongoing research on different aspects of poverty in Egypt, both at national level and the results of specific area studies on poverty and anti-poverty interventions. It would track efforts by NGOs and others to target vulnerable groups (e.g. women headed households) and feed this information back into the relevant SFD programmes; (4) Ensuring that SFD's needs in terms of information on poverty and how it should be targeted are reflected in the ongoing national debate on poverty. (5) Reporting/synthesizing & disseminating information on SFD's best practices in combating aspects of poverty in Egypt.

Thus it is recommended that:

1. SFD should consider setting up a small "cross-cutting" poverty unit located centrally within the organization whose main function would to provide SFD with a needed focus on poverty and its dimensions.

Unemployment
The latest statistics shows that the national unemployment rate is 9.0 % as of 2002 increased from 8.2% in 1997. A particular characteristic of the Egyptian labour market is the imbalances between supply and demand. The demographic trend that originated from past high birth rates has been outstripping the demand for labour. Besides, educational systems continue to produce high numbers of graduates that do not match the actual demands of the labour market. There exists a remarkable trend that the population of higher educational levels tends to suffer from higher unemployment and there are also wide gaps in unemployment rates between the urban and rural areas. Another serious problem is the high concentration of unemployment among youth and in the unemployment rates for woman which are more than double that of the total unemployment. Whereas an increasing number of new university graduates, women, and rural population are entering the job market there is evidence , that there is no sufficient demand for these three groups, this inevitably increases the unemployment rate. Although the private sector constitutes a growing job market, job creation has been insufficient in the sector. A slow down in the economy's growth could place a constraint on private sector job creation and the limited job opportunities open to women in the private sector may lead to a higher female unemployment rate.

Capacity building
There are two different levels of necessary future capacity building. The one is in SFD itself and the other capacity building of its intermediaries and potential beneficiaries. With respect to the former, the mission has in all areas found a serious need for capacity building, partly resulting from the unused opportunities provided by the IDP and partly as a consequence of forming the three self-sustaining operating groups. The sheer expected increase in activities will require that the previous roles of the field staff of actually doing the projects, will change to that of guiding and overseeing intermediaries, and this will require massive training.

With respect to capacity building of the intermediaries this will require a Training of Trainers' programme in the various areas in order to reach the different groups. It is therefore vital that the HR sector in the Finance and Administration Group produces a comprehensive HR plan for the new organization, together with a need assessment of the various tasks and on this basis develops a training plan for everybody involved. This includes all intermediaries together with potential community association members.

SFD has done this before, although not in the systematic way that is now required. In the past capacity building was provided for both SFD staff and partners such as NGOs and EIA. Technical assistance was provided by Danish International Development Agency to upgrade the capacity of the CDP staff and partners. Two main programmes were provided to enhance the capacity of the NGOs; (i) training of Regional NGO Trainer Organizations: it focused on the selection and training of four organizations in Upper Egypt to provide technical assistance to support other NGOs, and (ii) Seed Funding NGOs for micro finance projects which aimed to provide both training and technical assistance to NGOs that lacked the experience in implementing community development projects.

The mission recommends

1. That staff-training and upgrading be undertaken irrespective of whether external support can be obtained, since it is a prerequisite for achieving the required level of activities for sustainability.

Beneficiary participation and empowerment
While there are noteworthy achievements by some SFD projects, overall project design and field practices are not on the leading edge of community participation. Often community participation is seen only as a means to achieve SFD objectives.

SFD should consider (a) the adoption of *increased broad-based citizen representation, influence, and governance in development* as a full-fledged objective, and (b) tasking CDP with the first priority of searching for and activating the means for such *governance* by the community, and for *proactive accountability* to the community at the local level by development objectives.

A clear SFD-specific definition of the value of civil society organizations needs to be elaborated. Criteria for collaboration with different organizations would derive from and directly reflect these assigned values, such as representation, governance, and innovativeness.

A permanent, enduring institution necessitates the elaboration of a clear and specific strategy relative to empowerment and governance that is premised on a set of specific values and envisioned SFD identity and role of comparative advantage. Such a strategy would need to go beyond the general to the specific. It also entails the activation of mechanisms for enlisting the individual and collective knowledge, experience, and vision of SFD staff from the broad base of field workers up through the senior management level. In other words SFD needs to elaborate and vocalise its own specific (not generic) strategic principles, preferences, and biases relative to participation and governance, and its role as a *change facilitator*. Such a role and strategy would be expected at its minimum to reflect the following:

- Give voice, before knowledge or skills, to marginalized local communities and social groups
- Advocate for the local vs. the central
- Champion the innovative and experimental over the conventional and politically acceptable
- Favour appropriate technology over advanced/complex technology

Gender
Commitment in bridging the gender gap in Egypt utilizing a catalyst approach in its coordination and support of policies, programmes and projects of SFD has been a principal challenge. To ensure the gender mainstreaming in all SFD programmes, it was set, as a policy, that at least 25% of the targeting beneficiaries should be females. The review found that 32% of SEDO clients who received loans were women. A number of Business Women Associations have already requested to acts as implementing agencies for SEDO's contracts. The target beneficiaries of the community development programme include at least 25% females. In addition the

CDP develops programmes which mainly target women such as literacy classes programme and health programmes.

Environment

As with other social funds, by their nature the activities of SFD's programmes are mostly either environmentally-neutral or environmentally-friendly. This is even true with the interventions of PWP in social infrastructure, where sub-projects are small and tend to add value to existing infrastructure networks and sunk investments. And in both CDP and PWP activities, there are conscious efforts to improve the environmental quality of life for poor households and communities, mainly through improved water and wastewater systems, the covering of canals which are environmental problems, and sustainable solid waste collection and disposal systems.

SFD is quite aware of the environmental dimension and has set up an Environmental Development Department to act as a cross-cutting entity which promotes environmentally sound procedures throughout SFD. The MDRM II has reviewed the activities and scope of EDD and its conclusions and recommendations concerning this department are presented elsewhere. These recommendations reflect the opinion that environmental issues, while important, should not become a main concern of SFD. There are a very large and growing number of Egyptian government and NGO entities dealing with the environment, and in addition a number of donors have set up both technical assistance programmes and environmental projects with Egyptian partners. (The main mandated body for the environment in Egypt is EEAA.) SFD's EDD is see as competent and sufficient both to mainstream environmental management and policy concerns within SFD and to provide the policy and coordination bridge with EEAA.

Introduction

1 History of SFD

SFD was created in 1991 as a social safety net mechanism aiming at mitigating the negative social impact of the Economic Reform and Structural Adjustment Programme (ERSAP). Since then, SFD has developed into a leading organization mobilising national and international resources to invest in social development with special attention to job creation and the enhancement of the quality of life of low-income groups. This has resulted in substantial donor funding estimated at USD 1.5 billion since the creation of SFD. For its second phase of operation, starting in 1997, SFD benefited of a total budget of around USD 750 million financed, with grants and loans, by more than 15 multilateral and bilateral donors.

SFD has been operating so far through the following main programmes:

- the Small Enterprise Development Organization (previously Enterprise Development Programme),
- the Community Development Programme (CDP),
- the Public Works Programme (PWP),
- the Human Resources Development Programme (HRDP),
- the Institutional Development Programme (IDP).

In addition there are cross cutting units that support in the implementation of the activities, such as the Gender Unit, the Environment and Development Unit and the Unit for the Research in Improvement of Standards of Living (URSOL).

SFD is supported by a Programme Co-ordination Unit (PCU) funded by the EC. The PCU has two main functions: a) to provide capacity building to SFD; b) co-ordination and supervision, (including the monitoring of the EC contribution to SFD’s Phase II) and the support to SFD in the development of common reporting formats.”

2 The first MDRM

In February 2000, a first Multi-Donor Review Mission (MDRM) took place. The review was carried out by a group of independent experts financed by a multiplicity of donors. The conclusions and recommendations of the mission were accepted by the Government of Egypt (GoE), SFD’s Board of Directors and SFD Management.

The MDRM I final report summarises its recommendations in eight main messages (on pages 1 and 2 of its Executive summary). In this section the follow-up of these recommendations will be examined. The MDRM I report also makes detailed recommendations regarding each of the different SFD programmes, and regarding SFD's mission, governance and management (see pages 6 to 15). The implementation of these detailed recommendations will be discussed in the corresponding sections of this report.

At the time the MDRM I took place a Task Force was appointed by the Sub-group on SFD of the Donors Advisory Group (DAG-SFD). The DAG-SFD and its Task Force followed up closely the proceedings of the mission and after the reception of the final report dated April 2000, this Task Force prepared it's report (dated 6 July 2000) that included an "Implementation Plan" based upon the detailed recommendations of the MDRM I and outlining the actions, actors, preconditions, resources required as well as a timetable. Implementation of the recommendations started immediately. The EU funded PCU mobilised a group of consultants to help SFD prepare its mission statement, programme objectives, strategies and budgets. However during this exercise the Managing Director of SFD was replaced in June 2002. This in turn produced further changes in the top management, a regrouping of the activities and a reinforcement of internal controls. During 2003 and 2004 a complete rethinking was undertaken of the mission statement, programme objectives, strategies and budgets and a subsequent reorganization of SFD was started in 2004. The new law on SME development of June 2004 is being taken into account in this reorganization which will most probably take until 2005 to be completed. The MDRM II mission has thus arrived in the middle of a major reorganization effort of SFD. This has not made the review easier but the fact that the team members were able to discuss options available and choices being made with the higher management was enlightening for the team members and helpful (it is hoped) for the management of SFD.

3 Follow-up of the recommendations of the first MDRM

The situation in relation with the eight main messages is as follows:

Message 1: SFD has played and should continue to play a significant role in poverty reduction, employment creation and small enterprise development in Egypt. SFD should be viewed as an autonomous, permanent, social development organization with a public mandate. SFD needs a clear corporate mission, with related programme objectives, strategies and resources. It is no longer appropriate to assess SFD's development in terms of formal, successive phases. Instead, SFD should prepare annual corporate plans, with clear priorities, strategies and budgets, for review and discussion with Government and donors.

SFD has to a large degree implemented this recommendation. It is playing a significant role in the areas of poverty reduction, employment generation and small enterprise development in Egypt. SFD is a legally autonomous, permanent development organization with a public mandate. SFD was created by Presidential Decree number 40 in 1991 and in 1999 the Presidential Decree 434 created SEDO under the umbrella of SFD. The recent law nr. 141/2004 published in July 7 2004 gives SFD a major role in the development of SME's.

As mentioned above, the formulation of SFD mission statement was interrupted in 2002, however SFD has taken up the exercise again, this time without the help of external consultants, and SFD has developed a mission statement, programme objectives and strategies (see SFD presentation to the MDRM II of 12 September 2004) and is preparing a five-year and an annual budget for 2005 for discussion with the Government and the donors. These budgets will be completed before the end of the year 2004.

Message 2: The available evidence indicates that SFD is effective in the Egyptian context, with respect to channelling resources to deprived and needy areas, institutions and people. SFD organization is small and flexible, with a competent and committed staff. However, SFD needs to strengthen its strategic management; acquire modern and integrated, yet simple planning and financial systems, and – above all – deepen its attention to practical poverty analysis and impact assessment. It is a significant weakness that relatively little is known about the real impact of SFD on poverty reduction and employment generation.

The statement is still valid even if SFD has integrated its field workers (pioneers) into SFD and has now a staff of about 1 000. SFD staff remains very competent and committed. It took some time to implement the above recommendations but now the process is well under way: the cash based accounting system has been replaced in early 2004 by an accrual based accounting system, the unified upgraded MIS is being established in a major effort with substantial hardware, software and development being funded by the EU. The different MIS components should become fully operational during 2005. Practical poverty analysis remains a weak area, as is impact assessment, but in this last area the Impact Assessment Study implemented in advance of the MDRM II has provided interesting insights that are globally positive.

Message 3: SFD should retain a broad mandate within poverty reduction, addressing most dimensions of poverty (lack of income, inequitable access and social exclusion) and unemployment. SFD should involve female-headed households in its activities as a particular target group, while at the same time allowing its individual programmes to focus on target groups of direct relevance to them. At national level, SFD should engage in strategic, policy-oriented discussions on the dynamics, dimensions and processes of poverty in Egypt.

The recommendation remains valid. However most Social Funds in the world do not have such a broad mandate and for example the distribution of payments to the poor that are unable to integrate the workforce because of old age or sickness, and children, is usually not part of their mandate. However integrating female heads of households and other particular target groups is part of the mandate. There are no distinct consolidated programmes or fund earmarks targeted to address the needs of specific vulnerable population groups or segments. SFD could do more to participate in strategic policy oriented discussions on poverty.

Message 4: SFD's four main programmes (community development, public works, human resource development, and small enterprise development) have a logical role under SFD's broad mandate. Yet their different developments have been influenced more by ad hoc Government and donor preferences and the flow of resources, than by strategic priority setting. The separation of SEDO has been partial only, and its predominant role within SFD in terms of resources (55% of SFD funds in phase 2) is due in part to internal resource generation (loan deposits and repayments). While SEDO's full independence is desirable in the medium-term (with respect to governance, management, and resources), its lending system is unlikely to become financially sustainable before significant, market-oriented changes have been made in SEDO's interaction with the banks as its financial intermediaries. The separation of

SEDO will have major effects on the 'remaining' SFD in terms of asset distribution and overhead costs – effects that yet have to be addressed.

Institutional changes have been made that allow progress with respect to these recommendations. The Presidential Decree No 83/2004 was issued with the aim of providing the Social Fund the right to participate in institutionalizing share holding companies operating in the development field and contributing to the realization of its objectives. Under the umbrella of SFD as a holding company, SEDO could thus operate as a legally separate entity In the mean time SEDO will be set up as a separate "profit centre". The new accrual based Finance and accounting module of the new MIS will allow for this. The sustainability of SEDO may ultimately be achieved but this will only happen if it gradually becomes independent of subsidised funding. The other groups in SFD will also constitute separate "profit centres" allowing for periodic evaluations of their operational costs and their sustainability.

Message 5: SFD should concentrate its project activities at the local level (governorates and below). SFD is too small to play a major role in national programmes and projects such as the reform of the public sector and capacity-building in line ministries. SFD's strength lies in its network of sponsoring and implementing agencies at local levels: governorates, banks, training institution, NGOs and community development associations (CDAs). SFD should play a catalytic and capacity building role vis-à-vis these institutions and involve itself in innovative, well-targeted policy implementation at local levels.

This recommendation is still valid. By far the greater share of SFD funds for community and social development are implemented through central contracts with a ministry or other governmental agency. Local communities do not have any considerable contribution to the design of solutions or control over their performance. Most of the modest resources made available to NGOs went to them as implementers of these central projects, with minimal real control or significant influence exercised by them . SFD can become a far more effective change facilitator by providing space – at the lowest tier of local communities and dispossessed social groups – for the identification of opportunities and the initiation of innovative solutions. It remains for SFD to assume a comparative advantage role of incubator, advocate, and sharer of models of successful development.

Message 6: SFD is unlikely to become financially sustainable in the medium-term irrespectively of the extent of SEDO separation. SEDO itself may be sustainable, because banks are likely to repay their loans, but the banks may not be eager to expand their small enterprise lending, if they lack the incentives or their loan portfolio with small entrepreneurs proves to be of poor quality. The Community Development and Public Works Programmes (CDP and PWP) deliver much needed services to poor people – and should do so even more in future. They are in need of additional grants from Government and donors. The Human Resource Development Programme (HRDP) can mobilize some resources through fees for training activities etc., but needs public funds for most of its activities.

It is the opinion of the MDRM II that sustainability of the CDP and PWP operations (and of HCDG in general) should be viewed as attained when SFD is seen by the Government and by the donors as a most efficient and effective organization in the country for implementing programmes in favour of the poor. The result of this would be that donors and the Government continue to use SFD as an organization for the implementation of their programmes aimed at poverty alleviation and employment creation. It is also the opinion of the MDRM II that SFD is effectively one of the most efficient and effective organizations in this field amongst a few other NGOs and banks with whom SFD has to compete for donor attention. The implementation of the recommendations contained in this report would ensure - it is hoped -, a continuing leading position of SFD.

Message 7: Thus SFD must diversify its resource mobilisation strategy. In the short- to medium-term, CDP and SEDO may face absorption and disbursement difficulties (though for different reasons), whereas PWP and HRDP could deliver more with only a limited increase in staff at SFD. This would however, require a clear mission statement and corporate strategies for SFD. The institutional Development Programme (IDP), which in the past has been used mainly to finance the SFD secretariat, should in future be used more for capacity-building activities in SFD's network of institutional partners. Capacity-building activities would be appropriate for donor support, whereas the Government should show its commitment to SFD as a permanent institution by: a) meeting in full its commitment to SFD's Phase 2; b) matching all future donor contributions on a 1 USD = 1 LE basis; and c) taking over the full financing of the SFD secretariat (including its present privileges).

SFD receives funds from more than 15 different donors and from the Central and Local Governments. SEDO may in the future explore tapping into to the local markets for funding its operations while HCDG will remain dependent on funding agencies and the Government using its services. SFD has unfortunately not been very successful in using the EU funded IDP for capacity-building activities of its staff and its partners.

The MDRM II is of the opinion that the operational expenses of SFD should not be funded by the Government but that, as most other social funds in the world, SFD should fund its operations through a service charge included in the agreements with the funding agencies (and the Government) and providing an appropriate remuneration for the services rendered. The Government can show its appreciation of the quality of SFD by channelling project funds through SFD as other donors do.

Message 8: External donors have made an important contribution to SFD's achievements. Today, SFD is a competent, self-contained organization. Still, SFD should welcome external advice at both policy and technical levels. In terms of policy, the Government, SFD and donors should review the governance and coordination structure (Board of Directors, Policy Committee, and DAG Sub-Group on SFD) with the aim of developing and protecting SFD's mandate, involving broad segments of the Egyptian society, and strengthening the regular (preferably annual) dialogue with donors on priority-setting and resource allocation. At the technical level, SFD and donors should collaborate to simplify SFD's management information systems and implementation procedures and the donor specific review and reporting requirements. Building upon the experience of the MDRM, future reviews could be joint, involving Government, SFD and donors. Initially, the Government, SFD and donors should prepare a Plan of Action for SFD's development, based in part on the findings and recommendations of the present review.

SFD has achieved much, and the help provided by donors and the Government has been substantial. External advice has been plentiful at both the policy and technical levels, but it must be recognised that the advice provided has been in part donor driven, with not enough coordination and often by experts without experience in social funds. At times this has resulted in an overload of marginally useful and sometimes conflicting advice. Donors should regard SFD as a grown-up organization and an equal partner providing services essential to the donors and the country. The dialogue between SFD and the donors as equal partners should be intensified. The Government did not participate in the MDRM II but as other donors channelling resources through SFD, the Government should also participate in future review meetings. As mentioned above a plan of action was prepared by the DAG-SFD after the MDRM I for follow-up.

4 Activities of SFD 2000-2004

The following table shows the commitments and disbursements of the phase II (as of 30 April 2004).

Source of funding	Type	Total USD	Total USD
Grant / Loan		Committed	Received
Canada	G	6,500,000	3,916,393
Cost Sharing	G	25,583,382	24,136,067
Denmark	G	9,913,781	7,813,838
DFID	G	7,944,891	6,546,414
Egypt	G	44,195,639	36,556,519
European Union	G	189,749,558	124,961,332
German (3rd)	G	26,467,230	25,819,095
Germany Naga Hammady	G	6,633,823	1,116,016
Germany 4th	G	23,065,800	13,070,945
Holland	G	15,627,465	15,627,465
UNDP	G	4,384,324	4,383,140
Islamic Development	G	420,000	105,000
Egypt	G	73,659,399	32,540,270
France	G	786,351	786,351
IDA	G	110,881,743	110,881,743
Germany Grant of Loan 3	G	2,338,462	398,873
Abu Dhabi Fund	L	10,000,000	10,000,000
African Development Bank	L	21,000,000	12,553,050
Arab Fund	L	66,418,533	42,753,561
Germany (3rd)	L	23,995,875	13,037,410
IDA Population	L	9,727,000	5,839,272
Italy	L	15,000,000	-
Kuwait Fund	L	52,673,236	52,673,236
Islamic Development	L	9,800,000	1,894,946
Total Donor Funds		756,766,492	547,410,936

The overall uses of funds in phase II was as follows (as of 30 April 2004):

Uses of funding	Amount in US$
Public Works	99,420,394
Community Development	92,351,805
Enterprise Development	216,402,398
Human Resource Development	19,266,043
Institutional Development	27,506,352
Environment	891,759
Miscellaneous	4,905
Total project Disbursals	455,843,656

The tables in annex 5 provide more detailed information on sources and uses of funds by SFD.

5 The objectives of the MDRM II

According to the terms of reference the purpose of the review is the assessment of the relevance and the overall progress of SFD against the overarching aim of poverty reduction and employment creation.

The review aims to:

a) assist SFD to improve its performance in the field of poverty reduction and employment creation;
b) support SFD in the on-going effort for the development of a new vision and strategy;
c) improve donors current and future support to social development and poverty alleviation in Egypt.

The overall objective of the review is to assess SFD's role and contribution to social development with special emphasis on its role in poverty reduction and job creation.

Specific Objective: To assess the qualitative and quantitative results (impact) of SFD's programmes and projects in the field.

In this process the review specifically looked into how the recommendations of the first MDRM have been followed and how the newly proposed organizational structure and mission statement affect SFD's role and performance in the field.

Results:

- An overall analysis of the relevance, efficiency, effectiveness, impact and sustainability of SFD interventions in the field. SFD has been evaluated against its overall objective of poverty reduction and employment creation and against its programme-specific objectives;
- An assessment of the degree of implementation of the recommendations made by the first Multi-donor Review Mission back in the year 2000 and, if relevant, causes for the non-implementation are given;
- An assessment of the implications of the proposed new mission and organizational chart for SFD's performance in the field and for SFD's role in poverty reduction (with special attention to SFD's role in the Anti Poverty Action Plan of the GoE) and employment creation in Egypt;

- Recommendations to improve SFD's performance and impact in the field.
- Recommendations to assist SFD in the further development of a clear strategy and organizational structure for SFD as a permanent institution.

The review follows the Logical Framework Approach (LFA) and the Project Cycle Management (PCM). The major dimensions, which are covered by the review, comprise the following:

- relevance - of objectives to in-country needs
- efficiency- in providing inputs promptly and at least cost
- effectiveness - in achieving planned results and the project's purpose
- impact - on overall objectives to which the project purpose should contribute
- sustainability - over time, and after inputs will have been provided and external support would cease.

The review has been based on the analysis of existing desk studies, monitoring and evaluation reports produced by SFD and by different donors to SFD, interviews with the various stakeholders, intermediary organizations and final beneficiaries.
Extensive field trips kave been conducted. The review has used available qualitative and quantitative indicators and has proposed additional indicators that suit the purpose of the review where necessary .

The review team has taken into consideration in the review internationally recognised best practices in the field of micro-credit and SME development, as well as in other area where these best practices exist.

The review team has used the information (monitoring reports and reports produced under the capacity building function of the PCU) provided by the PCU.

6 The Impact Assessment study

When it was decided to launch a second Multi-Donor Review Mission (MDRM II) it was agreed between SFD and the donors to undertake an Impact Assessment (IA) Study prior to the MDRM II to provide the review mission members with pertinent information about the impact of the investments of SFD. So far, impact assessments in SFD had been limited in scope to specific areas or sectors and these impact assessments had been hampered by the absence of baseline studies prior to the start of the operations of the sector programmes of SFD.

The Impact Assessment was carried out by four local consultant teams, each with a designated Team Leader, and coordinated by an International Impact Assessment Expert (IIAE).

The *global objective* of the Impact Assessment was to measure the impact of sectoral project interventions of SFD in key areas of intervention, on the respective target groups based on quantitative and qualitative data sources; thus contributing to the solidity of the findings of the MDRM II. The *specific objective* of this assignment was to produce a final consolidated Impact Assessment report based on four sectoral studies:

- Credit: The measurement of employment creation, asset accumulation and sustainability of operations among groups of clients of the SEDO credit schemes.
- Micro-credit: An independent assessment of economic and social impact of micro-credit provision on the livelihood of beneficiaries;
- Training: The assessment of the appropriateness of training courses offered and the success or otherwise of the trainees, upon completion of the training, from the perspective of the target group, to start a business or enter into gainful employment;
- Infrastructure: From the perspective of the target group, the assessment of client satisfaction regarding service delivery of infrastructure projects implemented by CDP, PWP and HRDP;

The results of the IA are given in detail in four reports, one for each study, and in a consolidated report. The executive summary of the consolidated report summarising the findings and recommendations figures as annex 5 of this report.

The MDRM II has used the results, main findings and recommendations of the Impact Assessment study as an important input for their review.

7 The MDRM II in 2004

The preparation of the MDRM II started in 2002 when the first terms of reference for the MDRM II were drafted by the donors and SFD. In 2004 the team leader funded by the EU was identified and made a preparatory mission to Egypt in May 2004. During this mission the last preparations for the Impact Assessment Study were made and procurement started of the Impact assessment teams. The International IA expert arrived on site in early July and the surveys by 4 teams were implemented in July and August. The results of the IA studies were communicated in two workshops on 17 and on 20 September 2004, and the final report was handed over on 22 September 2004.

During the period June to August the preparation of the review mission went on. The different participating donors proceeded in the selection of the team members :

- UNDP provided two experts: one Micro-finance and one Institutional Development expert;
- KfW provided also two experts: one Public works expert and one Small enterprise development expert;
- JBIC provided a Small enterprise development expert;
- AfDB provided a Community development expert; and,
- World Bank provided a Human resource development expert.

The mission activities started on 10 September with the arrival of the team members. On 12 September a meeting with the management of SFD took place, this meeting was very productive in getting the mission off to a productive collaboration with SFD. The experts collected and analysed many reports (see literature list in annex 5), held meetings with SFD staff, SFD's partner organizations, beneficiaries, and a meeting with the donors was organised early in the mission. After a few days, field visits were organised for each expert, a majority of the governorates was visited (see list of

people met and projects visited in annex 3). The experts started drafting their reports by early October and debriefings of each expert with the staff of SFD allowed for an in depth discussion of the findings and recommendations. A Preliminary report was prepared and distributed on 11 October. The mission of the experts ended with a final workshop at the Marriott hotel on 14 October. Findings and recommendations were presented and discussed by 65 representatives of SFD and the donors.
This Draft Report of the Multi-Donor Review Mission is based on the earlier preliminary report prepared for the participants of the workshop of 14 October 2004. It has been substantially improved and completed taking into account comments expressed by the participants during the workshop and comments and clarifications received in writing.

Part 1: Analysis of the programme and project level

1 Small Enterprise Development (SEDO/MMG)

1.1 Introduction and background

One of the major outcomes of SFD Phase I evaluation was the need to transform the Enterprise Development Programme (EDP) into a sustainable and focused institution for the development of the small enterprise sector in Egypt with integrated and comprehensive packages of credit, business and technical support services. The Presidential Decree 434 instituted the Small Enterprise Development Organization (SEDO) on December 1st, 1999, as a quasi-autonomous organization within SFD. The Decree amended the Presidential Decree 40 of 1991 (instituting SFD) as follows:

1: The objectives of SFD were enlarged to "the development of the small enterprise sector by setting and implementing the policies particular to this sector".

2: An organization – to be established within SFD and under control of the BoD of SFD – to be in charge of mobilizing resources, coordinating efforts, implementing Government policies and directing mechanisms towards the development of the small enterprises. The organization is to maintain its own accounts.

SEDO's national mandate for setting and implementing the development policies for the small enterprise sector in Egypt was additionally fostered with the passing of the Law on SME in June 2004.

The transformation of EDP to SEDO reflects the intention of SFD and its donors to provide this organization with greater autonomy inside SFD. The further reform of SEDO continued with the change of the top management of SFD in 2002 and subsequent replacements of key positions within SFD including SEDO. The exact extent of autonomy that was thought feasible or desirable for SEDO has ever since been a matter of on-going debate between donors, the GoE and SFD.

SEDO acts as a second tier financial institution that grants credit lines to banks and NGO for refinancing countrywide credits tailored to the needs of SME. Its financial services are complemented by additional technical support to the small businesses to facilitate their access to credits and improve their business development. SEDO is the largest core unit of SFD in financial terms. Its assets and liabilities comprise approximately 70% of SFD's consolidated balance sheet. The following table summarizes the contribution of donor countries and organizations to SEDO operations during Phase II as of October 2004 (all figures in USD).

Donor	Curr.	Commitment	Comm.Date	Received By SEDO (LE)	Disbursed to Sponsering Agencies (LE)
Arab Fund(2)	KD	13,500,000	1997	2,000,000	2,000,000
Kuwait Fund(2)	KD	13,500,000	1997	120,857,830	120,857,830
EU	Euro	88,000,000	1998	80,775,454	80,775,454
KFW(3)	Euro	21,985,551	1998	52,143,350	52,143,350
Canada	C$	10,000,000	1996	13,456,019	13,456,019
Japan	Yen	5,194,000,000	2002	58,416,455	56,000,000
Italy	Euro	12,910,000	2001	197,045	197,045
GoE	LE	200,000,000	1997-2001	174,000,000	174,000,000
Total				501,846,153	499,429,698

The achievements of SEDO during the period 2000 to 2003 are summarized in the following table. It provides figures on the SEDO refinanced loans granted by the financial intermediaries to SME during this period and the number of jobs thereby either created or sustained:

	Loans No.	Loans Volume (EGP)	Average Loan (EGP)	Jobs	Average Jobs per Loan
Free lance	197	8,486,453	43,078	1,525	7.7
Animal Husbandry	23,938	360,637,898	15,065	65,563	2.7
Industrial Sector	13,258	277,308,086	20,916	50,473	3.8
Service Sector	15,203	374,460,485	24,630	67,783	4.6
Trade Sector	35,348	907,242,770	25,666	164,225	4,6
Total	**87,944**	**1,928,135,692**	**21,925**	**349,569**	**4.0**

As per December 31st, 2003 the total outstanding SEDO loans to financial intermediaries stood at 1,875,725 EGP. A further breakdown of this figure in amounts disbursed to SME is not supported by the current MIS of SEDO and hence is not available. The MIS provides only figures on disbursements within periods of time and not for particular points in time.

1.2 Review of the recommendations of the MDRM I

	MDRM I Recommendations	Status at MDRM II
1	*Decisions on cost of on-lending, risks and margins should reflect market principles.*	• SEDO continues to be committed to social considerations. On-lending rates for loans above 20,000 EGP increased by 100 bp but differentiated and risk adverse interest rate structure remains.
2	*Institutional strengthening of participating banks should be undertaken in the form of technical assistance to establish SME units.* *SEDO's goal of developing institutional capabilities with banks and NGOs should be given more attention and be made fully operational*	• Only one SME credit line programme included a long-term comprehensive technical assistance programme to banks (with a regional focuses on the Dakahliya Governorate). No other systematic and output oriented institutional strengthening for intermediary banks were implemented. Technical assistances provided are reduced to seminars and workshops. SEDO's policy as of 2004 contains full-fledged institutional strengthening programmes.
3	*The clientele should be clearly separated into existing enterprises and new ones.*	• MIS provides separated information of loans to existing enterprises and start-ups. Intensive training course is established intended to provide a large number of new entrepreneurs "SEDO borrower" training. But at later stage of entrepreneurial activities, no separated service delivery policies are established.
4	*Decisions should be based on sound economic criteria and fees should be charged for business services.*	• SEDO continues to be committed to social considerations (see 1). MMG endeavours to raise the cost recovery ratio from 25% to 80% of the direct cost incurred in five years.
5	*Continued donor support for institutional strengthening of SEDO's partners (banks and NGOs) should be ensured.*	• Supports for institutional strengthening of intermediaries have been received from donors as an integral part or in association with the agreements for funding assistances to SEDO's lending programme.
6	*The transition process should be finalized without delay.*	• SEDO and MMG have been separated, establishment of accounting as profit centres under way.
7	*A critical review of the Co-operative Insurance Society(CIS) is needed.*	• No action to critically review CIS is taken by SFD with exception of adopting the policy that funds lent to the shareholders for their acquisition of CIS shares are gradually withdrawn. CIS services have been expanded to cover up to 80% of the SME loans throughout the full tenor. CIS does not conduct its own due diligence but rubber stamps banks' approvals.
8	*SEDO should clearly define its priorities in a strategic planning process based upon lessons learned and qualitative impact assessments.*	• SEDO's vision and strategic plan are established in 2004. The strategy is translated into a project-planning matrix specifying the project purpose and specific results to be achieved.
9	*SEDO should be given its own Board of Directors because of its special business character.*	• SEDO continues to be governed by the Senior Steering Committee and the Board of Directors of SFD.

1.3 Relevance

1.3.1 Relevance of SEDO's Organizational Set-Up

SEDO's overall objectives are geared towards providing and securing job opportunities through the establishment of new or the expansion of existing small businesses. Its particular objectives are as follows: To create about 80,000 employment opportunities each year; to disburse annually about one billion EGP to about 28,000 new and existing enterprises, with an average loan size of 35,000 EGP; to develop the institutional capacity of the SME to ensure their sustainability; to develop a regulatory environment conducive to the sustainability of SME.

SEDO's organizational set up: SEDO operates through following two sub-divisions:

(1) The **"Small Enterprise Development Group"** acts as an apex institution, which mobilizes financial resources mainly from donor countries resp. organizations and provides long-term credit lines to domestic financial intermediaries (mostly banks, also NGO) to be on-lent to SME (start-ups and existing businesses) at defined terms and conditions using a differentiated interest rate structure depending on groups of loan sizes. As a second tier financial institution SEDO has no direct control on the SME loan portfolio developed by its partner banks and NGO but is dependant on the supply of information on portfolio quality through its intermediaries.

The Business Services Department within above group provides support through the regional SFD offices to those clients requiring assistance in preparing their respective business plans. Around 75% of all SEDO loans are channelled through the regional offices to the banks and hence incur considerable costs to SEDO and hinder a quicker disbursement if processed directly through the banking network. The department is also responsible for assisting an SME oriented institution and capacity building within the financial intermediaries partnering with SEDO. The non-financial services of the Business Services Department are for free. SEDO is exploring possibilities for a fee based service delivery of its – pre-disbursement – assistance to SME.

(2) The **"Marketing & Management Group"** provides – post-disbursement – non-financial support to SME for improving their efficiency and increasing their competitiveness. The group's services comprise marketing support through market analysis and product promotions on domestic and export markets. It also assists SME in participating in fairs and permanent exhibitions and has recently established an e-commerce department for web-based sales support. The group also offers technical support consisting of three elements: (a) Product development, technology support, quality and productivity improvement; (b) Training of SME personnel; (c) Operating of incubators for project nurseries. The Marketing & Management Group offers its services partly for free and partly on a cost-sharing basis. The fees are calculated to cover 25% of the direct expenses incurred by the service delivery. MMG endeavours to increase its fees to cover 80% of its direct expenses. In any case a compensation of MMG's overhead costs is not envisioned, as otherwise MMG would price itself out of the market.

Relevance of SEDO to SFD's objectives: The objectives of SEDO are fully consistent with the overall objective of SFD to combat poverty by reducing the vulnerability of the poor and by supporting income-generating activities particularly for the low-income groups as well as by contributing to securing already existing income sources. The particular target group of SEDO comprises: inhabitants of low-income communities with high poverty and unemployment indices; young graduates; jobless people, especially workers made redundant as a result of privatisations. Particular attention is thereby to be given to gender aspects throughout the target group.

Relevance of SME to SFD's objectives: SEDO‘s approach follows the rationale, that a tailor made and continued support to SME facilitates the creation of job opportunities, which indirectly leads to a sizable poverty reduction. However, it is difficult to establish an interrelation between lack of access to credit, poverty and gender. To the extent that SME owners and workers are in the lower half of the income distribution, promoting the growth of SME may lead to a more equitable distribution of income and hence to poverty alleviation. But SME owners and workers are unlikely to be the poorest of the poor, so that SME promotion may not be the most effective instrument for direct poverty alleviation. Attempts are often made to draw a causal link between SME and poverty alleviation so as to justify policies and subsidies in favor of SME, particularly in view of the assumed job-creating proficiency of SME or of their greater efficiency and growth. But the empirical evidence supporting many of these claims is very mixed and does not substantiate the superiority of SME promotion over other policy instruments for effective poverty alleviation. The simple and undisputed justification for a concerted SME promotion is because this target group accounts for the bulk of the private sector, which in turn is acknowledged to be the major growth engine of the economy. Searching for further justification to promote smallness as an instrument of poverty alleviation is not necessary.[1] Hence the focus of SEDO on SME is fully relevant to a pro-poor growth strategy for the Egyptian economy.

Relevance of SEDO to the Donors: All the donor grants and loans contracted to SFD during Phase II for SEDO purposes incorporated the overall objective of poverty alleviation and income generation through the support of the private sector. The particular project objective comprised the focus on assisting small businesses or start-ups through financial and/or non-financial services. Donor organizations thereby capitalized on SEDO's capabilities as an apex institution with a countrywide outreach through its collaboration with domestic banks and NGO. In a number of cases the donor organizations had already pre-selected banks for their project purposes, which restricted SEDO from diversifying its fund allocation in accordance with its own selection resp. risk criteria. Poverty alleviation through job creation and income generation continues to be Egypt's principle challenge. Also the private sector including its majority of micro and small businesses remains the growth engine of the Egyptian economy. Hence there was no need of the donor organization to change their overall or project objectives during Phase II. Donor criticism focused rather on the effectiveness and efficiency of the respective project implementations as well as on the institutional set up of SEDO (see below).

[1] *K. Hallberg (2000): "A Market-Oriented Strategy for Small and Medium Scale Enterprises" /IFC discussion paper*

1.3.2 Relevance of SEDO's Loan Policy

Target group focus: SEDO particularly addresses the growing unemployment of new entrants in the labour market, primarily young graduates, who make up over 80% of the total unemployed population. Approximately 70% of SEDO's loan portfolio is granted to start-ups and about 62% of the SEDO borrowers were younger than 35 years at loan disbursement. However, facilitating the access of jobless graduates to credits is an ambiguous strategy, since it tempts primarily young, mostly penniless people to start their career with an exposure to a credit risk, which in the event of a failure would cause considerable long-term burden on the borrowers including their families or other guarantors.

SEDO's unrivalled comparative advantage is its institutional ability to provide technical assistance to both the borrowers and the financial intermediaries in order to contain credit and business risks. Yet the impact assessment conducted for the purpose of the MDRM II reveals that the non-financial services received consisted mainly of the preparation of feasibility studies for obtaining a loan. This also coincides with stated bank's perception that SEDO's selection of eligible clients should be performed with increased scrutiny. Both SEDO and the financial intermediaries jointly bear the crucial responsibility of a careful selection of eligible borrowers, a thorough support in their preparation of the start up (including but not limited to the drafting of feasibility studies) and a continued assistance during the early phase of the project (by MMG). Equally, particular attention should be given to a SME oriented institution building in the partnering financial intermediaries to secure a proper due diligence, processing and monitoring of the SME loans.

Recommendation: SEDO should establish and execute a clear methodology for the identification of eligible borrowers by providing verifiable screening and selection patterns as well as – in collaboration with MMG – tailoring individual post disbursement support programmes to the borrowers including quantified objectives and outputs. Timely monitoring and analysis of failures or dropouts should support the continued refinement of the SEDO/MMG services.

Recommendation: SEDO should place particular focus on an SME oriented institution building of its partnering financial intermediaries. Technical assistance provided should follow a systematic approach securing the commitment of the financial intermediary towards SME lending and linking the support provided to verifiable qualitative and quantitative objectives.

Relevance of SEDO's terms and conditions: The duration of the SEDO loans of 3 to 5 years seem to adequately cover the liquidity requirement of the SME and would still constitute an acceptable risk to the banks. The upper limit for a SEDO loan has meanwhile been doubled to 1.0 million EGP and as such should comfortably cover the bulk of loan demands of the SME.

SEDO continues to offer groups of loan sizes with respective refinance and on-lending interest rates that increase with the loan size. This **differentiated interest rate structure** was already subject of intensive debate at MDRM I and – since the concept has been maintained – needs to be addressed here again. The criticism of SEDO's unchanged applied interest policy centre on following points:

- Arguably SEDO refinance rate to banks is above its own average costs of funds. But SEDO's funds are highly subsidized. Hence SEDO would have to increase its refinance rates under normal market conditions in order to secure its sustainability. In this context SEDO is encouraged to formulate its policy regarding the determination and implementation of lending margins, i.e. the difference between cost of funds and on-lending rates which remain for financing the ongoing concern of SEDO.

- Advocating subsidized lending cause market distortions, which may be of temporary nature only (until the cheap donor resources are exhausted) but on the long run confirms banks' perception, that SME lending is not commercially viable. Banks would not continue lending to SME from own resources. Some donors supported subsidized refinance rates during Phase I and unfortunately continued doing so also in Phase II. Cheap money is limited by source and volume and is insufficient to secure the loan demand of SME in both a sustainable and outreach manner.

- The level of the on-lending interest rate to SME should – from a commercial perspective – reflect both the transaction costs and the credit risk associated with the loan. Smaller loans or loans with a short duration usually create comparatively higher transaction costs than large or long-term loans and as such should bear a higher interest rate. Equally, a loan to a start up comprises a higher credit risk than a loan to an already successfully established enterprise and should therefore be compensated by a risk premium on the interest rate. With SEDO's interest rate structure the opposite is true.

- SEDO's policy to allow the lowest interest rates to the smallest, high-risk loans (and vice versa) reflects its social rather than financial orientation. SEDO thereby violates its own stated goals on financial sustainability and by the same token deprives the banks of sufficient, commercial incentives to market the SEDO funds. In turn SEDO is constrained from reaching its annual objectives in terms of loan disbursements and job creations.

- Subsidized lending is usually justified by drawing a causal link between the necessity to support SME and the inability of SME to afford commercial interest rates. But the empirical evidence supporting this claim is limited to cases of particular hardships only. In this context it is interesting to note that according to the impact assessment in preparation for the MDRM II, the inability to service the interest liabilities was in no case the reason for a SME failure. Instead of just cheap but unsustainable loans SME would benefit more from a continued, quick and easy access to loans in addition to a professional business and marketing support.

In an attempt to satisfy the continued donor request for an interest rate policy proportionate to the prevailing market conditions, SEDO decided to allow banks to increase their on-lending rate in all loan categories by one percentage point. However, the lowest loan category of up to 50,000 EGP will now be split in two categories and loans up to 20,000 EGP will continue to benefit from the original interest rates. Note that the average loan size of Phase II was just below 22,000 EGP. Unless SEDO manages to increase the average loan size to the target of 35.000 EGP the approved raise in the interest rates will de facto have no particular impact on SEDO's future portfolio development. It is understood that above increase in interest rate is just the first step in reforming SEDO's total interest structure. SEDO is encouraged to further amend its interest policy to fully comply with market levels and thereby adhere to internationally acknowledged best practices. Soft loans to SME should be completely phased out during a specifically defined transition period, within which such loans should be restricted to a narrow, clearly defined group for particular poverty related purposes (for example in remote areas or in areas with a particular high incidence of poverty).

SEDO's ongoing adherence to the differentiated and adverse interest structure continues to deprive banks from market-oriented performance incentives. The improved guarantee scheme provided by CIS arguably contributes to a further containment of the credit risk. Yet the issue of the comparatively high transaction costs of smaller loans remains unresolved. Why should a bank accept a comparatively low margin for a small loan that – particularly in cases of default – may incur unscheduled transaction costs and block human resources even higher than larger loans?

The scope of targeting of SEDO is very broad in terms of target clientele, loan types and sizes, economic sectors and outreach, all of which are financed by scarce donor funds. By increasing the abovementioned loan limit SEDO additionally entered into a direct competition with banks particularly regarding the larger SME[2]. SEDO runs the risk of encouraging banks to using scarce donor funding instead of their own abundant liquidity for lending to such enterprises that are not in need of donor funds. A strategy for a selected targeting and timely monitoring of the allocation and use of SEDO funds is necessary.

Phase II experienced a considerable decline in the disbursement of new loans, which was well above the average decline of the aggregate national loan portfolio caused by the economic recession. There is no reason to believe that banks will recommence to strengthen their efforts to market the SEDO funds if the interest rate policy of SEDO remains unchanged.

Recommendation: SEDO should adopt an interest policy tailored to the capabilities of its SME borrowers in a risk and market oriented manner. Subsidized lending should be phased out and in a specifically defined interim period should be restricted to a narrow defined target group with clear and verifiable features, whereas other SME borrowers should be serviced at market conditions. SEDO should carefully monitor whether its credits reach exclusively the targeted beneficiaries as well as evaluate the impact of these credits.

Recommendation: SEDO is additionally encouraged to deviate from the differentiated interest structure and allow banks to decide on the on-lending rate independently. Liberalization of interest rates provides a tangible performance incentive and in addition allows more competition amongst banks. SEDO may additionally commit the banks to pursue a particular structure of its refinanced loan portfolio (type of clientele, loan size, sectoral and regional diversification) in order to ensure an ultimate loan portfolio that is in line with the SEDO strategy.

[2] It is understood that this loan segment will constitute only about 10% of SEDO's total portfolio, but will yield the highest on-lending margin and hence support SEDO's financial status.

1.4 Efficiency

The core activities of SEDO and MMG are composed of: credit extended through intermediary institutions (SEDO); and extension of non-financial services (SEDO and MMG). Recent organizational change has separated Marketing and Management Group (MMG) from SEDO to an independent Group directly reporting to Managing Director of SFD and the organizational change accompanied similar the separation of relevant units established within Regional Offices.

1.4.1 Planning and Execution of Financial and Non-Financial Services

Lending channels of SEDO Programme are classified into three categories: "Bank Direct" in which an entrepreneur contacts one of the partner (intermediary) banks of SEDO directly without assistance of SEDO and borrows the funds provided under SEDO Programme; "BS Supported" in which Regional Office of SEDO assists the end-beneficiary to prepare documentation required for bank borrowing and introduces the borrower to one of the intermediary banks; "IB Supported" in which the third party organizations such as NGOs, business associations, cooperatives, etc. develop standardized credit packages acting as executing agencies for specific projects to which end-beneficiaries are invited to join while financing is provided by intermediary banks acting as sponsoring agencies. Dominant majority of lending activities are generated by "BS Supported" scheme. Data available shows that the "IB Supported" scheme occupies about 10% of the total lending activities, while such data of distinguishing the "Bank Direct" scheme from "BS Supported" scheme is not available but used to be reported by MDRM Report 2000 as 85% of the total loan production.

SEDO, after the separation of MMG, provides non-financial services to potential clients who are looking for borrowing. The services are provided as a part of the marketing of SEDO products and include the assistances in; (i) selection of the kind of project, such as investment opportunity studies; (ii) preparation of business plan for applying for a loan from financial intermediary; (iii) getting a loan from financial intermediary; (iv) obtaining the license or permission from authorities concerned; (v) starting the project; (vi) resolving conflicts with the intermediary; (vii) business match-making; (viii) technical assistance for production such as clustering; (ix) management assistance; (x) access to business information; (xi) training; (xii) franchising; etc. SEDO establishes its target for non-financial services that at least 30% of SEDO financed projects to benefit from technical assistance of SEDO and MMG. While SEDO adopts a policy of undertaking towards financially sustainable operation inferring that fees should be charged for some of the services rendered, most of the services mentioned are currently rendered for free.

MMG provides non-financial services listed in the Table 1.4.1 to the clients in the stage of implementation of projects after SEDO loans have been disbursed or to non-clients of SEDO. The cost recovery ratio of the non-financial services of MMG is understood to be about 25% of the direct cost incurred as of the date, which Management of MMG intends to raise steadily year by year.

Table 1.4.1 Non-financial Services by MMG

Department	Non-financial Services Offered
Development & Quality Department	(i)Technical Training, (ii) Administrative Training, (iii) Seminar, (iv) Exhibition, (v) Consulting, (vi) Information, (vii) Export Opportunity, (viii) International Consulting, (ix) Feasibility Studies and Project Profiles, (x) Prototype Design and Manufacturing, (xi) Quality Testing, (xii) CAD Design, (xiii) New Cooperation Protocol, (xiv) Technical Auditing
Incubator Development Department	(i) Business Incubator, (ii) Technological Incubator, (iii) Virtual Incubator
Exhibition Department	(i) National Exhibition, (ii) Regional Exhibition, (iii) International Exhibition
E-Commerce Department	MSEs' Products on Website
Marketing Department	(i) Export Promotion, (ii) MSEs' Products Marketing
Beneficiary Training Department	(i) Marketing Courses, (ii) Technical Courses, (iii) Seminars and Workshops

Note) Marketing Department and Beneficiary Training Department were established in 2004.

While SEDO and MMG establish the demarcation line for providing non-financial services of each Group being drawn whether the services are provided to pre-loan clients or post-loan clients. Services to pre-loan clients are provided by SEDO and to post-loan clients by MMG.

SEDO establishes its strategy that specifies target indicators of the organization as; (i) the number of enterprises supported: about 28,000 small enterprises, (ii) number of additional jobs created: about 80,000 jobs; (iii) minimum percentage of loans provided to female owned enterprises: minimum 25%. In planning phase of the annual budget, SEDO quantifies the targeted number of jobs to be created into the total funds required for lending. SEDO considers relevant parameters derived from the field monitoring and various studies conducted such as job assessment studies, impact assessments, random surveys, etc. in obtaining the average amount needed for the creation of a job opportunity and uses this amount when budgeting the total funds required. After confirming the availability of funds, target amounts of lending are allocated to Regional Offices in each Governorate. A participatory approach is taken by SEDO in which it invites intermediary banks, third party organizations for expressing opinions about financing needs, in addition to the participation by Regional Office in the process. Specific annual targets assigned to the group of Regional Offices within each Governorate with regard to the lending activities are: (i) total amount of disbursement, (ii) number of enterprise financed, and (iii) number of jobs created.

In establishing an annual business plan for non-financial services provided by SEDO, Regional Offices are instructed to produce the number of feasibility studies or business plans necessary to produce the target number of enterprises. On the other hand, for the provision of non-financial services by MMG, business targets of service deliveries are planned based on the target client sectors such as industrial and other relevant sectors selected from SEDO clients. MMG also provides its non-financial services to non-clients of SEDO. Regional Offices are assigned on quarterly basis with the targets to achieve such as the number of technical audits, the number of small and micro enterprises participating into specific marketing channels, the number of export entrepreneurs, seminar participants, exhibitions, etc.

Moving to the actual performance of lending activities, the summary of the major performance indicators of activities is shown in the following Table 1.4.2.

Table 1.4.2 Performance in Lending Service

		1998	1999	2000	2001	2002	2003
No. of Loans	Planned	n.a.	n.a.	34,583	31,250	22,000	16,154
	Actual	13,845	15,730	37,265	26,380	14,429	9,870
Amount of Loans (LE million)	Planned	n.a.	n.a.	830.0	750.0	550.0	420.0
	Actual	323.6	374.9	723.6	604.6	351.1	248.8
Jobs Created	Planned	n.a.	n.a.	118,571	107,143	78,571	42,000
	Actual (1)	60,094	69,627	134,386	112,291	65,206	37,686
	Full Time	46,226	53,559	103,374	86,378	50,158	28,989
	Temporary (2)	13,868	16,068	31,012	25,913	15,047	8,697
Average Amount of Loans (LE)	Planned	n.a.	n.a.	24,000	24,000	25,000	26,000
	Actual	23,372	23,834	19,418	22,924	24,333	25,204
Amount of Loan/ Job Created (LE)	Planned	n.a.	n.a.	7,000	7,000	7,000	10,000
	Actual	5,385	5,385	5,385	5,385	5,385	6,601
	Full Time	7,000	7,000	7,000	7,000	7,000	8,581
	Temporary (2)	0	0	0	0	0	0
Jobs Created/No. of Loans	Planned	n.a.	n.a.	3.4	3.4	3.6	2.6
	Actual	4.3	4.4	3.6	4.3	4.5	3.8

Note(1) Numbers quoted for years 1998 and 1999 do not tally with the ones referred to in MDRM Report 2000 which reported the number of jobs created as 30,691 in 1998 and 33,651 in 1999 including temporary jobs.
(2) SEDO has a long standing practice of counting temporary jobs as 30% of the full time jobs. In calculating the full time equivalent of temporary jobs, SEDO counts three temporary jobs are equal to one full time job.
Source) SEDO, Credit and Finance Sector as retrieved from the current MIS system.

The number of loans and amount of loans disbursed by SEDO has fallen from a peak in 2000 of 37,265 loans (amount of disbursement LE 724 million) to a low in 2003 of 9,870 loans (amount of disbursement LE 249 million). This setback of activities is understood, based on the findings of Impact Assessment Study and hearings conducted by the Mission at Regional Offices and intermediary banks, to be mainly due to reasons such as; (i) economic recession of 2002 and 2003; (ii) restructuring of banks triggering the tightening of the credit policy; (iii) vulnerability of SMEs to economic fluctuation causing hesitation from investment; (iv) shortening of lending term of working funds from five to three years; (v) prolonged negotiation with financial intermediaries for introduction of new financing scheme based on the credit guarantee by Cooperative Insurance Society; (vi) suspension of incentives given to bank staff.

SEDO also monitors its lending programme closely through other indicators of the amount disbursed to; (i) types of enterprises, whether they are new or existing; (ii) size of enterprises classified into three Tiers (an additional Tier has been created for LE 500,000-1,000,000 starting in 2004); (iii) economic sectors of enterprises; (iv) type of job opportunities created, whether they are full time or temporary; (v) percentage lent to female owned enterprises. Actual performance against such indicators is shown in the Table 1.4.3 below.

Table 1.4.3 Performance of Other Indicators (Disbursement)

		Target (2003)	1998	1999	2000	2001	2002	2003
Type of Enterprise	New	50%	77.7%	73.0%	75.1%	71.4%	64.7%	66.4%
	Existing	50%	22.3%	27.0%	24.9%	28.6%	35.3%	33.7%
Size of Enterprise	Tier I: <LE50,000	40%	84.6%	80.5%	81.2%	78.3%	82.0%	81.6%
	Tier II: LE50,000-200,000	50%	14.6%	17.4%	15.0%	17.2%	16.0%	17.6%
	Tier III: LE200,000-500,000	10%	0.8%	2.1%	3.8%	4.5%	2.0%	0.7%
Type of Job Created	Full Time		46,226	53,559	103,374	86,378	50,158	28,989
	Temporary		13,868	16,068	31,012	25,913	15,047	8,697
Percentage of Loan to Female Owned Enterprise		30%	28.9%	32.3%	24.8%	27.9%	31.8%	33.1%

Source) SEDO, Credit and Finance Sector

The above Table indicates that, while SEDO plans to allocate funds evenly between the new and the existing enterprises as evidenced in the target for 2003, actual performance shows the loans going to new enterprises are outweighing the one to the existing enterprises, though the percentage for the new enterprises shows signs of decline. As to the size of the enterprises receiving loans, SEDO's target of allocating 40% to the smallest category (Tier I) and 50% to medium category (Tier II) are far outweighed by the loans given to the smallest category (Tier I), leaving actual distribution of 82% for Tier I and 18% for Tier II. The percentage of the loans received by female owned enterprises shows an average of 30% during past six years.

On the other hand, the performance of non-financial services provided by MMG when the Group was still a part of SEDO can be summarized by the number of beneficiaries receiving the services as follows;

Table 1.4.4 Performance of Non-Financial Services by MMG (under SEDO) (No. of Beneficiaries)

Department	Activity	2001	2002	2003
Development & Quality Department	Technical Training	474	409	549
	Administrative Training	312	392	343
	Seminar	732	1,267	1,831
	Exhibition	22	76	77
	Consulting	388	659	709
	Information	672	1,199	1,260
	Export Opportunity	12	20	21
	International Consulting	-	9	6
	Feasibility Studies and Project Profiles	11	9	14
	Prototype Design and Manufacturing	1	3	5
	Quality Testing	-	15	40
	CAD Design	60	70	80
	Technical Auditing	365	628	771
Exhibition Department	National Exhibition	937	609	635
	Regional Exhibition	296	153	210
	International Exhibition	142	43	66
Incubator Development Department	Incubation Projects	67	130	153
E-Commerce Department	MSEs' Products on Website	-	-	1,200
Total		4,491	5,691	7,970

Note) MMG used to be a part of SEDO up until its separation from SEDO in July 2004. Feasibility Studies and Project Profiles are counted in the number of studies done.
Source) MMG

The financial aspects of the above performances of financial and non-financial services are translated into the summary performance stated in the Table 1.4.5 below. Despite the decline in the amount of loans disbursed, the outstanding balance of loans has increased 27% from LE 1,472 million in 2000 to LE 1,876 million in 2003. During the same period, interest income from loans rose 33%, while administrative expenses fluctuated and eventually decreased by 24%. The average gross margin of interests received and paid is 3.8% of the average outstanding balance of loans, whereas that of administrative costs is 0.8% and foreign exchange loss is 4.6%. The administrative cost is well covered by the interest margin but foreign exchange losses are responsible for resulting deficits. Measures taken by SEDO to increase the volume of loans are having a positive impact in 2004 and SEDO hopes to reach again the level achieved in 2001 by next year.

Table 1.4.5 Financial Performance of SEDO
(LE million)

	2000	2001	2002	2003	Average
Outstanding Balance of Loans	1,471.9	1,893.3	1,899.1	1,875.7	1,785.0
Average Balance of Loans (1)	1,193.3	1,782.9	1,894.2	1,887.4	1,689.5
Interest Received	116.0	88.6	95.4	113.3	103.3
Interest on Loans	71.8	88.1	94.2	95.4	87.4
Interest on Deposits	44.1	0.5	1.1	17.9	15.9
Interest Paid	5.0	32.1	85.1	34.8	39.3
Gross Interest Margin (2)	111.0 (9.3%)	56.5 (3.2%)	10.3 (0.5%)	78.5 (4.2%)	64.0 (3.8%)
Administrative Expenses (3)	16.4 (1.3%)	18.6 (1.0%)	8.9 (0.5%)	12.5 (0.7%)	14.1 (0.8%)
Foreign Currency Loss	18.8 (1.6%)	188.2 (10.6%)	10.0 (0.5%)	97.1 (5.1%)	78.5 (4.6%)
Net Profit for the Year	367.7	- 139.1	- 14.1	- 35.5	13.1

Note (1) Average Balances of Loans are calculated by the Mission as the average between the opening and ending balances for the year. Percentage numbers in parentheses represent the percent against the average balance of loan.
(2) Gross Interest Margin is the difference between the interest received (loan plus deposits) and interest paid.
(3) Items appearing under "General Secretariat Expenses" in the financial statements
Source) SFD, Audited Financial Statements

It should be noted in relation to the above figures that the accounting method of SEDO is the cash based, and the accrual based accounting will start as of 2005. Therefore the costs recognized for each year fluctuate and do not represent a consistent trend, and it is of less value to calculate the annual changes of the ratio of overhead cost against outstanding portfolio. However, if we calculate the average ratio for the past four years, we obtain a representative figure of 0.8%, which the Mission considers to be acceptable. The only reservation is that in order for this ratio to be fully representative it should also include the administrative costs incurred for SEDO at SFD's Headquarter and Regional Offices, but these figures are not yet available.

Recommendation: SFD/SEDO should implement a cost accounting system that will allow the management of SFD/SEDO to effectively control and manage the operational cost and the cost efficiency of its operations.

These activities of SEDO's lending programme are supported by external donors on whom SEDO relies for approximately 30% of its total funding requirements during Phase II. Donor assistances are provided in a diversity of types; grant, untied loans, tied loans and in-kind loans. Donors place different terms and conditions onto the assistances they provide such as; (i) target locations of end-beneficiaries; (ii) target size of entrepreneurs; (iii) limited usage of funds; (iv) maximum and/or minimum amount of loans to end-beneficiaries; (v) rate of interest to be applied to end-beneficiaries; (vi) stricter procurement methods and eligibility of equipment to be acquired; (vii) stricter application of revolving funds; (viii) donor specific monitoring and reporting requirements; etc. SEDO faces a dilemma in which while it accepts those donor specific terms and conditions in raising funds, it has to meet the needs of end-beneficiaries that fall into the category and conditions SEDO is committed to offer. This leads to the situation in which, while SEDO allocates any donor funds accompanying donor specific conditions to certain financial intermediary, SEDO has to provide the same financial intermediary or at least to a second intermediary bank within the same governorate with the second credit to cover up the end-beneficiaries that meet SEDO criteria but does not satisfy the donor specific conditions. In addition, different requirements of donors for monitoring and reporting are placing additional burden on SEDO which could better be avoided. MDRM Report 2000 has noted the point. SEDO should work with external donors to synchronize external assistances into its regular plans, budget, implementation processes and procedures, including its reporting and evaluation programmes.

1.4.2 Organizational Set-up for Implementation

Organization of SFD, SEDO and MMG has been undergoing continuous changes, which entail organizational restructuring not only at their Headquarters but at Regional Offices. Local presence of SFD, SEDO and MMG are represented by Regional Offices which are assigned with a diversity of functionalities and targets. Each of the Regional Offices has Units that are separately dedicated to the core business Groups of SEDO, HCDG and MMG. Regional Offices report administrative matters to Regional Office Coordinator of SFD, while technical matters concerning business activities are reported to each core Group's Headquarters directly. Relationship between SEDO's Headquarter and Regional Office is acknowledged to be close and communication does not seem to be a problem. SEDO Units of Regional Offices are staffed with an Area Executives and Field Officers whose number counts more than 200 in total.

In respect of the SEDO's lending activities, the tasks borne by Regional Offices are immense ranging from the promotion of publicity and awareness of entrepreneurship, promotion of relationship with governorate and local community, increasing local presence, studying the needs of local community, etc. in addition to the normal course and events of businesses of assisting entrepreneurs in preparation, start-up and implementation of their businesses. Out of the diversity of the tasks assigned, typical areas of work where Field Officers spend most of their time and exerting efforts are recognized as; (i) preparation of feasibility studies and business plans; (ii) marketing of financial and non-financial services; (iii) follow-up of banks' processing loan applications and disbursements; and (iv) monitoring of end-beneficiaries' project implementation.

Due to their own restructuring of credit policies and efficiency improving efforts, intermediary banks are acknowledged to be increasing their reliance on SEDO for the promotion of SEDO lending programme. To cope with such situation, further enhancement of efficiency on SEDO's part becomes necessary. Improvement of efficiency in SEDO operation will depend much upon the further capacity development of Field Officer, the officers in charge, at Regional Office for enhancing their capability of identifying the best qualified entrepreneurs and preparation of bankable quality of feasibility studies as well as business plans are deemed to be imperative. SEDO has launched lately the capacity building plan of Field Officers based on the training needs assessment conducted. Capacity building is the never ending efforts that require repeated updating and implementation. Strategic skill development programme of Field Officers should be continuously updated, amplified and implemented.

Intermediary banks are increasing their reliance on SEDO for implementation of SEDO Programme, while SEDO is already undertaking various functions that should properly be carried out by financial intermediaries. Some of the functions should reasonably be performed by intermediary banks and, therefore, there is a real and persistent need that the capacity of intermediary banks should be strengthened and awareness of the intermediary banks are to be invigorated. While SEDO currently conducts a series of seminars and awareness campaigns purported to enhance the capacity of financial intermediaries, it lacks the systematic and products oriented training course for the staff of financial intermediaries. The extent of learning is still limited and there exists a legitimate need to strengthen their capability so as to let intermediary banks to take over the functions performed by SEDO as their own responsibilities. In adopting its latest credit strategy, SEDO has recently established the plan to renew and implement technical support programme to financial intermediaries. SEDO is in need to review its programme for capacity development of financial intermediaries and to direct the intermediaries for improvement of their management and operation concerning the implementation of SEDO Programme.

Recommendation: Capacity building of Field Officers needs continuous efforts. The strategic skills development programme of Field Officers should be reviewed, updated and augmented. Programme for capacity development of financial intermediaries need to be reviewed and strengthened.

SEDO has developed during the late 1990s its MIS system called "CEQOMA" to follow up its lending operations. The system allowed the monitoring of efficiency indicators such as the ratio of loan applications accepted versus the number of feasibility studies made and loan processing time. However, after the restructuring of SFD/SEDO in 2001 and 2002, the system was not used systematically any more by the Regional Offices and therefore the information became fragmentary. Since the functionalities of the CEQOMA system are now being integrated into the new MIS system, it is expected that new MIS will again provide the necessary information for effective management control.

Recommendation: SEDO should make sure the new MIS system effectively includes the functionalities of CEQOMA and should then further improve these functionalities for efficient monitoring of operations.

Under the current reorganization process of SEDO, One-Stop-Shops and Integrated Finance Centres are set up to help entrepreneurs with start-up businesses. SEDO plans to establish the SME Service Units, or "One-Stop-Shop Centre" in each governorate through which the entrepreneur could clear the regulatory requirement within the prescribed short time limit, while, on the other hand, to expand Integrated Finance Centres from existing six to establish one for every governorate where representatives of SEDO, intermediary banks and Cooperative Insurance Society share an office and process the loan applications submitted by the enterprises for approval within a limited number of days of submission. These units should improve customer satisfaction and efficiency.

1.4.3 Synergies with Other SFD Programme

Among different Programmes of SFD, there are certain areas in which closer coordination among the Programmes concerned would generate a synergy effect which would enhance the efficiency of those Programmes. One of such areas for potential coordination is found in the training courses offered to entrepreneurs. As of date, SEDO and MMG are providing training courses to clients as a part of non-financial services. The courses run by MMG through its Beneficiary Training Department targets entrepreneurs and the one run by SEDO is provided

through Training Centers and Clusters Department to the potential clients of SEDO for the basic skills for entrepreneurship to be conducted at the vicinity of entrepreneurs' location. Similar training programme exists under HRDP. Considering the fact that those training courses are designed all for entrepreneurship out of unemployed youth, and that those courses are being implemented similar approaches in resorting to either through the contracts with third party organization or though in-house training mobilizing the in-house trained trainers, those training functions would be performed more effectively, by fully coordinating among the parties concerned. Further steps for rationalizing those training functions for entrepreneurship should be considered so as to enhance the efficiency and effectiveness of the non-financial services.
.

Recommendation: Training programmes of different Groups in SFD need to be coordinated and the training of entrepreneurs should be further rationalized.

1.5 Effectiveness

1.5.1 SEDO's Loan Portfolio

The exposure of the majority of SEDO's portfolio (97%) is with banks and has no arrears. SEDO has also a small volume of loans (3% of its portfolio) to non-bank financial intermediaries (third party organization: which also applies to the rest of the chapter) that present some arrears. The arrear ratio of the on-lent funds in these cases stands at 50% of the portfolio.

What is of more importance is that the loan portfolios of the intermediary banks to their end-beneficiaries continue to be in need of serious attention. The Table 1.5.1 indicates that the percentage of arrears out of the total amount due as of December 31, 2003 was 15.4% showing the negative improvement of the portfolio quality by 2.7% from 12.7% which the MDRM Report 2000 reported as of September 30, 1999.

Table 1.5.1 Loan Portfolio Quality (as of Dec 31, 2003)
(LE million)

	Outstanding Balance	Loans in Grace	Loans out of Grace	Total Arrears	Arrear/ Loans out of Grace	Arrear/Loans out of Grace (MDRM 2000)
National Bank of Egypt	476.1	41.5	434.6	58.8	13.5%	14.7%
Bank of Alexandria	73.3	2.1	71.3	26.2	36.8%	16.4%
Banque Misr	73.6	1.2	72.3	24.5	33.9%	21.3%
Banque du Caire	58.3	0.4	57.9	15.2	26.3%	19.7%
PBDAC	746.6	234.0	512.6	35.5	6.9%	7.6%
Other Banks	68.3	0.6	67.8	26.8	39.5%	n.a.
Total	1,496.2	279.8	1,216.4	187.1	15.4%	12.7%

Source) SEDO, Loan Portfolio Quality Dept

While arrear ratios show small improvements at National Bank of Egypt and PBDAC from MDRM 2000, other banks are showing negative improvements. The levels of arrears of those banks other than the two are absolutely at critical ones and serious workout efforts should be carried out. An important point to be noted is that the figures are based on the actual arrears recognized by the banks. International practice for risk management of loan portfolio however requires banks to classify loan portfolio on Portfolio-At-Risk (PAR) basis. Should the PAR basis be adopted, then the above figure could be much higher. The Central Bank of Egypt (CBE) is now considering and moving towards the adoption of the PAR based risk management for all banks in its regulatory guidelines; this would result in a better control of the loan portfolio quality both at financial intermediaries and at SEDO. This issue of PAR is also a matter of concern to CIS whose credit risk management relies upon the loan portfolio quality reported by banks and, therefore, is substantially weakened by the banks' practice of not following the PAR based approach. Another related problem is that there are still about 10% of the banks' branches that fail to meet reporting requirements and this adds to the problem of controlling the loan portfolio quality at SEDO and at CIS. Immediate action is required in this respect.

Out of the total portfolio of SEDO, 3% of the portfolio is composed of loans provided to non-bank financial intermediaries. Among the non-bank financial intermediaries, some of the intermediaries are not meeting the debt service obligations. SEDO has taken measures to prevent recurrence of non-performing loans in its portfolio to non-financial intermediaries. Such measures include; (i) enforcement of rigid scrutiny into the capability of non-financial intermediaries at the time of individual project appraisal by the credit committee of SEDO and the senior credit committee of SFD; (ii) incorporation of a tranche disbursement mechanism into individual contract specifying that the second and successive transfers shall be made only after official audit is conducted by the auditor of SFD on actual utilization of prior transfer.

SEDO requires financial intermediaries to submit; (i) monthly report containing basic information of individual loans and their status; (ii) quarterly report describing the quality of portfolio. Both reports are submitted at branch levels of the financial intermediaries to Regional Office of SEDO, while at headquarter level, summarized report covering the total of the financial intermediary is submitted to SEDO's Headquarter. Since no proofing mechanism of the data reported is put in place, the reports accompany errors and omissions and are not 100% reliable. What needs more attention is that there exist many cases that financial intermediaries do not submit those reports required. The Department in charge at SEDO estimates the current level of collection of the reports as not less than 90%, or probably at around 93%. The Department is taking measures to increase the coverage in attaining 100% by the end of 2004.

Recommendation: The selection and reviewing process and the criteria for contracting third party institutions as sponsoring agencies should be reviewed and made more restrictive.

Recommendation: SEDO should urge its intermediaries to launch an all-out effort to reduce the arrears. SEDO should also enforce the reporting obligations of intermediaries.

1.5.2 Capacity Building of Third Party Organization

SEDO provides, through its Business Development Department, "IB Supported" scheme under which it mobilizes third party organizations to develop and implement standardized credit packages of specific projects, either of national scale or of local area development. Third party organizations include more than 120 NGOs, men/women business associations, cooperatives, universities and private sector entities. Success of the scheme, to a large extent, depends upon the capability of third party organization for developing promising projects with innovative ideas. In order for the scheme to be effective in reaching the target group, the third party organization needs to have an extensive network covering SEDO's target areas. In addition such organization is expected to create projects with creative ideas that best fit to the target group and the market of relevancy. In this respect, intermediaries such as NGOs having networks in the targeted location should be effective in delivering SEDO services, should they be capable of developing promising projects. Capacity of those organizations should be further strengthened so that the financing scheme will be effectively promoted.

The "IB Supported" scheme often provides third party organizations with grant assistance for implementing capacity building programme of the organization. Grants are provided to those institutions at certain percentages of loan disbursed and the percentages vary depending upon the type of the institutions whether may they be NGO, government agency or university. Usage of the grant is limited to; capacity building, awareness promotion, training for monitoring and bonuses. The amount provided under the scheme is approximately 10% of the loans disbursed. The Mission observes that the IB Supported scheme appears to be an effective tool in reaching the target group, therefore the Mission recommends its expansion.

Recommendation: The use of NGOs as intermediaries should be further promoted. Adequate capacity building should be included for enhancing the capability of third party institutions in efficient and effective delivery of services.

1.5.3 Delivery Mechanism

SEDO establishes in its Project Planning Matrix the overall goal as the creation of sustainable job opportunities and the generation of income, while the project purpose is defined as the jobs created through establishment, expansion and growth of small private enterprises. Target groups for its activities are defined as: (i) inhabitants of low-income communities with high poverty and unemployment indices; (ii) the unemployed, especially new graduates; (iii) women; (iv) redundant workers resulting from the privatization process. In order to achieve the overall goal, financial intermediaries are instructed to focus on the above target group in providing the lending services. Financial intermediaries having strong networks covering the targeted location and layers of the economy would have a better command of the active promotion of the Programme. Taking the Programme as a whole, financial intermediaries are selected to cover a wide area of geographical location and a variety of economic sectors sufficiently enough to cover the intended target group.

SEDO allocates funds for lending services based on several indexes such as; the poverty index of the governorate; the unemployment index; the illiteracy/education index; the human development index; the absorptive capacity in the governorate, etc. The absorptive capacity of the governorate is worked out with the contribution from the Regional Office Managers who quantify various factors such as; result of investment opportunity studies; size of contracts with financial intermediaries; funding position of the intermediaries, etc. The annual allocation of the funds and actual performance is comparatively shown in the following Table 1.5.3.

Table 1.5.3. Fund Allocation and Actual Performance
(LE million)

Region		2000	2001	2002	2003	Total
Urban Governorates	Planned	130.0 (15.7%)	120.0 (16.0%)	91.0 (16.5%)	58.0 (13.8%)	399.0 (15.6%)
	Actual	90.0 (12.4%)	82.3 (13.6%)	39.1 (11.2%)	21.2 (8.7%)	232.6 (12.1%)
Lower Egypt Gov.	Planned	384.0 (46.3%)	344.0 (45.9%)	247.0 (44.9%)	198.0 (47.1%)	1,173.0 (46.0%)
	Actual	366.2 (50.6%)	285.2 (47.1%)	165.6 (47.5%)	108.5 (44.6%)	925.5 (48.2%)
Upper Egypt Gov.	Planned	289.0 (34.8%)	264.0 (35.2%)	201.0 (36.5%)	150.0 (35.7%)	904.0 (35.5%)
	Actual	242.4 (33.5%)	221.5 (36.6%)	136.2 (39.1%)	106.8 (43.9%)	706.9 (36.8%)
Frontier Governorates	Planned	27.0 (3.3%)	22.0 (2.9%)	11.0 (2.0%)	13.0 (3.1%)	73.0 (2.9%)
	Actual	24.8 (3.4%)	16.2 (2.7%)	7.8 (2.2%)	6.6 (2.7%)	55.4 (2.9%)
Total	Planned	830.0 (100%)	750.0 (100%)	550.0 (100%)	420.0 (100%)	2,550.0 (100%)
	Actual	723.4 (100%)	605.2 (100%)	348.7 (100%)	243.2 (100%)	1,920.5 (100%)

Note) Figures in parenthesis represents geographical composition of planned and actual performance against the whole country as 100%.
Source) SEDO, Planning and Monitoring Department

The above Table allows to observe that regional distribution of funding is following a consistent composition, while a minor decrease in the share of allocation to urban governorates is observed in 2003. Actual performances of each Region vary year to year but remains within the originally allocated funds. From the above Table one may find an initial comfort in knowing that 88% of the total funds have been delivered in governorates other than the urban governorates and its share is expanding.

In promoting SEDO's lending programme, important contribution is made by Cooperative Insurance Society (CIS) through extending credit guarantees to financial intermediaries. CIS was established in 1999 under the Insurance Law and is supervised by Egyptian Insurance Authority and, therefore, has to comply with the rules and regulations administered by the authority. The number of its cooperative members are said to be about 17,000 now and its business is comprised of 30% credit insurance for SEDO lending and 70% for the other insurances. CIS is reinsured for its 80% with both local and international reinsurance entities. SEDO and financial intermediaries engaged in the negotiation in early 2004 to revamp the credit guaranteeing scheme for SEDO lending services to address the collateral issue associated with the lending programme and augment its performance. Under the new scheme that has been agreed by all financial intermediaries, CIS guarantees payment of 80% principal owed by end-beneficiaries while SEDO takes the risk of 10% and financial intermediaries take the remaining 10%. Financial intermediaries, in accepting the revamped scheme, are instructed by SEDO not to require end-beneficiaries additional third party guarantee for their lending.

The revamped credit guarantee structure helps financial intermediaries to readjust the terms and conditions of lending concerning the collateral issues. Intermediary banks are heard to be seeing to it that the structure should be a significant help in augmenting the programme. On the other hand, excessive reliance on the credit guarantee scheme will lead to cause moral hazards among financial intermediaries. Caution is to be paid into the quality of portfolio and efforts should be targeted for its improvement. Again, the issues of recognition of loan portfolio based on PAR and intermediary banks' obligation for reporting are raised as matters of concern to CIS.

1.6 Impact

1.6.1 Findings from the Impact Assessment Study

The Impact Assessment Study executed prior to this Review Mission has concluded that more than half the end-beneficiaries of SEDO loans were classified as poor: 34% were ultra poor; 23% poor; and 43% non-poor. Other findings relate to: (i) youth: 62% of all clients were below 35 years when they received their loans; (ii) gender: 30% of all clients were female, and 68% of this group were young women; (iii) start-up: 57% of the clients are from rural areas and of which 62% are youth. The findings conclude that the SEDO Programme is having a positive impact on the poor.

With regard to the development of sustainable enterprises which SEDO is mandated, the Impact Assessment Study analyzes it in terms of the changes of the enterprises in income, employment, assets and business practices. The findings indicate the positive effect that a SEDO loan can have on start-up businesses. In respect of income, the majority of the start-up businesses experienced increases of sales and so did the existing businesses. The expansion is found to be the results of; expansion of product range or business; gaining new clients from competitors, etc. Regarding assets, SEDO's clients used loans to invest into the assets of major tools/machinery; small tools and accessories; investment into business sites; means of transportation, etc. Those investments culminated in the increase of the assets of the enterprises. More of SEDO clients reported increases in assets than the non-clients. With respect to the creation of jobs, the analysis reveals that while the start-up enterprises build up employment at the initial stage, existing businesses witness little change in labour. The latter adds only one or two workers during its lifespan. Most of the jobs created by small and micro enterprise sector are generated through start-ups. Average employment growth per start-up business was higher for SEDO clients in all sectors.

The objective of SFD is to alleviate poverty by creating employment and improving the living conditions of the poor. SEDO concentrates on job creation and therefore the number of jobs created represents the most important indicator of the impact of SEDO's activity. SEDO calculates the aggregate number of jobs created between 2000 and 2003, as approximately 350,000 in full time employment equivalent. This is a very good result, however it should be stressed that this number was obtained by applying a predetermined ratio of jobs created against the average amount of loans. The ratio is comprised of; (i) the ratio for full time job which is fixed at LE 7,000 during 1998 through 2002 and LE 8,581 in 2003, and (ii) the ratio for temporary jobs which is fixed at zero for all those years, and thereby bringing the average of full time and temporary jobs at LE 5,385 for the years between 1998 through 2002 and LE 6,601 for 2003. The Impact Assessment Study reveals that in fact there is a considerable variation in this ratio depending upon the type of end-beneficiaries. Table 1.6.1 below shows the comparison of the SEDO's record with the analyses of the Impact Assessment Study and that of MDRM 2000.

Table 1.6.1 Number and Amount of Loans versus Jobs Created

	SEDO (2000-2003)	Impact Assessment			MDRM 2000 (1997-1999)
		New	Existing	Total	
No. of Jobs Created/No. of Loan	4.0	4.1	1.0	2.6	2.2
Amount of Loan/No. of Loan (LE)	21,924			31,273	20,775
Amount of Loan/Jobs Created (LE)	5,516	7,439	33,513	11,666	9,656

Source) SEDO, Credit and Finance Sector
Impact Assessment Study for Multi Donor Group Mission II, "Impact Assessment of the Egyptian Social Fund for Development, Credit Sectoral Study" (Draft Final Report), September 2004.
MDRM Report 2000

The number of jobs created per loan is recognized by SEDO as 4.0 on an average during 2000 and 2003. SEDO's recognition on the amount of loan consumed to generate a single job stands at LE 5,385 for the period prior to 2002 and at LE 6,601 in 2003 making the average for the four years as LE 5,516 whereas the Impact Assessment Study reveals the amount of loan needed for a creation of single job is LE 7,439 for new enterprises, LE 33,513 for existing enterprises and LE 11,666 for the average of both. The Impact Assessment Study ascertains that SEDO Programme had a positive impact on job creation, creating on an average of 2.6 jobs per loan while consuming LE 11,666 per a job created. The Mission recommends that this ratio should be closely studied in order to measure the real impact but also in order to direct the efforts of SEDO towards those activities that provide most impact.

An important fact raised by the Impact Assessment Study is that the average number of new jobs in start-up businesses was significantly higher than in the existing businesses. Enterprises rarely add new workforce during their lifespan. Such fact intensifies a dilemma of both SEDO and financial intermediaries in which, while addressing the target group of SEDO requires to place more focuses on new enterprise, the other needs to improve its quality of portfolio naturally tend to focus on the experienced enterprises than the new start-ups. SEDO's policy on this point is to have an even balance between the two. The Mission considers such balancing policy is the appropriate one.

SEDO's record also shows that 66% of the total amount of loans is delivered to new enterprises while 82% of the total amount goes to micro enterprises (with a paid-up capital of less than LE 50,000 according to the new MSE Law). The findings indicate the effectiveness of the delivery mechanism that SEDO uses in reaching the target group. What is considered to be specially effective are the intermediaries such as NGOs having networks in the targeted location and they should be further promoted. In particular, the Mission observed that the IB Supported scheme appears to be an effective tool in reaching the target group, therefore the Mission recommends its strengthening and further expansion.

Recommendation: The methodology for capturing the data of jobs created should be reviewed to effectively reflect the actual performance of SEDO Programme.

1.6.2 Impact of Non-Financial Services

In addition to financial services, SEDO and MMG are also providing non-financial services. SEDO Programme establishes its competitive edge through provision of various non-financial services of SEDO and/or of MMG to end-beneficiaries. Extensive ranges and number of services have been executed by SEDO and MMG as an integral part of SEDO. While indications are that most benefits of job creation result when both services reinforce each other, it is not known what the actual impact is of each of the services separately, though financial services alone have accumulated a considerable number of impact assessments so far. While actual numbers of services provided for some of the non-financial services are recorded by SEDO and by MMG but not for all, for example, measurement of the number of the feasibility studies prepared is one of such missing cases, nor sufficient measurement of their impact have been done. Some attempts for the measurement of the impact have been made but such attempts came up with result that actual impacts are unable to be assessed due to the reason that those non-financial services started only lately and no sufficient period has elapsed for the impact to materialize. SEDO and MMG should study the impact of both financial and non-financial services allowing the provision of an optimal mix of both services to each client.

Recommendation: SEDO and MMG should effectively assess the impact of non-financial services and provide an optimal mix of both services.

1.6.3 Impact of Subsidized Interest Rates in National Financial Sector

The average commercial lending rates which are prevailing in the financial market are at about 13% p.a. while deposit rates (time deposit for three months) are about 7-8% p.a. Costs such as reserve requirement, administrative and operating cots are added to reach the internal funding cost within the banks which is said to be around 10% p.a. including the funding for the medium/long term. The magnitude of overall commercial lending throughout the country by banks is approximately LE 300 billion, compared to which that of SEDO Programme for LE 1.6 billion is negligibly small to give any material impact on lending market in general. Due to the negligible size of SEDO Programme, apparently not much impact is felt on the interest structure of the national financial sector.

Meanwhile, banks are intensifying efforts to enter the SME lending market. SME market extends beyond the ceiling limits of SEDO's lending limit. Most of the targets focused by commercial banks are said to be around the upper limit or beyond the limits of SEDO Programme. Banks found to be active in the markets are such as; National Bank of Egypt, Banque Misr, Commercial International Bank, Suez Canal Bank, etc. Those banks offer own funded lending programmes for SMEs in addition to acting as the financial intermediaries for SEDO Programme. Interest rates applied to the lending to SMEs through banks' own funding are found at the levels of 15% p.a. or more or less as of the date. SEDO's interest rate structure sets its highest at 15% p.a. for a loan to an existing enterprise with the amount exceeding LE 500,000 but not exceeding LE 1,000,000, leaving the rest of the smaller sizes within the category of subsidized interest. While the own funding programmes of banks and SEDO Programme offer similar interest rates to end-beneficiaries of the size, banks see to it that the margin allowed by SEDO for such class of clients is much less than what they could earn through their own funded programmes. Such structure of interest at the larger size of credit tends to drive banks for promoting their own funding programmes than SEDO Programme.

Banks handling own funded programmes are therefore staying to promote SEDO Programme for the smaller classes of end-beneficiaries. Banks are looking for standardizing the small credits under SEDO Programmes as a means for efficient and effective credit risk management. There exists no similar lending programme operating under government subsidized interest with exception of various donor programmes directly provided by each donor through different banks. What is observed in the market is the co-existence between banks' own funded programmes and SEDO Programme, while no direct competition between the two is particularly phenomenal. Banks are generally finding the interest margin allowed to them by SEDO Programme being too small, as its current structure gives smaller margin as the size of loans gets smaller to the contrary of the market principle.

1.7 Sustainability

SEDO repeatedly confirms the importance of both its institutional and financial sustainability. The sustainability goals of SEDO are summarized as follows:

- **Capital Maintenance:** SEDO claims to charge interest rates in excess of inflation and average costs of funds. SEDO affirms its adherence to the differentiated interest rate structure in order to particularly benefit from larger loans yielding high interest returns.

- **Cost Recovery:** SEDO has essentially one source of revenue, namely the interest margin on loans granted to financial intermediaries. Additional fee income is contemplated on non-financial services, but SEDO is clearly committed to factor in the social dimension of cost sharing mechanisms.

- **ISO 9002 Standard:** SEDO endeavours to adopt operating procedures following the ISO 9002 standard to increase the efficiency of its operations and establish a benchmark for other financial institutions. SEDO has so far not sizeably progressed this issue.

- **Competitiveness:** SEDO stated objective is to be a leading entity in the SME development market and considers following factors crucial for maintaining its comparative advantage: (1) Comprehensive regional and sectoral outreach; (2) Multifaceted organizational approach; (3) Demand driven supply of financial and non-financial services; (4) Networking with national and international SME oriented development organizations; (5) Continued and sustainable service delivery; (6) Profitability of operations.

Unfortunately SEDO does not provide a clear definition of both the institutional and financial sustainability nor does SEDO suggest a verifiable strategy on how to achieve its sustainability targets3. The actual status may be summarized as follows:

1.7.1 Financial Sustainability:

- **Continued losses**: In spite of heavily subsidized loans and grants received from donor countries and organizations SEDO has been incurring heavy consecutive losses in the past three years of a total of 188 million EGP corresponding to an equivalent erosion of capital. These losses are based on a cash accounting basis and may therefore not reflect the real financial loss of SEDO. The application of an accrual based cost accounting as of 2004 is expected to provide more transparency on SEDO's financial status.

---

[3] *Quote: „SEDO's philosophy concerning institutional and financial Sustainability: ...*
Institutional sustainability means that SEDO must develop into a self-dependant organization, which has competent managerial capabilities, adequate and well-trained human resources, technical tools and distributed delivery mechanisms in order to efficiently achieve its goals. ....
Financial sustainability means that SEDO must rely on its own financial resources. This can be achieved by applying various financial control systems such as cost effective operation schemes for cost recovery, cost/benefit and risk management and proliferate its portfolio of fee-paying services."

- **Market inadequate interest policy**: SEDO continues to adopt the differentiated interest rate approach, which is neither risk oriented nor corresponds to market levels or mechanisms nor provides sufficient performance incentives to banks. The considerable decline of SEDO disbursements during Phase II is not only attributable to the market recession but also reflects the difficulties to market the SEDO loans on the basis of their current terms and conditions (see above: 1.3. Relevance).

- **Low acceptance of non-financial services**: MMG is not attempting to reach financial self-sufficiency from the outset but nevertheless endeavours to increase the coverage ratio from 25% to 80% of the direct costs of its services. The hesitance of MMG to request full cost coverage of its non-financial services is complemented by the reluctance of SME to accept such services, if they would be committed to even marginal levels of cost sharing. This leads to the assumptions that SME do not sufficiently value these services either because these services do not achieve the desired output or because of lacking SME awareness on the necessity and usefulness of these services. Since the non-financial services constitute a major comparative advantage of SEDO, MMG needs to both secure a demand driven and qualitative service delivery and an increased public awareness of the value of its services.

- **Donor dependence and funding deficiencies**: SEDO is still far from fulfilling its target of "relying on its own financial resources" and continues to be highly dependant on cheap funding through donor grants and soft loans. SEDO is encouraged to refine its funding strategy by determining tangible objectives; action plans and budgets to secure sufficiently diversified sources of funds. In addition SEDO needs to define its policy on lending margins with regard to the refinance agreements with its partner banks and NGO in order to at least achieve break even.

- **Additional risk sharing**: In order to further enhance its lending programme SEDO meanwhile volunteered to share 10% of the intermediary's credit risk in addition to the credit risk coverage through the CIS of up to 80%. The partnering bank is hence left with a credit risk of 10% of the outstanding loan to the SME. The risk sharing of SEDO constitutes contingent liabilities, which are expected to increase considerably in line with any new SEDO loan to be granted to a SME. So far no contingent liabilities have been disclosed nor have provisions for loan losses been accounted.

- **No consistent risk management**: In addition SEDO assists partnering banks on a case-by-case basis in cleaning respective loan portfolios by sharing credit losses or aggregate rescheduling of loans. Upon agreement interest accruals would be suspended and ultimately waived. It appears that SEDO does not exercise a consistent risk management and repeatedly dilutes its market position as a 2nd tier financial institution by directly assuming the credit risk of its partnering banks.

- **Inadequate FX-risk coverage**: SFD faces a substantial foreign exchange (FX) risk due to its ongoing contracting of soft loans denominated in foreign currency. The floating of the Egyptian Pound early 2003 resulted in a substantial decrease of its value and the continued weakness of the Egyptian economy will probably add to further currency depreciations. SEDO constitutes the bulk of the assets and liabilities of SFD and therefore carries most of the currency risk, particularly since all SEDO revenues are denominated in Egyptian Pounds. SFD/SEDO are aware of the FX-risk and contemplate mitigating solutions by sharing the risk with the GoE and the donors. Unfortunately the Egyptian capital market does not offer hedging mechanisms that allow a long-term-containment of FX-risks in a commercially viable manner. Hedging options are only few and comprise an FX-risk coverage either by the

GoE or the donors. Another alternative would be to borrow in Egyptian currency from the local banking sector. In the latter case soft funds would no longer be available and SEDO would be forced to adopt a strictly commercial on-lending methodology. In this context SFD is to be commended on its intention to establish a treasury department that would assume the responsibility of the liquidity management of SFD and actively address currency, term and maturity mismatches of SFD's balance sheet. This should also have a positive impact on SEDO's exposure to the foreign currency risk.

- **Preliminary strategic planning:** SEDO has commenced efforts to develop strategy tools for a 5-year budgeting period. Ultimately it needs to develop a strategic, i.e. long-term business plan for its operations including a budget providing a forecast on its future operations and funding needs and highlighting particular areas sensitive to SEDO's financial sustainability. **SEDO has so far only partially adopted the recommendation of MDRM I to clearly define its priorities in a strategic planning process based upon lessons learnt and qualitative impact assessment.**

Recommendation: SEDO should maintain a clear status of a second tier finance organization and refrain from creating precedence by allowing ad hoc credit loss sharing arrangements for single cases: (1) It should define and adopt a consistent risk management policy. (2) It should establish a cost accounting of loan loss provisions guided by the prudential regulations of CBE.

Recommendation: SFD in conjunction with SEDO should develop and execute a FX-risk strategy to be harmonized with the donors and the GoE. Future funding contracts should include hedging mechanisms against FX-risks.

Recommendation: SEDO should continue developing its 5-year strategic budgeting tool and refine its strategy, policy, methodology and objectives for achieving its financial sustainability. SEDO's planning should be documented in a strategic business plan including a budget quantifying SEDO's pursued financial sustainability. The business plan should be discussed with the donors to secure necessary funding as well as with the partnering banks to ensure a harmonization of business policies and objectives.

1.7.2 Institutional Sustainability:

The MDRM I recommended that the transition process be finalized without delay and that efforts towards reaching sustainability be intensified based on a clear and strict timetable to be adhered to by all parties concerned. To date no time table or benchmarks have been set nor were respective responsibilities allocated to the parties concerned. Following main achievements could be recorded during Phase II:

- **Accounting:** Until 2003 SFD adopted a cash based accounting system for its whole organization including SEDO, i.e. revenues were accounted only upon receipt and costs were expensed in full during the same financial year. Therefore non-performing loans were ruled out by definition and fixed assets were not displayed on the balance sheet nor depreciations booked. As of 2004 the accounting has been changed to the accrual system, which should considerably improve the transparency on the true financial status of SFD/SEDO. The conversion will take place in accordance with Egyptian Accounting Standards, which is mostly compliant with IAS.

- **Organizational split of SEDO and MMG:** As of July 2004 all services provided by SEDO after the disbursement of the loan were split from SEDO and integrated into the Management and Marketing Group, which now reports directly to the Managing Director of SFD. This reorganization is intended to provide a clearer focus of SEDO on its apex function. SEDO will continue to provide following non-financial services: Training of potential SME borrowers and support in the preparation of necessary business plans; capacity building of banks and NGO.

The Review Team was informed on following pending issues, which are currently in process and should – if comprehensively and successfully implemented – add to the institution building of SEDO:

- **Profit Centres:** The split of SEDO and MMG is to be followed by establishing both these and the HCDP unit as separate profit centres. A profit centre concept is a commendable approach and should provide the necessary transparency on both the financial performance and the operation efficiency of each unit. For this purpose overhead costs incurring at the level of SFD administration need to be adequately allocated to the three units and a fair system of internal invoicing is necessary. For this purpose SEDO would additionally need to differentiate between its financial and non-financial services, particularly since the latter will continue to be offered for free and thus constitutes a considerable and ongoing burden on SEDO's financial result. It is to be expected that MMG will prove not to be financially sustainable because of its partial cost sharing policy. In respect of future donor assistance it is essential to know which units operate financially sustainable and to which extent cross-subsidization takes place.

- **Monitoring/LPQ:** The MIS is currently undergoing a modernization and expansion process with the financial support of the EU. The new Oracle based MIS should be of particular benefit for SEDO and provide more transparency on the structure of its loan portfolio, its development, its quality and enable a profound risk management. However, SEDO as an apex organization will continue to be dependent on the data supplied by banks. To date, SEDO does not receive information of loans at risk, as banks are apparently unable to provide these data. Instead SEDO is informed only on instalments in arrears, the total of which equalled to about 13% of the total outstanding portfolio of the partnering banks as per the end of 2003. It is evident that the ratio of loans in arrears to total outstanding loans will be different from 13% and likely to be higher. In any event it is a matter of concern, that SEDO to date has no accurate knowledge on the quality of its refinanced loan portfolio and hence cannot undertake sufficiently appropriate risk containment measures.

In this context it is equally troubling that CIS – the equity risk of which is de facto fully carried by SFD – also lacks timely information on its guaranteed portfolio. Though partnering banks are committed to monthly reporting as a prerequisite for the guarantee coverage, yet banks repeatedly delay their obligation by several months. CIS often waives this prerequisite, when banks claim the guarantee.

- **Systems and procedures:** SFD's chartered accountant remarks in his letter to the management, that the manuals of policies and procedures are not updated to reflect the current practices applied in SFD. This equally applies to SEDO: none of the SEDO/MMG departments have documented systems and procedures to qualify for an internal audit. This deficiency in turn makes it difficult to execute internal audits on the basis of clear and undisputed terms of reference regarding both project audits and organizational audits. Risk management audits have so far not taken place although definitely required in view of the abovementioned problems of the non-transparent quality of the loan portfolio and in view of SEDO's inconsistent risk management. According to the Internal Audit Department, the preparation of manuals for documented systems and procedures are under way.

- **Prudential lending limits:** The allocation of SEDO funds to financial intermediaries particularly to banks does hardly reflect a risk oriented diversification strategy. PBDAC and NBE are by far the major beneficiaries followed by the other public sector banks. Arguably the current mix of banks may reflect SEDO's restriction to banks with a larger branch network for an extended outreach. But the mix may equally be interpreted as an indication of the reluctance of the other banks to increase their lending to SME on the basis of the given terms and conditions of SEDO. SEDO reports on its current consideration of prudential limits, but in any event they will not qualify to quickly mitigate the comparatively substantial exposure to PBDAC and NBE.

Irrespective of the requirement for the establishment of prudential lending limits SEDO's efforts to increase the diversification of its bank portfolio seem to have been successful. It is expected that refinance agreements with six new banks will be executed by the end of 2004.

Further to above pending matters following issues need to be highlighted in view of the institutional sustainability of SEDO.

- **Transition process: The MDRM I had recommended that in view of its special business character SEDO requires that it be given its own Board of Directors. Till then, an Advisory Board consisting of bankers, other stakeholders and experts in SME lending should play an active role in SEDO's strategic thinking and planning.** This recommendation has so far not been implemented. Instead SEDO continues to be governed by SFD's Board of Directors (chaired by the Prime Minister), the Senior Credit Committee (chaired by SFD's Managing Director; SEDO's General Manager is a member) and the Credit Committee (chaired by the General Manager of SEDO). SEDO has so far not been sufficiently transformed to an autonomous organization with its own qualified corporate governance.

- **Corruption:** This rather international phenomenon needs also to be addressed within the Egyptian context. Allegedly some credit officer demand commissions from borrowers of up to 20% of the required loan in order to successfully process the loan request. SME borrowers would be penalized twice, as they are too weak to fend off corruption and suffer particularly from the additional cost burden. The cost of corruption outbalances the subsidized SEDO lending terms by far. SEDO established a complaint office to deal with SME that were refused in spite of having fulfilled all necessary loan conditions. This office serves only a consideration on a case by case basis. Yet it appears necessary to shed a more comprehensive light on this issue and encourage banks to strengthen their corporate governance to prevent corruption.

Recommendation: In view of the major size of SEDO's operations in comparison to the other parts of SFD and its ongoing dependence on donor funding it is crucial to ensure a transparent corporate governance of its institution building including the establishment of governing bodies and the definition of clear affirmative and negative covenants of each. In addition SFD/SEDO is again recommended to continue strengthening the autonomy of SEDO and establish its own Board of Directors.

1.7.3 Sustainability of SEDO's Impact

Above remarks focus on internal institutional matters of SEDO. It is equally necessary to consider the sustainability of SEDO's external relationships. SEDO is a hybrid organization that pursues financial and social objectives in collaboration with very different parties comprising the GoE, donors, financial intermediaries and SME, each of them having its own, partly contradicting goals. The sustainability of SEDO as a second tier finance organization will ultimately be achieved, if SEDO manages to establish itself as an integral part of the Egyptian finance sector, which (1) matured to a financially and institutionally autonomous organization; and which (2) provides refinance facilities in a manner supportive to market mechanisms and (3) encourages financial intermediaries to commercially capitalize on the loan demand potential of SME – even without subsidized funding.
The subsidized and hence non-sustainable lending policy of SEDO including the market-inadequate differentiated interest structure does not support a sustainable integration of SEDO in the finance sector:

- The experienced reluctance of banks – with the exception of NBE and PBDAC – to tangibly call on more SEDO loans deprives SEDO from high refinance volumes to secure a revenue base sufficient for SEDO's future growth.

- The credit schemes to SME established by SEDO are not likely to sustain, once SEDO' refinance facilities to the banks dry out and once the CIS guarantee coverage would no longer be available. This lack of ownership by the banks is evident.

- The credit guarantee scheme of CIS is a source of particular concern: whilst the provision of a nearly full credit risk coverage is likely to significantly support the growth of a SEDO refinanced loan portfolio, yet on long run its impact on cultivating a commercial SME oriented lending environment within the banks is likely to be adverse. The CIS guarantee tempts banks to continue lending to SME for as long as this kind of collateral is available. Banks are likely to maintain their collateral based lending approach and will just substitute pledges or mortgages by a CIS guarantee – in addition to the direct risk coverage by SEDO.

The idea of providing a guarantee undoubtedly provides a tangible incentive to banks to engage in SME lending. But the danger of the CIS concept is in its coverage of the major risk over <u>the full duration</u> of the loan. Banks are not additionally encouraged to adapt their institution and capacity building for a more cash flow oriented lending methodology, which has worldwide proven to be more conducive to sustainable SME lending. In turn, the ownership of banks of SME credit schemes will not be achieved. The CIS policy should therefore be modified to a scaling down guarantee concept combined with a systematic technical assistance to banks to downscale their institution building to SME lending.

The impact assessment in preparation of the MDRM confirmed the positive impact of the SEDO operations on the creation of jobs. The sustainability of these jobs is subject to the positive development of the SME concerned, which also preconditions their continued, quick and non-complicated access to loans – the level of the interest rate would usually be considered less relevant. The sustainability of the jobs created is therefore linked to the sustainability of SEDO or to the preparedness of the financial intermediaries to continue servicing the SME even in absence of SEDO funding. The latter requires a clearly commercial approach to SME lending, which so far has not been executed by SEDO. On the long run SEDO's market inadequate approach contains the risk of backfiring against the SME and hence against SFD's overall objective of poverty alleviation and job creation.

MMG never considered to offer its business services on a full cost recovery – not to speak of a profitable – basis. The added value of MMG's services is beyond doubt, yet its sustainability will also in future be dependant on heavy subsidization.

Recommendation: The CIS policy should be modified to a scaling down guarantee concept combined with a systematic technical assistance to banks to downscale their institution building to SME lending.

1.7.4 Impact of the New SME Law on SEDO's Sustainability

The New SME Law supported by its Executive Regulations have undoubtedly manifested SFD as Egypt's principle agency for SME development and provided SFD with additional powers in relation to the other government authorities but also increases its responsibility towards the SME, the banks and the donors.

The Law provides a legal basis for substantially expanding the particular role, power and influence of SFD and hence significantly contributes to the further sustainability of SFD and hence SEDO. Expectations are high particularly regarding SFD's ability to facilitate business registrations of SME as well as their preferential access to public facilities and to financial and non-financial services. In turn SFD runs the risk of losing credibility if expectations are not adequately met and frustrations increasingly caused. The ambiguity of SFD's business partners (government, donors, financial intermediaries, SME) makes it particularly difficult to sufficiently fulfil both its financial and social targets in a manner satisfactory to all parties concerned. Whilst the new Law clearly contributes to the legal sustainability of SFD/SEDO, yet its material sustainability comprising both the abovementioned financial and institutional components will be dependant on the ability of SFD/SEDO to establish itself as an autonomous organization with a transparent and prudent corporate governance providing services in a cost efficient and market oriented manner.

The Law may be regarded as an integral part of SFD's resp. SEDO's corporate policy. As the Executive Regulations were just recently finalized, SEDO only lately commenced its strategic planning process on how to accommodate to the New SME Law including the definition of relevant priorities, objectives, policies and action plans. Verifiable objectives need to be defined and necessary prerequisites need to be determined. SEDO is highly recommended to involve donors and financial intermediaries in this process in order to secure their long-term commitment to a mutual objective.

In the absence of a finalized SEDO strategy on the implementation the New SME Law following issues need to be highlighted:

- Whilst the New SME Law only stipulated the provision of loans "feasible" to SME, Article 5 of the Executive Regulations further clarified this issue by authorizing SFD to provide soft loans to SME and in addition cater for a sufficient guarantee coverage mechanism. It still remains unclear, whether SFD is now entirely restricted to soft lending or whether soft lending to SME would be just one of its components. In any case it is unfortunate, that the New Law including the Executive Regulations now manifest a continued delivery of loans to SME in a manner not conducive to market mechanisms and hence not supportive of its long-term sustainability.

- With regard to the guarantee mechanisms it is equally unfortunate, that the executive regulations do not advocate a separation of the sources of loans and guarantees. De facto SFD/SEDO would guarantee its own loans and hence could provide its loans on a non-recourse basis from the outset. The New Law does not encourage the sustainability of SFD/SEDO in this concern.

- In the light of the New SME Law SEDO intends to engage in direct SME lending and commence with a pilot project in Cairo. The pilot project – and any other project to follow – is also intended to serve as a demonstration model for banks confirming the commercial viability of servicing SME. Experience of finance institutions specialized on micro and small enterprises in other countries – particularly in East Europe and the NIS – provides encouraging examples in this concern. The market potential in Egypt undoubtedly offers a substantial basis for a successful pilot project.

On the other hand SEDO has neither the institutional set up nor the staff capacity to commence direct lending in a best practice manner. But SEDO cannot afford its direct lending initiative to fail, as this would manifest the banking sector's perception on the non-eligibility of SME for commercial lending. SEDO is therefore sincerely advised to carefully consider its direct lending approach and cater for sufficient institution and capacity building. In this context SEDO should take into account the lessons learnt from previous experiences and particularly adopt the main success factors, which are summarized as follows:

- Establishment as fully licensed banks in order to offer the SME customers a broad range of banking services whilst simultaneously securing funding requirements through saving mobilization.
- Adoption of a clear commercial approach including a risk oriented conduct of business and a market oriented service delivery.
- A state of the art corporate governance, including an adequate MIS and clearly defined systems and procedures.
- Initial provision of technical assistance from internationally qualified banks management consulting companies.

Recommendation: SEDO should continue it's strategic planning process and define its priorities, objectives, policies and action plans in view of the New SME Law. SEDO is recommended to comprehensively involve donors and financial intermediaries in this process in order to secure their long-term commitment to a mutual objective.

Recommendation: SEDO should carefully consider its direct lending approach and secure sufficient institution and capacity building for this purpose. It is particularly advised to bank on the experience and success factors of similar projects in other countries.

2 The Human and Community development Group (HCDG)

2.1 Community Development Programme (CDP)

2.1.1. Introduction and Background

As of two years ago, CDP has become incorporated together with PWP into one of the four new groups which constitute SFD, the *Human and Community Development Group (HCDG)*. This restructuring is an important step towards greater integration between the two portfolios, and in SFD's direction towards *Local Area Development (LAD)*, an integrated approach currently under development, and which will focus on particularly needy geographic areas. LAD remains a very broad framework in the very early conceptualisation stage. Population activities also are no longer managed from the separate unit that existed for some time, and are now managed along with other social development activities under CDP. As of October 2004, the micro-finance portfolio has been moved from CDP, and is now established as a separate Sector within HCDG.

CDP accounts for a total staff of 107: 17[4] work from the Cairo headquarters, and 90 are distributed over the regional offices. The first line under the CDP Manager are four team leaders, each of whom is responsible for one of the social development sectors of:

1. Health and population
2. Education
3. Environment
4. NGO capacity building and integrated projects

In addition to their sectoral responsibility, each Team Leader manages one or more of SFD's Project Agreements with the different donors.

The CDP regional staff includes some of those who had started their employment as Field Workers hired on a limited, usually one-year contract, and who have now been brought to the status equivalent to that of their permanent-hire CDP colleagues. Regional Offices house an average of 3 CDP staff under the oversight of a senior department head. Each of the CDP staff is responsible for a number of NGOs and/or projects. It is worth noting that the field staff in the regional offices referred to above as "CDP staff" are not fully devoted to CDP projects, but work on PWP and micro-finance projects which are now outside the purview of CDP and under the new MF Sector in HCDG.

The following are the four objectives of CDP:

1. Poverty alleviation and upgrading the living standards and quality of life of the poorest segments of the population;
2. Satisfying basic human needs;
3. Enhancing the accessibility of the poor to basic services; and
4. Increasing participation of NGOs in community development activities.

[4] Of whom 5 have been devoted to the micro-finance portfolio and will/have moved to the newly-established Micro Finance Sector within HCDG.

The main social services with which CDP is engaged are primary and reproductive health, education, and environment. Predominantly CDP will support a local community by financing activities in the above sectors through a contractual agreement with a public or community-based entity, or with both simultaneously. A typical project will provide, say, a Community Development Association (CDA)[5] with the financial resources required for a health clinic; a clinic and/or outreach activity for reproductive health services; the establishment of a child day-care centre; literacy classes; and/or set-up and equipment for village-level garbage collection and disposal; construction of septic tanks for sewage disposal. It will contribute towards employment creation through the staffing required for implementation of project activities, from a project manager to the temporary labour.

Over the life of SFD, CDP's share of investments has been modest by any standard, given the primarily social mandate of SFD. At any point in time since its inception in 1991, CDP could boast little over 17 % of the financial resources available to SFD, primarily from donors. This extremely modest portion includes the resources allocated to the Micro Finance component.

In fulfilling its mandate, CDP has an extremely wide and flexible latitude in the employment of modalities, procedures, and partners at the various levels and stages from problem identification and assessment to contracting. There are, however, two principal modalities under which the wide range of CDP interventions fall:

The first modality is the ***Central***. This modality accounts for 52% of the total amounts contracted by CDP from inception to date. Project activities are determined by agreements with a ministry or other governmental agency. The best example of this type are the health-related activities which have been implemented in adherence to SFD's agreements with MOHP within the framework of the national-level *Health Sector Reform Project* and the *Family Health Care Facilities Project*. In this case SFD has signed agreements with MOHP for a cumulative amount of LE 310 million. CDP expenditures on these and other MOHP projects has constituted over 28% of the total resources available to CDP to date. (The above figures and ratios do not include LE 40 million contracted in 2004 for joint programming by NGOs with MOHP and GALAE.)

We may call the second modality the ***Local***. These are the interventions designed by NGOs with the collaboration and direct financing of CDP. Such projects account for 46% of CDP's contracted amounts to date (26% if we exclude micro-finance activities). It is appropriate here to cite a singular example in scope and size. This is the DANIDA-supported *Technical Assistance to the Social Fund for Development (TASFD)* implemented 1997-2001. TASFD's logical framework does not pre-specify any particular social sectors. The second notable feature of TASFD is its substantive capacity building component. This component targeted both the CDP workforce and NGO staff, and included applied training in PRA approaches and methodologies. Increased local participation was set as an objective in and of itself.

[5] Of the 17,000 or so NGOs that exist today in Egypt, approximately one-third of them are community development associations (Jamm'iyat Tanmiyat Mujtama') or CDAs. Until recent changes in the law governing NGOs, the administrative set-up has been that an NGO could be registered to operate in only one or two pre-determined fields of welfare/development (care for ex-prisoners, child-care, culture, …etc.) in one or more governorates or on the national level. The other alternative was to register as a CDA serving a specific local community in all fields. The establishment of only one CDA was allowed in a community with a population of 5,000 or less.

The following is the project review cycle applied for NGOs:

1. Promotion through the regional offices of the of the objectives of SFD and framework for collaboration through several meetings each year with NGOs;
2. Some NGOs prepare and present concept papers an submit them to the regional office;
3. Regional office flags concept by CDP HQ for a "no objection";
4. Regional office informs NGO and proceeds to assist in the development of a proposal/project description;
5. Appraisal and approval by the regional office;
6. For proposals under LE 500,000, HCDG Appraisal Committee reviews and approves/disapproves/modifies, and notifies SFD Appraisal Committee;
7. For proposals over LE 500,000, SFD Appraisal Committee (headed by the Managing Director) reviews and approves/disapproves/modifies;
8. Contract agreement is then signed.

CDP also manages the "social component" of PWP, which consists of projects implemented by NGOs for an investment value equivalent to 5% of the total value of works of a PWP project. The rationale is to support the welfare and social status of community members participating and benefiting from a PWP project. PWP is the main programme with which CDP interfaces and collaborates, primarily through employing its contracting and construction management capacities for projects implemented under the auspices of CDAs which lack the requisite capacity for management of infrastructure construction. It is worth noting that in Phase I, the social component of PWP selected NGOs in a more ad-hoc manner than currently. Projects then consisted mostly of equipment purchase. By phase II, the project cycle outlined above was followed in project selection. Project appraisal was carried out by the regional office concerned, and HQ would only approve. This represents a step towards more decentralisation. More relevant projects (house connections to clean water, septic tanks, …etc.) were implemented under the social component. With the ongoing elaboration and future application of the LAD approach, more can be done (a) by allocating a greater share of PWP funds to smaller community level projects, and (b) unifying and streamlining one rationale and procedure for "PWP social component" and "CDP" projects.

Since inception and to date, CDP has contracted a total amount of LE 1.1 billion (excluding the LE 40 million contracted in 2004 for joint programming by NGOs with MOHP and GALAE). The following table provides an analysis of the share of NGOs compared to ministries and other organizations[6]:

(LE Million)

Total Amount Contracted by CDP from Inception		**Ministries and other organizations**	**Share NGOs (Including MF funds)**	**Share NGOs (Excluding MF funds)**
Phase I	338	177 (52%)	161 (48%)	111 (33%)
Phase II	769	424 (55%)	345 (45%)	177 (23%)
Total	1,107	601 (54%)	506 (46%)	288 (26%)

[6] Figures provided by CDP.

2.1.2. Review of the Recommendations of MDRM I

MDRM I Recommendations		Progress to Date
1	CDP should focus its activities more clearly on poverty reduction, making use of stronger social analysis as well as participatory processes to improve targeting, project design and implementation. Greater efforts should be made to reach the very poor and to assist them to improve their livelihoods and quality of life. Understanding the dynamics of poverty and the perceptions of the poor should inform this process.	CDP targeting the poor continues at the geographic level, but has not undergone any qualitative change. There are projects supporting NGOs dealing with needs of the disabled, but no distinct consolidated programmes or fund earmarks targeted to address the needs of specific vulnerable population segments.
2	Along with PWP, CDP has had a useful if traditional role in facilitating the provision of services to poor people. It has also improved the income-earning opportunities of the poor. CDP should now consider more thoroughly how best it could contribute to their social and political inclusion, both of which are needed for improved quality of life and long-term poverty reduction.	Through TASFD in Aswan and Qena, CDP has sustained the PRA approach and processes. HCDG efforts would achieve even greater impact by elaborating a concerted and overarching policy reorientation and realignment of human resources towards social and political inclusion of the poor.
3	Gender analysis should be used to ensure that projects maximise their ability to benefit poor women as well as poor men. Both men and women need to appreciate the importance of women having opportunities to contribute to the development process. Projects that improve the economic and social status of women make a valuable contribution to family well-being – and are a priority where female-headed households are concerned.	CDP analyses and studies indicate that women and children constitute the majority of beneficiaries of health clinics established or renovated by CDP.
4	Targeting the ultra-poor presents a challenge. Targeting and support to female-headed households, an easily identified and very poor group, should be expanded and made a priority. CDP should clearly define its role in relation to very marginalized and disadvantaged groups, such as the disabled, recognis-ing that special expertise may be needed and project sustainability precarious.	All micro-finance projects stipulate that at least 25% of beneficiaries should be women. Over 30% has been achieved. Furthermore, a number of micro-finance projects (group lending) were restricted to female-headed households.
5	CDP should increase its efforts to influence (primarily at local level) its major long-established partners, such as GALAE and PFA, in order to improve their efficiency to deliver their services. The contribution that CDP makes to local project implementation should not merely be financial, also strategic.	The credit goes to CDP in including around 500 CDAs in delivery of literacy classes. This, a first for GALAE, increased programme efficiency. Another contribution to quality has been better targeting to more needy communities for the MOHP and GALAE programmes.
6	CDP is an important actor in the field of literacy education. This provides it with a valuable opportunity to influence the GALAE programme both to increase its effectiveness in	Discernible influence in operating literacy classes by NGOs. It is hoped that this will evolve through HCDG calculated efforts into a

	teaching literacy and to use literacy as a means of empowering the individuals and communities concerned. The CDP influence should be bottom-up, drawing conclusions from operational lessons learned.	well-elaborated bottom-up, literacy-for-empowerment approach.
7	The micro-credit programme should firmly and gradually be moved to a sustainable basis...	See section on Micro-finance.
8	CDP has embarked on the process of capacity-building for local NGOs but, given their potentially important role in civil society and poverty reduction, much more is needed: CDP should scale-up and broaden its efforts. Training in participatory methods is a priority. As opportunities arise, a higher proportion of work should be channelled through NGOs, who are often better able than other players to try out new ideas. Competent NGOs should be encouraged to expand their activities and to assist with capacity-building for smaller NGOs. CDP should facilitate NGO networking and the sharing of NGO experiences with other agencies concerned.	Training and TOT in PRA, in collaboration with NGOs, is taking place in four governorates, in addition to Aswan and Qena. There is a promising potential for scaling-up efforts in this direction and for allocating greater resources to NGOs. Intensification of networking and learning between NGOs is also high-yield investment.
9	CDP has partnerships with the MOHP implementing interesting pilot projects in family and primary health. However, unless projects such as these can make a substantial contribution to the Ministry's efforts to develop a sustainable policy to provide acceptable, affordable health care to the poor they are unlikely to be a priority for SFD. CDP's 'added value' to programmes with line ministries would seem to lie in its ability to address local process issues, to facilitate stakeholder participation and to improve the appropriateness and accessibility of the services for the poor and ultra-poor.	Commitment to the elaboration and experimentation of instrumentalities for greater community ownership and governance of facilities will render services more appropriate and accessible to the poor and ultra-poor.
10	To conclude, CDP undertakes a broad range of activities. There needs to be clearer emphasis on the target population and objectives for each activity in relation to the overarching goal of poverty reduction and empowerment. CDP needs to consider the balance of its portfolio and how existing activities might evolve to build on SFD's particular strengths. Finally, CDP needs to focus on the results achieved by its activities both in order to assess how effective they are overall and also so that successful initiatives can be promoted.	A solid trend for greater focus and strategic choices may well emerge through an elaboration of the integrated LAD approach involving the pro-active participation of HCDG field workers.

2.1.3. Relevance

Objectives well address problems and real needs for *services*. The objectives suitably identify and incorporate the relevant needs for employment and access to basic social services. On the other hand, objectives and project design accord *community and civic participation* a secondary value.

The general trend has been to treat community participation only as a means to achieve the objectives of improved quality of life for the disadvantaged. In the rare occasions where "participation" is at the objective level, adequate definitional parameters and indicators have not been identified to assess and monitor progress. "Participation" is already a tricky word which has been used right and left over the last few decades. It is unlikely that a single current project in Egypt or anywhere else has failed to invoke it as a value, a development approach, a critical assumption, or even a fully-realised practice in project implementation.

CDP cannot be said to have as yet achieved its potential role as a critical change facilitator. While some projects demonstrate more than others better degrees of participation, there is no major trend or critical mass of a bias for increased civic participation. In other words, CDP does not house the *laboratory* that it should, dedicated to what is one of CDP's principal functions, namely the evolvement and refinement of the "what" and the "how" of *participation* through experiments, action-research, and continuous stock-taking.

The elevation of *broad based governance and leverage in development* from a means to an objective assumes greater significance and immediacy with the GOE policy decision that SFD be transformed from a transient safety net into a permanent institution. A permanent institution implies the mandate and responsibility for enduring results in the long-range, supplementing, if not altogether substituting, short-term measures and solutions that treat acute symptoms more than it does root-causes. One of the root causes of poverty is the non-activation of rights-based participation in the determination of problems and opportunities, courses of action and solutions by the immediately affected citizenry. Lack of channels of representation for effective governance, and the consequent weak accountability at the local level, is one of the root causes of poverty.

To simplify, the following not-so-hypothetical question should be addressed and answered:

Is not the newly established clinic really under-utilised and deteriorating (despite the felt need for its services) because it is not **governed by** ***and made*** **accountable to** ***the community it was set up to serve?***

If the answer is in the affirmative, then CDP's first business priority should be to search for and activate the means for such *governance* by the community, and for *proactive accountability* to the community at the local level by the physicians and clinic management.

Constraining political factors and bureaucratic structures are no excuse from the task: the ceiling is high enough and has not been reached for greater participation in governance at the local community level, through both formal and informal channels and processes. CDP, through enabled field practitioners, certainly has the potential to lead this transformation and assume the role of change facilitator for improved governance.

CDP has already taken some steps in this direction. A Board of Trustees to oversee 12 health centres has been put in place in Beni Suef, Minya, and Asyut. It is planned to form similar boards for a total of 60 health centres by 2005. Each Board consists of:

1. Centre Manager
2. Head Nurse
3. Centre's Social Worker
4. Two executive leaders selected by the President of the Village Council
5. Two community leaders selected by the President of the Village Council
6. Head of Health Directorate

Recommendation: That SFD consider the adoption of increased broad-based citizen representation, influence, and governance in development as a full-fledged objective of particular relevance to its Community Development Programme.

2.1.4. Efficiency

CDP's efficiency is satisfactory, given its (a) broad mission, (b) extremely wide range of operational modalities and partners, and (c) limited workforce at the regional level.

Efficiency would reach higher levels by further narrowing the gap between theory and application at several levels, from the review process and selection criteria to monitoring implementation. More frequent periodic review of tools is required. To be useful, it should rely on the feedback of the field practitioners using these tools.

The staff (or better "members") – particularly those working in the field through the regional offices – are the most valuable asset and resource which CDP possesses. SFD in general has a very high retention rate of staff. In the case of the CDP workforce, this has meant the accumulation over its lifetime of extensive experience and hands-on involvement with local communities. Such involvement has continued through the different phases, changing circumstances of operation, and the different policies of SFD. These individuals constitute the base through which CDP would be best able to discover and determine its comparative advantage, and upon which it should be able to build its future orientation in the current period of transformation and re-positioning.

CDP practitioners have extensive outreach and appear to command the confidence of client local communities in their commitment and professionalism. From encounters with some of them in three of the regional offices, one can sense their interest, if latent, to discover new ways of doing things and improving the impact of the development effort to the benefit of their clients.

The concern for standardisation is appreciated and lacks no advocates, but has come at the expense of allowing a bottom-up flow of feedback. The legitimacy of a bottom-up flow of information and experience should be confirmed. As it stands, the authority of manuals and tools far outweigh that of the first-hand experience of the "end-user" (in this case, the field practitioner). Field practitioners should gain confidence and be more empowered.

Training seems to be the only modality for staff capacity enhancement. Contracting training providers appears to be carried out more wholesale and is HQ-informed instead of being tailored for the specific group (which may be regional) at the time it needs it. In one office, only one of seven CDP workers had partaken in a training event over the last year. The other six had no training or other learning opportunity for at least one year (or perhaps much longer). None of them had travelled beyond the borders of their governorate for exchange of experience.

Recommendation: That CDP substantially increase opportunities for both informal and formal exchange and learning:
- *Between CDP field practitioners across SFD Regional Offices;*
- *From other development agencies in their own region; and*
- *From other Social Funds in other countries.*

CDP could make a quantum leap through greater validation of the individual and collective experience of its field practitioners and the legitimisation of the "field" as the authority and the reference for evolving CDP policies and procedures. A culture and space should be nurtured which promote respect of individuality, free thinking and exchange of ideas, and diversity. This is vital for a "change facilitator" such as SFD in order to counterbalance the far more predominant, if pervasive, values (within and out of SFD) of veneration of consensus; fear of censorship of unorthodox ideas; adherence to the conventional and "politically correct"; and resignation to hierarchical authority.

Daunting as this enterprise may appear, it is necessary for CDP to take the first steps in this direction. Such steps may include holding a series of brainstorming sessions restricted to practitioners of the same hierarchical level in each of the Regional Offices, or preferably combining the CDP staff of two neighbouring Offices. Such initial sessions would centre around "If anything were possible, if there were no constraints, what would we choose to do that is different from what and how we do things now?" These sessions would be designed to yield only ideas and suggestions. The only effort should be to collect (and later collate) these ideas. It would be like a live suggestion box, an exercise that is expected to prove extremely useful in capturing the salient collective experience and wisdom; constraints and bottle-necks; opportunities; and quite a few innovative approaches and solutions. For the integrity of the exercise, it would be important not to overextend the attempt to settle and formulate choices at this stage.

In the same "If anything were possible…" brainstorming approach, a second series would attempt to identify the prevailing values and select those which ought to inform the development rationale, and govern the interface of CDP practitioners with their client communities. A third series could deal with the question of "How did we acquire our knowledge and skills? What other ways of learning are there, apart from formal training?"

Recommendation: That CDP elevate the standard and scope of decentralisation and delegation, and consider for its promotion all available means including:
- *Delegation of final project approval to Regional Managers;*
- *Allocation of training budget, utilisation, and contracting to Regional Offices;*
- *Launching regional task forces composed of CDP field practitioners to review adequacy and practicality of proposal review and monitoring tools and forms, and present to management their recommendations; and*
- *Developing and institutionalising flexible channels and mechanisms for (a) bottom-up flow of lessons learned and proposed innovative approaches and working tools, and (b) timely implementation of modifications in policy and working procedures.*

2.1.5. Effectiveness

CDP projects have been reasonably effective, but the insufficient clarity vis-à-vis "participation" (see section on relevance above) has curbed achieving greater potential effectiveness. The absence of *increased broad-based citizen representation, influence, and governance in development* has relieved the need for the formulation of any distinct and binding strategy of clear choices and direction.

A distinctive feature of CDP has been its great flexibility in the selection of implementation modalities and partners. While this may have served its mission in some ways, one remains unsure whether it is a blessing or a curse. Such wide flexibility has probably been a blend of prerogative <u>and</u> an imposition. It has offered prerogative in that CDP was not obliged to develop and adhere to a specific strategy in the full sense of the word. It is also an imposition reflecting the varied and changing preferences of the different donor agencies.

Social funds are meant to be flexible to avoid rigidity. This flexibility may be used to experiment with clear alternate strategies. Flexibility that is not elaborated into clear, if tentative, strategies (a) might leave CDP at the mercy of political exigencies and variant (sometimes conflicting) programming preferences of donors; and (b) might not allow CDP to achieve its full potential in outrivaling other agencies in a clear and specific area(s) of comparative advantage. Such a strategy – that is subsequently translated into clear rules and regulations relative to whom and how funds are made available – is of paramount importance. It will enhance the credibility of CDP and reduce its vulnerability to political pressures.

SFD is currently finalising plans to establish a *Health and Population Department (HPD)* within HCDG. In this context, work is in progress to determine a new CDP vision on health and population; its mission and strategic role; purposes of the new department; a statement of principles; core functions; and an organizational structure. Partnering with, and greater reliance on resources of, NGOs is envisaged. This planning is a good example of striving for greater focus and drawing up a strategy. It will be the more commendable and useful proportionate to the degree of involvement of staff on the ground in the determination of its main features.

A permanent, enduring institution necessitates the elaboration of a clear and specific strategy that is premised on a set of specific values and envisioned SFD (and by implication CDP) identity and role of comparative advantage. Such a strategy would need to go beyond the general to the specific. It also entails the activation of mechanisms for enlisting the individual and collective knowledge, experience, and vision of staff from the broad base of field workers up through the senior management level.

Recommendation: That HCDG use a bottom-up approach involving CDP field practitioners to determinate, elaborate, and formulate CDP's overall:

- *Governing values;*
- *Identity and comparative advantage role as a change facilitator;*
- *3-5 year operational strategy with special attention to the governance objective; and*
- *Implementation parameters, simple instrumentalities, criteria, and indicators for the application of the strategy.*

The greater elaboration of CDP's values, identity/principal role, and an operational strategy as recommended above, becomes more urgent and critical if CDP adopts the objective of *broad based representation, governance, and leverage in development*. A clear and CDP-specific **definition of the value of civil society organizations** (CSOs) needs to be elaborated. Criteria for collaboration with NGOs would derive from and directly reflect these assigned values, particularly those relative to representation, governance, and innovativeness CDP needs to elaborate and vocalise its own specific (not generic) strategic principles, preferences, and biases relative to its relation as a *change facilitator* with local communities and their CSOs. These criteria would inform CDP which CSOs to collaborate with, and what values and skills to promote in weaker CSOs, primary among which is their value as proxy representatives of their communities. Such definition and criteria would be expected at its minimum to reflect the following:

- give voice, before knowledge or skills, to marginalized local communities and social groups
- advocate for the local vs. the central
- champion the innovative and experimental over the conventional and politically acceptable
- Favour appropriate technology over advanced/complex technology

Recommendation: That CDP assume as principal the mission of providing space at the lowest tier of local communities and dispossessed social groups to allow them to identify opportunities, and to initiate and own innovative solutions.

2.1.6. Impact

CDP has had a positive impact on large numbers of people spread over all the main regions of Egypt. Planned objectives have been achieved to a high degree. The *Impact Assessment* estimates that the impact of social infrastructure "is mostly positive, high or medium for all sectors."[7]

In pursuing its services-oriented objectives and high disbursement targets, CDP has allocated 54% of its funds to ministries and public agencies. Overall, SFD has made available only modest resources to NGOs, amounting to less than 17% of its total funds. Greater financing would activate the potential role and impact of NGOs. CDP should capitalise on the proper value and comparative advantage role of the civil society organizations as representative, initiator, and leader of local development.

Recommendation 6:
That CDP minimise to the extent possible its assistance to public programmes owned and designed by ministries and public agencies, and increase assistance to NGO-led community development interventions.

[7] Jacaranda Consult, *Impact Assessment of the Egyptian Social Fund for Development (SFD): Consolidated Report*. September 2004.

2.1.7. Sustainability

Access to the positive outcomes of physical infrastructure services supported by CDP will endure for a long time. This is particularly the case for projects demanded and initiated by NGOs. House water connections, septic tanks and latrines…etc., have filled a basic need and will continue to do so for a long time.

Operation and maintenance of facilities and services continue to present a challenge in the Egyptian context. CDP stipulates that income generated during the life-of-project be set aside in a separate account to cover operation and maintenance costs after project end. In contrast to PWP allocations for operation and maintenance, this is working very well. It represents a very positive policy promoted by CDP.

This principle was applied to village-level garbage collection projects funded by CDP, which projects address a critical community need. Whether the funds generated during and after life-of-project are sufficient to cover depreciation costs of tractors and trailers is questionable. Even if it does not, these projects will endure for a long time, and are justified as providing a basic need to deprived communities.

Given the secondary emphasis – compared to service provision – placed on participation and governance, the longer-term impact on the wider development process is assessed as slight. There is limited durable impact on the broad-based community ownership and management of development resources and facilities. The LAD approach represents an opportunity for elaborating a CDP-specific policy and strategy to achieve a greater impact in this area and allow sustainable participatory processes to take root in the communities where CDP works.

Recommendation: That SFD consider for CDP the comparative advantage role of incubator, advocate, and sharer of models of successful process with stakeholders from other regions, and promoter of their wider application by ministries and public agencies.

2.2 Microcredit component

2.2.1. Introduction

Along with the other activities / components of the Social Fund for Development (SFD); the role, structure, and mission, of the Microfinance Unit/ Sector is being reviewed by management in light of its new role under the recent Law 141 of 2004. Since this review is at an early stage, most of the studies/ proposals under discussion by management have not been committed to paper. Hence, there are few, formalised proposals and recommendations available for the mission to review and comment upon. Consequently, some of the findings, recommendations and proposals noted below may already be in train within SFD. Nonetheless, their inclusion within this report will help highlight their importance to the restructuring process, and will provide some guidance for their implementation.

In accordance with the Terms of Reference (TOR) for the mission, the review is structured within the log frame of Relevance, Efficiency, Effectiveness, Impact and Sustainability[8].

2.2.2. Background

SFD was created in 1991. The then aim of the institution was to create a safety net for poor and vulnerable segments of society, who could be adversely affected by the then adoption by the Government of Egypt (GoE) of the World Bank/ IMF supervised Economic Reform and Structural Adjustment Programme (ERSAP).

While originally intended to be a provider of relief, SFD's role has progressively evolved into a provider of a wide range of services to those segments of society that are considered to be "at risk".

In 2001 the vision and role of SFD was reviewed, and decision was made to transform SFD from a short term emergency fund to an institution that focuses on long term solutions. Its new mission/ strategic goal was outlined as:

"SFD, as a permanent institution and mechanism for contributing to socio-economic balancing within the strategic vision of the GoE, is committed to:

- Act as an agent of change for the betterment and development of society.
- Mobilize and optimize the use of national and international resources.
- Channel such resources into the tributaries of the national economy through socio-economic development interventions.
- Create successful, and sustainable, job opportunities through enterprise development.
- Improve living standards of "poor, under-privileged communities" through "human development" and the provision of basic services."[9]

[8] This structure also complies with the guidelines provided by the EU.
[9] Executive Summary of SFD's annual Report for 2001-2002.

SFD, together with its initial donors, was quick to recognise that microfinance could play an important role in alleviating the impact on the poorer segments of society. As a result, a microfinance programme was established soon after the founding of SFD.

Until mid 2004, the basic benchmarks of the success for the new microfinance unit (MFS) as mandated by the senior management of SFD and donors, and tracked by the Management Information System (MIS), were the number and amount of loans disbursed, the number of jobs created, the number of beneficiaries, and the number of projects assisted by the programme. Since the inception of MFS in 1992, the performance to date (August 2004) has been as follows[10]:

Job opportunities created	150.2 thousand
Total LE disbursed as loans	LE 177.7 million
Number of beneficiaries	125.3 thousand
Number of projects	125.2 thousand

For the period covered by this review, (2000-2003) the performance has been:

Job opportunities created	73.5 thousand
Total LE disbursed as loans	LE 94.8 million
Number of beneficiaries	61.2 thousand
Number of projects	61.2 thousand

The main external donors who have provided funding for phase II, either by the winding down of funding from phase I, or by introducing new funding in phase II, are as follows:

Name of Funder	*Funds Available (LE 000s)*	*Funds Disbursed (LE 000s)*	*Funds Undisbursed (LE 000s)*
Kuwait Develop Fund	26,000	26,000	0
Arab Develop Fund	90,000	33,000	57,000
UNDP (US$ 000)	1,000	900	100
AfDB	38,000	38,000	0
DANIDA	3,700	3,700	0
EU	2,700	2,700	2,700

The funding provided has been in the form of specific grants for capacity building (LE 8,000,000) with the balance for funding of loan portfolios. All of the funding provided by UNDP was in the form of a grant, while out of the total of LE 38,000,000 provided by African Development Bank (AfDB) LE 35,000,000 was a loan for on-lending purposes. The European Union (EU) funding was in the form of a grant, which was disbursed for capacity building and on-lending purposes.

In July, 2003, the EU agreed to provide LE 73 million in financing for microfinance purposes. After holding three workshops, which were attended by 38 microfinance institutions (MFIs), 24 applications for loan funding were received. Of these, 12 proposals

[10] Reports provided by the MFS.

were judged as meeting the requirements for receiving loans. As of June 30, 2004, however, no funds had been disbursed[11]

To date, the basic philosophy of the MFS has been that it is a funder of microfinance activities, and should operate as a wholesaler of financial services, rather than as a retailer. Consequently, it has disbursed both grant and loan funds to intermediaries operating in all of the 26 governorates of the country. As such, its role has been to oversee the disbursement of donor funds, and report on such distribution on a donor basis; rather than taking an overall ongoing managerial approach to the activities of the programme. This fund disbursement approach is reflected in the emphasis placed by both SFD and the donor community alike, on loan disbursement, and jobs created, as the criteria of success.

The outreach into all 26 Governorates has been achieved by operating through three types of implementers. These are

Productive Family Associations (PFAs), as sub-units of Community Development Associations (CDAs). These PFAs are financed primarily by the Kuwait Development Fund (KDF), the Arab Development Fund (ADF) and the EU.

CDAs under the umbrella of a NGO acting as an implementer, or on a stand alone basis. These mainly have been funded by the UNDP, KDF and AfDB.

The Principal Bank for Development and Agricultural Credit (PBDAC), primarily funded by AfDB.

The typical project cycle for a MFS loan to an intermediary is as follows:

(i). MFIs present their proposals to the regional office of SFD including some background data on the community, and the implementing agency.

(ii). The regional office of SFD reviews the application and supporting data.

(iii). If it is accepted by the regional office, the proposal and the last three financial statements of the MFI are forwarded to the MFS.

(iv). The MFS reviews the proposal, specifically looking at the financial statements, the experience of the MFI, and the availability of funding to MFS to support the proposal.

(v). A summary of the proposal is submitted to the Appraisal Committee within HCDG.

(vi). If approved by the Appraisal Committee of HCDG, the project summary is submitted to the Appraisal Committee of SFD.

(vii). If approved, the project document is prepared, and the contract authorized by SFD's legal advisor.

(viii). The contracts then are signed.

(ix). The contracts are forwarded to the implementing agencies and the regional office, and the MFI starts to fulfil any requirements for disbursement.

.

2.2.3. Review of the Recommendations of MDRM I

The recommendations of the MDRM I of September 2000, as they relate to the microfinance activities, and the actions taken to date, are summarized below:

[11] SFD, EU-Funded Projects, semi-annual Progress Report No. 10, January 1-June 30, 2004.

Recommendations	***Actions Taken***
The microcredit programme should be moved to a sustainable basis	There has been progress with recent donor funded projects including a margin to cover MFS's costs, although financial statements are not produced on the MFS level at this time. Recommendations have been made in this regard to reinforce sustainability.
Programmes available for graduation to SEDO	There appears to be no formal referral system. Rather, field officers at the regional offices of SFD communicate with each other. This needs to be formalised.
Creating capacity for very poor to access loans	The impact survey shows that the MFS has been successful in reaching out to the ultrapoor.
New market niches need to be explored	MFS has a clear strategic advantage with its outreach to rural areas. Programmes have been established in Upper Egypt , which previously was underserved.

2.2.4. Relevance

The Goal of the Microfinance Unit/ Sector and its Relevance to the Goals of SFD.

Until the current time, the role of the MFS has been viewed by its management as that of a disburser of funds for microfinance activities, and a provider of technical assistance to intermediaries.

In light of the recent passage of law 141 of 2004[12] and the restructuring within SFD, the role of SFD/MFS in the field of microfinance has been expanded considerably. Its future duties can briefly be summarised as follows[13]:

- Responsibility for assisting entrepreneurs in obtaining all the necessary governmental approvals within 30 days.
- Coordinate all local and foreign entity activities interesting in supporting microenterprise.
- Providing funding for small and micro businesses.
- Establish a credit guarantee system for loans to small and microbusinesses.
- Maintain a registry of vacant lands that are to be available to microbusinesses for the establishment for their activities.
- Establish a procurement registry of government contracts on which microbusinesses can tender.
- Provide a range of business development services that provide guidance on good financial record keeping procedures for microbusinesses

These new duties clearly mirror the goals of SFD, especially in regard to microfinance's ability to channel resources to "poor, underprivileged communities."

12 The Law of Small Enterprise Development.
13 Taken from the English translation of the above Law.

With the adoption of the above-mentioned goals, the passage of the new law, and the resolve to adopt microfinance best practices, the preparation of the draft Credit Policy and Structure Manual (made available to the mission on September 27, 2004) is timely.

The draft manual provides a good starting point for defining the new role of the MFS (which is being upgraded from a unit to a sector within HCDG). While time, and the lack of an English translation, did not permit a detailed analysis of the manual, many of the current shortcomings noted during the course of this review have been identified, and corrected. Areas for further improvement that have been identified are discussed in this report, for inclusion in the more final versions of the manual.

The draft manual sets out the new role of the MFS as supporting the development of the microfinance sector within Egypt, together with undertaking an overall coordination and monitoring role for such activities. These goals clearly support the role of SFD, and the development policies of the GoE, in using microfinance as a tool for reducing unemployment, and raising living standards throughout the country. The mission statement, however, does not stress the importance of establishing sustainable intermediaries, or the adoption of best practices in microfinance.

Recommendation: During the review process of the Manual, the mission statement of MFS be amended to include:

(i). That the MFS unit and the intermediaries will be established on an operationally sustainable basis.
(ii). The microfinance best practices will be adopted.
(iii). In order to achieve sustainability, and support best practices, the MFS will not support policies, or institutions, that lend to microbusinesses at subsidised interest rates.
(iv). MFS's role as a centre for mobilising donors funds should be further emphasised.

In addition to the above policies, the MFS should also commit itself to the adoption of best practices as they relate to the operation of social development funds. These should include

Recommendation: SFD/ MFS mission statement will commit to
(i). Operate independently of Government or donor pressure.
(ii). Will permit the intermediary organizations to make their own credit decisions without external interference.

The Relevance of the Design/ Structure of the Microfinance Sector/ Unit within the Human and Community Development Group (HCDG).

Since their establishment and implementation, microfinance activities have been included within the management structure of HCDG, or its predecessor. The partially reflects the original role of SFD, which was to provide a safety net for those sectors of society put at risk by the ERSAP, and by the nascent stage of the microfinance industry at that time (1991). Since then, however, the recognition by the development community of the role microfinance could play in alleviating poverty has increased substantially. This has been understood by senior management, and as of the beginning of October 2004 the team responsible at the Head Office of SFD will be upgraded from a unit to a sector of HCDG.

Whilst the existing structure of the regional offices reporting to the Microfinance Head Office (HO) sector/ unit (MFS) is appropriate, the duties, responsibilities, and management reporting structure of the MFS should be reviewed. This conclusion relates to the fact that SFD now has two lots of operations providing financial services; the Small Enterprise Development Organization (SEDO), which is a Group, and the MFS, which is becoming a Sector. Many of the support functions of these two activities are common to any lending activity (MIS, credit policies, documentation retention and storage procedures, legal support, treasury functions, loan administration) and significant economies of scale could be achieved by combining the two operations. Market separation between SEDO and MFS could be accomplished by retaining separate disbursement portals, and by structuring the SEDO and MFS as different sectors within the same group. While a merger of the two financial services components might have to be a long term goal at this time, studies and discussions should be held to identify ways to consolidate their common support functions.

Recommendation: Review the advantages of combining the services and support functions of SFD and SEDO into one operating group, to achieve better economies of scale. This could lead to a long term goal of one financial services group being formed within SFD.

During the course of the review it was noted that other groups/ sectors within SFD have undertaken microfinance activities. These include the Population Unit's ongoing credit activities funded by the International Development Agency (IDA), and the now closed EU funded Literacy Programme, implemented by the CDP, which had a credit component. Considerable benefits could be gained by concentrating all microfinance activities within the MFS, which has specific microfinance expertise, rather than just using the MFS to record these activities. If it is not possible for consolidation to occur, due to donor or bureaucratic issues, these programmes must commit to the adoption of microfinance best practices, as overseen by the MFS, and to continue to report into the MFS monitoring and oversight system. It should be a long term goal, though, for all microfinance activities to be centralised under the umbrella of MFS.

Recommendation: All microcredit/ microfinance activities within SFD to be comply with microfinance best practices, as outlined by MFS, and to continue reporting into the MFS data base.

A review of the logical framework performance requirements as set-up by the donors UNDP and AfDB, established few quantitative goals for measuring the success of the MFS's activities. Future logical frameworks should contain specific quantifiable targets. These could include the number of clients, clientele parameters, loan portfolio outstanding, average loan size disbursed, operational sustainability targets for intermediaries, and loan portfolio quality indicators.

The Responsiveness of the Microfinance Sector to the Needs, and Priorities, of Poor Communities:

Access to credit is identified as being a critical requirement for enabling low income sectors of society to escape poverty. The results of the recent Impact Study of microfinance activities noted that the MFS activities had a "substantial positive impact'[14]. The statistical sample of the survey indicated that slightly more than half (56%) of the client base are

[14] Micro-Credit Sectoral Study, Draft Final Report, September 2004.

defined as ultra-poor[15], 18% as poor[16], and 26% as non-poor[17]. Moreover, the programme is reaching a large number of the poor in the rural areas (76%). This is particularly significant since many of the large microfinance programmes within Egypt (Alexandria Businessmen's Association (ABA) and Banque du Caire (BdC)) have greater focus on urban and peri-urban areas.

A key factor for escaping poverty is gainful employment by at least one member of a poor family. The microfinance activities of SDF/ MFS have been responsive to this need, with 54% of recipients being self employed individuals and a further 29% creating jobs for extended family members and/or outsiders. Importantly, this impact on employment is the same in rural areas as it is in urban areas.

Regarding income, 84% of those surveyed reported a medium to high impact on their level of income. Furthermore, 69% of the households classified as ultra poor crossed the poverty to being poor, and 66% of the poor said that they had crossed the line to being non-poor.

Even allowing for a bias by many recipients to please the questioner, these results are pleasing.

The Services Provided by the MFS and Their Relevance to the Needs of the Vulnerable Population Groups.

While access to credit is considered a key financial tool for helping lift individuals out of poverty, access to other financial services also is critical. International experience has shown that savings facilities, money transfers and simple insurance products have a major role to play in helping alleviate poverty, especially savings. Under the current Central Bank guidelines, non-banks are prevented from an intermediary role between savings and lending. This does not mean, however, that the MFS cannot encourage banks to make available savings facilities, and other financial services, to credit clients.

Some recommendations in this regards are:

Recommendation: As part of a business plan (see below), the MFS should undertake a survey to identify the potential demand for financial services, including access to savings accounts, money transfers facilities (banks or wire transfer services such as Western Union) and insurance (life insurance) products. Discussions should be held with banks with wide rural networks (PBDAC, and the Post Office system-already in train) regarding opening special savings accounts for small borrowers.

The Relevance of MFS to the Donor Community:

SFD/ MFS is a convenient channel through which donors can channel funds to support microfinance. Whilst lacking the efficiency of private sector microfinance providers such as ABA or BdC, it has a flexible outreach mechanism for providing microfinance services in more remote rural areas. Moreover, with the adoption and implementation of the

[15] Quantitatively defined as a family of 5 with a monthly net income of less the LE 300 per month.
[16] Quantitatively defined as a family of 5 with a monthly net income of between LE 300-LE 400 per month.
[17] Quantitatively defined as a family of 5 with a monthly income of more than LE 400 per month.

recommendations for improvement, its efficiency should improve considerably. SFD, however, has a record of providing subsidised credit to borrowers, thereby undercutting its own operational sustainability as well as that of its intermediaries, and helping create a culture of cheap credit dependency.

Recommendation: Senior management must stress to potential funders that it is committed to microfinance best practices and no longer will provide subsidised credit to end clients. Donors should support SFD/MFS to continue its flexible approach in supporting intermediaries, and in its efforts to focus on more remote areas. Donors also should provide incremental encouragement for SFD/MFS to broaden its range of financial services. Finally, donors should not require that loan funds be made available to end clients at subsidized rates.

2.2.5. Efficiency

The Efficiency of the MFS in Implementing Microfinance.

Based on the overall mission of SFD during the period covered by the review (mirrored by the MIS system), the criteria of success of the MFS is the disbursement of the loans, the number of jobs created, and the number of projects financed.

Based on the definitions used by SFD for the above statistics, the unit has been successful. During the 2000-2004, period 73.5 thousand jobs have been created, LE 94.8 million in loans have been disbursed and 61.2 thousand projects funded. Furthermore, the amount of the loan extended to create a job (as defined in the Impact Study) of LE 1,500 (US$ 250) is efficient in financial terms.

These rates of disbursement also appear to have mostly matched the requirements of the donors directly involved in the funding of phase II and the funding of MDRM II, namely UNDP and AfDB, with 90% and 100% respectively of the funds being disbursed. The stated reason for the shortfall in the disbursement of the UNDP funds was differences of opinion regarding further grant funding for intermediaries.

The statistics relating to job opportunities created, however, could be unrepresentative of the effectiveness of the programme. For example, each loan disbursed is assumed to create 1.2 jobs. Additionally, in some cases repeat loans to the same borrowers are counted as creating incremental jobs per each repeat loan extended. Furthermore, all loans, irregardless of the maturity of the loan, are classified as creating a job, even though the loan maturity can be a short as four months. Hence, a four month loan to the same borrower could be credited with creating 3.6 jobs within one year.

Recommendation: That the definition of the criteria for job opportunities created be re-defined as one which creates employment for a 12 month period. Moreover, that repeat loans to an existing client are not classified as creating new job opportunities.

In carrying out its responsibilities of tracking the performance criteria, the MFS has been hampered by an inadequate MIS system. While the two MIS systems (the PMES and the

BEN)[18] provide a considerable amount of data, the quality of the data inputs into the respective systems is variable. For example, the PFA visited at Fayoum only records loan repayments by its clients on a quarterly basis, even though its reports to the regional office of SFD on a monthly basis. Consequently, 8 of the monthly reports provided to SFD are incorrect. Furthermore, the reporting formats currently used by MFS are non-user friendly, particularly since summary reports are not prepared in a manner that permits analysis of the total portfolio, nor do they provide for trend and budget variance analysis [19]. Finally, looking forward, the current reports do not contain the necessary data for MFS to function as an APEX institution (e.g. currently, the calculation of the current portfolio outstanding has to be summed from all of the donor reports on a governorate basis, or deduced from total loans disbursed since inception minus total loans repaid since inception). At the present time, the EU is funding a programme to upgrade SFD's MIS system. The data requirements that to date have been submitted by the MFS for inclusion in the new system, though, largely mirror what is currently produced by the existing systems.

Recommendation: So as to maximise the opportunity presented by the ongoing MIS upgrade, MFS must review its data monitoring and presentation requirements in light of its vision and goal within SFD as a matter of urgency (recommend within two weeks). If forwarded quickly, these requirements could be included within the current MIS re-design programme. Some suggestions for inclusion in a new data base are included in Attachment 1.

As noted in the recent paper prepared by MFS[20], the adoption of best practices has a key role in increasing poverty outreach, and expanding and improving institutional capacity. The review team strongly supports this approach, and feels that there are certain steps whereby MFS can strongly influence the adoption of best practices, both by itself as well as by the intermediaries. Some recommendations in this regards are noted below:

Recommendation: The following best practices should be adopted and published by MFS
(i). MFS to lend funds to intermediaries at an interest rate that will allow MFS to be operationally sustainable over the long term.
(ii). Intermediaries are to lend to their client base at market rates, so as to achieve sustainability themselves, and to not distort the market.
(iii). Permit intermediaries to use their own credit judgement independent of external pressures.
(iv). The adoption of standard terms and definitions by all microfinance practitioners, such as portfolio at risk, the calculation of loan loss reserves, loan write-off policies, the number of clients, total number of jobs created and average loan size disbursed.
(v). The support of an overall association of MFIs, either by SFD itself, or contracted to another body (such as ESMA), to promote the collection and publishing of data, learning experiences, establish industry training programmes, and help co-ordinate strategies amongst and between microfinance providers.

The Future Efficiency of the MFS In Light of the New Responsibilities as Envisaged Under SFD's Restructuring, and Law 141 of 2004.

[18] PMES= Project Monitoring and Evaluation System. BEN=Beneficiary Evaluation Network.
[19] Analysis is undertaken on a donor basis only.
[20] Paper, Community Development Department, Micro Credit Unit, Introduction (undated). Nevine Badr El-Din.

At this time the MFS staff at the head office consists of 6 individuals: the sector head, the deputy, two professional officers, and two assistants. In the opinion of the mission, the existing staff resources, both in terms of manpower and technical training, is inadequate for providing technical assistance and training in addition to its other monitoring and reporting responsibilities. If the MFS is to effectively carry out its new duties and responsibilities under the restructuring, and Law 141, considerable resources will need to be added to those already in existence.

Recommendation: In order to effectively undertake its new duties and responsibilities, the MFS will need the following management/ Human Resources Skills.
(i). A Credit Policy Manager, responsible for the preparation, implementation and maintenance of standardised credit policies, practices and procedures for microfinance activities.
(ii). A MIS manager, to oversee the maintenance and reporting of the MIS system as it relates to the MFS and staff.
(iii). A Loan Portfolio and Financial Analyst, to manage the loan portfolio of the MFS, to analyse the financial performance and portfolios of the intermediaries, and to analyse the overall performance of the MF sector.
(iv). A Training Manager, responsible for the preparation of, and managing, the training programmes, and for adherence to best practices.
(v). A Loan Administration Officer to maintain all of the loan documentation requirements and reports.
(vi). An internal audit team, using a specialised internal audit manual for microfinance.
(vii) Staff for the gathering of all data for microfinance activity, and disseminating this data to practitioners, intermediaries, donors, and GoE.
(viii). Staff for the vacant land registry, and procurement registry
(ix). An accountant and financial staff.

MFS can co-share with SEDO for the provision of BDS services to microentrepreneurs.

Field Officers will require training in
(i). Microfinance best practices.
(ii) Basic credit analysis.
(iii). The principles of business planning and financial management.

The Adoption of Business Plans as a Tool for Increased Efficiency:

The ongoing restructuring, and the changes in the legal code, expands considerably the role of the MFS. While the draft manual has outlined proposals for credit practices, sets procedures and policies for both intermediaries and direct lending, establishes guidelines for dealing with donors, outlines an operations manual for intermediaries, and proposes internal control procedures and accounting formats, it does not contain an implementation plan. Such a plan will be critical for the successful, timely roll-out of the new duties and responsibilities of the MFS; and the preparation of such a plan is recommended as a matter of urgency. Some suggestions as to how the implementation plan should be structured are detailed hereunder:

Recommendation: In order to undertake its new responsibilities for the microfinance industry, SFD/MFS needs to prepare a detailed implementation plan. This plan will include, but not be limited to, the following components and steps:
(i).A reiteration of the Mission Statement.
(ii). Details of the various functions that the MFS will be undertaking.
(iii). Lay out how these functions are to be undertaken, and how they will contribute to the achievement of the mission of the MFS.
(iv). Identify the various resources needed to successfully undertake those functions. For example, staffing requirements, hardware, software, technical assistance, and communications.
(v). Design the appropriate management structure (decentralisation, centralisation).
(vi). Prepare job descriptions for all positions needed to carry out the new duties/ responsibilities.
(vii). Undertake detailed costings for the implementation.
(viii). Secure sources of funding to finance the implementation plan, and for the next 3-5 years of operations.
(ix). Identify key staff who will carry out the implementation plan, and their duties/ responsibilities.
(x). Outline the requirements of the MIS system.
(xi). Establish performance goals to measure the successful execution of the implementation plan
(xii). Set up a time line for execution of the implementation plan.

The implementation plan must have the full support of senior management, and will need to be revised on a six monthly basis.

In order to facilitate operations, the MFS should adopt a system of annual business planning. This will help set goals within the framework of the strategic plan, quantify resources needed to achieve those goals, identify risks, and prepare annual forecasts against which progress can be measured.

Recommendation: The MFS should prepare an annual business plan to help formulate its approach for achieving the strategic goals of the Sector, and of SFD. This business plan should include the following:
(i). Socio-economic overview of Egypt and the effect on the microfinance sector.
(ii). Mission and goals of MFS
(iii). Review of the Sector
(iv). Performance during the past year.
(v).Potential demand from MFS, and likely recipients
(vi). Sources of funding for MFS
(vii). Proposed strategy for next 12 months.
(viii). Services to be provided, funding, technical assistance, business development services.
(ix).A funds flow statement.
(x). Projected profitability for MFS.
(xi). Risk analysis.
(xii). Identified technical assistance and training needs.

These plans should contain financial projections for five years and be updated at least annually.

The Efficiency of the Existing Delivery Mechanism for Providing Microfinance Services:

The approach adopted by the MFS of using PFAs, CDAs, NGOs supporting a network of CDAs, and the PBDAC, as intermediaries services provides considerable flexibility regarding outreach and implementation. This strategy enables microfinance services to be delivered to relatively small client groups by intermediaries that possess the requisite local knowledge. These intermediaries then can adopt the methodology most appropriate to the local circumstances, thereby enhancing the programmes' chances of success. In turn, these intermediaries then are supported by the regional, or sub-regional, office of SFD. The net result of this system has been that the MFS has achieved more outreach into the remoter parts of Egypt than the other microfinance programmes who have concentrated mainly in the urban and peri-urban areas. This strategy and approach is endorsed by the mission, and should be continued.

The mission understands, however, that consideration is being given for the MFS to undertake direct lending activities itself. One possible approach for this direct lending is to use the extensive network of post offices to further expand outreach, with SFD placing staff within the individual post offices to provide microfinance services. This mixing of roles (direct lender and apex organization) has considerable pitfalls. These include the conflict of interest of being both a wholesaler and retailer of microfinance, compromising its role as an APEX institution gathering data on an industry wide basis, and making it increasingly subject to government influence.

Recommendation: That the MFS continue in its well-established role as a wholesaler of funds. The retailing of microfinance services (through the Post Office or otherwise) should be implemented by an independent, non-government intermediary, with prior microfinance experience.

The Level of Integration of MFS, and Its Role Within SFD:

There are clear advantages in terms of concentration of technical skills, market knowledge and economies of scale, to consolidating all microfinance activities within the MFS, and this is recognized in the draft manual. The respective regional offices will have a microfinance sub-unit embedded within their structures, which will report to the MFS office in Cairo. There are, however, certain activities such as the "one stop shop" business development services (BDS), which are being established at the regional offices as part of the SEDO activities. These services also are needed by microentrepreneurs, and are mandated as part of SDF/ MFS responsibilities under Law 144 of 2004. To gain economies of scale at SFD level, the MFS should formalise channels of co-ordination between SEDO and the MFS at the regional office level to ensure that microfinance clients have ready access to these BDS services.

Concurrent with the development of sub-units at the regional office level, MFS also should prepare a plan to devolve credit authority approval for certain loan amounts down to the regional sub-office level. Currently, the manual requires that all loan approvals be referred to the MFS office in Cairo. Devolving this responsibility has considerable advantages, including better local knowledge of the client, faster loan approval turnaround time, and more ownership at the field officer level. This approach, however, requires that field staff receive more training that what they currently have received, and necessarily will have to be introduced over time. Loan credit approval authority will start with relatively small amounts, and as the individual field sub-units display competence, this can be expanded. The following recommendations are made:

Recommendation:
(i). At the regional office level the MFS clients should have access to the business development services being provided by SEDO as part of their business support strategy.
(ii). The MFS should plan to devolve credit approval authority for loan requests down to the regional office level.
(iii). The channels for transferring clients who have graduated from the microfinance programme to the SEDO programme need to be formalised at the regional office level.

The Quality of the Co-ordination with the Ministry of Social Affairs (MOSA).

For historical reasons, the PFAs/CDAs fall under the umbrella of the MOSA. The MFS, however, co-ordinates with MOSA, to obtain data for monitoring and tracking purposes on the PFAs' activities.

While it is unlikely that MOSA will transfer operational responsibility for PFA activities to SFD/ MFS, considerable benefit could be gained by closer co-operation between the two entities in certain areas. This particularly applies to technical assistance and training[21], the adoption of best practices, and data gathering and analysis. A standardised approach to credit policies, procedures and practices would help ensure that all loan applicants are judged against a nationwide standard of creditworthiness. Moreover, more detailed statistics will be needed in light of SFDs/MFS's new responsibilities under Law 141 of 2004.

Recommendation: There needs to be closer co-ordination between MOSA and SFD/MFS regarding the training and oversight of the PFAs. Areas where there will be considerable advantages to all parties are:
(i). Standardised credit policies, procedures and practices
(ii). Standardised reporting formats for all intermediaries
(iii). Full participation by MOSA/PFAs/CDAs in data collection on microfinance activities.
(iv). SFD/MFS to provide trainers (either directly, or through a train the trainers approach) for field agents.
(v). SFD to provide funding for training class materials for PFA/CDA field agents.

2.2.6. Effectiveness

Microfinance's Contribution to Poverty Reduction:

The effect of the programme in help lift families out of poverty by enabling them to cross poverty lines has been good. The Impact Assessment notes that of the statistical sample, 69% of those that were classified as ultra-poor were able to cross the poverty line and be reclassified as being poor. Simultaneously, of those who previously had been classified as

[21] For example, the mission visited a training session for field officers in Fayoum. Of the thirty field agents in attendance only one seemed to have pencil and paper to take notes, only the instructor had an operations manual, there were no hand-outs, and no teachings aids such as a blackboard, flipcharts or markers.

poor, 66% could now be classified as non-poor. Importantly, there was little difference between rural and urban areas.

The achievement of the main goals of the major donors of the microfinance programme during Phase II as summarized in their project documents can be summarized as follows:

UNDP Objectives[22]

Objectives	Achievements
Strengthen the institutional, organizational and technical capacity of participating local organizations to provide microfinance services to the economically active poor.	Generally successful in that the intermediaries have established management structures, and are disbursing loans to the ultra-poor, poor and non-poor clients.
Increase the financial capacity of participating organizations to provide microfinance services to the economically active poor	Successful, the UNDP supported intermediaries visited are progressing towards operational sustainability.
Contribute to the development of knowledge, expertise and information concerning microfinance, at the level of participating organizations	While progress has been made, more technical assistance and training is needed both at the intermediary organizations and at the MFS.
Enhance the capacity of the Social Fund to manage its existing microcredit projects and to propose new ones based on best practice principles.	The MFS within SFD is undermanned, both in terms of the number of staff and their technical capabilities. The staff responsible for microfinance activities at the regional offices of SFD needs additional specialised training in microfinance. The draft operations manual incorporates many best practices of microfinance.
Enhance the capacity of the Social Fund to provide technical assistance and training….. as part of its responsibilities as an apex institution.	Currently the MFS staff at the head office of SFD lack the resources to provide effective training to both the staff at SFD's regional offices, and to the Intermediaries. This role will become increasingly important under the new role for MFS as required by Law 141.
Contribute to the development of reporting standards within the Social Fund and link with the relevant MIS development objectives.	Until the current time the focus of the MIS system was on the preparation of reports for donors, rather than on data gathering and presentation for microfinance programme management. Suggestions have been made within this report regarding future MIS requirements.
Ensure the continuity objectives taken in the pilot programme	The pilot intermediaries visited are continuing to operate effectively.

African Development Bank Objectives[23]

Objectives	Achievements
Loan repayment rate of 98%	The MFS is reporting an overall loan repayment rate of about 99%
Job creation increased by 50% by year 2003	As per the agreed definition each microfinance activity creates 1.2 jobs. This goal possibly achieved.
Mechanisms for internal M&E system in place and operational	An MIS system has been established for reporting to the donors. This system will need to be revised and upgraded in light of MFS new responsibilities.
Credit system established and operational	Credit system established, but needs to be upgraded to incorporate best practices.

[22] UNDP Project Document, Executive Summary.

[23] AfDB Log Frame

The Appropriateness and Effectiveness of the Targeting Mechanisms of the Microfinance Sector:

The impact survey concludes that the microfinance programme is effective at reaching the poor and ultra poor, representing 74% of the total client base. It also should be added that even those classified as non-poor, as defined for the purposes of this review, cannot be classified as well to do within the normal sense of the phrase. This success of this targeting methodology has been achieved by a combination of the following:

(i). The small loan size disbursed. Since the inception of the programme, the average loan size disbursed is LE 1,418, and during the second phase LE 1,549 (US$251 at current exchange rates). At approximately 25% of per capita income, loans of this size are uninteresting to the middle and upper income earners, while being perceived as being of great value to lower income groups.

(ii). The outreach mechanisms used. CDAs, PFAs, NGOs and the PBDAC are not vehicles with regular dealings with the middle income classes in Egypt. As such, they are good structures through which to de-select middle income earners. The non-poor, however, could have access to funds from the PFAs due to their connections with government employees, and from PBDAC through the loan officers extending loans to the existing client base.

In addition to reaching a large proportion of the poor and ultra poor, MFS has been very successful at reaching the rural poor. This is due to the wide outreach achieved through local CDAs in the non-urban areas of Egypt.

The senior management of SFD recently has decided to delineate activities between the MFS and SEDO as loans of LE 10,000. At approximately 1.5 times the per capita income, and with the average loan size disbursed being considerably less, the targeting mechanisms for recipients of microfinance loans appears to be appropriate.

The Effectiveness of the Current Credit Analysis and Approval Methodology:

Until the current time[24], the system for gathering data for, and the undertaking of, credit analysis was for the field officer at the branch level to collect all of the basic data from the loan applicant and then forwarded it to the HO for review and approval. Discussions with the staff, however, indicate that in some cases the financial statements for the preceding three years were not always collected. Moreover, if it was collected; little, if any, financial analysis was undertaken that was committed to writing. As a result, it is impossible to judge the effectiveness of the credit analysis system. It was explained to the mission that (for example) in the case of PFAs/CDAs, they were mature organizations who were unlikely to default on their loans, and as a result credit analysis was not done. Best practices for both credit analysis, and microfinance, require that all applications for individual loans are analysed in writing to assess the applicant's creditworthiness or otherwise.

The draft manual recognizes this shortcoming, and includes a requirement that all loan applications are appraised using the CAMEL, PEARLS or GIRAFFE credit rating

[24] This approach has been modified somewhat for the recently signed EU funded programme.

methodologies. To be fully effective, however, the scores generated by these methodologies needs to be analysed and interpreted, and the reasons why the borrower registered a particular score be discussed. This creates a more complete understanding of the borrowers operating and financial position, and identifies the risks of the credit.

Recommendation: During the second draft of the Manual (recommend to be done within the next two months), the following procedures be included as normal credit analysis procedures.
(i). That the results of the credit scoring system be analysed, and the underlying reasons for the final results discussed. The particular aspects that should be covered include the quality of management, the business plan, the ability of the PFA/CDA/NGO to service the debt, the structure and quality of the assets, the maturity profile of liabilities, and the level of capitalisation.
(ii). For all borrowers with loans having maturities of longer than one year, their financial statements be analysed and reviewed on an annual basis.

Currently, it is difficult to confirm the effectiveness of the credit analysis at the field level with complete accuracy, since the loan repayment rate is not tracked on a consolidated basis at the central level. With the PFAs being repaid directly from government salaries, their repayment rate is likely to be close to 100%, and the loans administered by NGOs such as CRS and ACDI-VOCA also could be expected to enjoy high repayment rates. Based on an interview with a branch manager of PBDAC[25], their repayment rates also seem to be good. In accordance with best practices, though, this consolidated ratio also should be monitored on both an individual and consolidated basis at least monthly.

2.2.7. Impact

Microfinance's Potential for Poverty Reduction, Job Creation, and Reaching the Ultra-Poor.

The statistics, as presented, indicate that 73.5 thousand job opportunities were created and LE 149.5 million loans were disbursed during the 2000-2004 period. Even after allowing for some possible overstatement, due to definitional differences and the client base of the PFAs, the effectiveness of SFD/ MFS has improved during phase II. While the overall numbers reached are not as impressive as those of say the ABA (325,000 loans totalling LE 800 million disbursed since 1990, and currently disbursing LE 6 million per month) and BdC's loan disbursements of LE 120 million, the strength of SFD is its outreach. SFD, through its network of PFAs, CDAs, NGOs and PBDAC is reaching out beyond the more urban and peri-urban areas of Egypt than are ABA, and especially BdC, who are leveraging off their branch networks/ partnerships located in urban areas. With the degree of poverty, and the lack of job opportunities in the rural areas, SFD has, and can continue to have, an impact in these areas. The impact survey indicates that, in terms of reaching the ultra-poor and poor, SFD/ MFS has been successful in this regard with more than 75% of its client base falling into these categories. The report further notes that the programme can be an effective agent of financial change by enabling the poor and ultra poor to positively cross poverty lines. Nonetheless, this outreach and impact could be further expanded if the PFAs follow their guidelines as discussed below.

[25] PBDAC, Abu Korkas district.

The Role and Importance of the Different Types of Intermediaries, and Strengthening Their Capacities.

As noted above, the MFS operates through three types of intermediaries, PFAs/ CDAs, NGOs and NGO supported CDAs, and the PBDAC. Of these, the NGO supported CDAs have achieved the greatest outreach in terms of loans disbursed with 30.6 thousand loans disbursed totalling LE 33.2 million. The PFAs have disbursed 13.9 thousand loans totalling LE 21.4 million, while PBDAC has distributed 16.7 thousand loans, totalling LE40.4 million The differences between the performances of the various distribution outlets is very much a reflection of the amount of funding available to them, and the average loan size disbursed. There are, however, several possibly unanticipated outcomes that have resulted from the various methodologies adopted.

The PFAs supported CDAs: In many cases the PFAs require that each loan applicant has a public sector employee who can guarantee their loan, and that the loan repayments are collected from the salary of this employee/ guarantor rather than directly from the borrower. While this structure is a major contributor to the extremely high loan repayment rate of the PFAs, it means that very little analysis is done of the micro-business / IGA activity itself. Moreover, while the number of full time public sector employees, or their families, who borrow from the programme is meant to be limited to 10% of the total borrowers, the actual numbers actually is likely to be much higher. While these loans are effective in creating a considerable number of IGAs, as noted above, the methodology used for calculating job opportunities may result in an overstatement of this statistic.

The NGO supported CDAs: The NGOs (e.g. CRS, and to a lesser extent, ACDI/VOCA) appear to have been effective in achieving outreach and in installing sound management practices , such as preparing business plans, loan tracking systems, and accounting procedures. Moreover, the NGO supported model has certain distinct advantages over the PFA model as the latter is currently implemented. These are the NGOs' ability to create more genuine job opportunities rather than IGAs, and outreach to more the ultra poor and less poor who do not have ties to public sector employees. In terms of reaching those sectors without access to the formal financial sector, the NGO model would appear to be the most effective, particularly when the group lending methodology is used.

The PBDAC: With its wide net work of branches, and its existing systems and staffing capabilities, the PBDAC provides a good springboard for the provision of microfinance services. Based on the field visits, however, it appears that some of the staff of PBDAC may be extending MFS- funded loans to their existing client base, rather than increasing the number of overall clients. Moreover, these clients probably can be categorized as "non-poor" since they receive an average larger loan size (LE 1,819) than the clients of the NGO supported CDAs (LE 1,084). It is important to note that this has the effect of PBDAC undercutting its existing client base, and profitability, by providing loans at 7-8%, rather than at 14-15%, and addicting these clients to subsidised loans rather than commercial loans.

One client interviewed during a field visit to Minea has been a client of PBDAC for five years. But she has not borrowed from PBDAC for 2 years, because she was "waiting for another loan at 7-8%, rather than borrow at 14%."

As a result of these activities, the statistics for the number of job opportunities created by the PBDAC segment may be overstated. Additionally, many of the loans could be extended to the poor and non-poor (e.g. registered businesses) rather than to the ultra poor and poor segments of society. To help overcome these weaknesses, the following recommendations are made:

Recommendation: (i). As part of its strategic plan, the MFS sector should place greater emphasis on supporting the NGOs, particularly those that will utilise the group lending methodology in rural areas. (ii) the MFS's proposed MIS system include the capability to track the number of loans made by the PFAs to government employees, and/ or their families, to better enforce the requirement that such loans be limited to 10% of total loans extended. This requirement could be supported by the option of restricting access by to PFAs to future MFS drawdowns if this requirement is breached. (iii) That PBDAC be required to extend SFD funded microfinance loans to new clients of the bank only, rather than to existing clients.

2.2.8. Sustainability:

Ownership of the Microfinance Activities and Their Sustainability:

Given SFD's strategic goal aim of providing long term solutions to poverty, it is incumbent upon management to ensure that the finances of SFD as a whole are on a sound footing. While many of the activities of SFD are difficult to accurately cost, and few, if any of them, create revenue streams; with microfinance operations it is possible to do both. Making the MFS financially self-sufficient is one way of ensuring that it will remain a key activity of SFD over the long term.

Currently, the MFS has entered into agreements with several of its donors to lend funds to intermediaries at interest rates of 6%-7%, with the requirement that the intermediary then on-lends those funds to their client base at the highly subsidized rate of 7%-8%. In some cases the intermediary is given a lump sum payment to cover both training needs, and operational costs. This strategy has several negative implications:

(i). With a maximum spread to MFS on these funds of 5-6% on these funds it is difficult for the MFS to cover its operational costs.
(ii). The end client becomes dependent on subsidized funds.
(iii). The intermediary has difficulty covering their operational costs and/or build up internal capital through retained earnings.
(iv). Upon closure of the donor programme and the repayment of the loan to the donor, the intermediary has to reduce its lending activities because of its reduced liquidity.

To help ensure the ongoing sustainability of the MFS and of the intermediaries, the following recommendations are made:

Recommendation: Establish the newly created MFS as a profit centre in its own right. This will involve:

(i). Senior management of SFD committing to establish the MFS as a financially self-sufficient activity.
(ii). A policy decision is made, and agreed to by donors, that the interest rate on all loans to intermediaries will be set at a level that will permit the MFS to run an operating surplus.
(iii). Prepare a five year rolling budget that will include detailed costing of all MFS activities, and projected capital expenditure activities. This budget would be revised at least semi-annually.
(iv). Calculate the interest spread necessary to cover MFS's costs, plus a small surplus to help pay for SFD's overall operating costs.
(v). As part of all loan agreements between the MFS and the intermediaries, the latter will be required to lend to their clients at least at market rates, and with a spread sufficient to cover their operational costs and accumulate internal resources.

The Impact of Credit and Foreign Exchange Risk on SFD/MFS:

The SDF/ MFS faces two potential risks to its sustainability in its role as an intermediary of funds from donors to microentrepreneurs. Many of the loan agreements with donors are expressed in US$/ Euros/ Yen and require that the loan repayment at the close of the agreement be made in those currencies. This means that SFD/ MFS carries the foreign exchange risk on these loans, since it onlends to the implementing institutions in LE, and obtains repayment in the same currency. Similarly, many of the loan agreements between SDF/ MFS and the lender do not provide for the lender to the SDF assuming any credit risk on either the intermediary, or the end borrower. Thus, if the intermediary CDA/ PFA/ NGO/ Bank defaults on its loan from SDF/MFS; SDF is responsible for the loan repayment.

Recommendation: In the pricing of the loan to the intermediary, SFD should ensure that its margin allows for operational costs, costs of funds, a profit margin, foreign exchange risk and loan default risk.

The Development of an Exit Strategy for Mature Intermediaries:

While many of the intermediaries will need to source funding from SFD/ MFS for loan portfolio purposes for the foreseeable future, a formal policy needs to be developed for assisting the more mature intermediaries to access funds from the local financial markets. Such an approach will discourage these intermediaries from becoming overly dependent on funding from MFS, thereby allowing MFS to allocate its scarce resources to support start-up intermediaries. Simultaneously, a policy for providing ongoing technical assistance and training to these mature intermediaries needs to be developed, to ensure that they continue to follow best practices.

Recommendation: (i). The MFS should develop a strategy to link intermediaries to lending institutions and/or directly with donors. This policy is to identify the various steps required for a potential borrower to create linkages with lenders (open savings, checking accounts, funds transfer services, foreign exchange services) and highlight the importance of building a long term relationship. Training should be provided on negotiating with lenders, and how to structure collateralised and uncollateralized loans. MFS also should contact banks about possible partnership agreements with intermediaries, and explore the feasibility of developing a loan guarantee scheme for MFS intermediaries.
(ii). MFS to develop an ongoing training programme for senior staff and board members. Issues to be covered would include changes in the legal and regulatory environment, new products, possible funding sources, evolving issues in governance, credit appraisal methodology and market developments.

2.3 Publics Work Programme (PWP)

2.3.1. Introduction and Background

The Public Works Programme (PWP) is one of SFD's main programmes. It has had a truly impressive record of achievement, especially in terms of installed physical infrastructure. To quote a review of the programme made in 2001: "SFD PWP has been in existence since 1992 and has an impressive world class track record to date …."[26]

In 2001 PWP was combined with the Community Development Programme, the Human Development Programme, and the Environmental Development Unit under what was called the Social Infrastructure Development Programme, which has recently been reorganized into the Human and Community Development Group (HCDG). This group comprises two sectors, human development and community development, and PWP is found under the latter, along with CDP and EDD. However, from a budgeting, management, staffing, and operational point of view PWP remains largely an independent programme.

The PWP's stated objectives, as appearing in the PWP Programme Manual (2000), are:

- Execute community-based infrastructure primarily in rural areas and also in urban pockets to enhance the welfare of targeted groups and to provide basic services to the deprived

- Temporarily and permanently absorb part of the labour force during the period of project implementation and through operation and maintenance activities

Over SFD Phase 1 and 2 (1993 through 2000) PWP disbursed LE 1000.5 million. This was equivalent to USD 289 million at then exchange rates. It has since then disbursed LE 350.6 million in what is called the bridging phase, and there remains approximately LE 200 million of committed funds. Over the 1997 – 2004 period average annual actual expenditures of PWP have varied widely from a low of LE 14.9 million in 2002 to a high of LE 182.0 million (for the first 8 months of 2004). During SFD Phase I PWP represented approximately 26% of total SFD disbursements, while in Phase 2 this proportion dropped to 22%.

The PWP funds a number of discrete social infrastructure interventions: rural road paving, drinking water sub-systems, wastewater sub-systems, environmental projects (canal and drain covering, plus canal and river embankments), and public building renovation. There are also social components attached to interventions, mainly in the form of small grants to communities through CDAs. There have also been national level projects (with MPWWR) and area-specific interventions (eg. Environmental Protection, Naga Hammadi, and Mataria Sanitation). In addition, PWP has commissioned specific studies and technical assistance efforts, either by itself or in collaboration with donors.

Discrete PWP interventions are called sub-projects and the value of each does not normally exceed LE 400,000 (although this ceiling has recently been increased to LE 600,000 to reflect inflation in Egypt's construction sector). A number of subprojects (30-100) are normally packaged together to form a larger "project". Each project relates to a particular governorate

[26] Gopa and Africon, Improvement of Monitoring and Evlauation of SFD's PWP Activities, KfW, September 2001, p. 15.

and to a particular Sponsoring Agency (SA), which is either a ministry or governorate of NGO. A project is usually funded by a single donor. In total PWP has executed 84 projects in Upper Egypt, 70 in Lower Egypt, and 49 in Metropolitan and Frontier governorates. In addition, there have been 10 "central projects" with MWRPW.

A project normally will run for 3 to 5 years from the donor agreement with SFD to completion of implementation. However, from the point of signing the framework agreement with the Implementing Agency (e.g. a governorate or ministry), project execution is quite rapid, averaging 1 to 2.5 years. Individual subprojects are normally executed in 4-6 months.

In SFD Phase I a total of 9 donors contributed to PWP. In Phase II (up to 2001) a total of 7donors contributed, the largest of which were KfW, IDA, EC, and the Netherlands, in that order. In the current bridging phase (2001-2004), only the WB and KfW remain funders of PWP activities. Overall, KfW has been the largest single funder of PWP (closely followed by IDA).

PWP activities are overwhelmingly carried out in rural areas. However, in all phases there have been a number of subprojects and projects targeted at towns and fringe urban areas, usually where there are considered to be concentrations of poor inhabitants or acute environmental problems.

General budget allocations by PWP are set at 50% for Upper Egypt, 30% for Lower Egypt, and 10% for each of Metropolitan and Frontier regions, reflecting the rural bias and higher incidences of poverty in Upper Egypt. From these general allocations are derived the budget ceilings for each governorate, out of which projects in specific governorates are formulated as part of the Project Cycle.

The operations of PWP are governed by the Project Cycle, for which PWP has laid out detailed financial, administrative, and technical procedures in the form of operation manuals and periodic instruction notes. The steps of the Project Cycle can be summarized as follows:

1. The PWP project cycle typically begins with a "demand driven" process. A number of candidate sub-projects are identified by local level bodies (village and markaz local councils, governorate executive and local councils, members of parliament, etc.), these are assembled and initially prioritized by the Office of the Governor or Secretary General in a specific governorate, and the governor presents these to the Managing Director of SFD for consideration for funding. Candidate subprojects are then screened by PWP in a number of ways: (1) field trips to each subproject location are made by SFD regional offices to verify technical need and also suitability as pro-poor projects, (2) checks are carried out with the Governorate executive councils and Shorouk (a national programme of the Ministry of Local Development for rural development) to ensure that candidate subprojects are not already incorporated in government plans, and (3) that the types of sub-projects are of high priority in a particular governorate/markaz, based on indicators of service levels assembled nation-wide in the Priority Targeting Report (latest version 2000).

2. At this point PWP assesses the funding resources available from donors for a particular governorate and prepares a revised package of subprojects into a discrete PWP project, then contracts local or national consulting firms to carry out feasibility studies including technical, economic, social, and environmental impact studies of

each sub-project. The resulting package of feasible sub-projects is reviewed by the RO and by PWP centrally, then appraised by a specific SFD committee, and then a "project framework agreement" is prepared which is signed by the Sponsoring Agency (usually a governorate, but sometimes specific ministries or NGOs)[27] and SFD managing director. Sponsoring Agencies are required to mobilise 10% of the cost of a project in cash as a condition for project effectiveness. The approved list of subprojects is formally sent to all relevant government agencies, including Shorouk, to ensure that there is no duplication.

3. At this point the project immediately enters the implementation phase. PWP creates an independent Project Implementation Unit (PIU) which is delegated by the SA to be responsible for the successful management of project implementation. The PIU is lead by a Project Manager nominated by the SA and approved by PWP. There is normally one PIU in a particular governorate and the same PIU will usually undertake managing the implementation of subsequent projects if performance is satisfactory. Design, tendering and technical supervision of subprojects are carried out by Intermediary Agencies (normally governorate-level technical directorates who are legally responsible for the specific sectoral works), although the PIU is involved at all stages. Execution is normally carried out by local contractors who meet legal requirements according to the Egyptian laws on contracting plus additional requirements set by PWP, the most important of which is the stipulation that 25% of a subproject's contract value must be for the labour component and that 50% of the wage bill must go to local (village level) inhabitants. In rare circumstances local NGOs will be contracted directly.

4. Each sub-project, when completed satisfactorily, is officially handed over to the responsible local unit for operation and maintenance. PWP's official responsibility ends at this point; however considerable efforts are made to ensure proper O&M, and PWP has tried to obligate IAs to use the 10% local contribution for O&M.

5. A particular project is complete when all the sub-projects have been executed. Monitoring by PWP and the PIU is constant throughout execution. Because of the relatively long time frame for a project from signing of the Framework agreement to completion (1-2 years), due to circumstances a particular sub-project may be dropped and others from the pipeline of subprojects is screened and then added to the project, with the Framework Agreement adjusted through an addendum.

6. After a project is completed, a final evaluation is carried out by PWP, usually according to the formats and stipulations of the particular donor who funded the project.

From the above description of PWP's project cycle it should be clear that PWP acts as a funder and manager of projects, and not as the direct implementation agency. In other words, it is the initiator and guide for projects throughout the project cycle.

It is extremely important to realize that PWP is tightly embedded in government services delivery systems. (It only contracts or out-sources directly with the private sector for specialized studies.) Thus more than any other SFD programme, PWP is closely entwined

[27] According to PWP management, overall PWP allocations were channeled through sponsoring agencies as follows: 80% through governorates, 18% through ministries, and 2% through NGOs.

with government, both on the demand side (articulation of needs and identification of subprojects) and the supply side (project implementation). This has advantages and presents opportunities, but it also has disadvantages and involves risks, as will be discussed below. And it should be pointed out that such a very close relation with government is exceptional for social funds throughout the world.

The achievements of PWP in Phase I and 2 are well documented, and over the 2000-2004 period the profile of PWP has not changed much. The following table shows the shift in the mix of project types.

Table PWP 1
PWP Project Types and Shares of Total PWP Funding

Period	Potable Water	Rural Roads	Public Buildings	Sanitation and Sewerage	Canal Pitching and Covering "Environment"
Phases I & 2 (1993-2000)	26.6%	24.2%	12.4%	7.7%	29.1%
Bridging Phase (2001-2004)	27.7%	20.3%	3.1%	18.8%	30.1%

Note: Includes central projects with MPWWR, equalling 20% of Phases 1 & 2 totals and 13% of the Bridging Phase totals

2.3.2. PWP Responses to Recommendations of MDRM I

The MDRM I Final Report of April 2000 put forth a number of recommendations specific to the PWP (foot, Section 5, particularly pp. 76 and 77.) These are listed in the following table along with the responses/actions made by PWP to address them up to September 2004:

Table PWP 2
MDRM I Recommendations and SFD/PWP Responses

MDRM I recommendations	Comment on SFD/PWP responses
(General and overarching) PWP should act as a catalyst in a more explicit and systematic way, to improve and reform practices of partner agencies, including the use of funding leverage. Also become an advocate for administrative and legislative reform at national level. This recommendation is very ambitious. (pp 76 and 77)	Recommendation not taken up in a systematic way that has had major impact. But this is understandable given the recommendation's ambitious nature and structural problems in partner agencies. A number of *ad hoc* innovations with catalytic impact have been achieved. (See discussion in 2.3.5 (3) below)
(General) PWP needs improved geographic targeting to reach poor/deprived areas (p76, first para)	Very little progress in improving targeting, but this is only partially a PWP responsibility (See discussion below in 2.3.5. (1))
(General) PWP needs improved assessment of project impacts with better feedback to	Some improved impact assessment but little systematic learning from experience (See

enhance future interventions (p76, first para)	discussion below in 2.3.5. (3))
(General) Better links between PWP and CDP to maximize complementarity (p76, first para)	Better organizational linkages at central level and better complementarity at regional and project level (See 2.3.4. (6) below)
(General) PWP needs to better tackle the O&M issue (p76, first para)	PWP has made a number of efforts to respond to this recommendation, but with little tangible results to date. New initiatives are underway. (See discussion in 2.3.6. below)
(General) PWP needs to systematize quality control (p76, first para)	PWP has instituted a quality assurance system which has covered 13 governorates to date (See discussion in 2.3.4 (7) below)
(Wastewater systems) In rural areas, extended drinking water networks have raised consumption of water to the point that wastewater networks are required to counter the environmental problems. PWP should take the initiative towards introducing non-conventional and low cost wastewater systems networks and treatment plants. (p 76 third para)	PWP is very aware of the problem and has shifted resources to extend wastewater networks in high-density affected areas. It has also taken a strong initiative to introduce non-conventional wastewater systems in rural areas. (See 2.3.3. (1) below.)
(Canal and drain covering) These subprojects are partly justified on environmental grounds as they prevent disposal of solid wastes in waterways. But they do not tackle the systemic problem of rural solid waste management. PWP should promote solid waste collection as a complement to these subprojects. (p.76 fourth para)	On some projects PWP has tried to involve Ministry of Irrigation in periodic canal cleaning programmes and local government and CDAs in solid waste collection systems but the issue is much larger than PWP or even SFD can hope to tackle. (See discussion in 2.3.3. (1) below and also discussion on EDD.)
(Water and wastewater subprojects) PWP should include house connections for poor households (with beneficiary cost-sharing) in order to maximize pro-poor impact of these investments (p. 76 fifth para)	In the last four years PWP has undertaken a number of effective initiatives to address this problem. In particular, pilot efforts by PWP to encourage connections to poor households have been very successful. (See discussion in 2.3.3. (1) and 2.3.5. (3) below.)
(SFD regional offices) Create basic mapping capacities to build up poverty-related statistics and indicators of service level deficiencies. (p. 76 second para.)	Recommendation not studied or applied, neither at regional office nor central level. (See discussion in 2.3.5. (1) below.)

2.3.3. Relevance

The stated overall objectives of this review is to assess how PWP is able to address poverty reduction and unemployment throughout Egypt through the provision of labour-based social infrastructure which serves the poor. This implies evaluating the relevance of the design of PWP in response to real local needs, which in turn means evaluating (1) how suitable are the types of subprojects (rural roads, water networks, wastewater networks, public building rehabilitation, etc.) in fighting poverty and unemployment, (2) how well designed are the systems for targeting the poor and those in most need, (3) how relevant are the systems chosen to deliver these benefits, and finally (4) how relevant are the PWP monitoring and evaluation systems as feedback and learning-by-experience tools. These are discussed below, with particular reference to the last four years.

(1) Relevance of types of subprojects

The following table describes the types of subprojects, their intended benefits, and their relevance in the Egyptian situation.

Table PWP 3
Relevance of Types of Intervention

Sub-project Type	Benefits/Justification	Relevance
Irrigation Canal &Drain Covering	In densely populated areas, to prevent fouling of irrigation channels with garbage and wastewater for improved environmental health; also allows public space gain (wider roads, etc.)	The problem is well-recognised in Egypt (and quite visible). However, the need is vast, covering is very expensive and would not be necessary where solid waste disposal and wastewater systems were operating efficiently. Moderately labour-intensive
Irrigation Canal & River Lining and Pitching	To optimise the canal cross-section and minimise water losses due to percolation, and to make cleaning operations easier and more effective.	The benefits are both environmental and economic, especially since PWP limits its application only to the canal portions suffering from continuous corrosion. Very labour-intensive. These activities have been largely discontinued by PWP.
Pond and Swamp Filling	To stop spread of diseases caused by open still water ponds and to prevent their use as dumping grounds in populated areas (and to allow public space gain).	A minor activity of PWP, it has been almost discontinued in 2000-2004, since most problematic areas have been treated. Very labour-intensive.
Potable Water Networks	To reduce water-borne diseases, allow better hygiene, and reduce burden on women for carrying water.	The logic is very sound, especially in densely inhabited areas, but piped-water to houses dramatically increases consumption with resulting need for expensive wastewater disposal systems in areas of high water tables. Also, poorest households may not be able to afford connection and meter costs (averaging LE 400 - 500 per connection). Pipe-laying is labour-intensive, but pump stations and elevated storage tanks are not.
Public Buildings Refurbishment and Completion	Is much needed and has direct benefits to the community, maximising sunk public investments.	Does not address public services deficiencies in remote rural areas. Also, does not address O&M issue or quality of service. Thus frequently observed that rehabilitation needs to be redone at a later date. (ref Impact Assessment). Moderately labour intensive.
Rural Road Paving (tertiary link roads)	Reduces time spent in transportation and improves access to markets and services (economic argument).	Sound intervention if restricted to needed rural link roads. However, a massive government programme for paving rural Egyptian roads has been underway for decades, and many PWP subprojects appear to have little traffic. Not labour-intensive by nature.
Wastewater Systems Conventional reticulated networks are the norm.	To improve health and environmental conditions and eliminate household expenses of emptying septic tanks.	Becoming more and more a requirement in villages due to higher water consumption. Conventional systems, particularly treatment plants, are very expensive. In low-density rural areas there is little cost effectiveness, and without treatment effluent is concentrated in irrigation drains. Also, poor households may not be able to afford connection costs (averaging LE 1000 - 1200 per connection). Moderately labour-intensive.

Given the above comments on relevance, the following recommendations are made:

Recommendation for Canal Covering: Sites for covering should be screened and limited to where (1) there is already a functioning solid waste collection system or where one can be instituted as a social component, or (2) there are very high residential densities (mostly in informal and congested urban areas) and thus, in addition to environmental gain, there is also a considerable economic gain in vehicular accessibility which greatly benefits small businesses in the area (the covered canal becomes a street).

Recommendations for Potable Water Networks: Water network extensions should be screened out if proposed in only very sparsely inhabited areas. All water network improvement projects should include a house connection component for poor households. In already served poor areas, a house connection loan system (as in Qaliubia) should be considered. (see also Box 1)

Recommendations for Public Building Refurbishment: Should only be carried out on buildings which by nature require very limited maintenance (such as schools) or where there are proven maintenance systems already in place.

Recommendations for Road Paving: Rural road paving should be discontinued unless subprojects can be justified in terms of expected traffic or in the Delta where paving is necessary due to winter rains. The paving of small roads and lanes in high density urban slum areas should be considered as a priority, since there is the additional benefit in terms of public health and cleanliness to surrounding inhabitants, and also since paving these awkward areas is by nature labour-intensive.

Recommendations for Wastewater Systems: In rural areas network extensions should only be in large and densely inhabited villages and where proper treatment of effluent exists or is made part of subproject. Also, all subprojects should include house connections to poor households, building on PWP pilot successes. More efforts should be placed on low-cost alternative solutions for rural networks and treatment of effluent, as PWP is already doing in Naga Hammadi and Fayoum. (See also Boxes 1 and 2.) Different options depending on feasibility in particular locale may include collective septic tanks with soakaways, small bore and low gradient sewers, combinations with CDA run suction trucks, etc.

(2) How well designed are the systems for targeting the poor and those in most need of employment?

It is important to stress that most PWP subprojects serve a particular geographic area, and thus benefit all inhabitants in that area. That is, PWP subprojects are not self-selecting. (The exception are sub-components involving house connections.) Thus the impact on the poor is very much related to geographic targeting. Geographic targeting is a wider issue, which is discussed in Part 3 section 1 on SFD's approach to poverty reduction. The design of the current system of selecting subprojects, (where PWP subprojects are selected by local communities and officials with knowledge of poorer areas, combined with the PWP outsourcing of needs assessments, screening process for subprojects and general budgetary allocations based on regional poverty targeting indicators) is adequate if not particularly sensitive to the poorest of the poor. In particular cases, where PRAs and CDAs are involved in identifying poor households for water and wastewater connections, the system is excellent. However, the effectiveness in the application of this system of targeting leaves much to be desired, as explained in 2.3.5. (1) below.

Box 1

PWP and Alternative Low–Cost Sanitation in Rural Areas

In October 2000 SFD presented a discussion paper to the ILO 8th Regional Seminar for Labour Based Practitioners, in which the domestic sanitation problems in rural Egypt resulting from increased potable water consumption were discussed. As pointed out in this paper, per capita water consumption is increasing from 30-50 l/c/d to 100-150 l/c/d, which overburdens traditional pit latrines and soakaways in many villages, resulting in higher water tables, damage to house foundations, more frequent (and more expensive) removal with suction trucks, and even wastewater ponding in streets and lanes, with serious environmental health ramifications. The response of government has been to install standard gravity sewerage systems and treatment plants, but these are extremely expensive and, given the huge size of the problem, are far beyond the financial capacities of government. As international experience shows, there are a number of alternative solutions which are much less costly and more appropriate to the rural situation. The paper pointed out that SFD was investigating the technical, social, and financial feasibility of various alternatives, both in the collection and conveyance of wastewater and in the treatment of effluent.

In 2002 SFD/PWP and KfW signed an agreement for the launching of the **Environmental Protection Project for Naga Hammadi Villages,** an innovative approach to improving the sanitation systems in 17 scattered villages in Naga Hammadi District which were threatened by rising water tables due to increased water consumption (and the raising of the level of the nearby barrage on the Nile). Two villages (El Rizqa and Nagaa El Arab) were chosen as pilot sub-projects, and implementation of these is underway. The project is to include social awareness, institutional support, consultants, and building protection, and the total estimated cost of the project is LE 46 million, to be completed by 2006. Alternative solutions were analyzed for the two pilot village, and the most feasible solution was found to depend on the particular area. Where groundwater was a serious problem, the answer was a simplified gravity network with small bore tertiary-lines collecting directly from houses, discharging into lateral sewers with manholes, and finally a pump station and force main to convey effluent to existing nearby treatment plants. Where groundwater was less a problem, the answer was to install combined septic tanks for clusters of houses and periodic emptying and conveyance by truck to existing treatment plants. (The option of oxidation ponds in the desert and use of treated effluent for irrigation was investigated, but was found to require lengthy force mains which were prohibitively expensive.)

The resulting "combined" solution was found to significantly reduce investment costs over the standard sewerage network solution. While not a radical departure from conventional methods in Egypt, it represents a welcome step in the right direction, and further experimentation in other villages can be expected to have a nationwide impact on the design of better, less costly village sanitation systems.

PWP has set up a number of criteria and procedures to ensure that labor-intensive methods are used and that a significant portion of subproject funds go to employing people from the community being served. On the demand side, these are found in the special criteria for selection of contractors and in the checks required during execution. These are seen as adequate, and due to the low prevailing unskilled wage rates only poorer labourers are "self-selected" for these temporary jobs which provide a welcome addition to family incomes. Also, PWP has launched pilot schemes which attempt to influence the supply side of the labour market, by encouraging and training smaller youth contractors with little construction equipment to bid for PWP projects, thus introducing more labor-based means of execution. There are some issues surrounding the effectiveness of these systems, and these are also discussed in 2.3.5. (2) below.

(3) How relevant are the mechanisms designed to deliver benefits?

The systems and procedures used by PWP in its project cycle are very well designed, especially in the Egyptian context and especially given the degree to which PWP projects and subprojects are embedded in Egyptian government political and delivery systems. This is particularly true of the use of PIUs as managers and process facilitators working closely with government, and also with the roles assigned to SAs and IAs (in particular governorates and governorate directorates). Complementarity and coherence of PWP systems are very good, mainly through the systems PWP has evolved to complement other sunk investments and to coordinate subproject identification and funding with local directorates, local administration, Shorouk, and the Ministry of Planning. Also, there are mechanisms embedded within the project cycle to improve the technical and management capabilities of intermediary agencies which can have a catalytic effect. However, the performance of these systems raises a number of issues, as is discussed below in terms of efficiency and effectiveness.

(4) How relevant are the PWP monitoring and evaluation systems as feedback and learning-by-experience mechanisms?

The design of monitoring and evaluation systems of PWP are good for the tracking of subprojects and flow of funds, for evaluating disbursements, for ensuring minimum quality of execution, and for identification and correction of problems during the project cycle. Monitoring of projects is carried out on a monthly and quarterly basis. M&E systems are also good in terms of recording physical outputs. But there is little in the way of evaluation of completed projects or measurement of impacts which can be fed back to PWP management at either the RO or central level. Certainly post-project evaluations are commissioned with consultants from time to time, but these tend to be sterile reporting requirements which do not serve to inform PWP on how to improve its relevance, effectiveness, and impact. There is a preoccupation with easily quantifiable "objectively-verifiable indicators", such as the kilometers of roads paved and pipes laid, the number of buildings renovated, etc. This issue is further discussed below in terms of impact.

2.3.4. Efficiency

Overall, the efficiency of PWP operations has been and continues to be quite good, especially given the context of Egypt and in comparison to other infrastructure service providers operating in the country. This will become apparent in the following discussion, which is organized into the following subjects: (1) relationship between planning & execution, (2) day to day management, (3) project and subproject cost-effectiveness, (4) rapidity of disbursement and project timeframes, (5) flexibility and responses to events, (6) synergies with other SFD programmes, (7) design and quality control, and (8) use of advice and technical assistance provided through donors.

Box 2

PWP and Water and Wastewater House Connections for the Poor

Over the last 20 years the Egyptian government has made very significant potable water investments in towns and villages and huge wastewater system investments throughout urban areas and also in some rural areas. However, in poor neighbourhoods many households have not connected to the systems for the simple reason that they cannot afford the one-off payment for connection charges, which average LE 400 for water and over LE 1000 for sewers. This means that the considerable environmental health benefits of these systems are not fully realized and make the sunk investments inefficient. In some cases households make shoddy clandestine connections which result in massive leakages. In addition, insufficient sewerage connections mean that the optimum flows for which the lines were designed are not reached, which can compromise whole networks.

SFD/PWP is well aware of the problem and has included domestic water and wastewater connections for the poor in some of its integrated projects with CDP through village CDAs. In addition, in 2000 it signed a framework agreement with Qaliubia Governorate for a **Revolving Fund for Wastewater Connections** in two towns (Qaliub and Qanater el Kheiria), where sewerage networks had been recently expanded but many households had not connected. An amount of LE 3 million was put into an account, out of which it was aimed that 3000 building owners could take loans for connections, with paybacks allowed in easy monthly instalments, with a three month grace period. Loans carried a 10% interest plus 2% for project overheads. Actual execution was organized through a PIU using small, labour-based contractors. The pilot project proved to be very successful, with repayment rates at nearly 100% and with connection costs 30% below estimates. The fund has revolved and is being supplemented to construct an additional 12,000 sanitary connections in five other cities.

SFD/PWP has prepared a similar project for Sharqia Governorate costing LE 10 million, to be funded by UNDP. It has also calculated that a national level programme could be launched.

Such an initiative by PWP is particularly noteworthy because (1) it is financially sustainable, (2) it involves very labour-intensive civil works, and, most importantly, (3) by its nature it self-targets poor households.

(1) The relationship between planning & execution

The project cycle used by PWP ensures a tight and logical relationship between planning and execution. Subprojects are identified from below, screened, and then packaged and funded centrally. Execution follows logically and is centred locally, through the mechanism of the PIU. Responsibilities, procedures and operational norms are clearly spelled out, and reporting and monitoring of implementation is also well defined. However, it could be said that such a relationship is too rigid and vertical, especially compared with other social funds which allow considerable regional autonomy in funding choices. Yet compared to Egyptian government agencies PWP devolves considerable implementation responsibility.

(2) Day to day management

Day to day management is good. Channels of communication between regional offices and the centre are effective, both formally and informally. Communications between regional offices and the PIUs are also close and effective. Budget management and tracking of flow of funds are also good. (And it should be pointed out that tracking of and reporting on the use of donor funds is competent.) Also, personnel management and personnel motivation appears to be good, largely because of the relatively lean staffing both at the central level of PWP and within the PIUs. Also, contracting and tendering, outsourcing, coordination with other bodies, etc. seems to be well carried out.

(3) Project and subproject cost-effectiveness

The tendering processes for subprojects are normally carried out by governorate-level Intermediary Agencies with close scrutiny by PIU and Regional Office via checks on the tender documents, the prequalification of contractors, and by representation on tendering committees. Egyptian legislation on tendering applies, and least cost is the main determining factor. Bidders are given a bill of quantities and are asked to set unit costs for the various items. PWP officials at both the regional and national level are confident that the process ensures that the unit costs of successful bidders are in conformity of with market rates prevailing in the particular locale. They are also confident that the resulting overall subproject costs are within line with the costs of similar local tenders carried out for non-SFD projects.

While in price terms the tendering process may result in least costs, there is the danger that the chosen contractor may produce substandard and shoddy work (as is frequently the case in public sector tenders in Egypt). PWP is aware of this, and such an occurrence is mitigated by strengthened vetting of contractors' technical offers, and also by instituting a quality assurance system (see 2.3.4. (7) below).

The cost of project overheads, most of which relate to the cost of setting up and staffing the PIU but also include the initial consultant feasibility studies and follow-up, are remarkably low, especially when it is considered that most subprojects are quite small in size and do not allow the kinds of economies of scale associated with large civil works projects. For example, the overheads or "administrative support" for all Phase I and Phase II PWP projects averaged only 3.2% of total actual expenditures. The same ratio for current public works projects funded by IDA and KfW (IDA3, KfW4, KfW debt-swap, and KfW Mataria) are estimated to range from 1.5% to 4.0% and average 3.48% of project costs. Parenthetically, it should be pointed out that these rates are extremely low when compared to donor-executed projects in Egypt which rely heavily on local and international private consultants.

(4) Disbursement rates and project timeframes

PWP projects are executed in a timely manor. Disbursement rates of donor funds by PWP are the highest of any programmes within SFD.[28] PWP also has shown that it can carry a heavy disbursement load when funds are available and approved. For example, in the first

[28] As stated by PWP management. For example, PWP has disbursed and closed its last EC project far in advance of other SFD programmes.

eight months of the current year PWP has already disbursed LE 182 million, the highest annual rate in the history of PWP.

However, the project cycle is long, and the time span from subproject identification to complete execution of all subprojects in a project can be as long as 4-5 years. This means response to needs is not rapid.[29] However, much of the delays in the project cycle occurs before framework agreements are signed with the SAs. This is due to (1) the need for screening and prefeasibility studies of sub-projects and their checking with government agencies that there is not duplication of funding, (2) the need for donor agreements to go through official channels, including the Parliament, and (3) the central SFD appraisal and approval process for projects . Once the framework agreements are signed, execution normally begins within three to four months, and all subprojects are completed within 1.5 to 2 years. There are also occasions where a whole project has been designed, agreed upon, and executed in six months (post-flood projects in Upper Egypt.) However, compared to other social funds, which operate on an annual cycle or even less, response times from need identification to execution, are not good.

Procurement requirements of donors can be burdensome and time consuming (and have raised the costs of "administrative support" associated with projects). The procurement regulations of the EC have been particularly onerous. But since now PWP manages the grants of only two donors, IDA and KfW, understanding with donors is excellent and these external procurement requirements are not considered problematic.

(5) Flexibility and responses to events

Although the "classic" project cycle is not particularly flexible, PWP has shown on many occasions the ability to rapidly respond to needs arising from particular project requests. Special projects and studies can be quickly commissioned, as long as there are funds available. PWP has been able to quickly gain donor approval for these variations.

(6) Synergies with other SFD programmes

At the central level coordination and synergies between PWP and the other programmes under HDCG is good. This is particularly true with CDP. PWP and CDP frequently fund projects jointly, and there is good conceptual exchange of ideas and project conceptualization, especially on the use of NGOs and CDAs as intermediaries. The social component of PWP projects is one example of this close coordination.

At the RO level synergies also exist, although the degree varies from governorate to governorate.[30] Since ROs are mainly implementers, they are frequently pre-occupied with day to day management and do not always take full advantage of the opportunities for synergetic collaboration, especially at the project formulation and design stages. It has been observed that in Qena and Aswan there is much more conceptual and practical integration of

[29] There is however some flexibility built into the project cycle which allows rapid response, in that addendums to framework agreements allows addition/subtraction of subprojects along the way, to reflect changing circumstances on the ground and result of screening processes.
[30] One example is the use of governorate PWP's PIUs to contract and supervise the construction of health clinics which are under the CDP

PWP and CDP, and this is mostly due to the lasting impact of Danida's technical assistance to SFD in these governorates (TASFD project) over the 1998-2002 period. (See also Box 3.)

Recommendation: SFD should strengthen integrated approaches to subproject identification and innovative design within the regional offices to better respond to needs and opportunities at the governorate level. A replication of the TASFD approach should be considered in other governorates.

It must be pointed out that, while there are considerable synergies among the programmes which fall under HDCG, there are no observed connections between PWP and SEDO at either the central or regional levels.

Box 3

El Oliqat Village Integrated Development Project

Under the Danida-funded Technical Assistance to SFD in Qena and Aswan Governorates (1999-2002) a number of integrated village development projects were set up, and the village of El Oliqat, a mother village including surrounding hamlets in Markaz Qus with a population of 20,000, was targeted as one such project. As an integrated project it involved both PWP and CDP, coordinated through the SFD regional office in Qena. With a total budget of LE`650,000 including a 10% local contribution, the sponsoring as well as implementing agency was a small CDA which had been set up in the 1980s but which was almost dormant. The capacity of the CDA was built up through technical assistance and training, and the project components, which were defined by the community itself, included:

- Water networks to serve three outlying hamlets
- Latrines and water connections for poor households
- Provision of a latrine emptying suction vehicle*
- Tree planting
- Pre-school nursery*
- Health clinic*
- Health awareness campaigns and training in first aid
- Computer centre*
- Expanded CDA building

For those project components which involve recurrent costs (indicated by *), separate accounts have been set up and they must be financially sustainable through the collection of user fees. The CDA continues to be very active two years after the completion of the project. Furthermore, it has attracted other support (Care and CIDA) for further activities (e.g. micro-credit).

(7) Design and quality control

Design and quality control is not directly in the hands of PWP, since standard designs for infrastructure, materials specifications, and tendering and execution are in the hands of intermediate agencies such as technical directorates at the governorate level. Although PWP and the PIU try to influence the process and follow up at each step, the result is that civil works can sometimes be shoddy and barely up to standard. PWP recognizes this problem, and at the beginning of 2004 PWP instituted a system of quality assurance status reports. Under this system, qualified institutes, universities, and civil engineering offices have been contracted to monitor the quality of on-going and recently completed projects, looking particularly at materials used, specifications applied, and quality of execution. By July 2004 a total of 13 projects had been reviewed in PWP's four main sectors (water, wastewater, roads, and canal covering) through a total of 157 sample subprojects. It was found that 146 samples were acceptable, 10 were acceptable with reservations, and 1 was not acceptable. Legal and procedural steps are taken with the non-acceptable cases. This quality assurance reporting system is continuing for another 6 projects, and PWP aims to re-apply it periodically. It is hoped that such a quality control system will raise civil works performance of IAs, not simply because it is a policing tool, but more as a message to IAs that PWP projects are being carefully monitored.

(8) Innovation and use of advice provided through donors

PWP is a facilitator for funding and implementation of projects. Yet it is also an innovator and a change agent. In this sense it should have the capacity to conceptualize and plan for improved performance. PWP has shown that it can undertake a number of initiatives by itself and as part of HDCG; for example it has attempted a number of innovations regarding O&M, and is currently outsourcing a pilot study and demonstration project in this regard (see 2.3.6. below). And currently it is part of the formulation process for a new pilot approach of HDCG aimed at integrated local area development. Yet technical assistance provided by donors not always well utilized. Whereas the Danida supported TASFD project in Aswan and Qena appears to have had considerable positive impacts on regional PWP operations, there has been little impact of the KfW-sponsored recommendations for improved PWP monitoring and evaluation carried out in 2001.[31] This study contained a number of recommendations, and good advice was found particularly involving targeting and project identification, post-implementation sustainability, and impact monitoring and lessons-learned. It is understood that there was to have been a second phase where recommendations were to be applied on a demonstration basis, but that due to funding problems this phase was never carried out. However, some simple steps, particularly concerning better poverty indicators for geographical targeting of PWP interventions, could have been taken up. (The issues of targeting and impact assessment are discussed in 2.3.5. (1) below.)

2.3.5. Effectiveness and Impact

Effectiveness relates to the how well PWP's benefits have been delivered and received, and whether they achieved the purpose for which they were intended. Impact on the other hand refers to the ultimate outcome, i.e. whether PWP's benefits had a wider overall effect beyond the direct beneficiaries on poverty reduction and employment creation. Given the particular nature of PWP as both a facilitator of labor-based infrastructure delivery to poor areas and as an agent for change and innovation in the wider Egyptian context, it is preferable to discuss effectiveness and impact under the following headings: (1) effectiveness of PWP's approach and mechanisms for targeting the poor and the impact in terms of improved livelihoods (2) job creation, labor-intensiveness of PWP sponsored projects, and impact on the wider construction sector, (3) PWP's effectiveness in improving capacities and performance of partner agencies (SAs and IAs) and communities and the replication of innovative approaches

[31] Improvement of Monitoring and Evaluation of SFD's PWP Activities, KfW, Gopa/Africon, Phase I Final Report, September 2001.

by other actors, and (4) the potential for scaling up PWP interventions which directly benefit the poor throughout Egypt.[32]

It should be pointed out that effectiveness in its strictest sense depends on indicators of benefits delivered. However the only such indicators that have been established for PWP are (1) the number of temporary and permanent jobs created, (2) the physical measurement of outputs (in terms of km of roads paved, of canals covered, of water lines laid, etc.), and (3) very rough and optimistic estimates of the numbers of local inhabitants benefiting from the services. These are reported frequently.[33] More useful indicators, which could begin to measure the benefits reaching the poor, have not been developed.

(1) Effectiveness of PWP's approach and mechanisms for targeting the poor, and the impact in terms of improved livelihoods

How effective have PWPs projects been in geographic distribution of benefits towards the poor? Geographically there is a consensus of the degree of poverty at the regional level: Upper Egypt has the highest poverty rates, with Lower Egypt following, and with Frontier and Metropolitan Areas the best off. This is reflected in the PWP overall budgeting guidelines which aim to allocate 50% of funds to Upper Egypt, 30% of funds to Lower Egypt, and 10% of funds to each of Metropolitan and Frontier governorates.[34] Such rule of thumb in PWP budget allocations have remained throughout the life of SFD and have not been refined.

A simple check of the relationship between actual PWP expenditures to date by governorate and governorate populations has been carried out, as shown in Table PWP 4. This shows that budgeting targets have roughly been followed, with Upper Egypt capturing 49% of expenditures, Lower Egypt 37%, Metropolitan areas 8%, and Frontier areas 5%. Table PWP 4 also shows that PWP expenditures per capita generally follow the same pattern, with LE 25.3/person in Upper Egypt, LE 16.5/person in Lower Egypt, and LE 8.8/person in Metropolitan areas. However there are significant variations between individual governorates which cannot easily be explained. In addition, allocations per capita to Frontier areas are heavily skewed, at LE 66.3/person, or almost four times the national average.

[32] It must be noted that PWP itself has never analyzed itself in terms of logical frameworks. Some individual donors have carried out these exercises in the formulation of specific time-bound projects carried out by PWP, but none of these have attempted to encompass the full breadth of PWPs aims and operations, and none have set performance indicators which are measurable and verifiable.
[33] See for example SFD Bridging Phase Annual Report, 2001 & 2002, pp. 57-58.
[34] See Gopa, p. 22.

Table PWP 4
Total PWP Expenditures (all Phases but excluding central projects) by Governorates and Population

Governorate and Region	Total PWP exp. (LE million)	Total PWP exp. Per capita	1996 Population (Census)	WB poverty Rates %	WB poverty Rates no. of poor	PWP exp. Per capita on poor
Aswan	66.006	67.8	974068			
Qena	101.135	41.4	2442016			
Sohag	75.824	24.3	3123110			
Assiut	69.59	24.8	2802334			
El Minya	60.33	18.2	3310129			
Beni Suef	54.7	29.4	1859214			
El Fayoum	59.06	29.7	1989774			
El Giza	28.34	5.9	4784099			
Luxor	33	91.4	361138			
Total Upper Egypt	547.985	25.3	21645882	29.1	6298952	87.0
El Dakahlia	54.79	13.0	4223919			
El Gharbia	59.07	17.3	3406020			
El Manufia	50.42	18.3	2760431			
El Sharqia	63.34	14.8	4281068			
El Behira	59.184	14.8	3994297			
Kafr El Sheikh	48.243	21.7	2223659			
El Qaliubia	51.02	15.5	3301244			
Damiet	19.36	21.2	913555			
El Ismailia	19.36	27.1	714828			
Total Lower Egypt	424.787	16.5	25819021	9.7	2504445	169.6
Cairo	38.85	5.7	6800992			
Alexandria	29.04	8.7	3339076			
Suez	18.9	45.3	417527			
Port Said	9	24.2	372335			
Total Metropolitan	95.79	8.8	10929930	5.06	553054	173.2
Matrouh	12.82	60.5	212001			
Wadi El Gedid	7.15	50.4	141774			
Red Sea	14.98	95.2	157315			
North Sinai	8.9	35.3	252160			
South Sinai	10.35	188.8	54826			
Total Frontier	54.2	66.3	818076	7.1	58083	933.1
Grand Total	1122.762	19.0	59212909	17.09	10119486	111.0

WB source for poverty estimates: WB, ARE Poverty Reduction in Egypt, Diagnosis and Strategy, Vol. 2.

Using the WB 1999/2000 poverty indicators for regions of Egypt, a rather different pattern emerges.[35] PWP expenditures per poor person were roughly similar for Lower Egypt and Metropolitan areas (LE 169.6/person and LE 173.2/person respectively), but about half as much for Upper Egypt at LE 87.0/person. And for Frontier Governorates the rate was extremely high, at LE 933.1, or a full ten times the national average.

Recommendation: SFD should consider excluding Frontier governorates from any future PWP projects. They simply cannot be justified either in per capita or per capita poor terms. In addition, these areas are receiving considerable other social infrastructure investments by government (through line ministries, the Reconstruction Agency (gehaz el tamiir) and Shorouk and also through donor programmes.

As explained in the introduction, PWP has traditionally relied on "demand-driven" identification of needs coming up through local community and political structures, on the theory that needs of the poor are best articulated this way. PWP's ROs screen these requests through field checks and knowledge of local conditions, but there remain problems with this faith in the local articulation of needs.[36] As pointed out in the MDRM I report, "the 'demand-driven' system used by PWP relies on the existing local power hierarchy for articulation of local needs and there is the possibility of interference of vested interests in the project selection process."[37]

If PWP infrastructure services were "self targeting", that is, if by their nature only poor or mostly poor households would avail themselves of the particular service, then geographically targeting would be less important. However, this is not the case, except for water and sanitation house connections, as is discussed below. The main social infrastructure services supplied through the PWP system produce benefits which are area-wide (at the level of the hamlet, village, and urban pocket). Thus the targeting of small areas where (1) the particular service is lacking or deficient, and (2) there are high concentrations of poor households is an imperative if PWP interventions are to be effective.

(1) In terms of lacking service levels, PWP uses its Priority Targeting Action Plan to steer allocations within governorates. The main Priority Targeting Report (last updated in 2000) displayed a confusing myriad of indicators of service levels down to markaz level. Following recommendations of the KfW-financed review of PWP's monitoring and evaluation system in 2001, PWP produced a more user-friendly version which prioritizes (ranks) PWP main interventions (Wastewater, potable water, roads, clinics and sports facilities, and classrooms) by need for each governorate and region. The same ranking has not been done down to the markaz or lower levels, and this is a serious weakness. In any event, there is no indication that any statistically-based ranking of service levels or poverty indicators is used systematically as a guide for PWP investments (or CDP investments for that matter) within governorates.[38]

[35] World Bank, Arab Republic of Egypt, Poverty Reduction in Egypt, June 2002, Volume II annexes, p. 2 and p. 4. Urban and rural P0 rates have been combined according to population weights.

[36] This mission found that RO directors and PIU heads have very little knowledge of local concentrations of poverty, whether at the district level or lower. The general opinion was that in local villages the great majority of people are poor, and targeting is simply a matter of supplying services that are lacking, since it is well known that previous government interventions would have naturally gone to those with higher standing in the community (the better off).

[37] MDRM Final Report, April 2000, Chapter 5.

[38] It was pleasing to note that the Qena RO had copies in Arabic of the pilot work on measuring and ranking service deficiencies and poverty indicators down to the community (village) level, using the results of the 1996 Census, carried out as part of the

(2) In terms of targeting small areas of high incidences of poverty, there is a conceptual problem: the issue of geographic poverty concentration in Egypt is not well understood and there has been surprisingly little attempt to assess the situation with any rigor. In fact, the nature and dynamics of household poverty in Egypt may resist geographic generalizations, since unlike other developing countries, there is at least anecdotal evidence that in both urban and rural settlements the poor, the moderately poor, and the well-off live side by side. This conceptual problem with geographic targeting of the poor is not something that PWP can or should tackle on its own, and this wider issue is discussed in 2.3.5. (1) below.

In summary, the effectiveness of PWP interventions in social infrastructure in reaching poor households cannot be measured. The approach used by PWP remains pretty much an article of faith in the demand-driven process, i.e. the local articulation of needs through subproject identification, screened by PWP on a case by case basis.

Recommendation: PWP, with CDP, should engage an in-house consultant to carry out simple and practical analyses in sample governorates of various village-level indicators of poverty (using census, agricultural land holding, and other data) to see if generalizations can be made on geographic concentrations of poverty. The consultant would, at the same time, chart the geographic spread and concentration of past PWP and CDP investments to assess linkages with geographic poverty indicators and the relevance of service catchment areas. Simple mapping of the sample governorates would be included. The point of departure would be the work carried out by TASFD and GOPA on geographic targeting. The work would help inform the current WP/SFD plans to undertake a poverty mapping exercise for Egypt.

As mentioned above, most PWP interventions do not by nature allow self-targeting to reach the poor. However, in the case of sanitation and drinking water, house connections can have this effect. Normally PWP concentrates on network improvements and extensions and then these are handed over to the responsible local authority (water dept. of local unit or local branch of sewerage authority) both for running and for installation of connections. Connections are always voluntary, based on an application by the household and the payment of fees. Many poorer households are unable to pay these fees, especially as a lump sum. (Water connections, including the insurance fees for the meter, average over LE 400, and wastewater connections, including inspection chambers, average over LE 1000.) This results in the networks being underutilized, meaning sub-optimal use of investments, and, in particular, in means the service does not deliver the considerable health and hygiene benefits to those most in need. PWP is well aware of this contradiction, and it has launched a number of admirable pilot efforts to address the house connection issue.

Recommendation: PWP should expand and deepen its pilot efforts concerning house connections for water and wastewater, especially on two tracks: (1) the use of local CDAs to grant fund the installation of connections based on their assessments of poor and destitute families (as in Abou Tusht Markaz, Qena) and (2) setting up revolving funds for loans to poor families to pay for connections under easy instalment arrangements (as in Qaliubia). An added benefit of this approach is that house connections are highly labour intensive.

Danida-fundedTASFD project (1999). However, no one in the RO could explain the ranking system and it can safely be said that it was not used.

In terms of wider impact of PWP social infrastructure interventions on the livelihoods of poor families, it is difficult to make any sound global assessment. (Rural road paving, and to a partial extent water and wastewater networks, can have a value added in terms of local economic development, but it is not possible to measure these benefits.) In the past PWP has carried out a few consultant-contracted post-project assessments in some governorates, using the mechanism of household interviews to gauge the level of satisfaction of beneficiaries, and these are generally reported to be high, although these are not rigorous and do not separate out poor from non-poor households. The SFD Impact Assessment carried out for the European Commission in 2004 represents the only systematic attempt to assess PWP impacts. A weakness of the study was that only 6 PWP subprojects were selected, out of a universe of over 1500. Even so, the study found that SFD infrastructure projects overall are relevant to the needs of the poor. Also, they scored well in terms of the percentage of beneficiaries which were ultra poor (30-40%) and poor (50%). Overall social impacts were rated as either Medium or Highly Positive. Benefits were direct in 4 subprojects and indirect in 2 subprojects.[39] Although called an impact assessment, this study only assessed the direct impact on beneficiaries using the infrastructure service or on those living in the area benefiting from the service.

(2) Job creation, labour-intensiveness of PWP sponsored projects, and the impact on the wider construction sector

PWP sub projects generate a small amount of permanent employment and a much greater amount of temporary employment. This is a planned result, and the requirement for 25% of a subproject's cost going to the wage bill and in addition that 50% of this wage bill going to workers from the immediate area (village) is embedded in the procedures of selection and supervision of contractors. These requirements are seen effective, based on field checks. Also, the majority of the kinds of jobs created are casual and unskilled and low-paid (averaging LE 18/day in the Delta and LE 12/day in Upper Egypt), thus they can be considered "self targeted" towards poorer unemployed or underemployed adults. And it is certain that they generate very welcome additions to household incomes of the poor, even though these incomes are not permanent. It should be pointed out that women almost never are employed in casual jobs created through PWP subprojects.

The volume of jobs generated by PWP subprojects is carefully recorded. During Phase I and Phase II a total of 234,945 jobs were created through PWP projects. In addition, according to the EC Impact Assessment the average cost per PWP-created job was LE 4,000, the lowest of all SFD programmes.[40] There is considerable debate, however, on what constitutes a temporary versus a permanent job. PWP assumes any job which lasts more than six months is permanent (following WB recommendations), whereas other observers of SFD operations say a more refined measurement in terms of man/months or man/years should be employed.

Whatever the definitions of permanent employment, it can be said that PWP creates jobs as planned, and that the majority of these jobs go to those who are poor and ultrapoor. Given the nature of PWP infrastructure projects, the jobs created are almost all temporary, and thus in

[39] EC, Jakaranda Consult, Impact Assessment of the Egyptian Social Fund for Development, Consolidated Report, September 2004, pp 45 and 46.. The definitions and logic of the "poor' and "ultrapoor" categories are discussed in Part 3 Section 1 on the cross-cutting issue of poverty.
[40] Ibid, p 18. However, the Impact Assessment sampling of six social infrastructure subprojects calculated job creation costs at LE 14,000 to 40,000 per man/year (p. 54.)

terms of stable employment the per job cost is very high. In terms of wider impact, it can be assumed that a local area employment multiplier is in effect, although it is likely to be quite small, especially in rural areas.

So far the discussion of employment generation has been restricted to PWPs creation of demand for jobs. What is perhaps more important is how PWP can influence the supply of jobs by encouraging more labour-intensive construction methods and contracting systems. In this respect PWP has had a very successful experience in training and orienting youth to set up small contracting businesses, as part of the Danida-funded TASFD project. On a pilot basis 152 small scale, labour-based contractors were trained by 2002 in 19 governorates as part of a comprehensive modular "Labour-Based Contractor Training Programme." It is understood that over 130 of these small contractors are now working in the construction sector, both for PWP-sub projects and for other government and private sector entities. Some have become extremely successful. PWP has all of the modular training material and is planning to repeat the process, focusing on technical supervisors and foremen with considerable prior knowledge in the construction field and who understand the value of labour-based methods. In addition, PWP has begun discussions with the Engineers Syndicate and the Construction Contractors Union to explore means of generalizing labour-based training methods throughout the sector.

Recommendation: PWP should undertake, as a high priority, the replication and deepening of the experience in promoting labour-based contracting, with the aim of the widest impact on the construction sector in Egypt. Following the recent devaluation of the Egyptian Pound, labour costs are more competitive than ever compared to machine and capital intensive approaches which still dominate the sector.

(3) PWP's effectiveness in improving capacities and performance of partner agencies and communities and the replication of innovative approaches by other actors

PWP is extremely well positioned as a "change agent" which could have a far reaching impact on the many technical directorates with which it works on the governorate level, with CDAs and village councils on the most local level, and also, on a more policy level, with sponsoring agencies such as line ministries and governors. Such a "value added" of PWP was recognized in the first MDRM[41], which noted a number of innovating influences which PWP had already had on partner agencies, most of whom are inefficient and mired in inappropriate practices.

In the last four years PWP has continued to provide innovative examples to partner agencies, although mostly on an *ad hoc* basis and not as any strategic move. Examples are large and small and encompass technical subjects as well as procedural and cost matters, and encompass such areas as household connections, labour intensive contracting, CDA involvement in public works, the PIU approach to managing projects, etc. However, it is not likely that PWP by itself can have a fundamental impact on its partner institutions. Their inefficiencies have basically to do with a still un-reformed policy, fiscal, and civil service environment and their weight in their sectors are enormous compared to PWPs volume of interventions. PWP can only provide examples of better practices and disseminate these.

[41] MDRM I Final Report, April 2000, pp 75-76.

Unfortunately, to date PWP has not made efforts to systematically propagate its more promising innovations.

Recommendation: PWP, along with CDP, should publish and disseminate a set of working papers and project descriptions which highlight lessons-learned and innovative solutions in the provision of social infrastructure and sponsor events to propagate these "points of light". In preparing this material on "best practices", there should be more horizontal exchange of experiences at the regional level (ROs, PIUs, CDAs, etc.) and at the central level between SFD programmes (PWP, CDP, EDD, etc.)

Recommendation: PWP should engage engineering consultants with the specific tasks of developing better and more practical model designs for elements of infrastructure services (including materials specifications) which are more appropriate than existing standards designs of technical directorates for the kinds of sub-projects which PWP carries out.

(4) The potential for scaling up PWP interventions which directly benefit the poor throughout Egypt.

It is understood that in each governorate there are numerous candidate social infrastructure sub-projects which have been identified and which represent a growing "pipeline" of candidates for SFD funding.[42] But even if funding could be secured, the impact of PWP approaches and modalities towards poverty alleviation and employment creation and also its impact on local economies and communities cannot alone be sufficiently scaled up to have strategic impact. Due to the atomized sub-project approach which spreads benefits throughout the Egyptian countryside and towns the collective wider impact cannot be especially visible. For this reason HCDG's new approach towards Integrated Local Area Development (ILAD) offers an interesting attempt to have such a more synergetic impact. Another advantage of the ILAD approach is that it allows, through the mechanism of rapid baseline studies, to be able to measure the impact of interventions on poverty indicators and employment in the particular area being taken up.

At the end of the day PWP's scaling up potential depends on increased funding from donors, mainly through the conventional funding commitments made through the SFD system. PWP has little control over these, but adopting the recommendations which are presented in this report will make PWP more effective both as a funding channel for social infrastructure and as a pro-poor change agent in the Egyptian context.

2.3.6. Sustainability

Will positive outcomes continue after external funding ends? This, in the PWP context, depends mainly on the proper use and functioning of the built infrastructure services, which in turn relates to their operations and maintenance.

---

[42] The Dakahlia SFD RO manager estimates that in his governorate alone there are LE 80 million of such sub-projects in the pipeline.

The issue of O&M of public facilities in Egypt is problematic, to say the least. Central and local government agencies try to keep their annual recurrent expense allocations (from Bab 2) to a minimum, and rarely do they increase line item O&M budgets to reflect the growing stock of investments. And because of the extremely centralized financial system for all revenue collection, it is legally almost impossible to create service-specific user fees and other cost recovery mechanisms which are earmarked for the proper running and preventive maintenance of individual public services.

Box 4

A New Strategy: Local Area Development

HCDG, the SFD group which includes PWP and CDP, has developed a new strategy for integrated operations. While until now activities of these programmes have been effectively providing social infrastructure and community-based services throughout rural Egypt, the interventions were mostly scattered and thinly spread geographically, depending on local administration and local communities to identify candidate subprojects.

Seeing the need for more focused approaches which can yield more visible impacts, HCDG has developed a policy of Local Area Development, targeting urban as well as rural areas which exhibit high concentrations of poverty and deprivation for more systematic funding for comprehensive development. The underlying philosophy is that concentrating investments in a particular area will allow full complementarity of the different HCDG interventions and generate a higher social and anti-poverty impact than would result from the same interventions spread out over a wider area, such as a whole governorate. In addition, there would be development "economies of scale", with the volume of investments in one location justifying considerable preparatory work on community capacity building and effective popular participation in identifying needs and in the whole implementation process. In addition, it is hoped that area concentration will allow for sustainable, community-based O&M mechanisms to be put in place.

Particular areas in Cairo and Sohag Governorates were identified for the first demonstration projects under Local Area Development. The run-down and deprived qism of Darb el Ahmar (1996 population of 78,000) in Historic Cairo was selected as one pilot area, where the Aga Khan Trust (AKT) already has a community and cultural development project underway. Thus Darb el Ahmar will be a joint SFD-AKT project, with KfW funding the SFD contribution of LE 30 million. The second pilot area identified for Local Area Development is the Dar El Salaam District of Sohag (the town, five main villages and associated hamlets, the 1996 population of the District being 255,000). Dar El Salaam District had the worst human development indicator in all Egypt according to the 2003 EHDR. Total costs are expected to be LE 28 million, to be funded by the WB. The package of activities/investments are to include education and health sectors, youth centers, CDA capacity building, road paving, water supplies, local sanitation systems, SWM, canal covering, and vocational training.

A third pilot project under Local Area Development is being considered for one or more slum pockets in Alexandria.

For decades international assistance programmes to Egypt have been struggling with this problem since donors do not, in principle, fund recurrent costs. Much in the way of technical assistance and training has been carried out by donors to address the issue, but any review of post-project documentation or even cursory visits to donor-funded assets will show that, although there is certainly a heightened awareness of O&M among professionals and authorities, fundamental O&M improvements remain blocked by legal and institutional constraints which, to date, remain un-reformed.[43]

As pointed out above, PWP through its PIUs formally hands over the finished infrastructure elements to the appropriate SA or IA for operations and maintenance, as specified in all framework agreements. (These framework agreements include a stipulation that the SA will undertake the proper operation of the infrastructure service, but there is no legal recourse to enforce this.). Thus PWP can only offer advice.

The poor operation and often deplorable maintenance related to PWP investments were noted in MDRM I in 2000 and again by the KfW-financed Monitoring and Evaluation Study of PWP carried out in 2001. PWP has become extremely aware of the issue, and starting in Phase 2 it instituted a scheme where the 10% local contribution of Sponsoring Agencies to a particular project must go into a special governorate account for operations and maintenance. There has been no agreed system for the use of these special accounts, and they collectively now amount to over LE 68 million.

PWP has come up with an innovative and sustainable concept for O&M, and the World Bank has agreed to fund a LE 800,000 study and pilot scheme out of IDA 3 which will develop partnerships between SFD, NGOs, and technical directorates in particular governorates. At the time of writing a local consulting firm is being selected by PWP to carry out a 4 month study, followed by an 8 month pilot application in two governorates (Fayoum and Sharqia). One of the key elements of the scheme is that NGOs have the legal power to collect and retain revenues (user fees) as long as the competent directorate delegates its authority. (The directorate itself cannot retain revenues; they must be transferred to central authorities.) It will be interesting to see if the concept can be made to work, even on a pilot basis. Certainly communities suffer from bad O&M and many studies show they are willing to pay for services if these services are properly run. But the O&M dilemma in Egypt has proven stubbornly difficult to solve in the past.

So as not to rely on this upcoming innovative pilot to provide the "magic bullet" which will solve all of SFD's problems with the O&M of sunk investments, PWP should consider other approaches. One approach, which is used in other social funds, is to make further funding of subprojects for a particular technical directorate subject to confirmation that past sub-projects are being properly maintained.

Recommendation: PWP should explore the institution of simple O&M audits of recently completed subprojects, and use the results to determine whether further funding of subprojects for a particular technical directorate will go ahead. This leveraging of PWP's funding authority may be persuasive in forcing technical directorates to take O&M seriously.

[43] The still un-reformed tariff structure for potable water consumption (the national rate remains at LE 0.13 to 0.18 per m3) is a case in point. Since wastewater tariffs are piggybacked on water consumption rates, this sector also suffers. These rates make it impossible for authorities to recoup even a fraction of recurrent costs, let alone the costs of preventive maintenance and investment costs.

2.3.7. Strategic Considerations and Paths for the Future

PWP is extremely embedded in government services delivery systems, more than any other SFD programme (both from the demand and supply sides). This is both an opportunity (in terms of wider impact, reform potential) and a weakness (it must operate within an extremely bureaucratic and rigid, inefficient and responsibility-avoidance system).

On the strength side, one cannot ignore the "value-added" of PWP, especially at the governorate level. And as mentioned in MDRM I, the real role of PWP in the ocean of government is one which can only be catalytic to the wider environment. Unfortunately, over the last four years the catalytic or innovative successes of PWP have been mostly scattered and anecdotal. Given the weight of government in every one of PWP's sectors[44], the strategic choice is whether to continue as is, trying to improve general targeting (including real community participation) and impact and wider influence with SAs and IAs, <u>or</u> to shift to more innovative and selective approaches. More movement towards the latter approach is recommended, and in fact there is already some shift in this direction which should be reinforced. The following are some of the paths:

- Innovative pilot schemes for O&M

- Local area concentration, both in rural areas <u>and</u> in urban slum pockets. In fact, many of the wider social and economic benefits inherent in PWP's menu of infrastructure services (and HCDG's wider menu of social and human development services) are more cost-effective in very dense and deprived urban slums, where levels of poverty equal those in rural areas and where there are definite geographic concentrations of poverty. (See also Box 4.)

- More combined PWP and CDP projects using integrated approaches. Some of PWPs "best practices" which combine community participation with service delivery are found in integrated subprojects with CDAs and other elements of civil society, especially in rural villages, and particularly in terms of impact on poverty and sustainability. One aspect would be to use PRAs and other community-based techniques for needs identification

- On the demand side for labour, better choice of labor-generating interventions, rather than mechanistic requirements for labour which might lead to inefficiencies. On the supply side for labour: deepen the experience with small contractor capacity building.

- More innovation in water and wastewater interventions, especially as concerns house connections and other labour-intensive methods. Non-conventional wastewater systems in rural areas should be stressed

- Better use of consultants and technical assistance; less for mechanistic project feasibility studies and more to inform PWP if they are doing things right (e.g. impact assessments) and to strengthen SFD activities and relevance at the regional level

[44] For example, the Minister of Housing recently announced that State investments in the potable water sector have amounted to LE 25 billion over the last two decades and in the sanitary drainage sector LE 40 billion. Furthermore, he announced that all remaining villages and hamlets in Egypt would be served with potable water systems within two years. (Al Ahram, 16/10-04, page 1.)

- Better geographic targeting, down to the small village and slum pocket level, in the selection of interventions, using practical indicators and simple mapping

On the other hand, PWP should be more strict in screening candidate subprojects which come up from local political structures and are forwarded by governors. In addition to the normal PWP and RO screening process, additional subjective criteria should be added: does this subproject have a wider, innovative effect, and does it serve as an improved model (both in terms of community participation as well as in more relevant and pro-poor service delivery)? Or is it simply more of the same, without any value-added?

This does not imply that PWP should drop its traditional role and exit from some governorates (except perhaps frontier governorates where the populations are too sparse to justify interventions.) Overall funding will determine how much PWP can continue its more traditional governorate by governorate approach, and certainly PWP's political value of good relations with governors is too important to SFD as a whole.

Is PWP financially sustainable as an entity? Current donor funding tranches (KfW and WB) will end within a couple years and there are as yet no firm commitments on future tranches. Given this, and given PWP's definite comparative advantage in Egypt as an efficient and accountable infrastructure service delivery system which enjoys excellent relations with governorates and technical directorates and with a proven track record of success over 12 years, PWP (and CDP) should be able to generate work outside the SFD funding framework. PWP could easily market itself as an infrastructure service delivery agency to bilateral and multilateral donors who have allocated funds sectorally or regionally but are far from satisfied with delivery systems which rely on government agencies. Not all of these projects would be directly aimed at employment creation or poverty reduction, but PWP's excellence lies in its mechanisms of delivery, whatever the goals. If PWP can capture some of this work, it will ensure sustainability which will preserve its networks and allow it, as part of SFD, to continue to be a leader in innovative approaches and as a change agent.

2.4 Human Resource Development Programme (HRDP)

2.4.1. Introduction

As part of the new SFD vision to create successful and sustainable job opportunities through enterprise development, the HRDP aims at enabling its target groups, namely redundant public workers and unemployed youth, to attain or maintain available job opportunities. Its tools for achieving this include:

- Training and re-training ventures;
- Assistance in creation of a national skills standard accreditation system;
- Improving employment, guidance and counselling service.

The HRDP objectives for phase III of SFD are two-fold:

1. To increase the employability of the target groups; and,
2. To improve the capacity of the training and employment system to be more responsive to the rapid development in the labour market.

The traditional target groups of HRDP have been the unemployed and potentially unemployed, with a specific focus on:

1. Public enterprise employees facing restructuring;
2. Unemployed youth.

In phase III of SFD these target groups remained the same. One new target group was added during Phase III, namely: HRDP partners. Those partners such as Supreme Council on HRD, line Ministries, training institutions…etc, will benefit from the second objective, improvement in the training and employment structure.

A number of studies were conducted to assess the needs of the target groups and it was concluded to that the following main services to be provided by the HRDP:

- Re-training and re-insertion of employees of the public sector
- Creation of vocational training and employment projects for the unemployed
- Entrepreneurship training and consultancy services to small entrepreneurs
- Assistance in the improvement of national employment offices
- Assistance in improving the national training and accreditation system

Table (1)
HRDP Fund Allocated and Disbursement in Phase I and II

Total amount contracted in phase I	174,004
Total amounts transferred by SFD in phase I	157,691
Total amount disbursed by sponsoring agency in phase I	139,903
Total amount contracted in phase II	282,395
Total amounts transferred by SFD in phase II	186,564
Total amount disbursed by sponsoring agency in phase II	174,020

A summary of HRDP donors fund and disbursement, for phase I and II is presented in Table (1) while the achievements are summarized in Table (2). The donors fund for

HRDP during the period 2000 – 2004 reached about 61 million Egyptian pounds with a total disbursement about L.E 41million.

Table (2)
Achievements of HRDP in Phase I and II

Training sector	**Phase I**	**Phase II**	**Total**
Number of trainees	9,247	12,274	21,521
Training sectors development	24	46	70
Training of trainers	185	243	428
Developing professions	17	21	38
Restructuring sector			
Early pension	17,614	20,089	37,703
Training (number	763	1,552	2,315
Job opportunities	**10,010**	**13,075**	**23,085**

2.4.2.. Review of the MDRM I Recommendations

The HRDP paid great attention to the recommendations of the MDRM I. An action plan was developed for the duration 2000 – 2004 to implement these recommendations. However not all of these actions were completely implemented.

MDRM I recommendations	Status of implementation
Information system developed and dedicated to the establishment of labour market needs in the various economic sectors and should be able to advice on demand for skills.	The HRDP developed a database for the labour market needs in all sectors. However, this database does not provide an accurate estimate for the demand of the labour market since there is no clear plans in most of the sectors due to the rapid changes have taken place in the laws of taxes, customs…etc. To overcome this, SFD uses the demand driven approach to develop and provide customized technical training as required by the various sectors.
Entrepreneurial development programmes should be extended to include entrepreneurs who need training but not capital.	The entrepreneurship training programme currently provided training for potential entrepreneurs who need technical assistance to start their business regardless of their need for capital. The numbers of entrepreneurs that received training and started their business without getting loans is higher than those who have got loans, for example the percentage of entrepreneurs who are self financed reached about 80 percent of the total number trained in the Isamilia training centre.
HRDP should retain its capacity to run labour adjustment programmes.	To enable the public workers to maintain job opportunities, the HRDP is currently developing an agreement with the EU using the labour pool methods to help public workers meet challenges in adjusting to industrial changes.
HRDP operating mechanisms should reach out to the	Although the HRDP developed an effective and efficienct mechanism through outreach to deliver

beneficiaries of other SFD programmes.	its services, the linkage and cooperation with other SFD programmes still needs to be strengthened. For example the HRDP can provide information on training institutions, experts, manuals and curriculum developed in specific areas to other SFD departments.

2.4.3. Relevancy

The relevance of the HRDP refers to its relevancy to the development policies of the Egyptian government, the SFD mission and goal and the needs of the labour market and target groups in Egypt.

The poverty reduction study conducted in Egypt in 2002 by the World Bank and Ministry of Planning indicated that the lowest poverty rates are in the non-agricultural self-employed category, which resulted in recommending the improvement of entrepreneurial activity through training on management and accounting practices, which goes with the modifications added to the entrepreneurship development programme provided by EIA.

HRDP objectives are fully in line with the main corporate objective adopted by SFD to reduce poverty and increase employment opportunity. The focus of HRDP has been and will be clearly on increasing employment opportunity.

The main target groups of the HRDP are the public enterprise workers and unemployed youth. The services of the HDRP are relevant to the needs of the target groups in terms of training and re-training or support self-employment and technical advice for setting an economic activity. The HRDP provides skills training required for the labour market, Training for employment, and entrepreneurship training. In addition to theses three services, the HRDP is currently working in improving the national training and accreditation system to be more responsive to the rapid developments in the labour market.

The entrepreneurship training, skills training and training for employment have been developed as a response to the structural adjustment policies initiated by the government of Egypt in the late 1980s and continued during the 1990s and phase III of SFD.

2.4.4. Efficiency

In phase III, the HRDP shifted to more demand oriented system which is more conductive to the development of human capital and the skills needed by the economy. At the same time, it was realized that the target group requires an employment service system that provides a matching function between labour market demand and labour market supply. The HDRP have mainly four programmes in phase III which are as follows:

1) Training for employment. The total of employment opportunities achieved is 3788. This programme includes four main areas:

(i) In order to deliver more demand-oriented employment, the training for employment was designed as a response to the needs identified by certain sectors such as nursing, tourism, textile and wooden industries. These interventions include: customizing short-term training curriculum, upgrading trainers and modernizing the facilities and equipment. The employment percentage resulted from this programme reached 86% of the total trainees (Table 3).

Table (3)
Achievements of the Customized Training Programmes

Areas	*Cost (L.E)*	*Number of trainees*	*Employment opportunities achieved*
Textile	1,373,132*	152	76
Wooden industries	1,159,335	740	740
Leather	157,497	58	58
Nursing	972,712	737	737
Hotels	4,869,000	744	444
Electronics	356,733	274	274
Total	8,888,409	2705	2329

* This amount includes LE 1,250,000 for the training equipments used for training and production.

(ii) Training for required skills in the labour market which is implemented in cooperation with training institutions to develop the capacity of vocational training centres by upgrading the curriculum and equipment and training of trainers. This programme upgraded and equipped 30 vocational training centres, curriculum was developed for 20 professions, and 203 have received training of trainers while 820 received vocational training in the amount of L.E 24 million. The percentage of employment reached 70% with a total of 609 employment opportunities.

(iii) Training for having a free professional activity, this was conducted through vocational workshops. 850 trainees received training in the amount of L.E 2,675,000

(iv) Multi-skills training delivered through future generation Association to train newly graduates on computer skills and English language. 1700 trainees received basic skills training on computer skills and English language.

2) Entrepreneurship training programme.
Entrepreneurship training for unemployed youth was developed by HRDP with technical assistance from AFPA and based on the ILO training module (Improve your business). The Entrepreneurship development course is implemented through the Egyptian Incubators association EIA. The entrepreneurship programme includes management, accounting, marketing and feasibility study. About 10,900 of youth completed the training and 10,113 have been employed with 45% start their own business. The cost of trainee reached about L.E 500 on average.

3) Development of Skills Standard System. It aims at establishing a national skills standard and qualification system through putting standards, develop curriculum, upgrade trainers capacity, modernize of facilities and equipment and establishing institutional framework. The fund allocated for this component is 5.5 million dollar in addition to 5 million Egyptian pounds. It will upgrade the current system to link the low-skill workers to the first level in the national skill standards. It includes skills development for 105 professional in the sectors of industry, tourism and construction. The achievements to date included:

- Training of 320 specialists and analysts, in addition to 600 trainer of trainees, workshops trainers, curriculum developers, testing specialists and managers of centres were trained from private sector, education sector and training;
- Preparation of twelve occupational maps for 19 technical field work included 992 skills criteria and its description to identify the training and qualifications required;
- The developed curriculum was piloted and tested in 35 vocational training centres and training on monitoring and evaluation was also provided.

4) Building the capacity of the national employment offices. The HRDP assists the national employment offices to improve the services that are provided to job-seekers. This assistance includes three components:

- Modernizing facilities and equipment of the national employment offices: Eleven employment offices developed in various governorates. An operational manual was developed for using by the developed employment offices;

- Improving the staff capacity: The staff of twelve offices was trained by the Canadian experts. The training materials were developed in Arabic language to be used for training others. In addition, two field visits for the staff were conducted to Canada to observe how similar facilities are operated;

- National Occupational classification system for Egyptian labour market: the classification of 600 professions was updated and modified according to the international classification system and the Unified Arab system. It was entered to the Egyptian database for professional information. The modification includes job definition, description of main tasks, specifications of work and labour based on the work environment.

To deliver the above mentioned services, the HRDP built a strong and sustainable outreach network. The HRDP uses national and international organizations to deliver programmes and conduct studies. The HRDP also has implementation partners such as federations, Egyptian Incubator Association (EIA), and the local NGOs.

The monitoring and evaluation system developed by the HRDP focuses on monitoring the progress of the programme itself against the developed outputs indicators. The HDRP developed a log frame for the whole programme compiled from what is developed by each donor. This log frame includes outputs and outcomes indicators for each area of interventions. However, the progress of some of these indicators could not be measured since they required trace studies which were not conducted. For example, one of the indicators is 25% of entrepreneurs who have established their own business with the help of the entrepreneurship programme have existed successfully in the market for a period of two years.

In general, there is no monitoring system to monitor the trainees themselves after a specific period of time following the training (mostly from one to two years). For the skills development training which aims at improving and upgrading the skills of the trainees in specific areas, there should be a monitoring site visit to investigate if they applied the skills they acquired and if not what are the factors related to the non application. For the training for employment and the entrepreneurship development programme, the monitoring will focus on the training results in terms of employment or start a business/improvement of the current business, which is existed, but for only a short term (three months).

Recommendation: development of monitoring and evaluation system to monitor the application of the new skills acquired and the results of the training. It will also identify new areas of required training or recommendations to improve the existing training.

Recommendation: The vocational training centres should be subject to project evaluation and impact assessment as well.

2.4.5. Effectiveness

In general, the HRDP as a part of SFD mostly achieved its goal which is generating employment through labour adjustment for enterprise workers, training programmes for the unemployment, entrepreneurship training and improvement of the national training system. In phase III, a lot of changes and modifications have taken place within the HRDP to be more responsive to the employees and labour market needs. The training for employment becomes more customized according to the needs identified by different sectors. The entrepreneurship programme was modified to include topics are needed by the entrepreneurs such as accounting. As a structural response to the underlying problems in the training and employment system of Egypt, the development of the national employment offices and the skills standard system programme were developed in Phase III.

The entrepreneurship programme works effectively through the outreach network of the EIA in 24 governorates and other NGOs. It targets the potential entrepreneurs whatever they are seeking fund or self financed. Criteria were developed to be used for the selection of the trainees. Then, there are two stages of training; the preliminary stage and the basic stage. The first stage ends with the project identification and the second one ends with the feasibility study of the project to be implemented. The EIA monitored the trainees three months following the training to ensure finalizing the banking procedures.

The field visits reports and progress reports developed by the EU demonstrated that the vocational training centres upgraded and developed are successfully operated. The curriculum developed, equipments purchased and installed and trainers are trained. However, during the field visit conducted, the manager of the vocational training centres project stated that the procurement procedures of the EU are very complicated and usually cause delay in the implementation. Therefore, they are facing a delay in the procurement and installation of some of the equipment required for the centre.

Various studies were conducted within the technical assistance provided by the donors. Most of the recommendations were taken seriously and implemented or are under implementation. In addition of the continuous technical assistance provided by the CPU, CIDA also had an input in the skills standard System programme.

The role of the HRDP as a technical assistant to other SFD programme is not worked effectively yet. The HRDP does not serve as a training counsellor for other SFD programmes. For example, the regional offices Department developed a programme for building the capacity of the offices without any consultation or input from the HRDP. In addition, the HRDP does not provide training to the targeted beneficiaries of SFD programmes, except the entrepreneurship programme.

Recommendation: Internal mechanism should be developed in SFD to promote the role of the HRDP as a training counsellor for other programmes and their beneficiaries.

Factors promoting the effect of the HRDP

- The HRDP keeps updating and modifying its strategy, tools and the developed programmes to meet the needs of the targeted beneficiaries as well as the labour market.

- The role of the HRDP as a technical secretariat to the Executive Committee of the Supreme Council for Human Resource Development helps in establishing customized responsive training programmes.

Factors inhibiting the effect of the HRDP

- The lack of coordination among SFD departments and the absence of linkage among all SFD programmes

- There is no stable source of funds for the HRDP which may affect the completion of some programmes such as the fund for the skills standard system will be ended by December 2004 and there is no clear plan on other financial resources following that date to complete the programme.

- The lack of planning in the concerned line ministries which may affect the role of SFD as a technical secretariat to the Executive Committee of the Supreme Council for Human Resource Development

2.4.6. Impact

An impact assessment study was carried prior to the MDRM II to provide the review mission team with pertinent information about the impact of the investments of SFD. The purpose of the HRDP assessment was to assess the appropriateness of the training courses offered and the success of the trainees, upon completion of the training, from the perspective of the target group, to start a business or enter into gainful employment. The study assessed two programmes; the training for employment and the entrepreneurship development programme.

It was concluded that the majority of the respondents to the field survey attended the programme with the aim of changing their career, i.e. engage into new field, which is not related to their previous – mainly tertiary – education. A large proportion also hoped to qualify for credit to start up their business.

An important impact was identified among the graduates of the programmes. Over 32% of them had a small enterprise before joining the training. A small majority of them (54%) reported a significant improvement of their enterprise a year after, and a growth of 1-2 employees.

The assessment was concluded that the impact on employment, as well as impact on income/economic status is 0-10% which is very low. In terms of employment level, at present 54% are working (52% entrepreneurship trainees and 61% of training for employment group). On average, 52% work in temporary jobs, (79% of training for employment and 43% of entrepreneurship training programme graduates). Furthermore, many of them work in lower positions. However, the impact assessment did not cover all the HRDP components such as the vocational training which was partly covered in the assessment of infrastructural social programme. Unfortunately, SFD did not conduct another impact assessment study for the HRDP to compare and verify data.

Recommendation: The HRDP should plan to conduct a comprehensive impact study to measure the impact of the programme on employment and poverty reduction.

2.4.7. Sustainability

The sustainability refers to the sustainability of the HRDP as well as the sustainability of its developed programmes.

During phase III of the SFD life, the HRDP has been taken more responsibilities to run labour adjustment programmes and work as technical secretariat to the executive committee of the supreme council for human resource development. This would increase the need for rationalizing resources to ensure the sustainability of the HRDP. Although the HRDP implemented various programmes in cooperation with different ministries such as Ministry of labour, Ministry of Petroleum, Ministry of Insurance and Social Affairs and Ministry of Industries, there is no sustain cooperation plans with these ministries or other governmental bodies as well as a stable source of funds.

Recommendation: The HRDP should work as a resource centre and technical assistant for the concerned ministries and get revenues to be self financed and ensure its sustainability.

The vocational training centres project is one of the successful projects implemented by the HRDP. However, there is no clear sustainability plans for the developed and upgraded vocational training which should be considered because the allocated fund from the concerned ministries does not ensure their sustainability.

Recommendation: The vocational training centres should market their products to increase income generated and in turn level of sustainability.

The design of the entrepreneurship programme takes into consideration the sustainability of the entrepreneurships in different ways; (i) building their capacities in the related aspects of establishing an entrepreneurship such management, accounting, feasibility study…etc, (ii) Linking them to sources of funds and facilitating the process of getting approvals, licenses …etc according to the new law of SFD, and (iii) monitoring them for three months to ensure that they successfully start up their projects. However, there should a monitoring plan for longer period to ensure their sustainability over time especially with changes may take place in the market.

For the trainees of the skills development programme or the entrepreneurship, the monitoring system will be developed should provide a feedback on the sustainability of those trainees.

Recommendation: An operation and financial sustainability for each programme component should be developed

2.5 Environment Development Department (EDD)

2.5.1. Introduction

The Environment and Development Unit was established as a central body within SFD in November 1998. It was expanded and renamed the Environment and Development Department in January 2003. Although it is mainly designed to deal with the environment as an issue which cuts across all SFD operations, the EDD has been located within the Community and Human Development Group (HDCG), Community Development Sector, along with PWP and CDP. The rationale for this was that it should be close to the PWP and CDP where most projects with an environmental dimension are implemented.

The overall objective of EDD is to contribute to the protection of the environment and conservation of natural resources in Egypt, by applying appropriate environmental controls and standards on all projects funded wholly or partly by SFD, and to help all SFD stakeholders and other development partners to implement projects and activities which respect the environment as they seek to improve livelihoods.

The EDD's operational objective aims at integrating the environmental dimension into SFD operations and the entire life cycle of SFD projects. This is being done through the following activities:

- Provide technical assistance to SFD departments, regional offices, and other stakeholders;
- Build the capacity of SFD central and regional staff in practical understanding of environmental issues and in particular awareness of the need to incorporate the environmental dimension into project cycles;
- Promote the implementation of environmental pilot projects which demonstrate best practices in environmental conservation, aimed at a wide audience ;
- Strengthen the linkages between SFD and MSEA/EEAA as the national body responsible for environmental affairs;
- Seek donor support for SFD projects and activities in the field of the environment.

The EDU/EDD remains a small department. There is a managing director and heads of four divisions: Land, Soil, & Biodiversity, Hazardous Material and Environment Culture, Air Quality & Radiation, and Water Resources Management. In addition, in each SFD regional office one person has been recently designated as an environmental contact person, called Environmental Focal Points (EFPs). These work closely with Environmental Management Units (EMUs) which are part of local administration and are found in all of Egypt's 26 governorates.

Starting in 2000 the bulk of EDD's activities were concentrated in designing and implementing small pilot environmental improvement projects through SFD regional offices which demonstrate innovative approaches.

A sampling of these, some of which are still ongoing, are presented in the following table:

Type of project	**Governorates**
Removal of accumulated solid wastes (EC funded) with considerable temporary employment generation	Red Sea, El Behira, Giza, Cairo, El Gharbia, South Sinai, Aswan, Luxor
Renovation and improved environmental management of the central fish market	Alexandria
Integrated solid waste management, septic tank emptying, wastewater removal, awareness campaigns, and training of female "environmental pioneers"	Sharqia
Solid waste management with NGO on Helwan University campus	Cairo
Installation of biogas units	Beni Suweif
Medical waste disposal from hospitals	Dakahlia
Village environmental improvement	Nezla, El Fayoum

From 2001 EDD has performed an environmental checking function within SFD, mainly through representation on appraisal committees, through review of environmental assessments carried out for SFD projects, and through supervising environmental mitigating and monitoring plans as appropriate.

Starting in 2002, EDD developed Environmental Guidelines for each of the following programmes and units: PWP, CDP, SEDO, HRDP, TSC. Orientation workshops were organized to discuss drafts of the Guidelines with SFD management and regional office staff, and drafts were revised, with inputs from the WB. Final versions were prepared following joint meetings with EEAA in October 2003. The Guidelines and following workshops were supported by the Netherlands fund.

In 2003 the EDD, following WB recommendations, developed an Environmental Management Plan (EMP) aimed at mainstreaming environmental concerns into all SFD operations and at all stages of project cycles. This EMP was built on work carried out for the Environmental Guidelines, was approved by the WB in April 2003 and also endorsed by EEAA, and EDD has applied it first to WB-funded projects of the Public Works Programme (including PIUs and SFD regional offices), as part of the "activation of the EMP", which is continuing.

The EDD has or is in the process of commissioning a number of studies: a technical review of the recycling of agricultural residues, capacity building of EMP stakeholders, and an environmental profile of Luxor City (with EEAA and the municipality).

2.5.2 Proposed Changes in EDD and Future Positioning within SFD

According to the EDD's managing director, EDD is to concentrate on environmental policy mainstreaming and the promotion of environmental safeguards. There will be closer coordination with EEAA and a stress on impact on a wide audience, mainly SFD partners at national, governorate, and community levels. As a consequence, the implementation of demonstration projects by EDD will be progressively phased out.

Under its new role as an environmental policy agent, EDD is seeking to be repositioned out of HCDG and into SFD's central structure. In fact, the SFD Managing Director has just issued a decree (No. 37/2004) which states that the activities of EDD be transferred to the central Planning & Follow Up Group and that it have the following responsibilities:

- Formulate SFD's environmental policies;
- Follow up the implementation of the EMP;
- Review and follow up environmental training programmes;
- Prepare and disseminate environmental safeguard policies;
- Conduct spot check site visits to ensure the inclusion of the environmental guidelines and safeguard policies;
- Participate in project appraisal committees;
- Coordinate with the EEAA on all issues related to the environment;
- Review project progress reports to ensure the adoption of the EMP.

EDD has prepared a workplan covering the period September 2004 through December 2005 which reflects its augmented environmental policy role.

2.5.3 Response to Recommendations of MDRM I

The MDRM I Final Report of April 2000 did not specifically address the EDD (then EDU), as it had only recently become operational. Recommendations related to the environment were only made in sections relating to PWP and CDP, and these were sparse. However, the salient ones which relate to overall SFD environmental responsibilities are listed here and commented upon:

MDRM I recommendations	Comment on SFD/EDD responses
(Reviewing PWP's use of Environmental Impact reports); "Nevertheless, the generally environment-friendly nature and small size of PWP sub-projects have to be considered to avoid exaggerating environmental issues." (p. 70)	Overall, SFD and EDD have not over emphasized environmental issues. The activities of EDD (and PWP and CDP) in environmental control have been balanced and appropriate given the nature of projects. However, this recommendation is still valid for the future.
(Concerning EDU's demonstration projects, which were just being launched) "By implementing such initiatives, EDU will be practically testing the viability and feasibility of theoretical solutions posed to local environmental problems, working on optimizing their outputs and providing the end products as ready packages for replication by other SFD programmes and SAs." (p. 70)	The demonstration projects carried out to date do not appear to be "ready packages for replication by other SFD programmes and SAs" and there is no evidence of their take-up. Thus EDD's new strategy of dropping demonstration projects as part of its activities is a sound one.
(Concerning EEAA's role as institutional leader in environmental affairs in Egypt) "Therefore, EDU is properly seen as a	EDD, especially in the last three years, has been coordinating closely with EEAA and is effectively harmonizing SFD's

complementary body concerned with harmonizing the environmental aspects of SFD activities with those of EEAA, and it needs to continue to coordinate closely with EEAA in order to avoid unnecessary duplication." (p. 71)	environmental activities with those of EEAA.
(Concerning local NGOs and community environmental concerns, particularly solid waste management) "…SFD has been hesitant to approve proposals relating to waste-management because of concerns about the appropriateness of ultimate dump sites. SFD is now studying these issues. This is important because of community interest in waste-management, the potential improvements in public health and CDP's need to be able to respond to popular demands." (p. 57)	The appropriateness of ultimate dump sites, as well as the issue of financial sustainability of NGO-run community SWM schemes, remains problematic. But the issue of SFD's role in community SWM is a complex one, which is dealt with below.

2.5.4 Relevance

Most observers would agree that environmental concerns are in great need of attention in Egypt, and this is reflected in the considerable attention paid to it over the last decade, starting with the promulgation of the Environmental Law No. 4 of 1994, the creation of the Ministry of State for Environmental Affairs (MSEA) and the continued strengthening of the Egyptian Environmental Affairs Agency (EEAA) as the main national agency for the environment, and a tremendous interest in and support of environmental institutions and actions on the part of donors as well as Egyptian civil society.

The design of the operations of EDD and its main objectives are appropriate to address the real need for better environmental awareness and management at three levels:

- At the level of community and local officials dealing with SFD projects;
- At the level of the staff and units of SFD as well as CDP's local NGOs and PWP's PIUs;
- At the level of partner agencies (including EEAA).

There is complementarity and coherence with related environmental activities undertaken by government agencies, in particular EEAA and the Governorate EMUs.

EDD has shown itself to be flexible to adjust interventions to meet opportunities and to respond to SFD and partner needs.

Recommendation: EDD should continued to stay balanced and responsive; it should not attempt to overload SFD with environmental concerns. SFD cannot be a leader in environmental affairs in Egypt.
(This recommendation is fully consistent with the present EDD philosophy).

2.5.5 Efficiency

It appears that EDD's activities aimed at strengthening the environmental dimension in SFD and partner operations are efficient. In other words, things were done right, in terms of day to day management, in terms of value for money, and in terms of a judicious recourse to outside local consultants for specific tasks. In addition, the use of guidelines and manuals for dissemination of environmental control and verification procedures appears to be appropriate.

EDD's past and continuing pilot environmental projects also appear to have been efficiently organized and executed and are cost-effective.

2.5.6 Effectiveness

It appears that EDD's activities aimed at strengthening the environmental dimension in SFD and partner operations are effective, i.e. that their guidelines and environmental management programmes have been activated and are being used. However, there seems to be an implicit faith that dissemination equals full use which in turn equals effectiveness, and there have been no attempts yet to check that such is the case.

Recommendation: EDD itself should carry out simple and rapid spot assessments as to whether EMP and environmental guidelines are in fact understood and are being applied in the different SFD programmes at the various levels and with the various partners and IAs, with a means for feedback from these assessments to improve targeting and delivery mechanisms. In other words, are manuals appropriate/understood, how effective are seminars & workshops, etc.?

EDD feels confident that it will be able to meet this recommendation as it has a programme for "activation" of its environmental guidelines as part of EMP, starting in December 2004.

2.5.7 Impact

It is difficult to ascertain to what extent EDD's operations have achieved EDD's overall purpose of helping all SFD stakeholders and other development partners to implement projects and activities which respect the environment as they seek to improve livelihoods. This is an issue which is wider than EDD and SFD.

2.5.8 Sustainability

Sustainability in the case of EDD concerns mainly the post-project sustainability of its demonstration environmental projects. No systematic post-project assessments of these have been carried out, and they are of such diverse nature and scope that it would be difficult to come to any useful conclusions.[45] In any event, EDD is planning on phasing out its own

[45] EDD's pilot projects in eight governorates in removing accumulated solid waste are a good example of how good intentioned and cost-effective projects lack any sustainability. "Although the projects address a clearly visible environmental problem and as such satisfy an immediate concern of beneficiaries, the projects have been poorly designed. They imply merely financing the removal of accumulated waste without offering any sustainable solutions….Regretfully EDD does not bring technical added value to the project, neither from 'best practices' in sound environmental management insights nor from community development perspectives." (Programme Coordination Unit PCU Monitoring Function, Report 1/2004, page 4.)

demonstration projects, concentrating on adding value to environmental projects carried out by PWP and CDP and.

Recommendation: This review supports the policy change that EDD phase out its demonstration projects and concentrate on mainstreaming environmental policy throughout SFD. In fact, it is understood that as of 27/09/04 (Decree 37/2004) EDD is officially phasing out environment demonstration projects.

There is a particular sustainability issue concerning solid waste management initiatives. In 1999 a World Bank report pointed out that "Solid waste removal projects in Egypt are caught in a thicket of legal, institutional, and financial issues that have stymied progress for many years and created a particularly serious problem as a result."[46] In the intervening years, in spite of increased interest and the inclusion of even more actors (donors, governorates, the private sector, and MLD) the confused situation remains much the same.

Recommendation: It would be prudent for EDD (and SFD) to restrict its focus in the field of SWM to rural, community-based solid waste collection and disposal initiatives which are demand driven and which come up through PWP and, in particular, CDP activities. These pilot initiatives, if successful <u>and sustainable</u>, should be fed by EDD into the wider national SWM debate.

[46] World Bank, Project Appraisal Document for a Third Social Fund for Development Project, May 1999, p. 10.

3 Institutional Development Programme (IDP)

The IDP aims at strengthening the managerial and implementation capabilities of SFD and its programmes, and of intermediary and implementing agencies. It was conceived to concentrate on planning, decentralization, targeting, monitoring and evaluation, and impact assessment. The programme is funded in Phase II by EU, UNDP and France through grants. The Planning & Monitoring Group has co-ordinated the programme by preparing own project proposals as well as receiving project proposals from other departments in SFD and ensuring that the proposals were complementing each other and supporting the overall strategy. The TORs for all the projects were prepared by the Planning and Monitoring Group. When a project proposal and the TOR had been accepted by the donor, it was transferred to the Procurement Office for national or international tendering according to donor requirements.

The MDRM I did not consider the IDP in their review.

Table IDP.1 shows completed/ongoing/proposed projects per 1 January 2004, broken down according to the original budget proposal in LE; disbursement until third quarter 2004; project amounts that are expected to be disbursed before 31 December 2004 and will be funded by the EU; and status of the various proposed projects. It should be noted that project codes are only assigned by the Fund Management Department when a project is contracted. Thus, with the exception of the project: Strengthening Regional Offices that awaits final approval from EU, the projects without a project code never materialized, either due to withdrawal by SFD or not being approved by EU due to relevance of project or inability to implement the project before the EU deadline of 31 December 2004. SFD has proposed additional projects in their Annual Workplans, but they were withdrawn before TORs were written.

UNDP has allocated LE 520.000 for project 6061: *Monitoring and Evaluation – System Development & Implementation*. This project will be completed. Apart from this, other donors have contributed some LE 57.000 to IDP, so the projects presented in the table above really deal with EU's contribution to the IDP. Since the development of the new MIS system is by far the largest project this will be dealt with later in the report in a separate section.

Establishing IDP was of great *relevance* for SFD since it would be the only integrated programme that concentrated on institution and capacity building in SFD and thereby provide much needed support to SFD's mission of becoming an efficient, effective, and permanent self sustainable institution.

The projects 6071: *Objective Setting and Strategy Alignment in IDP* and 6076: *Planning, Organization and Planning Cycle Management* in SFD, have proven themselves to be relevant and the upcoming project: *Strengthening Capacity & Enhancing Performance in Regional Offices*, is also much needed, since the Regional Offices are lacking systematic training of its staff.

Table IDP.1

Project Code	Projects	Endorsed in LE	Disbursed till Q3 2004	To be disbursed before 31.12.2004	Status
	Completed/Ongoing projects 1.1.2004				
6071	Objective Setting	100.000	41.297	58.703	Manual produced.
	Targeting and Resource Allocation	550.000	0	0	Will not be initiated.
6081	Impact Assessment Manual	40.613	13.713	26.900	Manual in Arabic.
6076	Planning Organization/Project Cycle Management	239.777	32.385	207.392	Will be completed.
6061	Project Monitoring and Evaluation – System Development and Implementation	EU: 232,830 UNDP: 520.000	232,830	0	Workshops held. UNDP has taken over.
6060	Improving systems and procedures of SFD Regional Offices (ISO 9002) in 8 RO	192.990	172.809	0	Terminated by EU after 4 diplomas.
6065	Sustainable Livelihood Workshops	48.730	48.730	0	Workshops held.
	Sub-total	**1.924.940**	**541.764**	**292.995**	
	Proposed new projects 1.1.2004				
	Technical Skills Development	0	0	0	Not endorsed by EU.
	External Evaluation & Monitoring System	100.000	0	0	Not endorsed by EU.
	Pilot Independent Evaluation	100.000	0	0	Not endorsed by EU.
	Social Impact Assessment EU Projects	0	0	0	Not endorsed by EU.
	SME Marketing Study	300.000	0	0	Not endorsed. Should have been under SEDO.
	Training Impact Assessment Manual	50.000	0	0	Withdrawn by Planning & Monitoring Group.
	Strengthening Regional Offices	2.150.000	0	2.150.000	Contract to be signed by EU, so only a limited number of workshops for managers, field officers and secretaries will be held, due to procurement problems and time limitation.
	Sub-total	**2.700.000**	**0**	**2.150.000**	
	Total Completed /ongoing/new projects	**4.624.940**	**541.764**	**2.442.995**	
	MIS	18.000.000		18.000.000	Expected to be completed by 31.12.2004.
	Total	**22.624.940**	**541.764**	**20.442.995**	

However, the *efficiency* in terms of its responsiveness to concrete needs and weaknesses encountered in SFD has been low in spite of a large budget.

EU's pledge to IDP is 7.2 million Euro or LE 54 million of which some LE 19.7 million is expected to be disbursed before 31 December 2004, since not all planned disbursements listed in the table above will take place. Of the LE 19.7 million, the overriding amount of LE 18 million will be spent on the new MIS system, so only LE 1.7 million, or 4,7 % of available funds for non-MIS institutional development projects, will be completed before the programme ends.

There are a number of internal and external reasons for lack of efficiency. The internal reasons relate to IDP's difficulty in presenting project proposals of sufficient relevance and informational content that were readily acceptable by EU, so many proposals were not accepted or were returned to the programme for further elaboration. Subsequently, a number of TORs were also returned for further clarification. In many cases IDP worked closely with PCU and EU itself, in rewriting projects and TORs, but often found that this would not guaranty final approval. This led to substantial delays and frustrations and in some cases even to withdrawal by SFD of otherwise relevant projects.

The external factors relate mainly to EU's elaborate and time consuming procurement procedures and its hesitation to make decisions locally on problems encountered. In some cases project tenders had to be re-launched due to an insufficient number of bidders, in other cases project approvals were delayed, since they included non-European components, and in still other cases the projects had eventually to be cancelled due to insufficient time left for implementation.

Recommendation: Based on these lessons learned from implementing IDP, the mission recommends that in order to minimise the internal factors for not meeting donor requirements a unit for assisting in writing future institutional development project proposals and TOR's be established in the ICMPR group. This unit would have close links with the donors and understand their requirements, and in-house capability and capacity will be enhanced, so much needed projects can be implemented in an acceptable time span.

Project 6071: *Objective Setting and Strategy Alignment in IDP* has been *effective* as it defines the IDP strategy as a subset of SFD's overall strategy, based on the SFD Mission Statement, including its role and guiding principles. The mission statement was the basis on which corporate as well as programmes' strategies were developed. However, this project has had a limited impact on IDP projects since many of the ensuing proposed projects were not implemented.

With respect to harmonising donors' requirements for reporting and impact assessment, the Planning and Monitoring Group is still providing donors with individual reports reflecting their particular requirements. A Manual for Impact Assessment has been produced, but not yet been implemented, since a propose project for training on the Impact Assessment Manual was withdrawn. However, the Planning and Monitoring Group has through other funding defined an additional set of economic and social indicators for evaluation and impact assessment, which it plans to incorporate in the new MIS.

None of the implemented projects have directly reached out to SFD's partners. With respect to coherence and complementarity between IDP and capacity building funded by other donors this has in particular been in the areas of targeting and resource allocation, where an IDP project proposal was withdrawn and later funded by the World Bank. This project deals with the Integrated Local Area Approach that has newly been adopted by SFD. The project aims to define a set of socio-economic indicators for targeting and a set of basic needs which should be reached by the receiving community.

The IDP has had a limited *impact* on SFD's capacity to address poverty question. It has mainly had an influence through workshops held, but if the Impact Assessment Manual is adopted IDP's influence may be greater, especially on service delivery to beneficiaries, and in particular through its implementing partners. The greatest impact of IDP on SFD's transformation into a permanent institution capable of tackling poverty reduction and social development may be the UNDP funded project 6061: *Project Monitoring and Evaluation – System Development and Implementation*, which is still under implementation.

EU has been the major donor to IDP and its contribution terminates by 31 December 2004. However, this does not mean that there will be no more need for institutional capacity building. On the contrary, the development of the new organization with three self-sustaining operating groups; the increasing role of the regional offices; and the requirements on SFD stemming from the 141/2004 law will all necessitate much added capacity building. Not least since systematic institutional capacity building has been seriously lacking in the past.

Recommendation: The mission recommends that the IDP programme be continued, since capacity building will be needed throughout the new organization. But the lessons learned from the previous programme should be incorporated in its future implementation. Firstly, institutional development projects must be scheduled in a comprehensive, logical and sequential manner within main topics covering at least a two year period. Secondly, project proposals and TORs must be produced in a form and content that meet donors' requirements. Thirdly, a Project Preparation Office for institutional development projects should be established in ICMPR to assist SFD in producing acceptable project proposals and TORs. Fourthly, the institutional development plan should be integrated in the annual plans and presented to donors and other potential partners for funding. In order to build the needed in-house capacity an international consultant should be provided for 3 months.

Part 2: Global governance level

SFD has shifted its emphasis from being a short-term emergency fund to become a long-term permanent institution, following a law to that effect in 1999. This has led SFD's to define a new mission statement, as recommended by MDRM I in 2000:

SFD, as a permanent institution and mechanism for contributing to socio-economic balancing, within the framework of the Strategic Vision of the Government of Egypt, is committed to reducing poverty by supporting community level initiatives, increasing employment opportunities, and encouraging enterprise development.

The new mission statement is pertinent to SFD's stated objectives as a permanent institution of social development and poverty reduction, and on this basis, SFD has restructured its organization in 2002 to enable it to act efficiently toward achieving its main objectives of:

- *Development of new approaches for fund-raising*
- *Investment in the capacity building of partners and promoting their participatory involvement*
- *Increase decentralization and regionalization*
- *Development of human resource policy to attract and retain qualified personnel*

The organizational restructuring of SFD combined most of its operating activities into three main entities:

i. The Social Integrated Development Group (SID) is concerned with the improvement of living standards for socially deprived communities, stimulation and development of human resources, family planning and environmental protection. It achieves its objectives through participation with NGO's and civil work entities, and the empowerment of local communities. This group of SFD is formed principally through the consolidation of the activities of the Public Works Programme (PWP) and the Community Development Programme (CDP).
ii. .The Small Enterprise Development Group (SEDO) provides financing, management and develops market-oriented strategies for small enterprises. It focuses on cost recovery considerations and increasing participatory involvement from partners including banks, NGO's and civil service organizations.
iii. The Marketing and Management Entity performs planning and market research, develop mechanisms for increasing small enterprise competitiveness and effectively marketing their products. The entity is part of the SEDO structure.

SFD carries out a large proportion of its operations through the 28 Regional Offices, one in each Governorate, and all the operational entities are aided by supporting departments in SFD HO, namely:

- Administration and Finance Group

- International Cooperation, Media, and Public Relations Group
- Planning and Monitoring Group
- Internal Audit Sector

The organizational restructuring has only been of a transitory nature, since management has decided in future to consider SFD as a holding company with three self-supporting operating entities. This has partly been prompted by SFD's new permanent status and partly by law 141/2004 that designates SFD to be 'the entity competent with fostering the development of small and very small enterprises and with planning, coordination and promotion for their dissemination on a wide scale, assistance in their obtaining their needs including finance and services'. The future reorganization is expected to result in the establishment of the three self-sustaining groups, namely:

i. SEDO – where the pre-loan activities of the Marketing and Management Sector probably will be retained.
ii. HCDG – The Human and Community Development Group – that consists of the former Social Integrated Development Group, with some regrouping of Sectors and Divisions. In particular it is the intention to merge PWP and CDP.
iii. The Marketing and Management Group, where the post-loan non-financial activities will probably be transferred to from SEDO.

At the time of the mission no final decision has been made as to the reorganization, so any reference to the future organization is made on the basis of expectations and recommendations. At the same time it should be understood that no policy and procedures, operational manuals, approved long-term strategy including annual targets, level of decentralization, delegation of decision making authority, HR staff requirements and training plans exist for the new organization. An important special issue that also needs to be addressed is the development of a strategy for SFD to assume the responsibility for future salaries and benefits. UNDP is presently funding salaries and since SFD is operating under the umbrella of that organization it also enjoys tax exemption for its staff.

The preset interregnum is of a particular concern with respect to the three self-sustaining groups.

1 SEDO

SEDO have disbursed the following amounts in LE to SMEs during the period 2000 – 2004 through the stated number of loans and resulting in the estimated number of employment opportunities:

	2000	2001	2002	2003	2004
Disbursements LE million	723.6	604.6	351.1	248.8	450
No. of loans	23.300	20.000	11.700	8.300	15.000
No. of employment opportunities	63.000	54.000	32.000	22.500	41.000

It is here assumed that the average loan size is 30.000 LE, and that it costs 11.000 LE to create an employment opportunity for one person. It is seen, that the disbursements have decreased substantially during the period, but has recently been increasing again. The activities for 2004 are estimated based on disbursements as of August.

In future there will be two major challenges for SEDO to respond to. One challenge refers to SEDO's overall objectives, which are geared towards providing and securing job opportunities through establishment of new or the expansion of existing small businesses. The other challenge concerns SEDO's ability to become self-sustainable and thus ensure that SFD can survive as a permanent institution.

SEDO's has tentatively decided on a set of objectives that would create about 80 000 employment opportunities and distribute annually about 1 billion LE to about 38 000 new and existing enterprises, with an average loan size of 35 000 LE The cost of creating an employment opportunity is estimated to be 12 500 LE From the Impact Study and SFD's own assessment it seems that a cost of 12 500 LE is a realistic figure. In order to achieve this objective there are the added requirements to develop the institutional capacity of the SMEs to ensure their sustainability and to develop the regulatory environment conducive to the sustainability of SMEs.

SFD would have to secure external funds for SMEs in the order of 800 million LE annually in order to reach the targeted numbers, and this is without taken into consideration that the default rate may increase due to the need for lending to SMEs with higher risks, so the external funds may be even higher and jeopardize the sustainability of SEDO and even SFD itself.

To disburse 1 billion LE annually would require that the banks and NGO' increase their disbursements considerably so five new framework agreements with banks have therefore also recently been entered into to make this possible. Moreover, SEDO is considering to open new channels through direct lending, leasing and as venture capital. But it is still uncertain how much disbursement can be generated in this way.

Considering that the percentages for pre-loan services between Regional Offices: Banks: NGOs are 60%:30%:10%, the attainment of the objective would require the Regional Offices to process some 28 500 SME applications annually or 680 applications per Regional Office. This does not seem feasible, especially since the number of 28 500SME pre-loan services refers to the successful ones only, so in reality the number is twice as larger.

The mission finds that this scenario may not be feasible within a 5-year time horizon, even with a gradual build-up from the present disbursement of 450 million LE to the targeted amount of 1 billion LE at the end of the 5-year period. The funds may be available from different sources, but a two to three-fold increase in disbursements seems unlikely, even if new channels are opened. Moreover, from an institutional point of view it does not seem an attainable target either, since the Regional Offices would hardly be in a position to process that many SME applications if quality is to be maintained and risks kept within approved limits, and that is even if the number of field staff were increased and new intermediaries deployed. For the Regional Offices to handle this increased number og applications this would require that most of the work should be handled over to intermediary organizations, and the Regional Offices taking on a training and overseeing function rather than processing the applications themselves.

The other challenge, but which is tightly connected to SEDO's targets as discussed above, concerns SEDO's ability to become self-sustainable and thus ensure that SFD can survive as a permanent institution. Amongst the three operating groups, SEDO will by far be the one with the highest potential for generating enough surpluses to guarantee SFD's sustainability.

Based on preliminary findings produced by the new model for developing SFD's 5-year strategic plan, it seems that SEDO can be self-sustained at an annual level of 1 250 billion LE in disbursements, with generation of some 100 000 employment opportunities annually. This would amount to some 34 000 loans to SMEs and would require the Regional Offices to deliver pre-loan services to some 20 000 successful applicants, in addition to the 20 000 applicants who will not have their loan application approved by the banks.

So it appears that the surviving strategy requires that SEDO achieve disbursements which lie above the scenario it is presently considering. The mission finds that the targets required by the 5-year strategic plan will be very demanding on SEDO and it will be necessary to make a comprehensive study of SEDO's operations, including availability of funds, income from loans to intermediaries, risk managements, channels of distributions and their likely targets. Moreover, the tasks to be undertaken in the SEDO units in the Regional Offices should also be scrutinized with a view to determine the need for possible intermediates in processing SME applicants, and the eventual new roles and size of the field staff.

The mission realises that SFD's new organization is not in place and that strategic plans, policies and procedures, operating manuals, HR plans and training programmes, and the use of the new MIS have not been fully developed and agreed upon, but it recommends that when preparing a comprehensive plan for SEDO the following institutional issues be considered, together with the financial issues raised in other places in this report:

1. Realistic annual targets for disbursements should be set for the period 2005 – 2009, without sudden unrealistic increases in disbursements in 2004 to 2005 and ensuing years.
2. Annual work plans with targets for disbursement through the various channels should be set and be monitored continuously.
3. A feasibility study of having the Regional Offices performing the pre-loan services should be undertaken. This would involve the expected number of applications for these services, the time involved and the success rate. On this basis the required number of staff in the SEDO units in the Regional Offices should be determined, taken into consideration the staffs' other tasks, such as liaison with bank branches and NGOs.
4. The required qualifications for the staff should be determined.
5. Concurrently, it should be determined which alternative organizations or institutions could perform the pre-loan services, such as NGOs or local consultancy firms. And at the same time the changed role of the Regional Office and its staff should be determined.

6. In case that the Regional Office would continue offering pre-loan services, a hiring plan should be made together with a training programme for staff.
7. In case alternative organizations or institutions could perform the pre-loan services, it should be decided if this would be a supplement to the Regional Office or whether it would perform all such services, in which case there may exist a dual system for some time.
8. A training programme for the organizations and institutions should be provided together with policies and procedures, and manuals to be followed.
9. Based on the above tasks and annual work plans targets for the Regional Offices should be set and monitored on a continuous basis.
10. When the key decision about the role of the Regional Offices has been made policy and procedures, operational manuals, level of decentralization, delegation of decision making authority, HR staff requirements and training plans should be developed for SEDO.

These recommendations have taken as their starting point the annual distribution of funds, rather than the number of employment opportunities to be created, or the number of successful SME loans to be obtained. They are, of course, all totally correlated since there are fixed ratios between them, so at any instance in the suggested analysis the most natural way of describing the plan can be used, such as disbursement when considering banks, number of loans when considering the resource requirements of the Regional Offices and employment opportunities when considering the outcome. The mission realizes that the present model for determining the consequences of the 5-year strategic plan is a gap filling model, and that it is therefore cumbersome to answer 'what-if' queries, such as the consequences of setting a set of disbursements targets for the 5-year period. In the section analysing new planning model the mission has therefore recommended that the present model be extended to readily allow for these types of queries.

2 Human and Community Development Group

HCDG operates completely different from SEDO. With the exception of Micro-finance it can in general only initiate projects if there is a donor that is willing to fund them. Thus its operations fluctuate from year to year, depending on donors' commitments. With respect to Micro-finance it is also depending on external support, but can allocate funds from proceeds from SEDO. Moreover, the Micro-credit funds are revolving, so they can continue to be rolled over and even increase, depending on default rates and policy with regard to reuse of funds.

In other sections of this report the relevance of HCDG operations have been considered. However from an institutional point of view the mission would like to raise two issues. The first deals with decentralization and delegation of authority, and the other deals with the new Integrated Local Area Development approach to targeting and determination of projects which SFD has decided to use in future.

It is to be expected that HCDG's portfolio will increase significantly during the next 5 years, as a consequence of the large increase in SEDO's business foreseen during that period. The two main types of SFD's operations are interconnected, since HCDG being responsible for the community initiated poverty alleviation aspects of SFD can hardly be seen by GoE and donors to be of relatively lesser importance in future. This means that there will be many more community initiated projects in future and that HCDG HO and its units in the Regional Offices therefore need to be strengthened, but by how much is a question of decentralization and delegation of authority.

It is the Regional Office that makes the initial contact with the Community Association for a project proposal, either on its own or through NGOs, or it may be approached by the community itself. The HCDG unit performs the feasibility study and adds the project to the list of potential projects. When a donor interested to fund certain projects is found, this list of potential projects is sorted to meet the donor's requirements. A check in the Governor's Office is made to avoid overlap with other initiatives. Presently all projects in excess of 20 000 LE must be sent from the Regional Offices to SFD HO for approval. So if it is in excess of this limit the project is submitted to HCDG HO for approval and appraisal. Subsequently a project committee is screening the projects and the Managing Director can make final approval if the budget is less than 5 million LE, otherwise it has to be approved by the Board of Directors.

The mission finds that when deciding on the new organization and adopting the new annual plan based on the 5-year strategic plan, management should seriously consider decentralization and delegation of authority to the Regional Offices. The staff in the HCDG units should be trained to make appraisals of projects valued higher than 20.000 LE and the Regional Office Manager should be delegated with authority to approve such projects. In the case of sub-Regional Offices the amount could be lower. The mission realizes that the Regional Offices are working closely with the Governorates and may sometimes have difficulties in exercising their legal autonomy in selecting projects according to its poverty alleviation objectives.

Recommendation: The mission recommends that with the foreseen increase in HCDG's activities, HCDG should gradually decentralize and increase delegation of authority to the Regional Offices, but in doing this assure that SFD's objectives regarding poverty alleviation is maintained. This should be done through monitoring and targeted evaluations.

The other issue concerns HCDG adherence to SFD's mission statement. It clearly states that 'SFD is committed to reducing poverty by *supporting community level initiatives….*' which is in complete agreement with past global poverty alleviation experience and reflects donors' requirements. That is, it reflects a bottom-up approach rather than a top-down approach, or what is equivalent, a demand rather than a supply approach.

SFD, and thereby HCDG, has adopted the Integrated Local Area Development (ILAD) approach although it has not been operationally defined at this stage, so the following is the missions understanding of HCDG's interpretation of the new concept. When targeting the poorest districts and *markaz* a coarse set of indicators are utilized to determine the poor and deprived ones, and in this way a priority map within each Governorate is produced. Subsequently, in order to determine the poorest mother villages and villages from this map, HCDG will utilize the ILAD where a whole range of socio-economic indicators are measured. These indicators have not yet been defined let alone decided upon. However, given this set of indicators, e.g., illiteracy ratios, level of education and access to educational facility, availability of water and sanitary installations, health indicators, food security, assess to markets, unemployment rates etc. it has been predetermined by HCDG what the basis minimum requirements should be on these indicators. So if a mother villages together with its surrounding villages have been found wanting according to these minimum basic requirements, and if it ranks for support in relation to other needing villages, it will be selected for support. The idea is now to provide the mother village, together with its surrounding villages, with a package of sub-projects that will bring them at par with the minimum basic needs requirements.

This approach is very compelling, since it provides HCDG with a baseline for the mother village and surrounding villages defined through the ILAD indicators. It also determines the activities to be undertaken, since they are the sub-projects that will result in meeting the minimum basic needs requirements, and the direct outcome is easy to monitor. However, the success of ILAD is tied to the ability of HCDG to work with and train the community, so that the ensuing projects are initiated by the community, rather than pre-determined by HCDG on the basis of the indicators and the basic need requirements. Otherwise ILAD becomes top-down and supply driven.

Recommendation: The mission recommends that when developing and implementing the ILAD approach for HCDG, it must at every step be based on fulfilling genuine community initiatives and demands.

3 Marketing and Management Group

The Marketing and Management Sector was established during the previous reorganization in 2002. It was tentatively placed under SEDO, and provides non-financial services to SMEs. This service is provided in the pre-loan phase as well as after the loan has been made. The services consist mainly in market analysis regarding demand and supply of the goods or services that the SME in question plans to enter into, and available local suppliers and possible markets. They are also extended to product promotions on domestic and export markets, as well as possible franchise opportunities. Moreover, the Marketing and Management Sector also assists SMEs in participating in fairs and permanent exhibitions and it has recently established an e-commerce department for web-based sales support. Finally, it also offers technical support consisting of three elements: (1) product development, technology support, quality and productivity improvement; (2) training of SME personnel and (3) operating of incubators for project nurseries.

In addition to providing non-financial services to SMEs it also provides marketing services to the banks and NGOs so that they are in a better position to advise the SME customers that approaches them directly.

In the new reorganization the Marketing and Management Group will be established as one of the three self-sustaining operational groups. Since many of the non-financial services undertaken by it, while it was still an integrated part of SEDO, remain vital for SEDO's ability to make loans it has been decided that SEDO should retain all the pre-loan activities, while the new Marketing and Management Group should concentrate on the post-loan non-financial services. The mission finds that this is the correct way of delineate the set of non-financial services between the two groups.

Before the Marketing and Management Group was established the non-financial services were provided free of charge. In future the group will offer its services partly for free and partly on a cost-sharing basis. The fees are calculated to cover 25% of the direct expenses incurred by the service delivery, but are expected to rise to some 80% over time. Overhead costs are not intended to be covered by the SMEs.

Many types of the actual non-financial services to SMEs, local bank branches and NGOs are provided by the Regional Offices, where there is a Marketing and Management unit. The units will in future take over the post-loan services, while the pre-loan services will be incorporated in the SEDO units. Thus the Marketing and Management Group will now have to determine how big a staff should be placed in its units in each of the Regional Offices, and the type of services they should provide themselves rather than outsource. This is critical decision, as very little dependable information exists on the expected demand, since it is the first time that the customers will have to pay for this type of non-financial services. On the one hand the number of SEDO loans is expected to increase dramatically during the coming years, which would call for an increased staffing, but on the other hand it uncertain how many will make use of post-loan services that have to be paid for.

Recommendation: The mission recommends that a two pronged approach be adopted in a pilot phase for the types of post-loan non-financial services that will be provided by the Regional Offices. In selected Regional Offices the Marketing and Management unit should be outsourcing these services to NGOs and private marketing consulting firms, while in the remaining Regional Offices, the Marketing and Management units should be providing the services themselves. In this way the two approaches to delivering post-loan non-financial services can be tested, and the most efficient one can be selected. It is clear that the role of the Marketing and Management units in the two sets of Regional Offices will be different, since outsourcing will imply familiarization with the SME concept, and capacity building for the involved NGOs and marketing consulting firms, but at the same time a much needed local capacity will also be created.

Considering the uncertain future demand for SME non-financial services in the regions, it is important that the two pilot projects be monitored on a continuous basis and evaluated according to a predetermined set of indicators that reflect the pilot design. This would include indicators with respect to mode of delivery, quality of service, willingness to pay and achieved capacity obtained by the NGOs and marketing consultant firms during the pilot period, as well as an overall cost-benefit analyse of the two different modes of providing the non-financial services.

Recommendation: The mission recommends that the sustainability of the Marketing and Management Group be continuously monitored. This would entail setting targets for the various activities and be prepared to terminate services if they are not viable, and at the same time scout the market for new activities which should be included.

4 International Cooperation, Media and Public Relations Group

The group is subdivided into the International Cooperation Sector and the Media and Public Relations Sector. Thus, the group covers SFD's international relations to donors, bi-lateral and multilateral partner organizations, and international relations in general, as well as national relation to government, ministries, and the Egyptian society at large.

The group concludes agreements with donor countries, and bi-lateral and multilateral organizations, in a tri-lateral cooperation, where the third party is the Ministry of International Cooperation. Moreover, the group has as one of it main tasks to ensure an effective implementation of the projects agreed upon.

The group has worked actively to move implementation and disbursements and has, among other examples, been able to increase the disbursement of World Bank projects from an overall disbursement of 6% in 2002 to 90% by 2004. This has been possible through the creation of the Procurement Office, since procurement has proven to be a major bottleneck in implementing programmes and projects. The Procurement Office was made to function with the active support consisting in guidelines and organizational set-up provided by the World Bank. Today, the Procurement Office deals with all donors and bi-lateral and multilateral partner organizations. ICMPR has also been involved in establishing the Procurement Committees with donors in order to facilitate implementation of projects.

While implementation and disbursement of projects falling under the business sectors have been improved considerably, there still remains a problem with programmes or projects where the objective is institutional development, such as the IDP. These institutional projects require non-standard project proposals and TORs, which have often proven difficult for SFD to produce in a form acceptable to donors. As a result, many of these projects have not been implemented, so not only have committed funds not been used, but much needed institutional development of SFD has not taken place.

Recommendation: The mission recommends that a Project Preparation Office for institutional development projects be established to provide assistance to SFD in producing project proposals and TORs. The Project Preparation Office should be established in ICMPR, since it has permanent, direct contact with donors and bi-lateral and multilateral partner organizations.

The International Cooperation Sector is also responsible for fund raising efforts, which is an important task in itself. However, its efforts can in future be targeted more precisely with the introduction of the new 5-year strategic investment plan, since it will highlight where there are financial lacunas. The mission finds that the investment plan will be a powerful tool in negotiating areas and types of support with donors and bi-lateral and multilateral partner organizations, since it will make SFD's programmes and funding requirements more transparent. Moreover, the investment plan will also make it possible for SFD to speak with one voice only.

The 5-year investment plan should be supplemented with an Institutional Development plan, where the required institutional capacity building activities are listed. This list of argued projects should also be presented to donors for possible funding.

The International Cooperation Sector also cooperates with ministries and governmental institutions to implement the new law for SME. Expectations by GoE will require SFD to create 200 000 employment opportunities per year, mostly through SME and Micro-finance loans. This should be seen in relation to the total annual influx of some 800 000 persons to the labour market. This is a tremendous challenge that in economic terms requires more than LE 1.250 billion in disbursements per year for SMEs alone and where most of the required funds will have to be provided from external sources. Some of these funds have already been pledged for the next couple of years, which is positive omen for the future stability and sustainability of SFD.

The MDRM II recommended:

SFD should work with external donors, through DAG Sub-groups on SFD, to integrate external assistance into its regular plans, budgets, implementation processes and procedures for monitoring, impact assessment, reporting and evaluation. This requires the formulation and communication of corporate plans and budgets by SFD and willingness by donors to harmonise their financial and programme reporting requirements. SFD and donors should undertake joint studies and programme reviews.

ICMPR does work with the relevant DAG sub-groups, in addition to contacts with individual donors, to integrate external assistance into its regular plans and budgets. However, this can be done in a more effective and systematic manner in future, where the rolling 5-year strategic investment plans will be available for a long-term oriented dialogue. In respect to implementation processes the establishment of the Procurement Offices has been a great improvement, and the proposed Project Preparation Office for IDP projects should also ensure a timely implementation of these for SFD so important projects. Procedures for monitoring, impact assessment, reporting and evaluation is in the process of being established with the direct support of donors, or the indirect support through the new MIS, where these procedures have been and will be reconsidered. Moreover, the present mission has throughout its report analysed these procedures and suggested changed and recommendations.

The willingness by donors to harmonise their financial and programme reporting requirements may be supported by local donor representations, but the same willingness is not shown by their respective headquarters. SFD and donors have undertaken joint impact studies and programme reviews, as witnessed by MDRM II and the preceding Impact Study.

The Media and Public Relations Sector is concerned with maintaining awareness in the Egyptian society at large of SFD’s role in development. It is therefore targeting both beneficiaries as well as non-beneficiaries. It does this through all the various types of media, through conferences, work shops, Youth Expeditions etc.

Another important task is to receive defaulters and examine their cases for submittal to the SFD Loan Performance Development and Monitoring Committee and the concerned Regional Office for the case to be reconciled and solved.

The section will also have a major role in making the one-stop-shops a success and should work very closely with the Regional Office Sector that is responsible for the shops.

5 Planning and Monitoring Group

The group's main tasks can be captured under the following headings:

1. Strategy development

2. Preparation of SFD's new 5-year strategic investment plan and annual work plans

3. Monitoring and evaluation

The Planning and Monitoring Group has been instrumental in developing SFD's new strategy. It goes a long way to meet the recommendation of MDRM I concerning a new mission statement.

SFD has started to develop rolling 5-year strategic investment plans, where the first one will cover the period 2005 – 2009. The investment plan has as its main objective the overall sustainability of SFD, and starting from this requirement it strives to:

1. Maximize operational levels for SEDO and HCDG
2. Maximize clients' benefits
3. Meet obligations to donors, with respect to interest and payments on loans
4. Ensure positive cash flow
5. Fulfil objectives

The approach is a gap-filling investment plan in so far that it considers the committed and unrestricted funds available and then determines the additional contributions that will be needed from donors, the GoE and other sources in order to ensure sustainability of SFD, taken into consideration that SFD is required by the new SME law to create employment for some 200.000 persons every year.

The model is based on the Balance Scorecard Approach, whereby a sequence of scenarios of SFD are analysed and adapted in order to converge to a feasible 5-year investment plan, which can then be adjusted to approach an acceptable balance between SEDO and HCDG, and to meet SFD's development objectives. The underlying model integrates all the relevant assumptions and data, and allows management to immediately observe the consequences of changing the underlying assumptions with regard to exchange rates, interest rates, ratio between restricted and unrestricted resources, service fees charged, average loan sizes, defaults, and average loan and grace periods. This integrated and iterative approach to planning is the main strength of the model.

Based on an agreed scenario the actual decentralised work plans for the coming year can be determined in detail, to ensure that the agreed business targets can be achieved. This involves not only a distribution of funds between SEDO and HCDG and the Regional Offices, but also a plan for their actual tasks and staff requirements in numbers and skill, which in turn will define training needs.

The mission finds that this approach to develop feasible 5-year investment plans and annual work plans, which is still considered a pilot project by SFD, is a good approach and a significant improvement to previous planning methods. However, the operational value of the model would be significantly enhanced if it would be extended from a gap analysis model to include facilities for 'what if' queries. Presently, the number of employment opportunities, the amounts disbursed and the number of loans is the output of the scenarios, so if the consequences of attaining a certain number of employment opportunities over a 5-year period are to be determined, this can only be accomplished through a cumbersome iterative process. An extremely useful extension of the model would be to include the ability to determine the financial consequences as a function of employment targets during the 5-year period. The mission is aware that work on the extension of the model is ongoing.

Recommendation: The mission recommends that the present gap filling 5-year strategic investment model be utilized on a permanent basis and extended to include facilities for 'what-if' queries with respect to size of disbursements and employment opportunities generated.

The 5-year investment plan and annual work plans must be supplemented by annual Institutional Development Plans, since these needs are not necessarily reflected in the 5-year investment plans or annual work plans. It is important that HR training be scheduled in a comprehensive, logical and sequential manner, so that all staff will attain the necessary competencies within their assigned positions. Moreover, SFD will also need special studies to be done from time to time or targeted capacity building in areas such as risk management, targeting procedures, evaluation and impact assessment, use of statistical packages, to name some of the areas where SFD has to be strengthened.

The third main area of responsibility is monitoring and evaluations. Monitoring deals with the control of projects to ensure that they adhere to project design, estimated cost and donor requirements. The actual data and information is provided from the various units of business, where each of them have their own monitoring system. The monitoring reports are prepared on a quarterly, semi-annually and annual basis to donors. In addition reports are prepared to the Board of Directors, line ministries and the cabinet on an *ad hoc* basis.

Evaluations of programmes or projects have never been done by the Planning and Monitoring Group itself, and the few evaluations that have been undertaken have been initiated by either SEDO or HCDG and performed by outside consultants. Often, it has been the consultant that has actually defined the scope and methodology to be used, so the studies have been a hybrid of an evaluation study and an impact assessment. Impact assessments have only been performed on donor initiatives and performed by outside consultants. Formats for undertaken evaluations and impact assessments are presently lacking.

Although the Planning and Monitoring Group from its close monitoring of projects and programmes can alert the business sectors on issues to be analysed in more detail, the group can not initiate evaluations or impact assessments on its own.

The mission finds that the Planning and Monitoring Group should have the authority to propose evaluations and impact assessments of all SFD's operations on its own initiatives. Evaluations and impact assessments should not only cover SFD's programmes and projects, but also organizational units as may be required. It is important that the evaluations and impact assessments be targeted and address specific problem areas to improve project interventions or the SFD organization itself. In short, the Planning and Monitoring Group's evaluations and impact assessments should act in the same way as the Internal Audit Group is acting on the financial side.

The Planning and Monitoring Group is presently involved in three institutional development projects dealing with monitoring, evaluation and impact assessment. The first one is an UNDP funded project with the objective of developing a set of generic indicators for project evaluations and impact assessments. The idea is that mid-term and an end-of-project evaluation forms are filled out for all projects with the purpose of helping decision-making, project streamlining, identification of problem areas, determining needs for corrective/preventive actions, feedback to future projects and a host of other purposes. Both types of evaluations require that two teams should do the evaluations separately, and the teams should have representatives from the Regional Office, the department/sector issuing the contract document, the project implementation manager, local community representatives and persons from thee executing agency. The teams may be aided by independent consultants. The methodology applied would be studying reference documents, interviews with community members, project managers, etc. through focus groups and by questionnaires if appropriate. The collected information and assessments from the mid-term project evaluation and the end-of-project evaluation from the teams would be entered into the new MIS.

The mission finds that this universal method of project evaluation is infeasible, since the thousands of projects would require so much effort and manpower that it is unrealistic to assume that it could be done. The costs will be enormous and the benefits limited. And even if it could be done the cost and manpower could be reallocated for better use in attaining SFD's objectives. This is not to say that there is no need for mid-term and end-of-project evaluations, but it should be done for a limited and specifically targeted purpose. Universal evaluation should only be accepted if the indicators are limited in number and easy to collect or collected routinely during project execution for other purposes.

The second project is funded by the World Bank-IDA and is concerned with evaluation systems for HCDG, based on the Integrated Local Area Development

(ILAD) targeting approach, which has been adopted by SFD. The pilot-project, yet to be started, will consider projects that are already completed. The ILAD approach is discussed in greater detail above and will not be covered further here.

The third project deals with the monitoring, evaluation and impact assessment's role in the new MIS. In addition to the input from the mid-term and end-of-project evaluation forms and the teams' reports for each project, the MIS system will also collect a series of data relating to project impact on a universal scale. These data deals with social and economic indicators and will be obtained through interviews with beneficiaries. The mission finds again, that this universal method of project impact assessment is infeasible, due to the same reasons as presented above. However, by this the mission is not implying that there is no need for impact assessments, but it should be done on a limited and specifically targeted purpose, and the work already done can provide valuable guidance.

Recommendation: Based on the above analyses the mission recommends that the Planning and Monitoring Group be delegated to propose evaluation studies and impact assessments on its own initiative, in addition to requests for such studies from SEDO, HCDG, Marketing & Management, supporting groups and management in SFD. In this respect the Planning and Monitoring Group should be regarded as the non-financial equivalent of the Internal Audit Group. The evaluation studies and impact assessments should be targeted and specific in order to focus on essential problems, whether they are in the business sectors or deals with the SFD organization as such. As a consequence, the mission recommends that the universal mid-term and end-of-project evaluations, as well as the universal project impact assessments should not be implemented, and not be included in the MIS, due to infeasibility and high costs.

The MDRM I recommended to develop annual plans/budgets by department, with periodic reports to managers and Regional Officers. The new initiative of producing rolling 5-year investment plans and derived annual work plans is meeting this recommendation. Another recommendation proposed to integrate/co-ordinate external assistance with SFD short/long range plans and budgets. This has been fulfilled through the 5-year investment plan. Still another recommendation proposed to develop indicators that consider both qualitative and quantitative performance, to improve measurement of organizational/departmental performance. With respect to the quantitative indicators this will be attained through the 5-year investment plan and the actual annual work plans, while the qualitative indicators have not yet been defined. The present mission recommends that the Planning and Monitoring Group should be delegated to make evaluation studies and impact assessments on its own initiative, but concentrating on targeted and specific issues. Finally, the MDRM I recommended to develop standard institutional programme-wide reports for donors. This has not been implemented due to the donors' different reporting requirements as to content of reports and frequency of reporting.

6 Finance and Administration Group

The Finance and Administration Group consists of five sectors:
- Financial and Operations Sector
- Treasury Sector
- Human Resource Sector
- Administration and Regional Office Sector
- IT-department

The Financial and Operations Sector develop financial policies and systems required by SFD, and governmental and international donors. It also monitors the actual implementation of donor requirements, collect due amounts from intermediary agencies, and administer procurement activities.

The mission has analysed procedures and flow of funds in addition to reading the external auditor's reports. The mission finds that there is transparency and that international standards are applied. The present accounting systems is cash based but will be transformed into an accrual based system, which will allow for closer monitoring and added analysis, especially of the funds provided for SMEs and Micro-credit and is also a prerequisite for proper risk management. Moreover, the accrual based accounting system is also necessary for allocating the costs and overheads for the three self-sustaining operating groups.

Until now overheads have been divided equally between the two operating groups, SEDO and SID, but with the reorganizing of SFD resulting in three self-sustaining operating groups, SEDO, HCDG and Marketing and Management, it becomes crucial that the overheads are allocated in a proper way to the three groups. This should be done in a comprehensive manner, so that the cost of their operations can be measured correctly, including the cost incurred in the Regional Offices, where staff is assigned to their respective units. Transfer prices for services among the three groups should also be agreed upon.

The MDRM I recommended that:

SFD should improve its internal financial management system by integration of the current functions of the various accounting and fund management programmes, the development of an annual operating budget by the operating departments that includes both cost of operations (including the cost of staff training and special studies) and expected outputs, the tracking of these costs and periodic reporting to managers, along with key performance indicators.

Integration of the current functions of the various accounting and fund management programmes will be accomplished through the new MIS system that will be implemented during 2005. The development of an annual operating budget by the operating groups that includes both cost of operations (including the cost of staff training and special studies) and expected outputs, the tracking of these costs and periodic reporting to managers, along with key performance indicators. This is also expected to take place from 2005, when annual plans and annual work plans for the three operating groups will be developed based on an agreed 5-year strategic investment plan. The work plans will be detailed down to the Regional Office level.

The Treasury Sector has recently been established, but is a much needed activity that SFD is finally undertaken, especially in hedging itself against foreign exchange risks in cases where donors' loans are in foreign denominations, while SFD's own lending is in LE. It has also an important function in placing SFD cash surpluses in a profitable way, since these have proven to be quite substantial over the years.

The Human Resources Sector designs organizational structure and job descriptions for all SFD staff, recruits professionals, develops programmes and systems to upgrade and motivate employees, and develops systems to measure the employees' performance efficiency level for periodic performance evaluation.

SFD's staff previously consisted of a permanent core staff in addition to a much larger temporarily staff hired through an external HR bureau. SFD has now absorbed this staff on a permanent basis and at the same time developed individual annual performance plans with agreed targets. If these targets are met or exceeded the staff will be remunerated and even rise in rank. If a person fails to meet the targets a warning is issued and if there is no improvement the following year, the person will be asked to leave SFD. The new system has been well received by staff and they have shown to be better motivated and more loyal to SFD.

The mission finds that with respect to offering training to and upgrading of staff this has not been efficient, not least since some of the institutional development programmes were never implemented due to lack of fund. The mission has found that especially in the Regional Offices there is a significant need for systematic and comprehensive training and this will certainly not diminish with the reorganization, decentralization and increased delegation of authority.

Recommendation: The mission recommends that all planed training and skills upgrading activities should be undertaken irrespective of whether external support can be obtained.

The Administration and Regional Office Sector has as its main activities the administration of the 28 Regional Offices and coordination of their major activities and those of SFD's technical and administrative support departments, to ensure that the Regional Offices reach the target groups. In addition it monitors SFD's supported activities.

The work of the section is appreciated by the Regional Offices, which thereby have a direct channel to HO. Moreover many general issues can be raised through the Regional Office Sector. However, the mission finds that its role in the new organization is not unambiguously clear, especially with regards to its prerogatives vis-à-vis SEDO and HCDG, which will strengthen their positions in the Regional Offices and in future will do most of the target setting themselves.

Recommendation: The mission recommends that a clear definition of the Regional Office Sector's tasks and responsibilities be made in the new organizational plan.

The IT-department will be considered in a later section, where the new MIS will be analysed.

7 The Regional Offices

There are 28 Regional Offices, one in each Governorate, of which 10 have a special status and oversee the other 18 sub-Regional Offices. A Regional Office is headed by a manger and has units representing

- SEDO
- HCDG
- Marketing and Management, in addition to support units
- Administration and Finance
- Planning and Coordinating
- Internal Audit
- Secretary

Presently Marketing and Management is under the SEDO unit, but will in future become a separate unit.

The manager in a sub-Regional Office reports to the Regional Office manager in general, and to the Regional Office Sector for non-technical issues, such as administration and staff, and to the three operating groups for technical issues. The staff also reports to HO along the same technical and non-technical lines.

The Regional Offices is SFD's direct link with the beneficiaries and the ones that generates business and projects. This will be more pronounced in future, when the new organization comes in place, since the three operating groups now must prove their self-sustainability.

When considering the present tasks of the three operating businesses it should be recalled that SEDO, incorporating Marketing and Management, and HCDG have quite different working environments. HCDG has many potential projects, but its activities are directly dependent on external support, mainly through donors, so its level of activities is limited by available funds and projects that meet the donors' requirements. In contrast SEDO has in practice no financial limitations, but is dependent on creating demands from SMEs and the willingness of the intermediary banks and NGO's to accept potential SME customers. The Marketing and Management activities are presently offered without charge, except for participation in exhibitions, export promotional travels and other special activities, but this will change in future.

As the number of projects is expected to increase substantially for both SEDO and HCDG, and perhaps also for Marketing and Management, the Regional Offices' role and tasks will change significantly.

Presently the field officers involved in SEDO activities work closely with the participating branch banks and NGO's in addition to preparing feasible business plans for existing and potential SMEs. As argued in the section on SEDO, the role of the field officer will in future be concentrated on advising and supporting the increasing number of participating branch banks and NGO's, and to monitor their work and the performance of the SMEs. It is to be expected that preparing individual business plans will be reduced substantially, due to the sheer work load involved, if it should continue processing the same percentages of applications as is now the case. The future loan amounts to be disbursed, and therefore the number of loans, will increase significantly during the next five years, which will require additional qualified staff in the SEDO units.

Moreover, the role of the Regional Office will also change due to the fact that SEDO is in the process of creating 6 offices covering all the Governorates and where the field officers will be in direct and continuous contact with the bank branches in the 4-5 Governorates they are covering. This has been decided in order to ensure the necessary disbursements from the participating banks.

Since SEDO will be directly accountable for the costs involved, it is expected to introduce more specific targets for each Regional Office and keep a tighter control on their achievements. Thus there will not only be a more direct line of communication and control between SEDO and the Regional Office than is presently taken place, but also to the individual field officer. Thus the role of the Regional Office Sector will also change.

The mission recommends that the tasks, staffing, targets and monitoring procedures for Regional Offices and SEDO's field staff be determined in conjunction with the annual plans for 2005. This would take into consideration the newly established 6 Governorate offices for direct liaison with the bank branches. It would include number of staff to be hired in the Regional Offices and their qualifications. In addition need assessments, training programmes and training schedules must also be in place. It is important that the training schedules are not postponed due to delays in obtaining donor funding and SEDO should be prepared to finance the programmes itself if external funds are not available, SEDO should pay the running costs of the SEDO units, including staff salaries, transportation overheads etc. Moreover, the role of the Regional Office Sector in relation to the SEDO units should be clearly defined.

In the section on HCDG it was argued that HCDG's activities will also increase during the next five years and that there is a need for decentralization of authority to approve projects, taken due steps to ensure that SFD remains a legal autonomous organization and does not become an integrated part of the Governorates' policies. Moreover, it was also argued that the role of the HCDG's field officers should become one of guiding and monitoring intermediate NGO's in project preparation and feasibility studies, rather than take on these tasks themselves. In the same way as

SEDO would be responsible for staffing of its units in the Regional Offices, HCDG should also be held accountable for the costs incurred in running its own units.

The mission recommends that the tasks, staffing, targets and monitoring procedures for Regional Offices and HCDG's field staff be determined in conjunction with the annual plans for 2005. This would also include number of staff to be hired and their qualifications. In addition need assessments, training programmes and training schedules must also be in place. It is important that the training schedules are not postponed due to delays in obtaining donor funding and HCDG should be prepared to finance the programmes itself if external funds are not available, HCDG should pay the running costs of the HCDG units, including staff salaries, transportation overheads etc.

The new Marketing and Management Group will also maintain a unit in the Regional Offices. As argued in the section on the group above, it is still uncertain how big a demand there will be for its services, when SME customers have to contribute to the actual costs. This places the Marketing and Management Group in a difficult situation, since it will have to bear the cost of any manning of staff in the Regional Offices that it proposes, while it is uncertain as to the likely income it can generate from its activities. The mission therefore recommended that a two-pronged approach should be taken regarding definition and tasks, to test the viability of the post-loan services, especially the ones dealing with local marketing studies. Moreover it was recommended that it enters into cooperation with local NGOs and local marketing consulting firms, partly to hedge itself and partly for building local capacity.

The mission realises that the Marketing and Management Group cannot be self-sustaining in the short run and that SFD will have to carry its cost for some years to come. On the other hand this should not prevent SFD to treat the group in the same manner as SEDO and HCDG with respect to charging it for Regional Offices' cost and overheads at HO.

At the same time the three operational groups are expected to be self-sustainable and thus be internally be charged for the costs they incur, but also be credited with the income they accrue, it is evident that their directly influence on the staff and their work in their respective units in the Regional Offices will increase. This will change the role of the Regional Office Manager, who is presently allocating staff resources to optimize their overall utilization. This should still be possible, but will in future require the consent of the operating groups. Moreover, the Regional Offices are presently working through the Regional Office Sector on many issues involving the staff and issues concerning the three operational groups. This may still be possible in future, but the operating groups' new roles will probably change the range of issues which will be channelled through the Regional Office Sector. In the section on the Regional Office Sector the mission recommended that a clear definition of the Regional Office Sector tasks and responsibilities be made in the new organizational plan.

The MDRM I recommended that:

SFD should target its staff resources on improving programme and project design and implementation. The litmus test for any activity or study must be the practical *impact on SFD's ability to implement effective programming. This means more effective coordination and communication between headquarters, the various programmes of SFD, and the field.*

SFD is aware of these requirements, which have also been advocated by this mission, and is expected to target its staff resources for improving programme and project design and implementation, in connection with preparing the annual plan for 2005.

8 Development of a new MIS

SFD is developing and implementing a completely new integrated MIS consisting of the following three modules:

1. Core Financials
2. Project Monitoring & Evaluation System
3. Administration & HR.

The MIS is based on Oracle software and is a redesign of already existing stand-alone systems, in addition to new SFD requirements. The MIS project will also include the necessary IT hardware and intranet structure that will provide direct access to common information at all SFD levels, including the Regional and Sub-Regional Offices. The MIS project is financed by 3 million Euro from EC under the IDP and delivery is required to take place before 31 December 2004, where EC's financial commitment ends.

The MIS project is of great *relevance* since it integrates most of the data presently collected at the various levels and allows managers to have the same, comprehensive information in the areas which the system covers. In addition it proposes new databases for future requirements, in particular within monitoring, evaluation and impact studies, but also in administration and human resource management. Moreover, it ensures that the information generated in reports to GoE, donors, management, intermediaries, supporting and implementing agencies, PIUs and other interested parties are consistent, since they will be extracted from the common databases.

Due to the tight time constraint and to impose financial safeguards, SFD has entered into nine sequentially sub-phased contracts with Oracle Egypt, whereby each of the modules have been subdivided into a study phase, a licensing phase and an implementation phase. The status of the three modules as per October 2004 is as follows:

1. Core Financial: Implemented and is undergoing internal testing by SFD.
2. Project Monitoring & Evaluation System: Study phase completed and contracts for the licensing and implementation phases have been signed.
3. Administration & HR: Study phase completed and contracts for the licensing and implementation phases await approval from EC.

While all the three modules and the IT hardware and networks may be delivered before the expiring date, no testing of the integrated system will be made before that date.

The *efficiency* in identification and preparation of the MIS system has been hampered by the tight time limitation. The design of the new MIS could have been a unique opportunity for SFD to undertake a complete and systematic Business Reengineering by technical experts in the various business sectors and supporting organizational groups, before the requirements to the MIS had been decided on. These studies would have included reconsideration of SFD's future organizational set-up, including decentralization of operations and decision making; policies and procedures according to the newly developed strategy; relevance of reports; cost/benefit of data requirements including availability of data, points of data collection and frequency of data maintenance; information flows; data access and data mining, and necessary staff requirements and training.

Although much work has gone into defining the requirements of the new system, the data and report requirements from the various organizational units are very uneven with respect to level of ambition, availability and likely relevance, especially at the Regional and Sub-Regional levels, where the definition of tasks and reports are of a very summary nature. This is unfortunate, since it will be the PIUs and implementing agencies, both of which are hardly considered in the new MIS system, and the regional and sub-Regional Offices, that will be responsible for most of the data input and decentralized analysis. The approach has predominantly been top-down rather than bottom-up, although the events that generate data in most cases are linked to implementing SFD's projects.

SFD is aware of these deficiencies, but due to the time constraint it has decided to reverse the normal process and plans to review the data and reports requirements, and all required policies and processes necessary for collecting and transforming the data, to after the MIS has been delivered and tested.

Although the three modules may be submitted to SFD before 31 December 2004, the mission finds that testing and implementing the new MIS still require a substantial and time consuming effort by SFD, which it may not be in a position to complete within a foreseeable time.

Recommendation: In order ensure successful implementation and acceptance of the new MIS in the organization, within an acceptable time frame the mission recommends that:

1. *A comprehensive, integrated testing of the three modules should be performed by consultants.*
2. *Technical assistance should be provided to SFD in the areas of*

- *relevance of reports*
- *cost/benefit of data requirements including availability of data, points of data collection and frequency of data maintenance*
- *information flows*
- *data access and data mining*
- *necessary staff requirements and training*

3. *Concurrently with this SFD should determine its future organizational set-up, including decentralization of operations and decision making; policies and procedures according to the newly developed strategy.*

The mission estimates that 12 man-months of technical assistance are needed.

Based on these studies SFD should be in a position to make a final decision as to which data are really needed by SFD and should be incorporated in the new MIS, and which requirements should be renounced or left for future incorporation. In this respect the mission finds that the data requirements linked to universal evaluation and impact assessment should be discarded, since the data are either not readily available or too costly to collect. As recommended in the section on Monitoring and Evaluation, evaluation and impact studies should be selective and targeted, rather than universal, and cover specific issues or sectors and undertaken according to specific TORs.

Since the MIS system is not yet finished, let alone tested or implemented, it is not possible to assess the *effectiveness* or *impact* of the MIS system on SFD and donor requirements. However, it should be made clear as described above that the MIS system requires substantial future efforts and resources to ensure its acceptance and success throughout the organization.

Sustainability of the MIS will depend on SFD's ability to ensure timely input of reliable data; acceptance and use of the system at all levels throughout the organization; and continuous adaptations of the MIS system to introduce needed features and discard obsolete ones. Although the IT department in SFD can produce input screens and reports, and export data to Excel or other programmes for further analyses, and use the query programme provided by Oracle, it is important that the groups themselves can also do this, since many requests for reports and data transfer are of an urgent need.

Recommendation: The mission recommends that each organizational group and each Regional Office will have at least one person who can produce non-standard reports and extract data for specific analyses on stand alone systems as needed.

The MDRM II recommended:

SFD should focus and simplify its management information system on the key information systems that must be integrated (e.g. fund management and accounting), making sure the highest priority segments are in place and functioning well before implementing other segments such as the task management system. This would require increased user input into the design.

The recommendation proposed to simplify MIS and focus on key systems that support annual planning/budgeting process and budget implementation. The original recommendation was based on the assumption that a new MIS would be based on in-house development. The MIS system presently being designed, developed and implemented is on the contrary based on a large input of external expertise.

Paradoxically, the key system that will support annual planning is being developed outside the new MIS system This is appropriate, since the underlying model has to be adapted from time to time and the exercise of producing a 5-year strategic investment plan and follow this up by annual work plans, will take place in an iterative dialogue with top-management, the three operating groups, the Regional Offices and management from the supporting groups, which by its nature can better be performed on a stand-alone system. However, relevant data from the MIS system should be easily transferable to the 5-year strategic investment plan and the ensuing annual plans.

As described above, all three modules will be implemented at the same time due to the time limitation, and any judgement on its success and sustainability must await its testing and implementation throughout the organization.

9 Internal Audit Group

Until the end of 2002, the Internal Audit Group consisted of one manager and four auditing staff. With this small staff the group was not in a position to do any proper internal auditing and acted more as an intermediary between the donors and the external auditor to fulfil their individual requirements.

After the new General Manager Internal Audit Group took over in October 2002 a first priority was to process the backlog of completed, but not yet audited projects that waited to be closed. Thereafter, a new organizational set-up was approved with internal auditors placed at the Regional Offices. Auditing plans and auditing check-lists were introduced and intermediaries, be they banks or NGOs, are audited according to stratified samples. However, SFD's chartered accountant remarks in his letter to the management, that the manuals of policies and procedures are not updated to reflect the current practices applied in SFD. None of the departments have documented systems and procedures to qualify for an internal audit. This deficiency in turn makes it difficult to execute internal audits on the basis of clear and undisputed terms of reference regarding both project audits and organizational audits. Risk management audits have so far not taken place although definitely required in view of the problems of non-transparent quality of the loan portfolio and in view of SEDO's inconsistent risk management. According to the Internal Audit Group, the preparation of manuals for documented systems and procedures are under way. The internal auditors can go directly to the banks and be provided with a fixed set of information, which is used for auditing analysis.

The new law dealing with SMEs empowers SFD to represent SMEs in disputes with public authorities through final arbitrage. There is no requirement that the SME is a beneficiary of SFD. As a consequence of the law, the Internal Audit Group is contemplating to place an auditor in each of the Governors' offices.

Recommendation: Until the number of disputes and workload involved is known, the mission recommends that a local auditor is hired on a part time basis to represent SFD when required. The hired auditor should be properly trained by the Internal Audit Group. The organizational set-up should be co-ordinated with that of the Legal Adviser Department for the same purpose.

The MDRM I recommended that:

SFD should develop and implement a risk-based project monitoring methodology for use in the field. This would require additional audit resources in the field.

This has not been done, since SEDO has not yet introduced a credit rating system that allows risk management. However, the audit staff in the field has been increased considerably, and every Regional Office has now an internal auditor in place. Auditing in the field is performed on a sampling basis, and auditing of the Regional Offices themselves is undertaken by internal auditors from other Regional Offices and HO.

10 Legal Adviser Department

The SFD legal adviser clears all contracts entered into by SFD. If a donor or an NGO have legal requirements which differ from Egyptian laws, it is the international law that takes precedence, since the GoE has agreed to follow these requirements in the original agreement signed between the involved parties. The legal adviser has also been instrumental in providing standard contract formats for various types of projects, which has streamlined the procedures.

Within the framework of supporting SME, law number 141/2004 was issued with the aim of integrating efforts through one entity with a clear operational mandate, for facilitating and simplifying SME related procedures. This new law gives an enlarged mandate to SFD in the area of SME, without diminishing any of SFD's previous mandates.

The new law empowers SFD to represent SMEs in any disagreement with public institutions and authorities. It is not a requirement that the SME is a beneficiary of SFD, since the law covers all SMEs. These disputes will be solved through local, final arbitration by an arbitration panel headed by a judge. As a consequence, the Legal Advise Department proposes to establish a legal office in each of the Governors' offices, with its own seconded lawyer.

Recommendation: Until the types of disputes, their numbers and workload is known, the mission recommends that a local law firm be hired on a case by case basis to represent SFD, since the range of disputes will cover a wide variety of special legal areas, which are not presently covered by the Legal Adviser Department. The organizational set-up should be co-ordinated with that of the Internal Audit Group for the same purpose.

Recommendation: Although it is not mentioned in the law, but follows from its spirit, the mission recommends that SFD should offer legal advice to the SMEs that present cases before the arbitration panel, and reimburse any legal costs in the cases where the litigation by the plaintiff is upheld.

11 Measuring efficiency of Social Funds

For most social funds the World Bank uses a simple indicator of efficiency which is the ratio of "operating costs" of the social fund compared to the "cost of the projects executed". The "cost of projects executed" would include in the case of PWP for example the amounts of the contracts of the contractors executing the works and eventually the contracts of the consulting companies in charge of designing and supervising the projects. In the case of CDP the cost of the projects are the amounts of the contracts given to NGOs to implement the projects such as for example training projects. This indicator could thus be used for the activities of the HCD group.

For loan operations the above definition cannot be used but a similar ratio could be used, for example the ratio of operating costs compared to the amount of the portfolio of outstanding loans. This ratio is what banks usually calculate to determine their spread between the interest rates of borrowing and of lending. Of course the spread covers in addition to the cost of operating also the different risks and the profit margin of the bank.

If these ratios could be determined, then SFD could be compared with other social funds and other organizations in other countries. Unfortunately SFD uses an accounting system that does not provide separate operating costs for SEDO and HCDG. However by using hypothetical ratios the operating cost of a well run, efficient social fund can be calculated and compared with SFD's. Well run, efficient social funds have a ratio of about 7%. This ratio can increase to about 12% for social funds operating over wide geographical areas or handling a large number of very small or difficult projects. For the overhead of the SEDO operations an estimated value of 2% can be taken which is an acceptable figure.
Using these assumptions the corresponding operating cost could be calculated as follows:

- during phase 2 SFD/HCDG has implemented projects for about LE 1 548 million, if we apply a ratio of 7% than we can calculate that the operation costs will be about LE A 548 million x 7% = LE 108.4 million for 5 years or LE 21.6 million per year;
- during phase 2 the SEDO portfolio was on average LE 1 690 million, if we apply a ratio of 2% than we can calculate that the operating costs would be LE 1 690 million x 2% = LE 33.8 million per year;
- the total operating cost of the SFD would thus be about LE 55.5 million per year.

If we compare these operating costs with the actual operating costs of the SFD we obtain the following:

Year	2000	2001	2002	2003	Average
LE million	32.8	49.2	36.0	58.6	44.2

The average of these figures is about 20% lower than the estimate showing that the SFD is a very efficient social fund.
These figures do not allow drawing conclusions about HCDG or SEDO individually but if the hypothetical ratios are reduced by 20% we find the following ratios: for HCDG the ratio may be about 5.6% and for SEDO about 1.6%.

The ratio of 5.6% can be compared with social funds and central and local government organizations world-wide according to a recent study of the World Bank see box A. The figures can also be compared with figures for social funds and similar projects in Africa according to a World Bank report see box B.

Box A
Extract from "Evaluating Social Funds" World Bank 2004 – page 173

Table 8.7 Annual Overhead Expenditures as a Share of Total Program Cost, by Type of Implementing Program (percent)

Country	*Social fund*	*Central government*	*Local government*
Armenia	10	—	—
Bolivia	12	20[a] (FDC)	
Honduras	13	22 (Ministry of Education)	31 (Puerto Cortes)
		22 (Ministry of Health)	31 (San Pedro Sula)
		8 (DIMA)	9 (Villanueva)
		15 (SANAA)	9 (Progreso)
Nicaragua	10	5 (Aprende)	48 (Prodel)
			20 (Protierra)
Peru	7	23 (INFES)	—
		17[b] (Pronamachs)	

— Not available.
Note: Information on nongovernmental organizations was not available. In Armenia overhead costs for other agencies were not investigated. For Zambia, where the social fund is also responsible for implementation of a national poverty monitoring component, including technical assistance and support to the national household survey, overhead costs for the social fund alone could not be estimated. For definitions of program abbreviations, see table 8.1.
[a] Fondo de Desarrollo Campesino, a rural investment fund.
[b] Assumes a 51 percent community counterpart contribution toward investment costs. In the sample of projects, however, actual community contributions averaged only 13 percent of costs. If this were true across the portfolio, Pronamachs's overhead would rise to 27 percent.
Source: For data sources and years, see chapter 2, table 2.3.

Box B
Extract from a World Bank Document

Comparison of Administrative Costs (AC) of Several Social Funds in Africa

	Senegal Agetip 96-99	Malawi 97-98	Zambia 92-98	Burundi 95-97	Rwanda 95-98	Burkina Agetip 92-97	Niger Nigetip 91-97	Angola	Eritrea 96-98	Mauritania Amextipe 93-98	Mali 92-98
AC/Total costs, %				8.53			4.84			10.4	
AC/Disbursement, %	4.40	4.50	29.89			8.89	6.32	18-20	17.15		7.7
AC/Investment costs, %											
Average, %					14.21						
Weighted Average, %				8.04	12.57						

AC: Administrative costs (project management costs)
Please note that the definition of administrative costs varies between projects.
Senegal: the ratio was obtained using estimated disbursements for 1999.
Malawi: Figures were only available for 1997 and 1998.
Zambia: Administrative costs are high because they include capacity building, additional staff for centralized responsibilities, and task assistants for regional officers.
Burundi and Rwanda: Two types of ratios were calculated here. The simple average of administrative / disbursement ratios for consecutive years and a weighted average across consecutive years to account for the different volume of administrative costs.
Niger: The expenses of the Nigetip have been used as an estimate of operating costs. Total project costs includes non-IDA contributions.
Eritrea: The Community Development Fund Program is a multi-donor project and its administrative costs were funded by the Government of Eritrea. There is no indication of the administrative costs linked to IDA funds

In addition to measuring the efficiency of the social fund this ratio is also used when a social fund executes a project for a donor. The donor that wants a social fund to execute a number of projects allocates in addition to the cost of these projects a participation in the operating costs of the social fund calculated based on the ratio of the social fund which may be slightly modified to take into account the specific nature of the projects.

This could also constitute an exit strategy for the UNDP that is now funding the operating costs of the SFD. If SFD could negotiated a participation in operating costs from each donor for all future projects then the funding of UNDP could be reduced accordingly.

Part 3: Cross-cutting issues

1 Poverty reduction

1.1. Introduction

The Terms of Reference for the MDRM II clearly states that "the purpose of the review is the assessment of the relevance and overall progress of SFD against the overarching aim of poverty reduction and employment creation." It is therefore important that there is a clear understanding of the concepts of poverty and its dimensions in the Egyptian context. It is also important that there is a coherent overview of how government and civil society in Egypt are tackling poverty and how SFD to date has developed strategic approaches towards the issue. These are the objectives of this section. The means by which SFD programmes fight poverty and unemployment are covered in the relevant sections of Part I.

1.2. Defining and Measuring Poverty

In the international arena there have been numerous attempts to define, count, categorize and differentiate poverty. One of the earliest methods was to define "absolute poverty", assuming that it is possible to objectively determine the minimum requirements which are necessary to secure physical existence of human beings regardless of nationality or location. This led to the construction of an absolute poverty line calculated on the basis of the costs of a minimum diet in addition to minimum costs for clothing and shelter. Such an approach has been considerably refined but the basic concept is still in place until today. And as will be seen below, it tends to dominate the methods used in Egypt to measure the degree and socio-economic incidences of poverty, partly because it is most conducive to the quantifiable or "numbers" approach.

In addition to the notion of absolute poverty, today's discourses include concepts of relative poverty and subjective poverty. Critics of the notion of absolute poverty argue that the requirement for minimum subsistence can only be defined in a given political, economic and cultural context where the respective prevailing social and economic minimum standards in the society at large determine who is poor and who is not. These standards are relative, i.e. they vary across time and space. Thus, the concept of defining poverty as relative poverty recognizes the problematic of relative deprivation.

The concept of subjective poverty is based on the self-perception of individuals and social units such as the family or a local community. Subjective poverty receives increasing attention since social tension and potential threats to security as a vehement expression of dissatisfaction is supposed to evolve as a result of the subjective sense of poverty and deprivation rather than an artificially constructed notion of "objective" poverty.

Most international development agencies draw on poverty concepts which fall into one or more of the following three categories:

(1) *Income perspective:* A person is considered as poor if his/her income level is below the poverty line which has been defined by many countries to monitor poverty incidence and progress in efforts to reduce poverty. The cut-off poverty line is

usually defined as having sufficient income to cover minimum food and non-food expenses.

(2) *Basic needs or perspective:* Poverty is defined as the deprivation of material requirements to fulfill minimum basic needs, including minimum calorie intake, clothing and shelter. In addition, the basic needs concept encompasses the need for appropriate employment and possibilities of active economic participation as well as the need for basic health, education and other services which are considered essential to prevent people from falling into poverty.

(3) *Capability perspective:* The capability concept defines poverty not only as the impoverished state in which a person actually lives but includes also the lack of real chances to lead a decent life and realize personal ambitions. It is assumed that person is not able to take advantage of objectively existing opportunities if he/she is deprived of certain basic capabilities to function. The capability concept recognizes the relation between relative and absolute poverty since relative deprivation in monetary terms can lead to absolute deprivation of essential basic capabilities.

The different perspectives are reflected in the definitions of poverty used by different international organizations. Until recently, the World Bank defined poverty mainly on the basis of monetary income (objective, absolute poverty), but it has lately adopted a broader concept of poverty. According to the World Development Report 2000, poverty encompasses "not only material deprivation (measured by an appropriate concept of income and consumption) but also low achievements in education and health" … as well as "vulnerability and exposure to risk – and voicelessness and powerlessness".47 UNDP draws mainly on the capability perspective and defines poverty as a state in which "opportunities and choices most basic to human development are denied – to lead a long, healthy, creative life and to enjoy a decent standard of living, freedom, dignity, self-respect and the respect of others."48 (sustainable livelihood approach).

To summarize, poverty definitions take thus three levels of deprivation into consideration: (1) the inability of the poor to secure their livelihood and to live a decent and valued life as a consequence of lack of income and assets, (2) the lack of opportunities to acquire these material resources and to get access to important immaterial resources as well as (3) the inability to change this situation.

In recent years, research has increasingly focused on the dynamics and the different dimensions of poverty. This includes, for example, aspects of vulnerability, social exclusion and low self-esteem as consequences of poverty but also the recognition of the importance of social capital and the empowerment of the poor through participation.

1.3. Poverty Studies and Poverty Measurements in Egypt

The nature and determinants of poverty and social deprivation in Egypt have only begun to be studied in any depth over the last 15 years. Most of these studies have concentrated on statistical measures of income poverty using constructed poverty lines, and all have relied on sample household surveys.49 The results have not been very consistent, due to a number of

[47] The World Bank, World Development Report 2000, p. 15.

[48] UNDP, Human Development Report 1997, p. 15.

[49] Most use as a base the nationwide Household Expenditure and Income Survey (HIECS) carried out by CAPMAS roughly every five years. The latest available is that of 1999/2000, a large sample of 48,000 households which allowed statistical

methodological and analytical assumptions. However, most constructed an absolute lower poverty line which is the international standard and is defined as a minimal nutritional basket of food goods plus a minimum of non-food basic needs, costed in local market prices. The P0 or headcount incidence of poverty (% of persons or households living under the lower poverty line) has been calculated in the 1990s by a number of researchers and gives widely ranging results, as shown in Table POV 1.

Table POV 1
Poverty Incidence (%) in Egypt in the 1990's

Study Source	1990/1991		1995/1996	
	Urban	Rural	Urban	Rural
World Bank (1991)	21	25		
Korayem (1994)	35.9	56.4		
El Laithy and Osman (1997)	39	39.2	45	50.9
Cardiff (1997)	12.6	32.2	30.8	55.2
El-Laithy et al (1999; lower	26.1	34.1	29	29

In 2001-2002 the World Bank carried out an extensive study of poverty using the HIECS results for 1999/2000, and the results of incidences of poverty were considerably lower than previous studies, particularly for urban areas. The main conclusions of the study were:

- The poor in Egypt as defined by the lower poverty line was 16.7% of the population (10.7 million persons). Using the standard $2/day measure and converting using a PPP of $1 = LE 1.6, poverty incidence was 19.4%.
- Poverty in Egypt is quite "shallow" as reflected by the distribution sensitive P1 and P2 values, meaning that the bulk of the poor are not far below the poverty line. (The corollary of this, however, is that the bulk of the non-poor are <u>also</u> not far from the poverty line.)
- Upper Egypt by far has the highest incidence of poverty, with the lowest in Metropolitan areas, and most of the poor live in rural Upper Egypt.
- During the 1995/96 to 1999/2000 period overall poverty declined by 2.7%, with Metropolitan and Lower Egypt regions experiencing sharp declines and poverty in Upper Egypt increasing. For example, Metropolitan poverty dropped from 13.1% to only 5.06%, whereas Upper Egyptian poverty increased from 29.32% to 34.15%. This overall improvement was attributed to the significantly better performance of the Egyptian economy over the same period (with GDP growth rates in the 5 to 7% range).
- Inequality as measured by the Gini coefficient increased in Metropolitan areas but decreased in both Lower and Upper Egypt. Overall inequality slightly increased in Egypt.
- The strongest socio-economic correlate of poverty was education, with poverty dropping rapidly as education levels improved. Also, larger families were more likely to be poor.[50]

In 2002 UNDP carried out a separate poverty study in Egypt using a random representative sample of 4000 households and tried to capture more than the strict income dimension of

relevance down to the governorate urban and rural levels. Other studies have carried out their own representative sample household surveys either at the national or some specific regional scale.

[50] Results of the World Bank study are taken largely from UNDP, Subjective Poverty and Social Capital, April 2003, Appendix B.

poverty. Using the same poverty line as did the World Bank in 1999/2000, inflated to 2002, it found a slight worsening of income poverty (lower poverty line) nationwide from 16.7% to 20.4%. It also added an upper poverty line and calculated that 43.8% of Egyptians were below this line.51 This dramatically shows how a very large segment of the Egyptian population is clustered just above the lower, absolute income poverty line. In other words, by increasing the poverty line by 40% in monetary terms, the number of poor more than doubles.

The UNDP study also constructed a subjective poverty index, based on people's self-assessment of their basic living standards and satisfaction. It concluded that 31.8% of Egyptians are subjectively poor, indicating that their basic aspirations are above their actual income. Perhaps the most remarkable aspect of the UNDP study was the conclusion that subjective poverty is very significantly higher in urban than in rural areas, the reverse of what has been generally found for absolute (objective) income poverty measures. For example, in Metropolitan regions subjective poverty was measured at 42.5%, compared to just 22.5% for rural Upper Egypt, where objective income poverty is by far the worse.

The UNDP study also tried to measure social capital, i.e. an individuals' satisfaction with community, social support, coping strategies, and community participation. A striking conclusion is the absence of community participation and the absence of political activities, especially in urban areas. Also, the social capital index showed that, among the objective rural poor, social satisfaction and trust is much higher than among the objective urban poor (45.9 versus 65.4).

In 1997 UNDP introduced the composite measure called the Human Development Index (HDI) which combines life expectancy, GDP per capita in PPP terms, and educational attainment, and this been measured annually, as reported in the yearly Egypt Human Development Reports (National Institute of Planning and UNDP). The latest such report (September 2004) shows that Egypt's national HDI have been steadily increasing, from 0.608 in 1995 to 0.653 in 2002. The large HDI gap between Upper and Lower Egypt is observed to be diminishing slowly. The highest HDI in 2004 was found in Port Said governorate (0.780) and the lowest in Fayoum governorate (0.603).52

1.4. Geographic Dimensions of Poverty in Egypt

Geographical disparities in poverty are of obvious relevance to the targeting of SFD programmes. And there is a general consensus about regional patterns of poverty. For example, several studies, as mentioned above, have confirmed that poverty and human deprivation are more prevalent in the provinces of Upper Egypt, followed by the provinces of Lower Egypt, followed by frontier provinces. Metropolitan regions (governorates of Cairo, Alexandria, Suez, and Port Said) are on average the best off. The governorates of Miniya, Assiut, Beni Suwef and Sohag are considered the most deprived, with Qena and the Fayoum closely following. Delta govenorates such as Sharqia, Kafr esh Sheikh, and Behira also frequently score high on capacity indices of poverty.

However, relying on governorate aggregates as indications of poverty masks considerable variations. In rural areas there are some indications that remote hamlets are likely to contain higher proportions of the poor than larger village agglomerations and rural areas in close

[51] The per capita lower poverty line used was set at LE 1116/year and the per capita upper poverty line was set at LE 1574.
[52] EDHR 2004, p. 183.

proximity to towns and cities. And within any particular rural settlement there are considerable variations between families in terms of their incomes, wealth, and general well being, with quite prosperous families living adjacent to the poor and even destitute. As far as is known, there have been no anthropological or other poverty studies that look at the micro-locational distribution of poverty within rural settlements. However, the stereotyping of an amorphous mass of rural poor needs to be avoided, and this has implications in targeting poverty alleviation measures.

In urban areas there are considerable variations in the geographical distribution of poverty and destitution. Large, informal or "spontaneous" agglomerations (a pervasive Third World phenomenon which is extremely common in Egyptian towns) are likely to contain proportions of poor families which are much higher than the average. For example, a recent KfW-sponsored household sample survey in Manshiet Nasser, a very large informal/squatter settlement in Cairo with a population of almost 500,000, calculated that 43% of households and 54% of individuals fell under the lower income poverty line (UNDP 2002 definition, using household expenditures as a proxy for income) in 2003. In another informal area of Boulaq el Dakrour (a more mixed, middle-class inner area in Giza with a population of over 600,000), another KfW study which used the same methodology found that 16.2% of households were below the lower poverty line.[53] These figures stand in sharp contrast to the average incidence of poverty for Metropolitan areas of 5.1%.

Poverty in rural areas has its own particular characteristics. In the countryside the main asset is productive agricultural land, but the overall supply of this land is extremely scarce. (Egypt, with 19 persons per hectare of potential arable land, is the most densely populated country in the world.) And the distribution of this scarce resource is very uneven, with 70% of land owners possessing less than one feddan (0.42 hectares) and a full 50% of agricultural land held by only 10% of landowners.[54] The rural poor characteristically own little or no agricultural land or other forms of immovable property, and there are recent signs that many poor are being forced to sell off their remaining farm holdings, partly as a liberalization of agricultural tenancy laws which came into effect in 1997. Absolute landlessness, and the resultant reliance on intermittent and very lowly paid agricultural day labour combined with non-farm activities, is increasing. Other assets, such as livestock, shops, and household appliances, are also easily lost in the face of crises (e.g. illness, absolute unemployment, or death).

Poverty in urban areas also has particular dimensions. Not only is subjective poverty higher than in rural areas and social capital assets (including social safety nets) lower, as pointed out above, but urban poor families face much higher costs in terms of transportation and, in particular, housing. The new housing law of 1996 subject new housing units to full market pressures, and the low rents enjoyed by tenants due to the old socialist laws are slowly being eroded. This means that the poor seeking rental housing now are faced with prohibitive rents for even tiny units (LE 200 – LE 300 per month, plus down payments), and this in turn makes marriage and new household formation extremely problematic. No wonder that "subjectively" the urban poor feel worse off than their rural counterparts.

The contrasts in poverty between urban and rural areas is further confused in Egypt by the fact that, whereas rural-urban migration to large cities has slowed to a trickle, there is the

[53] El Shorbagi, Monika, Poverty Assessment Manshiet Nasser; Baseline Sample Survey, KfW, December 2003, and El Shorbagi, Monika, Poverty Assessment Boulaq el Dakrour; Baseline Sample Survey, KfW, December 2003.
[54] Assaad and Rouchdy 1998, p. 24-26.

counter "urbanization" of rural settlements and small towns. Official Census definitions of urban areas (used by all the poverty studies noted above) are far removed from reality,[55] and were international definitions of urban places applied to Egypt the urban population would certainly exceed 70% of the total, meaning that in absolute terms poverty in Egypt is much more an urban than rural problem, and that approaches to fighting poverty should take this fact into account.

The INP and UNDP Egypt Human Development Report of 2003 (Volume 2) produced detailed indices of the Human Development Index, many of which are characteristics of poverty, down to the markaz, city and qism levels. This represents the first time a breakdown of human development indicators on the level of rural and urban administrative units below governorate level, a total of 451 geographic units. Sharm el Sheikh in South Sinai ranks first and Dar es Salaam markaz in Sohag ranks last. Manshiet Nasser, for example, ranks 374 (out of 451) on a national scale and figures as the poorest urban district all over Egypt. According to the same ranking list, however, Boulaq El Dakrour occupies the 134th place on the national scale and does not figure as particularly poor. This is mainly due to methodologies applied to assess access of the residents to social services as well as considerable differences in living standards inside the district which hosts almost 600,000 inhabitants (urban district) level. As a result, the EHDR produces the anomaly that Boulaq el Dakrour is ranked higher than the neighbouring qism of Dokki, one of the highest income districts in all of Giza Governorate.

1.5. Vulnerability to Poverty and Coping Strategies

Poverty in an Egyptian family brings with it vulnerability to outside events such as illness, loss of job, death, etc. These events can wipe out the assets of a marginally poor family, reducing it to absolute poverty. And for a family without assets, these events can be catastrophic, leading to chronic indebtedness, social exclusion, and destitution in the long term. And it is sobering to think that, due to the clustering of Egyptian families around official income poverty lines, a slight reduction in household income due to vulnerability and the fact that most incomes are unstable means that a huge portion of the "non poor" can become poor overnight.

The poor of Egypt have developed a number of coping mechanisms to insulate themselves from the worst affects of their poverty, especially in times of crisis. These mechanisms (such as kinship support, revolving credit & savings *gamayias*,[56] and neighbourhood solidarity networks) are slowly eroding as traditional social ties weaken in the face of rising material consumption and increase in nuclear families. And some coping strategies employed by poor families may have prevented an erosion of evident living standards in the short term, only to increase vulnerability in the longer term, especially for succeeding generations.

In Egypt certain groups are more likely to be poor and more vulnerable to its effects:

[55] CAPMAS, the source of all population statistics, uses an administrative definition of urban areas and counts as rural hundreds of dense agglomerations which now exceed 20,000 to 200,000 inhabitants, particularly in the Delta and in and around Greater Cairo. As a consequence, it seriously underestimates urbanization. As an indication of this, CAPMAS calculates that the urban population of Egypt in 1996 stood at 42.5% of the total, down from 44.0% of the total in 1986. This officially makes Egypt the only country on earth where the rate of urbanization is decreasing!

[56] Gamayias, informal non-interest revolving credit systems which are very popular among neighbors and co-workers in Egypt, were identified in the UNDP subjective poverty study as one of the most important aspects of social capital.

- Women-headed families, variously estimated at 12 to 15% of households in Egypt,[57] are much more likely to be poor than male-headed families.[58] Furthermore, the daily burden of poverty is greater on women members of poor families, since the difficult task of managing the meagre household budget usually falls on them as they cope with child rearing and household chores.
- The children of poor families suffer greatly, in terms of poor nutrition, health, and education opportunities. There is considerable evidence that these children grow up to be poor themselves and that poverty is a transmitted or *inherited* phenomenon. And poor families tend to have significantly more children than the average. Poor families are often forced to send their children out to work to supplement household incomes, and child labour is receiving considerable attention in Egypt as a serious social problem. Street children, who have lost their family ties and who live a precarious existence in towns, are a phenomenon which is on the rise in Egypt.
- The mentally and physically handicapped poor are an especially vulnerable group. Disabled heads of households in Egypt have few means to become productive, and many must resort to begging and charity. Programmes that target the disabled to allow them to earn a livelihood are rare in Egypt.

The elderly poor who live outside the extended family are another vulnerable group. Until now their incidence is very low, given the very strong kinship ties and respect for the aged prevalent in Egypt. However, some consider their incidence to be emerging.

1.6. Demographics, Unemployment and Poverty

Poverty in Egypt is inextricably linked to the inability of families to generate sufficient incomes and build up assets, which relates to unemployment and underemployment, which in turn relates to demographic fundamentals. Egypt is finally entering the phase of demographic transition, with birth rates diminishing for most socio-economic groups and natural increase dropping from a high of 2.8% per annum in the 1976-86 intercensal period to 2.1% over the period 1986-96 to an estimated 2.1% per annum currently. However, the very high gross fertility rates of the 1970s and 1980s produced a massive population bulge which has only now reached the economically active age, and it is estimated that the labour force still expanding by more than 3% per year, with estimates of between 650,000 and 800,000 new entrants to the labour force each year.

Is the economy absorbing these millions of youth *and* providing gainful opportunities for adults? In the past the problem was mitigated by (1) absorption by a highly labour-intensive agricultural sector, (2) opportunities for well-paid employment in the neighbouring oil economics, (3) an expanding State sector as employer of last resort, and (4) a large conscript army and security apparatus. Today virtually all four of these escape valves are no longer significant, and in fact the labour force of each is shrinking in absolute size:

- Agriculture in the old lands is becoming more mechanised and extremely tiny landholdings are uneconomic. Reclamation in the desert uses mostly capital-intensive corporate farming and irrigation techniques, and frequently favours horticulture over field

[57] To these percentages should be added a significant number of households where the woman is the effective bread earner even though there is a titular male head.
[58] See Assaad and Rouchdy 1998, p. 13 for figures from a variety of sources which confirm this.

crops. It seems that there is now a *negative* elasticity of employment to growth in the agricultural sector.

- Starting with the Gulf war but still continuing, the oil-driven economies in the region put in place policies of reducing reliance on foreign and especially Egyptian labour, and the number of Egyptians working in these countries continues to fall dramatically.
- For some years the Government has realised that the civil service and public sector are bloated and that it must shed labour from the public enterprises to allow them to privatise. State employment is down from a peak of 6.5 million to a current 5.5 million, and should continue to shrink.
- Although there are no available figures, it is understood that the military is reducing its reliance on a large conscript land army and has adopted a policy of better-equipped and trained armed forces.

The formal private sector, to which is ascribed most of the recent growth of GNP, is rapidly creating employment opportunities, but it started from a negligible base and its absolute size is still so small that it cannot begin to take up the slack. This leaves the massive and heterogeneous informal or "small and micro-enterprise" sector as the main labour absorber by default. But much of the informal sector is characterised by low productivity and it suffers from considerable regulatory bias.

This situation of labour supply and demand translates into a labour market in which supply grossly outstrips effective demand across almost all skill levels and sectors. The resulting stiff competition means that recourse is commonly made to favouritism and patronage to land a job, a game at which the poor and powerless are seriously disadvantaged.

The cross-cutting issue of unemployment and the structure of the Egyptian labour force is treated in detail in another section of this report.

1.7. Recent Trends in Poverty in Egypt

In 2000, at the time of the first MDRM, Egypt's economy had enjoyed five years of relatively rapid growth, with annual GDP growth rates between 5 and 7% (6.3% in 1999). As pointed out above, this economic growth is considered by the World Bank and others to be the main factor in the improvement in national poverty indicators from 1995/96 to 1999/2000, with an estimated fall from 19.41% to 16.74% poor as measured by the World Bank in terms of household-specific poverty, and even more dramatically in terms of the internationally comparable standard of $2/day/person line, from 35.9% to 19.8%.[59]

However, starting in 2000 and continuing today, Egypt has been gripped by economic recession, with annual GDP growth struggling at the 2 – 3% level. If measured in current US dollar terms, the economy has actually been shrinking (from $89.1 billion in 1999 to $82.4 billion in 2003, the latest year for which figures are available.)[60]

Added to this, the Egyptian pound began to depreciate against the dollar in 2001, with the exchange rate going from LE 3.40 to the present LE 6.23, a drop of over 45% in value. The exchange rate drop against the Euro was even stepper, at over 60%, and it is worth pointing out that Europe is Egypt's main source of imports. Since the structure of the Egyptian

[59] World Bank, Poverty Reduction in Egypt, June 2002, Main volume, executive summary.
[60] World Development Indicators Database, www.worldbank,org.

economy is very dependent on imported goods (both for consumer goods, food stuffs, and capital and intermediary goods), there has been a very steep rise in almost all prices in all sectors. As far as is know there have been no studies which adequately measure the impact of these price rises on average monthly family expenditures, but from anecdotal information on unit prices and the opinions expressed by almost all social and economic classes, the rise has been truly vicious, making ends meet for the average rural and urban family a constant struggle. Conversely, due to the chronic excess of supply over demand in all sectors of the labor force, average wages have hardly moved up, if at all.

None of the poverty indices discussed above can account for the current double crisis in Egypt of economic recession and rampant inflation. CAPMAS will be conducting its latest Household Expenditures and Income Survey starting in late 2004, and the results should confirm that income poverty in Egypt has resurfaced as a main social problem facing the nation. It is of interest that the latest EHDR states that Egypt's Per Capita Income (in PPP terms) shrunk dramatically from US$ 4878 in 2000 to US$ 3793 in 2002, a drop of 29% in two years, meaning that per capita income was lower in 2002 than it was in 1996. And since 2002 the recession in Egypt has deepened and the Egyptian pound has continued to fall.

1.8. Government and Civil Society Efforts to Fight Poverty

The State's attempts to alleviate poverty have been constrained by its relatively small national budget, systems have never been particularly well targeted, and there is virtually no functioning safety net which offers significant transfers to the ultra poor and destitute.

The most significant State mechanism for fighting poverty is the programme of subsidized food stuffs. The government, through the Ministry of Supply, distributes heavily subsidized loaves of *baladi* bread (5 piastres a loaf compared to the market price of 10 piastres), but it can be purchased by any and all (although its poor quality provides a sort of self-targeting, and better quality market-priced baladi bread is much preferred by all who can afford it.) These bread subsidies consumed about 1.5% of GDP or LE 70 per capita per year in 1999. The World Bank estimated in 2000 that the bread subsidy was the most effective in lifting people out of poverty – without it poverty rates would have increased from 16.7% to 18.9% in total.

Up until 1989 Egypt had an extensive ration card system for basic foodstuffs for all families of "limited income", also managed by the Ministry of Supply. Under structural reform policies this system was phased out for all but small amounts of sugar and cooking oil. However, due to the current economic recession and devaluation of the Egyptian currency, in April 2004 the ration card system for a full range of foodstuffs was re-instituted for all families who had been under the older system (estimated at roughly two thirds of the nation's families. Beans, wheat flour (fino), cooking oil, tea, sugar, rice and pasta can be purchased on a monthly basis from Ministry of Supply outlets in urban and rural areas at prices which are roughly half or less than half those found on the market. However, consumers complain of the quality, and it appears that, in some areas, only those individuals whose names were on the 1989 system qualify, meaning that children 15 years and below are not counted by the system.

The formal social safety net in Egypt includes a number of compensatory measures run by the Ministry of Insurance and Social Affairs (MISA) and its affiliates which are aimed at the poor and vulnerable groups. There are two main types, social assistance programmes which provide cash transfers and subsidised credit to qualifying poor households, and social insurance programmes which provide payments to former workers and also some non-contributory schemes. There are no unemployment compensation schemes. Overall, although coverage is fairly wide for the various pension schemes, in all programmes the sums transferred to beneficiaries are very small, targeting is a problem, and the programmes are little more than palliatives for those in need.[61] The 1999/2000 HIECS reported that the receipts from these programmes only amounted on average to LE 3.50 per poor person per month. In 2001 MISA was to launch an income support programme which will be targeted at one million very poor families nation wide, with monthly transfers of LE 50 to be eventually raised to LE 100, but this never materialized. In 2001/2002 MISA distributed LE 500 million as social assistance payments (mostly through pensions) to 900,000 families, or LE 560 per recipient family. More than half of these payments are allocated in six governorates – Cairo, El Behera, Beni Suef, Minya, El Sharqia, and El Dakahlia.[62]

Traditional religious forms of charity for the poor are quite pervasive in Egypt, and they are made up of either private transfers through NGOs or the Islamic zakat system which is handled through mosques of the Ministry of Religious Endowments. For a description of an example of religious institutions and their programmes of assistance, see UNDP, Subjective Poverty and Social Capital, 2003, Appendix G. According to the same report, the poor themselves perceive that social assistance comes first from relatives, second from religious CDAs and NGOs, and third from neighbours.

1.9. Methods Used to Target the Poor

Programmes aimed at alleviating or reducing poverty vary considerably in design, delivery, and effectiveness. Over the last 15 years there has been a considerable accumulation of experience from the experiments of social funds and safety nets throughout Africa, Latin America, and, to a lesser extent, Asia. The following are the main types of targeting, which generally are described as "supply-driven":

> *Geographic Targeting:* The basic targeting mechanism used in a number of social funds world-wide is geographic targeting, grounded on the principle that interventions to fight poverty and/or unemployment will best benefit those in need if they are directed at geographic areas where the incidences are the highest. Poverty maps are constructed, drawn on the basis of combinations of indices of poverty, unemployment, deprivation, and deficiencies in basic services. These poverty maps are used for setting a desirable pattern of overall and programme-specific investments which prioritise the poorer administrative units of a country and specific service deficient areas. The more geographically-precise the mapping (e.g. reaching down beyond the governorate to the markaz, village, and even subvillage), and the more decentralised the data collection and project-identification, the more effective is this method of targeting. Some of the greatest successes of social funds have been in targeting remote and marginal communities which had for various reasons been totally neglected. However, such geographically targeting can be undermined by the requirements of the demand-driven approach (discussed below), since better-

[61] The social safety net programmes of the MISA and their shortcomings are discussed in the Egypt Human Development Report 1997/98, pp. 81 - 94.
[62] From World Bank, Arab Republic of Egypt, A Poverty Reduction Strategy for Egypt, September 2004, Chapter 3.

organised communities and those who can better articulate demand are often richer and more influential elements of society. In Latin America geographic targeting has been particularly effective in urban areas, where the preponderance of the poor and unemployed is high in specific slum and squatter areas.

Self-targeting: Under this approach, which is widely used by social funds and is also sometimes called "targeting by exclusion", the goods, employment, or services offered are of a nature that they tend to naturally go to the intended beneficiaries. Subsidised foods which are predominantly consumed by the poor (e.g. *baladi* bread) are one example, as are low-paid labour-intensive work programmes. Another example is small loans advanced through micro-credit schemes. Yet another is literacy-classes, especially combined with health-awareness campaigns, which "self-selects" mostly poor women in a particular area. The results of these self-targeting methods have been mixed, as leakage to and raiding by the better-off are sometimes difficult to avoid.

Targeting Vulnerable Groups: In general social funds have not developed effective and adequate targeting methods to reach vulnerable groups such as women, children, and the disabled, good-intentions and rhetoric not withstanding. Micro-credit and support for women-headed households is often the main example of this kind of targeting, and success seems to depend largely on effective outreach mechanisms.

Targeting by Participation: In this approach, the poorest and most vulnerable groups, families, or individuals in a community are identified by the community itself, which lays the basis for a variety of programmes of support for the poor. Several studies show that, by using participatory mechanisms involving community leaders and average citizens and animated by outreach workers trained in participatory appraisal, both rural and urban communities can select with remarkable precision those who are the poorest and those most in need of specific interventions. This is particularly true in the Egyptian village context.

Demand-driven Targeting and Combined Targeting Strategies: Social funds world-wide rely heavily on the needs of the poor to be articulated through intermediary institutions. Under this "demand-driven targeting" specific projects and programmes originate from communities, local authorities, and NGOs and are presented to social funds for screening and financing. The advantages of this approach are that (1) funds are disbursed based on community and beneficiary participation in identification of activities, (2) administration is relatively straight-forward, and (3) the process itself tends to strengthen community activity and civil society institutions. However, such an approach requires good and realistic screening of candidate projects and relies on traditional local institutions being able to articulate the true needs of the poor, something which is not particularly evident in Egypt and most developing countries. Available information from studies of social funds points to the omission of the least vocal, women, and the powerless in society.

In practice, targeting the poor and unemployed usually involves a combination of methods and strategies. For example, micro-credit to women-headed households is designed as primarily a self-targeting programme which also aims at a particularly vulnerable group, with the selection of beneficiaries and operational design carried out by intermediary institutions (mostly NGOs). These combined methods which contain at least some "demand-driven" element can be very effective if well designed and managed and if, as shown in many countries, they are innovative and replicable within their cultural context.

Impact analysis of and effective feedback from efforts to reduce poverty and alleviate unemployment is one of the weakest points in social funds. Lack of proper, detailed, and timely data on levels and incidences of poverty is a major problem. Many social funds generated major national poverty surveys in their formative years, but these have rarely been modified and repeated in a way that allows impact assessment. Usually the use of mapping of poverty allows only a rather mechanistic and quantitative check on how well investments in social and physical infrastructure tally with the geographic indices of poverty. The use and qualitative benefit of these services is rarely if ever assessed.

Social funds suffer from a lack of consensus on the criteria and methodology of their systems of ex-post evaluation and impact assessment methods. At best, ad-hoc and scattered evaluation studies of specific projects or sub-projects allow for a hint of how programmes might be better designed and targeting more effective. One problem is that mechanisms for this feedback either do not exist within social funds, or that such a commitment to "lessons learned" and its implied criticisms is subsumed to the institutional imperative of social funds to present to their governments and to donors a rosy picture of quantitative achievement at creating jobs and reaching the maximum number of poor.

1.10. SFD’s Strategies to Target the Poor in the 2000-2004 Period

In the first MDRM Report in 2000 the point was made that due to the scale and extensiveness of poverty in Egypt, that SFD’s programmes could only have a small direct impact:

> “Even if allocations to SFD were doubled or tripled and SFD could effectively absorb them and transfer the benefits to those in need, the aggregate national impact would not in itself be particularly significant, however important in numerical terms. This leads to an important conclusion, that SFD must develop ways to have a wider influence, to allow its funds to have a more strategic effect upon the causes of poverty and unemployment.” (MDRM I Report, p. 27)

It was also pointed out that such a strategic approach required a better understanding of the dynamics of structural poverty, and particularly how to target interventions more effectively, better utilizing the different targeting tools described in the previous section.

How well has this strategy been carried out and institutionalized in the subsequent four years? The particular shifts and resulting impacts on poverty have been discussed for SFD’s separate programmes in Part I of this report, and it is clear there has been considerable progress in being more effective in addressing the causes and consequences of poverty. However, it cannot be said that SFD has institutionalized its anti-poverty approach, nor has it made it an overarching, explicit focus of its interventions.

First of all, in SFD’s more recent statements on mission and objectives, explicit reference to poverty reduction and fighting poverty does not figure prominently. Secondly, there has been no apparent movement to improve SFD’s capacities to analyze dimensions of poverty as a cross-cutting issue, to keep abreast of the considerable work poverty investigation work going on in Egypt, and to focus on more effective techniques to reach poor households and communities in its targeting strategies.

The Unit for Research on Improvement in Standards of Living (URSOL), which in 2000 was gearing up to become the centre within SFD on cross-cutting poverty issues, no longer functions. It is true that while URSOL was operating some useful work was produced, in particular (1) the SFD Field Officer Training Manual, (2) the Impact Assessment Manual, and (2) workshops on participatory approaches.

The EC-funding SFD Impact Assessment just completed is the first known effort to measure the impact of SFD programmes in terms of benefits on poor families. (The samples were very small, there are methodological problems in the definition and counting of the "ultra poor", "poor", and "non-poor", but it is a welcome step in the right direction.)

This lack of focus on poverty within SFD is to some extent understandable, since poverty itself has not attained the focused attention of Government (other than grand pronouncements about concerns for those of limited income, plus the recent re-introduction of a commodity rationing system). There is no evidence that there are any preparatory movements towards developing the national Anti-poverty Action Plan, referred to in the MDRM II Terms of Reference as something "to be eventually developed by the GoE". Also, although the idea of poverty mapping as a tool for more focussed geographic interventions has been referred to for several years, concrete steps are only now being taken by UNDP and the Ministry of Planning to launch such an effort.

This is not to infer that that analyzing and targeting poverty is an easy task. The above discussion on poverty in Egypt should have made this clear. But one would think that SFD, with its considerable capacities as a leading national development organization, could achieve more.

Recommendation: SFD should consider setting up a small "cross-cutting" poverty unit located centrally within the organization whose main function would to provide SFD with a needed focus on poverty and its dimensions. It would not itself have a large statistical and household survey capacity, but could commission small targeted studies. It functions would include: (1) Carrying out sample poverty impact assessments of the effectiveness of SFD programmes, and feeding the results back into programme design; (2) Liaising with other actors and individuals in the growing "poverty field" in Egypt, in particular the Institute for National Planning, CAPMAS, the Ministry of Planning, and the UNDP and World Bank offices in Egypt, and also with active national NGOs and the considerable number of Egyptian academics carrying out research on poverty, (3) Tracking the findings of ongoing research in different aspects of poverty in Egypt, both at national level and the results of specific area studies on poverty and anti-poverty interventions. It would track efforts by NGOs and others to target vulnerable groups (e.g. women headed households) and feed this information back into the relevant SFD programmes; (4) Ensuring that SFD's needs in terms of information on poverty and how it should be targeted are reflected in the ongoing national debate on poverty. (5) Reporting/synthesizing & disseminating information on SFD's best practices in combating aspects of poverty in Egypt.

2 Unemployment

2.1. Demographic Transition and Supply of Labour

Poverty in Egypt is strongly related to the high unemployment rate. Although the birth rate in Egypt is finally diminishing and has stabilized, the past higher birth rate is expected to keep providing high numbers of labour force to the job market till 2006.[63] Almost half of the population are the youth of under 20 years old[64], and this age group is expected to place considerable pressures on the labour market in the near future. When the MDRM 2000 took place, the labour force was growing by more than 3.4 % per year. This growing pace has not slowed down yet, it was about 3.5% a year in 2001. To keep pace with labour force growth, a GDP growth rate of 6-7 % is required.[65]

2.2. Demand for Labour and Balance in Supply and Demand

Particular characteristics of the Egyptian labour market are found in the imbalances between supply and demand. The demographic trend that originated from the past high birth rates has been outstripping the demand for labour. The educational system continues to produce high numbers of graduates that do not match the actual demand of the labour market. This partly stems from the fact that the sectors requiring higher education are not well developed. The highest concentration of unemployment is in the intermediate educational level, followed by the university & higher. Similarly, a survey conducted by Central Agency for Public Mobilization and Statistics (CAPMAS), the Labour Demand Survey in Labour Market, indicates that he lowest demand for labour is found among those with the intermediate degree they suffer from the highest unemployment rate.[66]

The demand for labour follows the existing sectoral structure of employment; the trend has not been changed since MDRM 2000. According to the demand estimation for 2001–2005, the agricultural sector provides a very low demand (less than 5%), although it provides the largest number of employments. Industry accounts for the highest demand (46.5%), followed by services (26.8% for tourism and hotels, financial services, business services and personal services grouped together) and trade (7.3%)[67]. Sector growth also contributes to an imbalance in the supply and demand of labour. Although agriculture related occupations continue to be a major source of absorbing labour force, growth in this sector has slowed. Trade, hotels & restaurants as well as personal service sub-sector are fast growing, and generally are conceived as having one of the largest numbers of informal workers.[68] The social services continue to be another growing source of employment. However, the growth is not based on real demand for labour; rather, it is reflecting the government sector's employment guarantee policy. While the government sector provides increasing numbers of job opportunities to women, in many of the growing sectors, on the contrary, employments are offered preferentially to men.

[63] World Bank, "Egypt Social and Structural Review" 2001
[64] The Economic Intelligence Unit Limited, "Country Profile 2004", p16.
[65] The American University in Cairo, Economic Participation of Women in Egypt, http://www.aucegypt.edu/src/wsite1/background/employment_egypt.htm (as of September 30, 2004)
[66] The Egyptian Center for Economic Studies, "Employment and Unemployment in Egypt: Conventional Problems, Unconventional Remedies", p5
[67] *ibid.*, p3
[68] World Bank, "Arab Republic of Egypt Poverty Reduction in Egypt, Diagnosis and Strategy, volume I", 2002, p24

Table 1. Labour Market Demand (2001-2005): By Economic Activity

	Labour Market Demand	
	Thousand	%
Agriculture	65	4.6
Mining	7	0.5
Industry & Petroleum	661	46.5
Electricity	3	0.2
Building & Consulting	87	6.1
Transportation	50	3.5
Trade	104	7.3
Financial Services	12	0.8
Tourism & Hotels	275	19.4
Business Services	11	0.7
Personal Services	81	5.7
Education	33	2.3
Health	32	2.3
Total	1,419	100

Source: CAPMAS Labour Force Sample Survey, The Demand Side in the Egyptian Labour Market

2.3. Size and Characteristics of Labour Force

An accurate picture of the labour force in Egypt is difficult to obtain due to the sources of information using different definitions, collecting methods and periods. Primary labour market statistics are from Popular Census (PC) and Labour Force Sample Survey (LFSS), both carried out by CAPMAS, and the data from the Ministry of Planning. The PC is usually conducted every ten years, whereas LFSS is done on an annual basis. The data from the Ministry of Planning is based mainly on annual reports of government organizations and public sector authorities and on unpublished reports for the private sector. These three sources are judged to be incomparable. There are differences in definitions: mainly on the age for inclusion in labour force, the treatment of army and police personnel, leave of absence, and graduates carrying out public services.

The labour force estimated by LFSS for the year 2002 is 19.7 million having increased from 18.9 million in 2000 when MDRM 2000 was conducted. The labour force increased at an average of 523,000 workers per year while according to official estimates, employment increased by 435,000 on average, leaving an excess of 88,000 workers annually to join the rank of the unemployed.[69] The composition of the labour force is expected to undergo a significant change in years to come with 1) more educated labours, 2) increased participation of women in labour force, 3) large number of rural-based labours. These three changes will result in higher unemployment in the future, with the statistics showing low demand in these three changing trends in labour force. About only 60 % of employed are paid workers, and about 18 % are employers. The rest is self-employed or farmers.[70] The composition of wage earners among the total workers is lower in rural areas, although unemployment rate does not

[69] 69 The Egyptian Center for Economic Studies, "Employment and Unemployment in Egypt: Conventional Problems, Unconventional Remedies", p2

[70] CAPMAS 2001

differ much from the urban. In rural areas, being unemployed is less likely to mean being poor. They are usually engaged in agricultural activities, often as unpaid labour.[71] Since wage earners are less likely to be poor, creating wage earning jobs will be an effective measure to absorb the increasing labour supply in rural areas.

2.4. Incidence and Nature of Unemployment and Underemployment

The latest statistics available for unemployment rate is for the year 2002. It shows that the national unemployment rate is 9.0 % increased from 8.2% as reported in the MDRM 2000. This translates into 1.8 million unemployed, increased from 1.4 million in 1998.[72]

Table 2. Population, Labour Force, Employment and Unemployment (Million)

Fiscal Year	1998/1999	1999/2000	2000/2001	2001/2002	2002/2003
Rate of Births (Per thousand)	27	27.4	26.7	26.3	26.3
Labour Force	18.2	18.9	19.3	19.7	20.2
Employment	16.8	17.2	17.6	17.9	18.2
By Economic Sectors					
Commodity Sectors	8.7	9	9.2	9.2	9.3
Productive Services Sectors	2.7	2.8	2.9	2.9	3
Social Services Sectors	5.5	5.6	5.7	5.8	5.9
By Employment Sectors					
Government Sector	4.5	4.8	4.9	..	5.3
Public & Public Enterprises Sectors	1.1	1.1	1	..	0.9
Regular Private Sector	11.2	11.3	11.7	..	5.1
Irregular Private Sector					6.9
Unemployment	1.5	1.7	1.8	1.8	2
Unemployment Rate %	8.1	9	9.2	9.0	9.9

Source: Central Bank of Egypt, August 2003, Monthly Statistical Bulletin.

2.5. Geographical Dimension of Unemployment

For 2001, there is not much difference in the unemployment rate among governorates, urban, and rural areas. The total unemployment rate is 9.0 %, whereas urban unemployment is 8.9 and rural is 9.2%. However, there exists a remarkable trend that people of higher educational level tend to suffer more from unemployment and there are wider gaps of unemployment rates between the urban and rural areas. Table 3 indicates that the difference in the unemployment rates for intermediate level between urban and rural areas is about 10%, and the difference for the university graduates between the two areas is 6 %. The highest unemployment rates are found in Upper Egypt and Lower Egypt. In Upper Egypt, the governorates with high unemployment rates are Aswan, Luxor, Assyout. In Lower Egypt, Gharbia, Kafr El-Sheikh, Dakahlia, are the governorates with high unemployment rates. The lowest rates of unemployment are found in frontier governorates and urban governorates.[73] The above trends are easily inferred from the fact that the areas of lower unemployment are

---

[71] World Bank, "Arab Republic of Egypt Poverty Reduction in Egypt, Diagnosis and Strategy, volume I", 2002
[72] Central Bank of Egypt, Monthly Statistical Bulletin, August 2003
[73] CAPMAS 2001

of high dependency on agricultural sector and less developed industrial sectors or that small population and less supply of labour. This geographical trend has not changed since MDRM 2000.

Table 3. Geographical Dimension of Unemployment

	Unemployment Rate (as % of Labour Force 15+) (2001)		Unemployment Rate by Education 15+ (2001)		
	Total	Female	Below Secondary	Secondary	University
Urban Govts	7.5	12.0	3.0	14.2	6.8
Lower Egypt	10.2	25.1	1.2	25.5	11.2
Urban	10.0	19.0	2.0	19.9	8.9
Rural	10.2	29.2	0.8	28.3	13.7
Upper Egypt	8.7	18.1	1.4	24.0	8.7
Urban	10.1	17.8	2.6	19.9	6.9
Rural	7.9	18.5	0.9	27.3	13.4
Frontier Govts	5.3	13.0	1.4	12.2	3.1
Urban	6.2	13.8	1.8	11.6	3.1
Rural	4.2	11.4	0.8	13.8	3.1
Egypt:	9.0	19.8	1.5	22.4	8.8
Urban	8.9	15.7	2.6	17.4	7.3
Rural	9.2	26.0	0.9	27.8	13.5

Source: Egypt Human Development Report 2002-2003

2.6. Demographic Dimensions of Unemployment

The CAPMAS data highlight another problem, which is the high concentration of unemployment among youth. Unemployment amongst the age group 20-24 is as high as 40.3%, and amongst the age group from 25-29 it is 27.9%. This means that the unemployment for those who are in their 20s composes 70 % of total unemployment and a majority of them are first job seekers.

Table 4. Unemployment Status by Age and Gender in Egypt (2001) (Thousands/percentage)

	Male		Female		Total	
	Figures in Thousands	%	Figures in Thousands	%	Figures in Thousands	%
15-	177.0	20.7	181.2	19.5	358.2	20.0
20-	370.6	43.3	349.0	37.5	719.6	40.3
25-	233.3	27.3	264.7	28.4	498.0	27.9
30-	64.8	7.6	130.8	1.4	195.6	11.0
40-	7.4	0.9	3.7	0.4	11.1	0.6
50-	2.0	0.2	1.7	0.2	3.7	0.2
60-64	0.0	0.0	0.0	0.0	0.0	0.0
Total	855.1	100	931.1	100	1,786.2	100

Source: CAPMAS 2001

2.7. Gender Dimension of Unemployment

The unemployment rate for woman was 19.8 % in 2001 according to CAPMAS statistics, which is more than double percentage of the total unemployment rate of 9.0 %. This trend has been consistent with the figures from MDRM 2000. The characteristics of the unemployment rate for women appear in the significant difference between the unemployment rate of urban and that of rural, with a 10% discrepancy. This considerable difference has its origin in the Lower Egypt figures..[74]

2.8. Educational Dimension of Unemployment

The surprising result of relationship between the unemployment and the educational level remains unchanged, showing that the higher educated graduates group suffers the higher concentration of unemployment. Those with the intermediate educational level occupy the share of total unemployment as high as 69.3%**,** and university graduates have the second highest share of 21.5%, whereas illiterates and lower education level of achievements show their share among the total unemployment as low as 0.6%.

2.9. Trends in Unemployment

An increasing number of new university graduates, women, and rural population entering the job market is an evident trend, while there is no sufficient demand for these three groups, which inevitably increases unemployment rate. Although private sector constitutes a growing job market, job creation has been insufficient in the sector. Any slow down in the economy's growth could place a pressure on private sector job creation. Moreover, the decreasing trend in government hiring and the limited job opportunities open to women in the private sector will lead higher female unemployment rate.

Table 5. Unemployment Status by Educational Status and Gender (2001) (Thousands/ Percentages)

	Male		Female		Total	
	Figures in Thousands	%	Figures in Thousands	%	Figures in Thousands	%
Illiteracy	8.5	1.0	2.7	0.3	11.2	0.6
Read & Write	11.8	1.4	9.3	1.0	21.1	1.2
Under Intermediate	16.6	1.9	8.2	0.9	24.8	1.4
Intermediate	559.5	65.4	679.4	72.9	1,238.9	69.3
Upper Intermediate and Below University	49.3	5.7	58.7	6.3	108.0	6.0
University and Above	210.1	24.6	173.4	18.6	383.5	21.5
Unidentified	0.0	0.0	0.0	0.0	0	0.0
Total	855.8	100	931.7	100	1,787.5	100

Source: CAPMAS 2001

[74] Geographical classification according to Egypt Human Development Report 2002-2003

3 Decentralization

The notion of decentralization has many aspects. The two main ones are decentralization of work and information gathering, and decentralization of the decision making process, or delegation of authority. In the case of SFD the former aspect refers to the chain of intermediaries and their tasks necessary to reach the end-beneficiary, while the latter one refers to where in the chain of intermediaries decisions can actually be made.

SFD has long chains of intermediaries involved in reaching the ultimate beneficiary. In the case of for instant HCDG's non- financial projects the chain is: Donor-SFD HO-Regional Office-Supporting Agency-Implementing Agency-PIU-Contractor-Community Association-Beneficiary. The chain is sequentially in so far that policies and procedures, and special donor requirements are flowing down the chain, while information for decision making and monitoring is flowing the other way and processed at SFD HO. In the case of SFD the organization is on the one hand extremely decentralized with respect to work and information gathering, but on the other hand it is also extremely centralized when it comes to decision making, since in general everything must be submitted to SFD HO for approval.

Of course, one reason for centralization of decision making is due to the varied and often strict requirements imposed by the donors. And since the donors in many cases can enforce their requirements, for instance through the procurement processes or willingness to continue support to SFD, SFD is understandably concentrating the decision making process at HO. However, since SFD is planning to increase its activities significantly in future, partly to fulfil the new mandate given by the GoE in respect to SMEs and partly due to the volume of disbursements necessary for SFD to be sustainable in the long term, it is imperative that the new organization also takes into consideration a delegation of decision making authority to links further down in the chain, especially the Regional Offices. Otherwise, there is the danger that the turnover time for projects becomes too long, due to bottlenecks in SFD HO, and another danger is that projects will not meet the actual needs of the beneficiaries due to the fact that the decision makers are too remote from them. Moreover, by keeping all the decision making authority at SFD HO, there is also the danger that SFD becomes too conservative in its development approach, and that new ideas originating at the community level or in the Regional Offices will not be supported. This may make the work of the Regional Offices less effective, since the field staff will concentrate on filling out set forms rather that enter into a development dialogue with the beneficiaries.

The mission finds that it is in SFD's own interest that a certain delegation of decision making authority takes place in order to ensure the vitality, but also to make it possible to increase SFD's activities.

SEDO does not face the same problems as HCDG, but here it is also necessary to delegate more authority to the Regional Offices and give them a new role of guiding and overseeing bank branches and NGOs. These should take over the pre-loan non-financial services to SMEs, since the field officers will not be in a position to perform these tasks due to the sheer numbers of SME applicants that will call on them in future.

The Marketing and Management group may face the same problem as SEDO, although it is not known yet what the demand for their post-loan non-financial services will be. But in order to keep the group flexible with respect to changing demands, both geographically and over time, but also in order to build local capacity, it is important that the Marketing and

Management Group start to work through intermediaries, such as local marketing consulting firms and NGOs, in addition to universities and other public institutions, as already foreseen.

4 Capacity building

Since the establishment of SFD, its role was not confined to financing small enterprises and creating job opportunities, but it extended also to alleviating poverty, improving living standards, and upgrading the quality of social services. In order to achieve this, SFD called for the participation of NGO's in developing poor and deprived communities due to their capacities in reflecting the real problems that these communities face and mobilizing efforts of public participation to work out appropriate solutions. For enhancing this role, various efforts were exerted to build the capacity of the local NGOs.

Training of Regional NGO Trainer Organizations: It focuses on the selection and training of four organizations in Upper Egypt to provide technical assistance to support other NGOs. The programme has four phases and follows a modular structure.

- Phase I: Training which includes three modules; (i) community needs assessment (PRA), (ii) project design/Logical Framework Approach and (iii) Training of Trainers.
- Phase II: Training Application
- Phase III: Capacity Building
- Phase IV: Self Development

Seed Funding NGOs for micro finance projects: The aim of this programme is to provide both training and technical assistance to NGOs that lacking the experience in implementing community development projects. To enable the Seed Funding NGOs to play this role, they were provided with on-job-training opportunities that provide them with valuable experience in working with a donor-financed community development project. The programme also aims at testing the decentralization approach by offering delegated authority to the regional offices to directly contract Seed Funded NGOs projects.

To build the capacity of SFD staff, a technical assistance was provided by Danish International Development Agency to upgrade the capacity of the CDP staff and partners. The programme achieved its outputs in terms of number of projects have been developed and successfully implemented. During 2001 and 2002, 79 projects were designed and implemented in Qena and Aswan.

In 2001, SFD conducted a review of the capacity building efforts provided to SFD field officers, it was concluded that the vast majority of training fund was used by the professional staff and not field officers. Currently, a needs assessment was conducted by the regional offices department to develop a training plan for the staff of the regional offices for building their capacities in different areas.

5 Beneficiary participation and empowerment

"Participation" is already a tricky word that has been used right and left over the last few decades. It is unlikely that a single current project in Egypt or anywhere else has failed to invoke it as a value, a development approach, a critical assumption, or even a fully-realised practice in project implementation.

Of all SFD departments and programmes, it would be expected to find CDP leading and applying the best practices of participation and empowerment in its projects. What has been found in CDP (see above section on CDP), permeates the other SFD portfolios. While there are some noteworthy achievements by some projects, overall project design and field practices are not on the leading edge in the realm of quality community and civic participation. The ceiling has been has been to treat community participation as a means to achieve SFD objectives.

Adequate definitional parameters and indicators for assessing SFD's progress re "participation" are not in place. There is limited durable impact on the broad-based community ownership and management of development resources and facilities. In the absence of an SFD/CDP-specific policy and strategy to achieve a greater impact in this area, sustainability of participatory processes are not expected to take root as a continued practice in the communities where SFD has implemented projects.

SFD cannot be said to have as yet achieved its potential role as a critical change facilitator. While some projects demonstrate more than others better degrees of participation, there is no major trend or critical mass of a bias for increased civic participation. CDP would be the most suitable department to house the *laboratory* dedicated to the principal function of evolving and refining the "what" and the "how" of *participation* through experiments, action-research, and continuous stock-taking.

Lack of channels of representation for effective governance, and the consequent weak accountability at the local level, is one of the root causes of poverty. SFD should consider (a) the adoption of ***increased broad-based citizen representation, influence, and governance in development*** as a full-fledged objective, and (b) tasking CDP with the first priority task of searching for and activating the means for such *governance* by the community, and for *proactive accountability* to the community at the local level.

Constraining political factors and bureaucratic structures are no excuse from the task: the ceiling is high enough and has not been reached for greater participation in governance at the local community level, through both formal and informal channels and processes. Through its enabled field practitioners, SFD certainly has the potential to lead this transformation and assume the role of change facilitator for improved governance.

A clear SFD-specific definition of the value of civil society organizations needs to be elaborated. Criteria for collaboration with different organizations would derive from and directly reflect these assigned values, such as representation, governance, and innovativeness.

SFD can become a far more effective change facilitator by assuming as principal the mission of providing space – at the lowest tier of local communities and dispossessed social groups – for the identification of opportunities and the initiation of innovative solutions.

A permanent, enduring institution necessitates the elaboration of a clear and specific strategy relative to empowerment and governance that is premised on a set of specific values and envisioned SFD identity and role of comparative advantage. Such a strategy would need to go beyond the general to the specific. It also entails the activation of mechanisms for enlisting the individual and collective knowledge, experience, and vision of SFD staff from the broad base of field workers up through the senior management level. In other words SFD needs to elaborate and vocalise its own specific (not generic) strategic principles, preferences, and biases relative to participation and governance, and its role as a *change facilitator*. Such a role and strategy would be expected at a minimum to reflect the following:

- give voice, before knowledge or skills, to marginalized local communities and social groups
- advocate for the local vs. the central
- champion the innovative and experimental over the conventional and politically acceptable
- Favour appropriate technology over advanced/complex technology

6 Gender aspects

The current leading role of SFD, as a permanent development organization, is to sustain improvement in the overall living standards and to ensure employment and social services for the low-income and deprived population, both males and females. A new mission statement for phase III, recommended by the MDRM I Team (April 2000) emphasizes gender sensitive poverty reduction as the long-term development objective for SFD.

The Social Fund for Development attempts to achieve effective and efficient development through the direct participation of men and women in decision-making, resource allocation, need identification, and in the design, appraisal, implementation and evaluation of projects.

Since the establishment of SFD, a Gender Unit was developed to serve as a catalyst, support, gender planner and a facilitator of training, rather than act as an implementer. Its role was to promote effective and sustainable gender integration in all SFD policies, programmes and projects, along with their administration, evaluation and representation. The gender unit primary function was to promote the integration of gender within all activities of SFD.

Over about ten years, the Gender Unit provided SFD staff, at central and regional levels, with an understanding of gender concepts as they relate to the work of SFD through provision of operational tools supported by training. It provided the staff with the adequate tools to ensure gender integration in the developed programme such as: gender guidelines, check lists, desegregated data and indicators.

The Gender Unit built the capacity of SFD staff through a number of training workshops on gender and development as related to various development sectors such as:

- Gender and small entrepreneurship development;
- Gender and reproductive health;
- Training programme for SFD Public Work Programme;
- Gender mainstreaming in the national plan and development project;

- Three workshops on Gender Impact Assessment Manual;
- Women and political participation.

In December 2002, the Gender Unit was dissolved and the gender mainstreaming became the responsibility of SFD staff as a whole and not relegated to a specific unit. The rational of SFD is to ensure that gender is mainstreamed in all policies, programmes and projects. The implementation of operational gender is the responsibility of the central and regional levels.

To ensure the gender mainstreaming in all SFD programmes, it was set, as a policy, that at least 25% of the targeting beneficiaries should be females. The review found that 32% of SEDO clients who received loans were women. A number of Business Women Associations have already requested to acts as implementing agencies for SEDO's contracts. The target beneficiaries of the community development programme include at least 25% females. In addition the CDP develops programmes which mainly targeting women such as literacy classes programme and health programmes. Since 1999, the population unit implemented a new approach to increase contraceptive prevalence. It works on enhancing the socioeconomic status of women through micro credit provided to women and supported with a package of raising awareness, literacy classes, and health services.

However, since the gender unit does not exist anymore, there is no impact assessment of gender interventions, using quantitative and qualitative measures, for the implemented project. In addition, no more cooperation has taken place with concerned institutions on the national level, such as promoting gender in education, health...etc.

7 Environmental issues

As with other social funds, by their nature the activities of SFD's programmes are mostly either environmentally-neutral or environmentally-friendly. This is even true with the interventions of PWP in social infrastructure, where sub-projects are small and tend to add value to existing infrastructure networks and sunk investments. And in both CDP and PWP activities, there are conscious efforts to improve the environmental quality of life for poor households and communities, mainly through improved water and wastewater systems, the covering of canals which are environmental problems and sustainable solid waste collection and disposal systems.

SFD is quite aware of the environmental dimension and has set up an Environmental Development Department to act as a cross-cutting entity which promotes environmentally sound procedures throughout SFD. The MDRM II has reviewed the activities and scope of EDD and its conclusions and recommendations concerning this department are presented in the relative section. These recommendations reflect the opinion that environmental issues, while important, should not become a main concern of SFD. There are a very large and growing number of Egyptian government and NGO entities dealing with the environment, and in addition a number of donors have set up both technical assistance programmes and environmental projects with Egyptian partners. (The main mandated body for the environment in Egypt is EEAA.) SFD's EDD is seen as competent and sufficient both to mainstream environmental management and policy concerns within SFD and to provide the policy and coordination bridge with EEAA.

Annex 1
Terms of Reference of the MDRM II

TERMS OF REFERENCE FOR THE MULTIDONOR REVIEW OF THE EGYPTIAN SOCIAL FUND FOR DEVELOPMENT (SFD)

BACKGROUND

The SFD was created in 1991 as a social safety net mechanism aiming at mitigating the negative social impact of the Economic Reform and Structural Adjustment Programme (ERSAP). Since then, the SFD has developed into a leading organisation mobilising national and international resources to invest in social development with special attention to job creation and the enhancement of the quality of life of low-income groups. This has resulted in substantial donor funding estimated at USD 2 billion since the creation of the SFD. For its second phase of operation, starting in 1997, it is estimated that the SFD benefited of a total budget of around USD 750 million almost completely financed, with grants and loans, by more than 15 multilateral and bilateral donors.

SFD has been operating so far through the following main programmes:

the Small Enterprise Development Organisation (previously Enterprise Development Programme),
the Community Development Programme (CDP),
the Public Works Programme (PWP),
the Human Resources Development Programme (HRDP),
the Institutional Development Programme (IDP).

In addition there are cross cutting units that support in the implementation of the activities, such as the Gender Unit, the Environment and Development Unit and the Unit for the Research in Improvement of Standards of Living (URSOL).

The SFD is supported by a Programme Co-ordination Unit (PCU) funded by the EC. The PCU has two main functions: a) to provide capacity building to SFD; b) co-ordination and supervision, (including the monitoring of the EC contribution to SFD's Phase II) and the support to SFD in the development of common reporting formats.

The first Multi-donor Review Mission. In February 2000, a Multi-Donor Review Mission (MDRM) took place. The review was carried out by a group of independent experts financed by a multiplicity of donors. The conclusions and recommendations of the mission were accepted by the Government of Egypt (GoE), SFD's Board of Directors and SFD Management. The overall appreciation of the results achieved by the SFD as well as the recommendations formulated have resulted in the GOE's decision to transform the SFD into a permanent social development institution.
Following the report a Task Force was formed to translate the recommendations into an action plan. The task force was composed of SFD, donors and the Team Leader of the MDRM as a facilitator. The MDRM recommendations and the action plan produced by the Task Force have not been fully implemented. The degree of implementation remains to be evaluated.

New strategy and organisational structure of SFD. In June 2002, Mr. Hany Seif El Nasr was appointed Managing Director of SFD. Mr. Seif El Nasr has been working since its appointment in the adoption of a global strategy and vision for SFD, reflected in a new organisational chart. This new structure was presented to the general Donor Assistance Group (DAG) on 14.10.2002. SFD proposes to restructure its programmes and merge them into two major sub-entities:

1. The *General Projects and Services Organisation* (GPS) – in principle a merger of the Public Works (PWP), Community Development (CDP) and Human Resources Development (HRDP) Programmes, as well as the Environment and Development (EDU) and Gender Units.
2. The *Small Enterprise Development and Marketing Organisation* (SEDMO). The mentioned change of top management within SFD in June 2002 has resulted in a different organisational set-up. SEDO would be provided with a new, separate division, dealing with Marketing and Management.

The review should assess the implications of the proposed new organisational set-up for the implementation of SFD's activities in the field and for the positioning of SFD within the Egyptian poverty efforts, in particular, for SFD's role in the eventually upcoming Anti Poverty Action Plan of the GoE.

OBJECTIVES OF THE REVIEW

The purpose of the review is the assessment of the relevance and the overall progress of SFD against the overarching aim of poverty reduction and employment creation. This should involve as well the consideration of the role that SFD would have in the Anti Poverty Action Plan to be eventually developed by the GoE.

The review should serve to:

assist SFD to improve its performance in the field of poverty reduction and employment creation;
support SFD in the on-going effort for the development of a new vision and strategy;
improve donors current and future support to social development and poverty alleviation in Egypt.

Overall objective

To assess the SFD's role and contribution to social development with special emphasis on its role in poverty reduction and job creation.

Specific Objective

To assess the qualitative and quantitative results (impact) of SFD's programmes and projects in the field.

In this process the review should specifically look into how the recommendations of the first MDRM have been followed and how the newly proposed organisational structure and mission statement would affect SFD's role and performance in the field.

Results

- An overall analysis of the relevance, efficiency, effectiveness, impact and sustainability of SFD interventions in the field. SFD should be evaluated against its overall objective of poverty reduction and employment creation and against its programme-specific objectives;

- An assessment of the degree of implementation of the recommendations made by the first Multi-donor Review Mission back in the year 2000 and, if relevant, to look for causes for the non-implementation;

- An assessment of the implications of the proposed new mission and organisational chart for SFD's performance in the field and for SFD's role in poverty reduction (with special attention to SFD's role in the eventual Anti Poverty Action Plan of the GoE) and employment creation in Egypt;

- Recommendations to improve SFD's performance and impact in the field.

- Recommendations to assist SFD in the further development of a clear strategy and organisational structure for SFD as a permanent institution.

METHODOLOGY

The review will follow the Logical Framework Approach (LFA) and the Project Cycle Management (PCM). The major dimensions, which would be covered by the review, comprise the following:

- relevance - of objectives to in-country needs
- efficiency- in providing inputs promptly and at least cost
- effectiveness - in achieving planned results and the project's purpose
- impact - on overall objectives to which the project purpose should contribute
- sustainability - over time, and after inputs will have been provided and external support would cease.

The review would be based on the analysis of existing desk studies, monitoring and evaluation reports produced by SFD and by different donors to the SFD, interviews with the various stakeholders, intermediary organisations and final beneficiaries. Extensive field trips should also be conducted. The review should use available qualitative and quantitative indicators or if necessary, propose to insert additional indicators that suit the purpose of the review.

The review team should take into consideration in the review internationally recognised best practices in the field of micro-credit and SME development, as well as in other area where these best practices exist.

The review team should rely as well on the information (monitoring reports and reports produced under the capacity building function of the PCU) provided by the Programme C-ordination Unit (PCU).

The review will start with a workshop gathering the DAG (Donor Advisory Group), SFD management and GoE. This workshop will serve as review kick-off but will also highlight the major issues to be tackled.

The first phase of the review will entail the analysis (fact-finding) by the review team of all the above mentioned documentation concerning the operations of SFD and the verification of the validity of the information contained. This will serve as the basis for a more detailed definition of the contents of the review.

MAIN ISSUES TO BE STUDIED

The review will cover two interrelated levels: sub-project and programme level and global governance. An additional horizontal level (cross-cutting issues) will be accompanying the whole exercise.

In order to ensure an appropriate depth of analysis the review will have its main focus in the assessment of the impact of SFD's interventions in the field (sub-project level). The results of this assessment will be incorporated into the analysis of the global governance level.

At each of the levels the evaluators will take into consideration the recommendations produced by the first MDRM. The evaluators will assess, at each level, to what extent the recommendations have been followed, what have been the causes for the eventual non-implementation or deviation and to what extent the recommendations are still alive and are applicable in the frame of the current organisation.

In this extent, the changes introduced by the new proposed strategy and organisational chart presented by SFD's Managing Director should be reviewed in detail, specially the operational implications of the establishment of the two major operational entities (GPS and SEDO).

The team is invited to add to the analysis any other issues they may consider relevant.

PHASE I. ANALYSIS OF THE SUB-PROGRAMME AND PROGRAMME LEVEL

This analysis will entail the review the measurement of impact at sub-project level and the performance of SFD’s programmes.

For each programme, the review will provide an analysis of the qualitative and quantitative results. At the early stage of the review a set of indicators for impact will be developed for each programme. These indicators will be the basis for the in-depth analysis of the project and sub-project level. The indicators will be developed and agreed with donors.

For each programme the analysis should start with a review of the recommendations of the MDRM.

A. Small Enterprise Development Organisation (SEDO)

Labelled the Enterprise Development Programme (EDP) at the outset of the SFD in 1991, the institution has been renamed the Small Enterprise Development Organisation (SEDO) in Phase II, to reflect the intention of SFD and its donors to provide the organisation with greater autonomy inside the SFD. The exact extent of autonomy that was thought feasible or desirable for SEDO has ever since been a matter of on-going debate between donors, the GoE and SFD.

The latest available stated objective of SEDO is "job creation though the development and support of new and existing small and medium enterprises, using an integrated package of credit, business and technology support services to entrepreneurs" (SFD Work Plan 2002).

The change of top management within SFD in June 2002 has resulted in a different organisational set-up. SEDO will be provided with a new, separate division, dealing with Marketing and Management. The issue of SEDO's autonomy, however, remains to be formally addressed.

Specific issues to be covered

<u>Relevance</u>

- Relevance of SEDO's organisational set-up with its double mandate of poverty reduction and job creation for low-income groups (strengthening SME sector and/or creation of sustainable job opportunities, focus on existing enterprises and/or on start-ups for the poor);
- SEDO's formal eligibility criteria, accessibility of loans by uneducated persons, existing/start-up enterprises, availability of smaller/ larger loan sizes, use of preferential interest rates;

<u>Efficiency</u>

- Relationship between planning and execution by typology of activities;
- Adequacy of organisational set-up of SEDO and institutional arrangements for implementation (including the role of the regional offices);
- Capacity of intermediaries to deliver credit and non-financial assistance to SFD target groups;
- Synergies with other SFD programmes;

<u>Effectiveness</u>

- Analysis of SEDO's loan portfolio (loans to intermediaries and to end-beneficiaries), degree of control over implementing agencies;
- Relationship between credit, grant elements and technical (non-financial) assistance to beneficiaries;
- Delivery mechanism and role of the intermediaries, in particular the effectiveness of banks and other implementing agencies as intermediaries for different types of end-beneficiaries;
- Capacity to impact on the poor (ultra poor, middle poor and upper income poor), including effectiveness of the selection criteria for fund allocation and differentiated interest rates;

<u>Impact</u>

- SEDO's performance regarding demonstrable impact on the creation of sustainable small enterprises and job opportunities;
- Analysis of the impact of SEDO's non-financial support to beneficiaries ;
- Impact on poverty reduction among low-income groups;

- Impact of SEDO's structure of subsidised interest rates in the national financial sector

Sustainability

- Ownership by end-beneficiaries and sponsoring agencies and continuity of results and prospects for sustainability;
- Sustainability of the activities supported;
- Sustainability of the credit schemes supported;
- Sustainability of the jobs created.
- Financial performance; SEDO's sustainability as an institution

B. Community Development Programme (CDP)

The Community Development Programme (CDP) aims to improve the livelihood of the community, reduce poverty, create jobs opportunities and promote micro-enterprises. The CDP has also amongst its priorities the empowerment of the civil society through the promotion of the community participation and the bridging of the gender gap.

The activities supported are demand driven and are delivered by a range of intermediary organisations such as local public administrations, Community Development Associations and NGOs. It is to be noted that recently, CDP and PWP have been merged under the newly created General Projects and Services Organisation (GPS). The implications of this merger should also be covered by the evaluators.

Specific issues to be covered

Relevance

- The CDP organisational set-up to its objectives.
- Demand-driven nature of activities and their responsiveness to needs and priorities of poor communities;
- The services provided (activities in primary health care and family-planning, in population, environment, education/eradication of illiteracy, HRD and NGO training, micro-credit) and their relevance to the needs of vulnerable population groups;

Efficiency

- Relationship between planning and execution by typology of activities;
- The delivery mechanism for the different kinds of projects (including the role of regional offices);
- Level of and scope for an optimal integration of the various packages offered (synergies between different types of activities within the CDP);
- Efficiency in the relationship with line ministries and other players, including articulation between CDP projects in various areas of income-generation and social services and their relation with corresponding sectoral programmes and policies;

Effectiveness

- Level of integration/ synergy with other SFD programmes ;
- Contribution of CDP activities to poverty reduction;
- Appropriateness of targeting mechanisms used to reach beneficiaries at community levels;

Impact

- Income generating activities and micro-credit, their potential for poverty reduction and job creation, including the capacity of reaching the ultra-poor;
- Role and importance of different types of intermediaries, in particular NGOs, and strengthening of their capacities;

Sustainability

- Ownership of the projects and their sustainability;
- Ensuring sustainable maintenance and operation arrangements of realised projects;

C. Public Works Programme (PWP)

The Public Works Programme (PWP) aims at improving essential community infrastructure (potable water, wastewater, roads, public building refurbishment, productive infrastructure such as irrigation and drainage and environment infrastructures) in low income and rural areas.

Existing studies carried out by donors should be taken into consideration, especially KfW's recently funded studies on Monitoring and Evaluation and decentralised alternatives for Operation and Maintenance.

Specific issues to be covered

Relevance

- Level of demand-driven approach (participation of governorates requesting PWP projects from SFD, participation of NGOs, CDAs and of end-beneficiaries at community level);
- Responsiveness to real local needs;
- Role of intermediaries and enhancement of their technical and management capacities, relevance of approach.

Efficiency

- Relationship between planning and execution by typology of activities;
- Disbursement potential and results ;
- Role and operational modalities of the PIUs;
- Introduction of mechanisms to ensure operation and maintenance (O&M) of implemented systems;
- Synergies with other SFD programmes
- Cost-effectiveness of PWP operations compared to other project implementation methods in Egypt and to documented experiences in other countries.

Effectiveness

- Labour intensive nature of the realised projects (as percentage of project costs), ratio of local to external labour used (men, women);
- Methods used to improve capacity-building of local government services, contractors and communities;
- Use of participatory approaches and of self-targeting as a mechanism to involve the poorest.

Impact

- Results/impact in terms of job creation, temporary and permanent, and in terms of improved livelihood and poverty reduction;
- Impact on the local economy/communities, potential for scaling-up;

- Potential for scaling-up the volume of PWP interventions throughout Egypt using PWP's approach for reaching directly the poor at grassroots level and to improve their living conditions;
- Impact in terms of replication of innovative approaches by other actors;

Sustainability

- Methods for ensuring sustainable operation and maintenance (O+M) of community infrastructure created;

D. Human Resources Development Programme (HRDP)

The Human Resources Development Programme (HRDP) is focusing on designing and supporting vocational training packages, upgrading training services and centres, employment services and other projects, which assist (a) the redeployment of redundant public workers and (b) the employability of new entrants/ youth into the labour market. HRDP works mainly through existing public and private executing agencies. This programme also acts as Technical Secretariat for the Supreme Council for Human Resources Development.

Specific issues to be covered

Relevance

- Contribution of the current HRDP approach within SFD's poverty reduction mission;
- Advantage/ disadvantage of HRDP's strong link to overall national policy for HRD in Egypt (technical secretariat of the Executive Council of Supreme Council);
- Relevance/ added value of HRDP as part of SFD, in particular in terms of serving beneficiaries targeted by the different SFD programmes and reinforcing their human resources components;
- Responsiveness to the needs of target groups and of the labour market.

Efficiency

- Relationship between planning and execution by typology of activities;
- Cost-effectiveness of the delivery mechanism used for vocational training.

Effectiveness

- Articulation with sector policies and projects in the field of technical and vocational training and education and complementary nature to other employment measures;
- Complementarity to other donor supported projects in the field of HRD, vocational/ technical education;

Impact

- Synergies with other SFD programmes and their targeted beneficiaries;
- Impact in terms of articulation by labour market needs and HR.

Sustainability

- Sustainability of the supported structures;
- Contribution to creating sustainable job opportunities for targeted groups.

E. Environment and Development Unit (EDU)

The Environment and Development Unit (EDU) was created in 1999. On the basis of an Environmental Management Plan (EMP) EDU introduced environmental screening and monitoring indicators for PWP, CDP and SEDO, and has implemented training and pilot projects working largely with NGOs.

Specific issues to be covered

Relevance
- Relevance of the creation of the EDU as a separate programme; Relationship between mainstreaming of environmental concerns and poverty reduction;

Efficiency
- Relationship between planning and execution by typology of activities;

Effectiveness
- Effectiveness of the EDU in terms of introducing environmental concerns in the design and implementation of SFD's programmes and in terms of enhanced capacity of SFD's partners to introduce and monitor environmental aspects in their operations;

Impact
- Contribution to environmental policies at country level.

Sustainability
- Contribution of EDU to the sustainability of activities of SFD's different programmes.

F. Population Unit

The Population Unit (PU) was created to help the GOE to improve the conditions and status of women and children in areas where fertility remains high , mainly in rural areas of Upper Egypt, by stimulating additional demand for smaller family size and family planning services.

Specific issues to be covered

Relevance
- Relevance of the creation of the PU as a separate programme mapped to CDP; Relationship between mainstreaming of family planning concerns and poverty reduction;

Efficiency
- Relationship between planning and execution by typology of activities;

Effectiveness
- Effectiveness of the PU in terms of introducing population growth concerns in the design and implementation of SFD's programmes and in terms of enhanced capacity of SFD's partners to introduce and monitor family planning aspects in their operations;

Impact
- Contribution to family planning policies at country level.

Sustainability
- Contribution of PU to the sustainability of activities of SFD's different programmes.

G. Institutional Development Programme (IDP)

The Institutional Development Programme (IDP) aims at strengthening the managerial and implementation capabilities of the SFD and its programmes (in planning, decentralisation, targeting, monitoring and evaluation, impact assessment) and of intermediary and implementing agencies.

Specific issues to be covered

Relevance
- Role in capacity-building to support SFD's mission as a permanent institution;
- Relevance in terms of its responsiveness to concrete needs and weaknesses encountered by SFD and its partners;

Efficiency
- Relationship between planning and execution by typology of activities;
- Efficiency in identification, preparation and implementation of capacity-building projects and of the building of a comprehensive MIS;
- Articulation between IDP and PCU working in the same area;

Effectiveness
- Results of the IDP activities in terms of concrete effects on SFD organisation and operations (efficient disbursement capacity, sustainability prospects) ;
- Progress in harmonising of donor requirements for reporting and impact assessment;
- Degree of responsiveness to donors' information needs;
- Effectiveness of outreach of the IDP to SFD's partners, especially non-governmental organisations;
- Coherence and complementarity between the IDP, the capacity building and monitoring function of the PCU and capacity building activities funded by other donors;

Impact
- Impact on SFD's capacity to address poverty questions;
- Impact on service delivery to beneficiaries, in particular through its implementing partners;
- Contribution to targeting in project selection and management by SFD staff;
- Impact on the IDP on SFD's transformation into a permanent institution capable of tackling poverty reduction and social development.

PHASE II - GLOBAL GOVERNANCE LEVEL

The results and findings of the review of the sub-project level will be consolidated and fed into the analysis of the global governance. The main dimensions to be analysed in this phase include SFD's Mission Statement, strategies and objectives, and SFD's management and organisational structure.

Specific issues to be covered

Relevance
- Pertinence of SFD's Mission Statement to the stated objectives (SFD as a permanent institution of social development/ poverty reduction);

- Relevance and comprehensiveness of SFD's set of strategies, programmes and interventions with regard to poverty reduction, and job creation and with regard to Egypt's national development strategies;

Efficiency

- Autonomy of SFD.
- Legal and organisational set-up of the decision making process at the different levels of the institution, including the regional offices;
- Human resources development and management at all levels of the organisation;
- Relationship and co-ordination with line ministries with regard to policy formulation and delivery;
- Relationship and co-ordination with the donor community;
- Financing mechanism, including transparency, disbursement capacity and respect of procurement procedures;
- Methods of planning and of reporting, including the assessment of the comprehensive management information system (MIS);

Effectiveness

- Role and responsibility of the GoE regarding policy orientation and management of SFD;
- Role and contributions of the MIS in the decision-making process;
- Autonomy of SFD

Impact

- Delivery mechanisms, particularly with regard to end users/ beneficiaries;
- Relationship and co-ordination with other players and beneficiaries: private and public sector, local communities, community based organisations and NGO's regarding their capacity to achieve the desired impact;

Sustainability

- Ownership by end-beneficiaries and sponsoring agencies and continuity of results and prospects for sustainability;
- SFD's financial sustainability. Financing policy of the GoE and other donors, fund-raising and other measures.

CROSS CUTTING ISSUES

The following crosscutting issues (relevant for the capacity of the SFD to achieve its objectives) will be analysed at all levels and during the whole assessment.

- SFD's orientation towards poverty reduction and job creation and SFD's role in facilitating the development and implementation of an eventual national Anti Poverty Action Plan (as specified in the objectives and results, SFD should be evaluated against the overall objective of poverty reduction and the specific objectives of each of its programmes);
- Use of effective decentralisation and bottom-up approaches to project design and implementation;
- Capacity-building
- Use of appropriate methods to ensure beneficiary participation and empowerment in project planning and implementation;
- Gender aspects and gender mainstreaming;
- Attention for the environmental dimension.

REVIEW TEAM

The following minimum requirements have been contemplated.

Team Leader: advanced degree and minimum of 15 years of experience, expert in poverty reduction/ social development and social funds, institutional development. Experience in programme management would be an asset.

A minimum of 5 additional experts with relevant degrees and a minimum of 10 years of experience in their respective field:

- Expert on income-generation, micro-finance, SME development;
- Expert on community development, social sectors (health, education) and NGOs;
- Expert in social infrastructure and labour intensive public works;
- Expert on HRD, capacity-building, training and NGOs;
- Expert in environmental matters, EIAs.

Additional expertise may be required, including MIS, M&E systems/reporting and impact monitoring, procurement and auditing, gender and development.

The recruitment of a local research team for collecting a significant sample of concrete project results at field level is envisaged.

ANNEX I

SUMMARY OF RECOMMENDATIONS OF THE MDRM

Global Governance - MDRM recommendations

- SFD should maintain a broad mandate on poverty reduction, addressing several dimensions of poverty and unemployment through national/local advocacy and local project support
- SFD should seek national influence and broad impact through policy experimentation and assessment at the local level
- SFD should retain its country-wide coverage and strengthen its regional presence through decentralisation, which requires a systematic combination of geographic targeting within governorates and districts and self-targeting through stringent project design
- SFD should remain a lean and flexible organisation
- SFD should develop a new mission statement, which emphasises gender-sensitive poverty reduction as the long-term development objective with three immediate objectives: reduction of poverty among the poorest, creation of employment for the poor and for those in risk of unemployment and development of small enterprises
- SFD should focus its activities on three roles: catalytic and innovative policy implementation, institutional capacity building in sponsoring intermediary and implementing agencies, and resources mobilisation.

SEDO - MDRM recommendations

- Decisions on cost of on-lending, risks and margins should reflect market principles
- Institutional strengthening of participating banks should be undertaken in the form of technical assistance to establish SME units
- The clientele should be clearly separated into existing enterprises and new ones
- Decisions should be based on sound economic criteria and fees should be charged for business services
- Continued donor support for institutional strengthening should be ensured
- The transition process should be finalised without delay
- SEDO's goal of developing institutional capabilities with banks and NGOs should be given more attention and be made fully operational
- A critical review of the Co-operative Insurance Society is needed
- SEDO should clearly define its priorities in a strategic planning process based upon lessons learned and qualitative impact assessments
- SEDO should be given its own Board of Directors, given its special business character

CDP - MDRM recommendations

- CDP should strengthen its focus on poverty reduction, social analysis and participatory processes to improve targeting, project design and implementation
- CDO should put more emphasis on the political and social inclusion of the poor

- CDP should strengthen its gender analysis
- Targeting the ultra-poor and disadvantaged groups is still a challenge for CDP
- CDP should influence its major partners to improve the delivery if services
- CDP should influence its partners on the field of literacy education to increase the effectiveness and to empower the individuals and communities concerned
- The micro-credit programme should be moved into a sustainable basis
- CDP should broaden its efforts in providing capacity building to NGOs, including NGO networking and sharing of best practices
- CDP needs a clearer emphasis on the target population and objectives for each activity in relation to the overarching goal of poverty reduction

PWP - MDRM recommendations

- PWP should improve project management
- PWP should take initiative towards the application of non-conventional waste water collection systems and low-cost waste water treatment processes.
- PWP should promote solid waste collection
- PWP should launch household water connection sub-projects with beneficiary cost-sharing
- PWP should adopt a more explicit strategic objective

HRDP - MDRM recommendations

- HRDP should develop and information system dedicated to the establishment of labour market needs in the various economic sectors and should be able to advise on demand for skills
- Entrepreneurial development programmes should be extended to include entrepreneurs who need training but not capital
- HRDP should retain its capacity to run labour adjustment programmes
- HRDP operating mechanisms should reach out to the beneficiaries of other SFD programmes

Annex 2
Evaluators / Team members participating in the MDRM II

Position in the MDRM II team: Team Leader

1. **Family name**: Bynens
2. **First name**: Eddy
3. **Date of birth**: 25 September 1948
4. **Nationality**: Belgian
5. **Address**: Avenue Legrand 37, 1050 Brussels, Belgium
6. **Telephone**: +32 2 646 65 80
7. **Fax**: +32 2 644 07 94
8. **E-mail**: ebynens@brutele.be
9. **Education**:

Institution [Date From – Date to]:	Gent State University - Belgium. Sept 1966 – June 1971
Degree(s) or Diploma(s) obtained:	Civil Engineer
Institution [Date From – Date to]:	Boston University Brussels, Belgium Sept 1986 – Dec 1988
Degree(s) or Diploma(s) obtained:	Master of Science in Management

10. **Language skills:** Indicates competence on a scale of 1 to 5 (1 – excellent; 5 – basic)

Language	Reading	Speaking	Writing
Dutch (mother tongue)	1	1	1
French	1	1	1
English	1	1	1
German	1	2	3
Spanish	3	5	5

11. **Membership of professional bodies**:
Member of the Koninklijke Vlaamse Ingenieursvereniging
Member of the Orde van Belgische Ingenieursbureaus
12. **Other skills:** Computer literacy – XP Office, databases, MSProject, etc.
10. **Present position:** Independent Consultant
11. **Years of experience**:
Total of 32 years of international experience of which 18 years as international consultant, working in 37 countries in Africa, Asia and Eastern Europe.
12. **Key qualifications**:
    - Experience of World Bank, ILO, EU, UNDP, UNCDF, UNCHS, Asian Development Bank, and bilateral donors' (Belgium, Switzerland, Danida) projects. Involved in the formulation, evaluation and assistance to projects.
    - Experience in Social Funds working with the Social Funds of Madagascar, Yemen, Bulgaria, Morocco and Congo (RDC) and in Agetipes (executing agencies) in Burkina Faso, Niger, Burundi, Mali, and Senegal. In addition to formulation, supervision and evaluation, provided many different services including technical, social and management audits, training and MIS.
    - Extensive experience in the use of labour based techniques, co-author of a series of French ILO training manuals on the use of labour based techniques prepared from 1996 to 2002 and published in final version in 2004.
    - Extensive experience in the road sector: planning, economical aspects, design, supervision and management, including Highway Management Information Systems.
    - Special interest in the promotion of SMEs, specifically small labour based building contractors and local consulting companies, through training and through support to their professional associations.
    - Multi-cultural sensitivity gained through a wide theatre of foreign experience.
13. **Specific experience in the region:**
    - Team leader for the evaluation of the Social Fund of Yemen for the EU in January/February 2003.
    - TA missions to the Social Fund of Yemen for the World Bank in February and October 2002.
    - Worked in Algeria (4 years), many missions to Saudi-Arabia, Irak, Morocco.

Position in the MDRM II team: Community Development Expert

1. **Family name**: Gohar
2. **First name**: Karim
3. **Date of birth**: 22 January 1955
4. **Nationality**: Egyptian
5. **Address**: 9 Wadi al-Nil Street, Maadi – Cairo, Egypt
6. **Telephone**: +2 02 358 3350
7. **E-mail**: kygohar@hotmail.com
8. **Education**:

Institution [Date From – Date to]:	The American University in Cairo, Egypt 1973 – 1977
Degree(s) or Diploma(s) obtained:	BA in English and Comparative Literature
Institution [Date From – Date to]:	Princeton University, USA 1979 – 1982
Degree(s) or Diploma(s) obtained:	Master of Near Eastern Studies

9. **Language skills**: Indicates competence on a scale of 1 to 5 (1 – excellent; 5 – basic)

Language	Reading	Speaking	Writing
Arabic (mother tongue)	1	1	1
English	1	1	1
French	4	5	5

10. **Other skills**: Computer literacy – Microsoft Office, ...etc.

11. **Present position**: Independent Consultant

12. **Years of experience**:
Total of 20 years of Egypt experience including several international assignments in the Middle East.

13. **Key qualifications**:
    - 20 years of working experience in socio economic development of which 15 years of direct and relevant experience of the institutional and operational issues related to NGO operated social development and poverty reduction program. Performed the full range of policy, consultative, advisory, management, monitoring, information gathering, and evaluative services of broad scope and complexity relative to stablishing and operating NGO grant and social development programs.
    - First and founding Executive Director of the $ 80 million Egyptian Swiss Development Fund, leading the launching and institutionalisation of this poverty alleviation fund implemented through NGOs. Carried out the full range of management responsibilities to operationalise the fund while ensuring financial and programmatic accountability.
    - Special interest in the promotion of broad-based civic governance and leadership of the development processes.

14. **Specific experience in the region**:
    - Experience in Social Funds working with the Egyptian Swiss Development Fund and the Economic and Social Fund for Development of Lebanon.
    - Long-term Senior Consultant for Community Development for the Social Fund of Lebanon, June 2002 – December 2003, and one subsequent short-term mission.
    - Short-term assignments for appraisal of NGO projects performance, formative evaluations, need assessments, capacity assessment and development programs, and provision of direct assistance to NGOs for design and operation of their projects in areas of health, education and micro-credit extension.

Position in the MDRM II team: Institutional Development Specialist

1. **Family name**: Holm
2. **First name**: Søren
3. **Date of birth**: 29 August 1939
4. **Nationality**: Danish
5. **Address**: Rugaardsvej 819, 5474 Veflinge, Denmark
6. **Telephone**: ++45 64 83 16 90
7. **Fax**: ++45 64 83 16 90
8. **E-mail**: sdh@post.tele.dk
9. **Education**:

Institution [Date from - Date to]	University of Copenhagen – Denmark September 1958 – June 1964
Degree obtained	Cand. polit. - Economics
Institution [Date from - Date to]	University of California, Berkeley – USA October 1966 – December 1969
Degree obtained	Ph.D. – Business Administration

10. **Language skills**: Indicates competence on a scale from 1 to 5 (1 – excellent; 5 – basic)

Language	Reading	Speaking	Writing
Danish (mother tongue)	1	1	1
English	1	1	1
German	2	3	5
French	3	4	-

11. **Membership of professional bodies**:
    Member of Dansk Jurist og Økonom Forening

12. **Other skills**: Computer literacy – XP Office, databases, MSProject, etc.
13. **Previous position**: Professor of Management Science
14. **Present position**: Independent Consultant
15. **Years of experience**:
    Total of 39 years of international experience of which 1 year in OECD and 3 years in the World Bank, and 21 years as international consultant, working in 27 countries in Africa, Asia, Europe, Middle East and South America.
16. **Key Qualifications**:
    - Experience of World Bank, ILO, EU, UNDP, UNESCO, Asian Development Bank, and bilateral donors' (Danida, Sida) projects. Involved in the formulation, evaluation and assistance to projects.
    - Extensive experience in the educational sector, the vocational training sector, the private business development sector.
    - Extensive experience in institutional development.
    - Extensive experience in educational planning, manpower planning, human resource development planning and labour market planning.
    - Experience in policy papers on job-creation, medical technology assessment.
    - Extensive experience in developing quantitative decision-making models.
17. **Specific experience in the region**:
    - Monitoring & Evaluation Specialist: Supervision of EEP in Egypt (EU and World Bank) 1999.
    - Team leader: Review of job creating programmes in Palestine. (World Bank) 2002.
    - Team leader: Formulating The Palestine Authority's Strategy Plan for job creation programmes in Palestine (Sida) 2003.

Position in the MDRM II team: HRDP Expert

1. **Family name**: Hosam Eldin
2. **First name**: Taissir
3. **Date of birth**: 14 February 1962
4. **Nationality**: Egyptian
5. **Address**: 44 Lusaka St., Nasr City, Cairo 11371, Egypt
6. **Telephone**: +20-10-143 2171
7. **Fax**: +202 274 4300
8. **E-mail**: thosam@yahoo.com
9. **Education**:

Institution [Date From – Date to]:	Cairo Demographic Centre January 1994 – July 1995
Degree(s) or Diploma(s) obtained:	Master of Philosophy in Demography
Institution [Date From – Date to]:	American University of London. June 2002 – July 2004
Degree(s) or Diploma(s) obtained:	PhD, Human Resource Management

10. **Language skills:** Indicates competence on a scale of 1 to 5 (1 – excellent; 5 – basic)

Language	Reading	Speaking	Writing
Arabic (mother tongue)	1	1	1
English	1	1	1
French	5	5	5

11. **Membership of professional bodies**:
    Member of the Arab NGOs Network
12. **Other skills:** Computer literacy – XP Office, databases, SPSS, MSProject, etc.
13. **Present position:** Independent Consultant
14. **Years of experience**:
    Total of 15 years of experience of which 6 years as international consultant, working in developing countries in Africa and Asia.

15. **Key qualifications**:
    - Experience of World Bank, UNFPA, USAID, JICA and JBIC and bilateral donors' (Netherlands, Switzerland) projects. Involved in the evaluation and assistance to projects.
    - Extensive experience in evaluation of human resource development programs for USAID and JICA in Egypt and African countries.
    - Experience in community development programs with the Social Fund in Egypt and the Egyptian Swiss Development Fund.
    - Extensive experience in conducting research and field survey especially in the areas of education and health.

16. **Specific experience in the region:**
    - TA missions to Social Fund and Social Protection Initiatives in Egypt for the World Bank in December 2003 and September 2004.
    - Evaluation of Third Country Training Program for African Countries for JICA in 2003 and 2004.
    - TA to Community Action Participation Program in Iraq in 2004.

Position in the MDRM II Team: SME Expert for SEDO

1.	**Surname:**	KHALAF
2.	**First Name:**	Rauf
3.	**Date of Birth:**	4 September 1956
4.	**Nationality:**	German, Egyptian, British
5.	**Civil Status:**	Married, two children
6.	**Education:**	

Institution:	University of Hanover Germany	VBB - Bad Kreuznach Germany	Neue Betriebswirtschaft – Heidelberg/Germany
Date:	1975 - 1980	1987	1992
Degree(s) or Diploma(s):	Diploma in National Economics Diplom-Oeconom (Dipl. Oec)	Legal Aspects of Loan Collaterals	Controlling of Manufacturing Companies

7. **Language skills: (Mark 1 to 5 for competence, where 5 is highest)**

Language	Reading	Spoken	Written
German		mother tongue	
Arabic		mother tongue	
English	5	5	4
French	3	2	1
Spanish	2	2	1

8.	**Other skills:**	Financial Engineering, Project Cycle Management, Computer Literate.
9.	**Present position:**	Self-employed / owner of “Micro-Cosmos Finance Services S.L.”, Marbella / Spain.
10.	**Years within company:**	Company business commenced September 2001.
11.	**Years of experience:**	24 years of international experience, thereof 13 years in project and corporate finance in developing countries markets and 7 years in financial sector support and M/SME development.
12.	**Regional focus:**	Middle East, East Europe, Sub-Sahara Africa, South East Asia.
13.	**Contracting Parties:**	DEG, KfW, Bankakademie, GTZ (Germany), Bannock (UK), EQI (Egypt), Triodos (Netherlands), SECO (Switzerland), UNDP (UN), private investors.

14. **Key Sectors:**

a. Financial sector reform and development.
b. Micro & SME support on policy, regulatory and financial intermediary level.
c. Structuring of regional, country, sector (venture) capital funds.
d. Best practice institutional micro and SME finance.
e. Industrial modernization and privatization.

Key Qualifications:

- Development of commercially sustainable projects.
- Financial structuring of project and corporate finance.
- Due diligence and full deal management of projects and joint ventures.
- Project monitoring and evaluation.
- Corporate governance and institutional strengthening.
- Upgrading and financial rehabilitation.
- Controlling of equity investments and loans.

Position in the MDRM II team: SEDO

1. **Family name**: Kuroda
2. **First name**: Yasuhisa
3. **Date of birth**: 16 December 1943
4. **Nationality**: Japanese
5. **Address**: 5-5-11 Kamisueyoshi, Tsurumi-ku, Yokohama, Japan
6. **Company**: Overseas Project Management Consultants, Ltd.
7. **Address:** CONVEX Jinbocho-bldg, 1-13, Jinbocho, Kanda, Chiyoda-ku, Tokyo, Japan
8 **Telephone**: +81 3 3293-3331
9. **Fax**: +81 3 3292-2847
10. **E-mail**: kuroda@opmac.co.jp
11. **Education**:

Institution [Date From – Date to]:	Nagoya University - Japan. April 1962 – March 1966
Degree(s) or Diploma(s) obtained:	BA Economics

12. **Language skills:** Indicates competence on a scale of 1 to 5 (1 – excellent; 5 – basic)

Language	Reading	Speaking	Writing
Japanese (mother tongue)	1	1	1
English	1	1	1

13. **Membership of professional bodies**:
Member of the Japan Evaluation Association
14. **Other skills:** Computer literacy – MS Word, MS Excel, Power-point,
15. **Present position:** Managing Director of OPMAC, Ltd.
16. **Years of experience**:
Total of 39 years of international experience of which 10 years as international consultant, working in 13 countries in Asia, South America and Middle East.
17. **Key qualifications**:
    - Experience of World Bank, Asian Development Bank, JBIC, JICA and other Agency sponsored projects. Involved in the formulation, implementation, evaluation to projects and various research studies.
    - Experience in Social Fund in working with the Social Fund of Egypt. In addition to formulation, and monitoring, provided many different services including financial analysis, capacity building and investment opportunity study.
    - Extensive experience in the economic and financial analysis of development projects: planning, management, economical financial and supervision of development projects.
    - Extensive experience in the promotion of SMEs, specifically in promotion of enabling environment, financing mechanism, investment promotion. Experienced SME Projects in Vietnam, India, Sri Lanka and Egypt. .
18. **Specific experience in the region:**
    - Experience in Social Fund for Development in Egypt for 5 years since 2000. Projects involved are; Preparatory Study for Japanese Yen Loan to Social Fund (2000); Capacity Building Project Formulation Study (2002) and Investment Opportunity Study in Suez Region (2002),
    - Other experience in Egypt includes; Cross Sector Survey (2001); Borrowing Needs for Japanese Yen Loans Study (2003) and Financial Sector Study (2004).
    - Experience with World Bank in Study of Japanese Experience in SME Development (1995) and with Asian Development Bank in Financial Sector Development Project II in Vietnam (2002).

Position in the MDRM II team: Team Member- focus on microcredit/microfinance.

1. **Family name**: Perrett
2. **First name**: Graham
3. **Date of birth**: 19 July, 1944
4. **Nationality**: USA
5. **Address**: 6051 Margarido Drive, Oakland, CA 94618, USA
6. **Telephone**: +01-510-655-1481
7. **Fax**: +01-510-547-6743
8. **E-mail**: GDPerrett@aol.com
9. **Education**:

Institution [Date From – Date to]:	University of Maryland- Smith School of Business. USA 1978-1980
Degree(s) or Diploma(s) obtained:	Masters in Business Administration
Institution [Date From – Date to]:	Institute of Chartered Accountants in Australia
Degree(s) or Diploma(s) obtained:	Associate, 1973

10. **Language skills:** Indicates competence on a scale of 1 to 5 (1 – excellent; 5 – basic)

Language	Reading	Speaking	Writing
English (mother tongue)	1	1	1
French	3	3	3
Spanish	4	5	5

11. **Other Training Courses:**
    Citibank Intermediate and Advanced Credit courses
    Citibank Foreign Exchange and Capital Markets course
    Boulder Course on Microfinance
12. **Other skills:** Computer literacy – XP Office.
13. **Present position:** Independent Consultant
14. **Years of experience**:
    31 years of experience in international finance, including 10 years in microfinance. Work experience in more than 50 countries and microfinance experience in 25 countries.
15. **Key qualifications**:
    - Experience of World Bank, UNDP, IFAD, FAO, Asian Development Bank, and bilateral donors' (USAID). Involved in the formulation, evaluation and technical assistance to projects.
    - Experience in developing business plans for microfinance institutions in Jordan, Romania, Ghana, Haiti, and Bolivia.
    - Undertaken performance reviews of microfinance institutions and programmes in South Africa, Guinea, Malawi, Mozambique, Albania, Georgia, and Uganda.
    - Reviewed financial sector policies and procedures as they relate to Microfinance in Jordan and Gambia.
    - Provided extensive financial technical assistance to operating microfinance projects in Ghana, Mali, Burkina Faso, Uganda, and Bolivia.
    - Designed and/ or conducted training courses in various microfinance subjects in Bosnia, Romania, Jordan, Haiti, Morocco and USA.
    - Authored manuals on MIS design and operating procedures for Freedom from Hunger, a USA based NGO. Co-author of a book on microfinance financial ratios.
16. **Specific experience in the region:**
    - Ten missions to Jordan between 1998-2003 to support the AMIR programme on microfinance.
    - TA mission to the Social Fund of Yemen for the UNDP in October, 2004.
    - Two TA missions to Morocco on loan product design, and on financial analysis training
    - TA mission to West Bank-Palestine to design methodology of linking MFIs with commercial banks.

Position in the MDRM II team: Covering Public Works Programme and Poverty & Environment

1. **Family name**: Sims
2. **First name**: David
3. **Date of birth**: 1 August 1946
4. **Nationality**: USA
5. **Address**: 2 Ahmed Heshmet St., Zamalek, Cairo
6. **Phone/Fax**: +20 2 735 6193
7. **Mobile**: +20 12 323 9270
8. **E-mail**: dsims@soficom.com.eg

9. **Education**:

Institution [Date From – Date to]:	Yale University – New Haven, USA 1964 -1969
Degree(s) or Diploma(s) obtained:	BA (Economics)
Institution [Date From – Date to]:	Harvard University – Cambridge, USA 1969-1971
Degree(s) or Diploma(s) obtained:	Masters of City and Regional Planning

10. **Language skills:** Indicates competence on a scale of 1 to 5 (1 – excellent; 5 – basic)

Language	Reading	Speaking	Writing
English (mother tongue)	1	1	1
French	1	1	2
Arabic	2	1	3
Bahasa Indonesia	3	4	5

11. **Other skills:** Computer literacy – XP Office, ArcView, databases, etc

12. **Present position:** Director, Culpin Planning Ltd. (UK)

13. **Years of experience**: Continuous 33 years of experience in developing countries, with concentration in Egypt & Middle East, also South Asia and Southeast Asia and East Africa.

14. **Key qualifications**:

- Experience on projects funded by World Bank, Asian Development Bank, USAID, UNDP, UNCHS, DfID, GTZ and KfW, Dutch aid, Kuwait Development Fund, and ILD (Peru).
- Advised governments, donors, and public agencies on the following: urban planning and management, housing, land management, municipal finance, local area development, slum upgrading, SME development, the environment, tourism, urban poverty alleviation, industrial zones, small/micro enterprises, and local administration development.
- Advice has included administrative, legal, financial, and technical procedures; project identification, preparation, implementation & evaluation, and capacity strengthening.
- Experience has included team leader positions in technical assistance projects in Nepal, Cambodia, Sri Lanka, and Egypt.

15. **Specific experience in the region and with relevance to MDRM II :**

- Over 18 years experience in a wide range of development projects in Egypt, both at central and local (governorate and district) levels
- Member of the first MDRM in Egypt in the year 2000.

Annex 3
Persons and Institutions consulted and Projects visited

Institutions Consulted and Projects visited

Social Fund for Development

Managing Director

Mr. Hani Seif El Nasr	SFD Managing Director

Technical Office

Eng. Azmy M. Aly	Consulting Engineer, Chief Director, Technical Office

International Communication & Public Relations Group

Mrs. Hanaa El Hilaly	General Manager, I SFD
Mrs. Amany H. Youssef	Manager, International Cooperation Sector, SFD

Planning and Monitoring Group

Dr. Mohamed A. Bakry	General Manager, Planning and Monitoring Group, SFD
Mr. Magdy Salah El-Dien Mohamed	Senior Manager, Monitoring & Evaluation Department, SFD
Mr. Raed El Shafei	Manager, Monitoring and Evaluation Department
Ms. Mr. Hesham El Azony	Senior Officer, Monitoring and Evaluation Department, SFD
Mr. Sherif El Hakeem	Planning Department Manager
Ms. Rania H. El- Abd	Senior Officer, Planning & Monitoring, SFD
Mr. Essam El Quorashy	5 year Investment Plan
Dr. Laila Gad	SFD Poverty Specialist

Finance and Administration Group

Mr. Mohamed Mehrez	Director General, Finance and Administration Sector
Mr. Ahmed El Deeb	Manager, Inoformation Technology Department, MIS Manager
Mr. Mohamed El Ahwany	General Manager, Legal Affairs
Mrs. Olfat Zaki	Human Resources Director
Mr. Galal Safwat El Alfy	Assistant General Manager, Head Sector of Administration Affairs and Regional Offices
Mr. Abdallah El Fekki	Manager, Regional Offices Sector
Mr. Ahmad Mostafa	Senior Officer, Regional Offices Sector

Internal Audit Group

Mr. Alaa El Gharably	General Director, Internal Audit
Mr. Hossam Fathi A. Aziz	Manager, Internal Audit

Human and Community Development Group (HCDG)

Mr. Omar El Farouk	Director General, Human and Community Development Groups
Mr. Mohamed Hashem	Director, Social Infrastrucure Development Sector
Eng. Nagy Zaher	Senior Manager, Public Works Department
Eng. Magdy A. Mokhtar	Assistant General Manager, Human Resource

	Development Sector
Eng. Youssef Rashad	Head of Public Projects Human Development,
Eng. Medhat Massoud	Senior Manager, Community Development Department
Mr. Ussama al-Abhar	Officer, Community Development Department
Mrs. Neveen Badr El Deen	Manager, Micor Finance Unit
Mr. Samir Radwan	Senior Officer HRDP
Dr. Ayman Abdelwahab	Director, Environment and Development Unit
Eng. Nagi Assad	Public Works Programme
Mr. Mohamed Hassan Ali	Community Development Officer

Small Enterprise Development Organization (SEDO)

Mr. Yehia El Agami	President, SEDO
Dr. Ahmed Nassar	Deputy Director General, SEDO
Mr. Ahmed Sayed El Gbary	Secretariate Office, SEDO
Eng. Raafat Abbas Shehata	Manger, Market Planning and Monitoring Department SEDO
Eng. Ibrahim Yehia Bakr	Senior Manager, Employment Department, SEDO
Eng. Yasser Abdel Wahab	Manager, Training Centers & Clusters, SEDO
Ms. Eshrak El Sissi	Head of Research and Development Division, SEDO
Ms Logina Ismail	Associate, Planning and Monitoring Department, SEDO
Mr. Khaled Kabil	Manager, Business Development and Risk Assessment Sector, SEDO
Mr. Ahmed Rabie	Manager, Credit Risk Department, SEDO
Mr. Amr M. Riad	Manager, Credit and Finance Department,SEDO
Mr. Hisham M El-Beltagy	Deputy Manager, Credit and Finance Department, SEDO
Mr. Mahmoud A. Barry	Assistant General Manager, Finance Department, SEDO
Mr. Khaled El Defrawy	Senior Manager, Loan Portfolio Quality Department, SEDO
Mr. Ayman Khairy	Integrated Finance Center, SEDO
Dr. Galal Fawzy	Manager, Business Development Department, SEDO
Mr. Hatem Mostafa Zaki	Manager, Franchise Development Department, SEDO
Mr. Ahmed Elgendy	Enterpreneurship Awareness Programme Officer, Business Development DepartmentSEDO

Marketing and Management Group

Dr. Ashraf Zaki	Director General, Marketing and Management Group, SFD
Eng. Mohamed Moussaad Kotb	Director, Technical Assistance Sector, MMG
Mr. Adel Abboud	Manager, Development and Quality Department, MMG
Dr. Eng. Abdel Mohsen Khater	Manager, Incubator Development Departmentl, MMG
Eng. Mohamed Reda Ramadan	Manager, Beneficiary Training Department, MMG
Eng. Sakr Hamed	Manager, Tala Incubator Center, MMG
Eng. Ayman Rabie Ahmed	Deputy Manager, Coordination and Monitoring MMG

SFD Regional Offices

Cairo Governorate	
Eng. Abd El Bary A. Ghazy	Manager, Cairo South Sub Regional Office
Fayoum Governorate	
Mr. Ahmed Abdel Akher	Manager,Fayoum Regional Office
Menia Governorate	
Mr. Hassan Gad	Manager, Menia Regional Office
Mr. Montasser Roushdy	Officer, Menia Regional Office
Mr. Marawan Mohamed Marawan	Officer, Menia Regional Office
Menoufeya Governorate	
Mr. Magdy Shatla	Manager,Menoufeya Regional Office
Gharbeya Governorate	
Mr. Anwar Kiwan	Manager, Gharbeya Regional Office
Mr. Magdi Zein	CDP Staff, Gharbeya Regional Office
Hasnaa' Al-Baguri	CDP Staff, Gharbeya Regional Office
Alexandria Governorate	
Dr. Osman El Goagry	Manager, Alexandria Regional Office
Ms. Reem Ouf	CDP Staff, Alexandria Regional Office
Ms. Dina 'Abbassi	CDP Staff, Alexandria Regional Office
Giza Governnorate	
Eng. Abdel basset Abdel Aziz	Manager,Giza Regional Office
Beni Suef Governnorate	
Mr. Ahmed El Shafei	Manager, Beni Suef Regional Office
Daquahleya Governorate	
Mr. Mahomoud Mehrez	Manager, Daquahleya Regional Office
Mr. Ahmed Shouky Zakaria	Public Works Engineer, Daquahleya Regional Office
Mr. Fathy Antar Fodah	Daquahleya PIU Manager
Ismaleya Governorate	
Mr. Waheed Roushdy	Manager, Ismaleya Regional Office
Mr. Mohamed Hassan Ali	Commutiy Developmebt Officer, Ismaleya Regional Office
Quena Governorate	
Dr. Gamal Hemdan	Manager, Quena Regional Office
Mr. Nabil Hefny	Qena PIU Manager
Aswan Governorate	
Mr. Taher El Sehary	Manager, Aswan Regional Office
Ms. Nahla Abdel-Tawab	CDP Head
Mr. Ihab Bayumi	CDP Field Officer
Ms. Inas Ahmad	CDP Field Officer
Ms. Fatma Karmi	CDP Field Officer
Ms. Maha Saber	CDP Field Officer
Mr. Muhamad Ali Muhamad	CDP Field Officer
Mr. Alaa Eldin Abdallah	CDP Field Officer
Beheira Governorate	
Mr. Mohamed El Alkamy	Manager, Beheira Regional Office
Luxor Administrative unit	
Mr. Mohsen Mohamed Mustafa	Luxor PIU Manager

EC-Programme Coordination Unit for SFD (PCU)

Mr. Hans Rolloos	Team Leader , PCU
Mr. Mahmoud Hassan	Development Economist PCU
Mr. Pieter Feenstra	Monitoring and Evaluation Specialist, PCU
Mr. Hesham Abdel Latif	Financial Expert, PCU

Donors

Delegation of the European Commission (EC)

Mr. Georgios Tsitsopoulos	Head of Operations
Ms. Karin Johansson	Head of Social and Rural Development Sector
Mr. Pascal Odul	Programme Manager, Development Cooperation, EC Delegation
Mr. Erik Lyby	International Impact Assessment expert

United Nations Development Program (UNDP)

Mrs. Sophie de Caen	Deputy Resident Representative
Mrs. Ghada Waly	Assistant Resident Representative

World Bank (WB)

Dr. Alaa Hamed	Senior Health Specialist
Ms. Dina El Naggar	Outreach and Communications Officer
Mr. Ashraf Gabriel	Financial Management Consultant, World Bank Cairo

Kreditanstalt fuer Wiederbau (KfW)

Mr. Jan Blum	Director Cairo office
Mr. Amr Abou Elazm	Programme Expert

African Bank for development (ABfD)

Mr. Emmanuel Nzabanita	Principal Operations expert

Japan Bank for International Cooperation (JBIC)

Mr. Masato Ogane	Chief Representative
Mr. Gen Yoneda	Representative
Ms. Mayada Magdy Ragheb	Projects officer

Other institutions

Alexandria Family Planning Association (AFPA), Alexandria

Al-Nuur Association for Blind Women, Alexandria

Amani al-Gamal	Chairperson

Mustafa Kamel Association, Vocational Rehabilitation Center (VCR), Alexandria

Mr. Medhat Ya'qub	VCR Director
Mr. Adel Butros,	Head of Metalwork Dept

APFA Danna Center, Alexandria

Al-Ragaa' Center for Disabled, Tanta, Gharbeya

Reverand Ersanius Salib	Chairperson

Shabshir Al-Hissa CDA, Gharbeya

chairperson

Al-Ragaa' Association for Special Needs, Tanta, Gharbeya

Bank of Alexandria

Mrs. Fatma Lotfy	Vice Chairperson
Mr. Moussad	Manager, Menofiah Branch
Mr. Youssef Barakat	Manager, Aswan Branch

Banque Misr

Mr. Mohamed Ozalp	Vice Chairman

Central Bank of Egypt

Mr. Atef Ibrahim	Sub. Governor

Ms Fadia S. Fahim	Assistant Sub. Governore, Foreign Relation Sector
Commercial International Bank (Egypt) S.A.E.	
Ms. Maha Heba Enayatalla	Assistant General Manager, Retail Consumer Credit
Mr. Ahmed Galal Abou El Dahab	Senior Supervisor, SME's Finance
Cooperative Insurance Society	
Mr. Milard Kamel Warson	Managing Director
Egyptian Incubator Association (EIA)	
Mr. Akmal Mohamed	Assistant Project Manger, EIA
Mr. Ibrahim Fayez	Training Officer, EIA Ismailia Office
El Mobadra	
Dr. Ayman Mahmoud	Director
Catholic Relief Services (CRS)	
National Bank of Egypt	
Mr. Mohamed Mourad	General Manager, Executive General manager
Mr. Assem Ragab	Advisor, Chairman of the Board
Mr. Aly Farid	Manager, Menofiah Branch
Productive Families Associarion (AFPA), Alexnadria	
Mrs. Salha Awad	Chairperson
Mrs. Hanaan ‘Agwa,	Director , Improvement and Support of Reproductive and Family Health Project
CDA of El Olayqat, Qus, Quena Governprate	
Mr. Salah El Din Zaki Mahmoud	Head, CDA of El Olayqat, Qus, Qena
Aga Khan Community Development Project Darb el Ahmar	
Karim Gohar	Project Officer
Infonex Corp, Cairo, NGO Service Center	
Robert LaTowsky	Poverty Alleviation Specialist
Darwish Consulting Engieers	
Hamdy El Hinnawy	PWP Impact Assessmet Expert
Noth South Consultants exchange	
Mrs. Zohra merabet	Executive Director
Anne Marie van Oos	Team Leader
ESMA	
Ms. Graziella Rizza	Team Leader
Mr. Bassam Adly	Executive Director
Oracle	
Mr. Khaled Bahgat	Consulting Manager

Projects Visited

Quena Governorate

Water Tank and Water Operation in El Karra, Abu Tesht Markaz, PWP project
Upgrading of Health and Environment Conditions in Samahoud Village, CDP project
El Omra Road, El Zomor Village, Abu Tesht Markaz, PWP project
El Olaykat Community Development Project, Qus Markaz

Luxor Administration Unit

Canal Coverage of El Hebeil Main Canal, East of Luxor railroad, PWP project
Canal Coverage of El Hebeil Main Canal (covered), phase I and phase II PWP project
El Magebeleya Canal Coverage Project, Luxor City, PWP project
Water network El Kebly Kamula Village, Luxor, PWP project
CDA in Olaykat village, Luxor CDP project

Menofiah Governorate

Automobile Parts Manufacturing Project (SEDO)
Furniture Manufacturing Project (SEDO)
Bakery Project (SEDO)
Tala Incubator Center
Agricultural Feeding Material Producer (SEDO)
Plastic Products Manufacturer (SEDO)
Medical Equipment Manufacturer (SEDO)

Aswan Governorate

Pickup Truck Operator (SEDO)
Ice Manufacturer (SEDO)
Al-Kayyal CDA, Environment Enhancement Project
Al-Sharawna CDA
Regional Federation of NGOs

Dakhalia Governorate

Canal Covering, Mansoura, PWP Project
Canal Covering, Simbaweilein, PWP Project
Water Network Project, Simbaweilein, PWP Project

Fayoum Governorate

Mrs. Saydayah El Sayed, clothes seller, client of PFA
Mrs. Nagwah Ahemd Fuad, Dressmaker, client of PFA
Mrs. Fatwa El Rubi, Small Kiosk, Client of PFA
Sila Community Association for Family Development UNDP Microstart Project, Ashami
Mr. Redah Ragab, Programme Manager, for UNDP Microstart project

Minea Governorate

Ms. Amal Bebawy Nauz, Manager, Catholic Relief Services Programme
Mr. M. Maharis, General Manager, PBDAC Abu Korkas District
Mrs. Yvonne Bursenawai, Shopowner, Yarni, Client of PBDAC
Mr. Khalil Ibrahim, Tyre Repair Shop, Yarni, Client of PBDAC
Taqwa and Imman Islamic Association for Development (CRS Programme)
Ms. R.M. Abdulia, Stationary Store, client of TIIAD.
Mrs. C. Abdul Alef, Vegetable Seller, client of TIIAD

Alexandria Governorate

Alexandria Productive Family Association
Salsam Association of Social Development,Bugalash District
Islamic Association for Kindness and Development, Wadi Matrus
Mr. Rafat Fouquia, Baker, Client of IAKD
Mr. K. M. M. Mohommed, Duck and Chicken Breeder, Client of IAKD

Annex 4
Literature

African Development Bank, Appraisal Report Egypt, SFD Phase II

African Development Bank, *EGYPT: Social Fund for Development: Appraisal Report*, 08 April, 1997.

African Development Bank, *Social Fund for Development: Community Development Program, African Development Bank Loan-Work Plan*.

Almishkat, Fergany, Nader, "Dynamics of Employment Creation and Destruction, Egypt, 1990-1995," Almishkat Rearch Notes No 11, January 1998.

Arab Fund for Socio-Economic Development, Credit Agreement, Between the GoE and the Arab Fund for Socio-economic Development, June 1991

AUC, Bayat, Asef and Denis, Eric, "Urban Egypt: Towards a Post-metropolization Era", Cairo Papers in Social Science Vol. 21 No. 4, AUC, Winter 1998.

AUC, Nassar, Heba, "Survey on Socio Economic Conditions of Work in Greater Cairo", Preliminary Report, Social Research Center, AUC, October 1999.

CARE, *Capability Enhancement Through Citizen Action Project: Final Report*, June 2004

CIS, Audited Financial Statements of CIS for 2001/2, 2002/3, 2003/4

CIS, Co=operative Insurance Society, Profile

DAG, Law 141 of 2004, Issuing Law of Small Enterprise Development, unofficial translation, 2004

DAG, Report on Donors Review of the Small and Micro Enterprise Law, dated June 8, 2004.

DAG, Social Fund for Development, Implementation Plan, Report of the Task Force Appointed by DAG/SFS, July 2000

DAG, Task Force: Implementation Plan for SFD, Based on MDRM Recommendation -Table 1: SFD's Mandate, 2000

DANIDA, Appraisal of Poverty Targeting and Monitoring in TASFD and SFD, Robert Latawsky, Carl Bro Management, July 1999

DANIDA, Egypt Second Social Fund for Development Project, Project Implementation Plan, Draft, November 1996

DANIDA, Poverty Targeting to the Community Level: A Practical Application of Data Sources and Indicators to Poverty Targeting in Aswan and Qena Governorates. A TASFD Presentation to the SFD, October 1999

DANIDA, TASFD - Final review of TASFD HRD Activities, March 2001

DANIDA, TASFD Project Completion Report. *Draft, December 2001*

DANIDA, Training Program for Small-Scale Labour-Based Contractors. *Final Report (Annexes), September 2001*

EC, Assessment for the SFD-Final Report, Microfinance Sectoral Study, September, 2004.

EC, A Consultancy Mission to Support the Social Fund for Development - Phase II in Planning, Management, Organization and Social Development. End of Mission Report, October 1999

EC, Evaluation in the European Commission, Guide to the Evaluation Procedures and Strucures currently operatinal in the Commission's External Co-operation Programmes

EC, External Monitoring System of EC Development Aid Programmes, Handbook for Monitors, February 2001

EC, Impact Assessment for the SFD- Consolidated Report, September 2004.

EC, Impact Assessment of SFD, Social Infrastructure Sectoral Study, Draft Final Report, September 2004-10-09

EC, Mission Report of the Team Leader for MDRM II, Eddy Bynens, May 2004

EC, Potential Role for the SFD Micro Credit Unit in the Development of the Egyptian Microfinance Industry, Bas Auer, 7 September, 2003.

EC, Specific Financing Agreement between the European Community and the Social Fund for Development - Phase II, Agreement n° EGY/B7-4100/IB/97/036, March 1998

Economic Research Forum, Institute of National Planning, UNDP, "Egypt Human Development Reports” 1995/96, 1997/98, 2000/2001, and 2002/2003 (2 volumes)

Efforts Undertaken by the SFD in order to follow-up on its commitment to the MDRM report

Egypt Participatory Poverty Assessment, Executive Summary

Egypt State Information Service Web Site, Egypt in the 21st Century: Vision 2017, March 1997

El-Dar El-Arabia for Industrial & Managerial Development, Evaluation of SEDO Non-Financial Services (SFD). *Final Report*

ESMA, SEDO’s Field Officers Job Analysis and Training Needs Assessment Survey, September 2003

Evaluation of SEDO Non-Financial Services (SFD), Draft Final Report

Gender Unit Manual, 2000

Ikram, Khalid, Egypt: Macroeconomic Performance and Poverty, 1965-2000, draft, April 2003

ILO, Eekelen, Willem van, Ismail, Nagwa, and Luca, Loretta de, "Youth Employment in Egypt", ILO Cairo, NAMAT, June 1999.

ILO, Heba El-Laithy and Naglaa El-Ehwany, Poverty, Employment, and Policy Making in Egypt, A Country Profile, October 2001, draft

ILO, Stewart, Frances and Geest, Willem van der, "Adjustment and Social Funds: Political Panacea or Effective Poverty Reduction?", International Labour Office, Geneva, 1995

Impact Assessment. An Overview

Institute of Development Policy and Management, Chronic Poverty: Meanings and Analytical Frameworks, 2001

Introduction to Selected World Development Indicators

Islamic Development Bank , Loan Agreement Between GoE and Islamic Development Bank, 29 January 2001

Italian Cooperation, Financial Convention between Central Bank of Egypt and Mediocredito Centrale S.P.A

Italian Cooperation, Implementation Protocol, Between the Government of the Italian Republic and the Government of the Arab Republic of Egypt

JBIC, Memorandum on SFD between Japan Bank for International Cooperation and the Government of the Arab Republic of Egypt, Draft

KfW, Egypt - Improvement of Monitoring and Evaluation of SFD's PWP Activities. *Final Report, Serptember 2001*

KfW, El Shorbagi, Monika, Poverty Assessment Boulaq el Dakrour; Baseline Sample Survey, KfW, December 2003.

KfW, El Shorbagi, Monika, Poverty Assessment Manshiet Nasser; Baseline Sample Survey, KfW, December 2003

KfW, Financing and Project Agreement between KfW and the Arab Republic of Egypt represented by the Central Bank of Egypt, an the SFD for DM 50,000,000, Social Fund (SFD) / Job Creation Scheme, Rural Infrastruktur IV

KfW, German Financial Cooperation with Egypt Consolidation II - 92 65 489 -EUR 38,3346,891,09 (DEM 75.0 million) Financial Contribution Dept Conversion through the Social fund for Development (SFD), Special Agreement, May 2002

KfW, German Financial Cooperation with Egypt, SFD / Job - Creation Scheme, Urban Infrastructure EUR 3,100,000 No.: 2002 65 132, Separate Agreement to the Financing and Project Agreement dated September 30, 2002.

KfW, KfW-SFD Financing Agreements by Programme

KfW, Laendliches Finanzwesen Dakahliya, DM 43,0 Mio FZ/D - 96 66 157, DM 3,8 Mio FZ/Z, Projektpruefungsbericht, November 1996

KfW, Memorandum of Understanding between the EU and KfW Regarding Microfinance Fund Egypt (draft).

KfW, SFD / Arbeitsbeschaeftigungsprogramm, laendliche Infrastruktur II, DM 30,0 Mio FZ/Z - 95 65 474, Programmepruefungsbericht, August 1995

KfW, SFD / Arbeitsbeschaeftigungsprogramm, laendliche Infrastuktur II, DM 30,0 Mio FZ/Z - 1995 65 474, Abschlusskontrollbericht, October 2000

KfW, SFD / Arbeitsbeschaeftigungsprogramm, laendliche Infrastuktur III, EUR 25,05 Mio FZ/Z - 1996 66 314/ 3, Abschlusskontollbericht, December 2002

KfW, SFD / Beschaeftigungswirksame Infrastruktur in staedlichen Armutsgebieten EUR 2,1 Mil FZ/Z - 2002 65 132, Projektpruefungsbericht, April 2002

KfW, SFD, Arbeitsbeschaeftigungs-programmm, Laendliche Infrasturktur III, 1) Sachinvestion DM 49,0 Mio FZ/Z - 96 66 314 2) Personelle Unterstuetzung (Begleitmassnahme) DM 1,0 Mio FZ/B, Programmpruefung, December 1996

KfW, SFD, Foerderung von Kleinst-und Kleinbetrieben I, DM 10 Mio FZ / D - 93 66 279, Projektpruefungsbericht (Kafr El Sheikh, Assuit, Giza, Minia, Sohag, uber PBDAC, February 1994

KfW, SFD, Foerderung von Kleinst-und Kleinbetrieben II, DM 10 Mio FZ / D - 95 66 886, Projektpruefungsbericht, December 1995

KfW, SFD, Nilschutzmassnahmen und Dorfenentwicklung ("SFD/ PWP I"), 1.Sachinvestion DM 49,2 Mio FZ/Z- 1994 65 527 2. Presonelle Unterstuetzung (Begleitmassnahme) DM 0,8 Mio FZ/Z - 1994 70 261, Abschlusskontrollbericht,m November 2000

KfW, SFD, Niluferschutzmassnahemn (offenes Programm), DM 39,2 Mio FZ/Z - 946552713, DM 0,8 Mio FZ/B - 9470261Programmpruefungsbericht, May 1994

KfW, Umweltschutz Stauwehr Naga Hammadi, Abwasserentsortung / Gebaeudeschutz, DM 13,0 Mio FZ/Z - 98 66 104, Programmpruefung, November 1998

MDRM I, Multi-Donor Review of SFD. *Final Report, April 2000*

National Bank of Egypt, mEconomic Bulletin Vol. 57 No.1

NFO, EDP Impact Assessment Tahseen (Phase II) Quantitative Cairo, Assiout & Sharqia, March 2004

OECD, In the Face of Poverty, Executive Summary, 2000

Oracle, Business Requirements and Future Process Model Social Fund for Development Oracle General Leader, March 2004

Oracle, Business requirements and future Process model, Social Fund for Development, Oracle Assets, March 2004

Oracle, Proposal for the Supply of Oracle Services to Social Fund for Development (SFD) for Oracle Applications Implementation Phase I, March 2004

Oracle, Social Plan for Development, Implementation Plan, Report of the Task Force Appointed by DAG/SFS, June 2004

PCU, A Framework for Strategic Planning in SFD (Annex 10 to the PCU Inception Report), Bart Fonteyne, March 2000

PCU, Endorsement of Revised SFD EU Final Work plan and Attached Procurement Plan for the period July 2003-December 200, November 2003

PCU, Evaluation of SFD Targeting and Needs Assessment Efforts. *Draft, Hans Bekkers, January 2001*

PCU, Final Implementation Agreement For SFD Management Information System (MIS) Project between EC and SFD. Version 1.0

PCU, Follow-up Report: Targeting Systems within SFD. Proposal, Evelyne Degryse, Janaury 2001

PCU, Graham Watson, Reader Public Works Programme, 25 November, 2000

PCU, HRDP SWOT Analysis Report, Final

PCU, Impact Assessment. Provisional Terms of Reference, Wybe Bruinsma, January 2004

PCU, Inception Report for the period of 1 Oct. 1999 to 30 Sept. 2003. *Final, May 2000*

PCU, Institutional Development and Capacity Building in SFD. *Mission Report* for the period 14 August - 22 December 2001, December 2001

PCU, MIS Mission Report, Earl R, Baxter, June 2001

PCU, Mission Report of the Team Leader for MDRM II of Social Fund for Development of Egypt. *Mission from 2 to 26 May 2004*

PCU, Mission Report on Objective Setting and Strategy Alignment for the Social Fund for Development in Egypt. Mission 21 August 2000 - 28 February 2001, Luc Zwaenepoel, February 2001

PCU, Mission Report, Analysis of the existing MIS, and IT functions and capacity within SFD and SEDO, Earl Baxter, May 2001

PCU, Mission Report, Analysis of the existing MIS, and IT functions and capacity within SFD and SEDO, Earl Baxter, April 2001

PCU, Mission Report, Roadmap for MIS Application and Development in SFD and SEDO, Revision 1.01, R. Earl Baxter, MIS Exoertm Programme Coordination Unit, 25th June, 2001

PCU, Mission Report: Statistics and Needs Assessment, Evelyne Degryse, April 2001

PCU, PCU Monitoring Function - Report 2/2001 - Table 1 amalgamented site visit findings on project design and implementation,

PCU, PCU Monitoring Function - Report 1/2004: January - March 2004. Final, March 2004

PCU, PME User Requirements , Monitoring and Evaluation Consultancy, Notes for the EU Delegation, Henk Remme, M& E Expert PCU, March 2004

PCU, PMES System Social Fund for Development: Steering Committee Meeting, February 2004

PCU, Project Monitoring and Evaluation System (PMES), August, 2003

PCU, Project Monitoring and Evaluation System (PMESv2)User Requirements , Report of Monitoring and Evaluation Consultancy, Henk Remme, M& E Expert PCU, March 2004

PCU, PWP SWOT II Workshop Report

PCU, Quarterly Progress Report- For the Period of 1 January - 31 March 2004, Final, March 2004

PCU, Report on the appraisal concerning the allocation of MF funds under the SFD Work Plan, July 2003-December 2004. Theo Baken, March 2004.

PCU, SFD Towards a Permanent Instituion, Financial Management System, Preliminary Assessment, January 2001

PCU, Status Report on Organizational Development in the Social Fund for Development, Egypt, Cairo, Draft of April 19th, 2001

PCU, Status Report: Targeting Methods, Evelyne Degryse, April 2001

PCU, Strategic Document for the Small Enterprise Development Organization, Henk van Oosterhaut, February 2001

PCU, Strategic Planning, institutional development, and capacity buidling in SFD, preapred by Bart Fonteyne based on the input as management specialist October 1999 to 2001 and as institutional development specialist: August 2001 to July 2002

PCU, The EU funded Oracle Study Project Monitoring and Evaluation Report, September 9, 2004.

PCU, The New MIS Project Document. *Final v2.0, Febraury 2004*

PCU, The PCU Inception Report. *Presentation, April 2000*

PCU, ToR of Impact Assessment for MDRM II for SFD. *Draft, January 2004*

Selection of MFIs for Financing Micro Credit Projects, Decembe 2003

SFD Community Development Program - Operation Manual

SFD Towards a Permanent Instituion, Proposal for the development of a startegic organization, Drfat 26 January 2001)

SFD, Annual Program Report 2002

SFD, Annual Workplan No.6 EU-Funded Projects 1 July 2003 - 31 December 2004. Final, October 2003

SFD, Brief on SFD Strategy, Mr. M.H. Seif El Nasr, September 2004

SFD, CDP Operation Manual, 1999

SFD, CDP Strategic Vision Paper, SWOT Analysis workshop Report

SFD, CDP, Micor-Fiance Inofrmation and Moniroting System, Submitted to SFD, CDP Program Devision, Preapred by Margaret Bartel, International Decision trategies, April 24, 1999

SFD, Community Development Department, Micro Credit Unit, Paper, N. Badr

SFD, Credit Manual: Financial Services, November 1998

SFD, Draft Credit Policy and Structure Manual for Microcredit

SFD, Financial Services Operation Manual, November 1998

SFD, Gender Unit Manual, 2000

SFD, HDP, Improving Quality of Life (IQL), Mandate, Final Draft, September 2004

SFD, HRDP Program Operational Manual, April 1997

SFD, HRDP Strategy Paper. *Final Draft, March 2001*

SFD, IDP Strategy Paper, Preapred by Dr. Mohamed Bakry, Head of Planning and Moniroting Group and Hesham El Azongm Strategic and Institutional Planning Section, February 2003

SFD, IDP Strategy Paper. *Third Draft, Janujary 2002*

SFD, Interest Rate Study

SFD, Manual Project Cycle Management, March 2001

SFD, Micro Credit at CDP, January 2000

SFD, Microfinance Programme Report, March 2004.

SFD, Organization Chart (Draft)

SFD, Participatory Social Impact Assessment of Community Development Projects in Assiut Governorate, July 1997

SFD, Procurement Unit, Publication No. 10, the Tasks of the SFD Representative in the Committees of Intermediary Agencies as Controller, January 2003, in Arabic.

SFD, Project Cycle: Project Appraisal & Monitoring and Evaluation, January 2000

SFD, Public Works Programme, Priority Targeting Report, 2000

SFD, PWP Program Manual, 2000

SFD, Regional Offices Manual " Guidelines", 1999

SFD, Sample: Feasibility Study for Entrepreneur

SFD, Sample: Field Officer's Job Description

SFD, SEDO JOB Assessment Study (Draft), September 2004

SFD, SEDO Mechanism & Strategy for Developing & Supporting SMEs (Draft), 2004

SFD, SEDO Mechanism for Supporting SMEs

SFD, Semi-Annual Progress Report No.9 EU-funded Projects 1 July 2003 - 31 December 2003, Janaury 2004

SFD, SFD / EDD Environmental Classification Forms Manual (B) for Subprojects for the Public Works Project 7 for Villages of El Gharbia Governorate, in Arabic, no date

SFD, SFD Beyond 2002: Report on SFD Achievements during Phase II of Operations and Future Orientation for the Consult. Group Meeting, Sharm El-Sheikh, Febraury 2002

SFD, SFD Community Development Program. Operation Manual, 1997

SFD, SFD Community Development Program. Operation Manual, 1999

SFD, SFD Field Officers: A Review of Capacity Building Efforts and Future Role. *Draft Report, October 2001*

SFD, SFD Mission Statement Final Draft

SFD, SFD Project Monitoring & Evaluation Framework, September 1998

SFD, SFD Strategy

SFD, SFD/ EDD Operational Phasing Monitoring Forms for Subprojects for the Services Improvement Project in Villages of El Gharbia Governorate (Irrigation and Drainage Projects), in Arabic, no date

SFD, SFD-EU Funded Projects, Semi-Annual Progress Report No. 10, Jan 1-June 30, 2004

SFD, Small Enterprise Development Organization (SEDO). *Final Mission Report, February*

SFD, Social Fund for Development, Strategic Orientation, September 2004

SFD, Socio-Environmental Impact Assessment of Public Works Projects in El Menofia Governorate June 1997

SFD, SPECIMEN CONTRACT: Development of New and Existing Small Enterprises Between SFD and _____________Bank

SFD, Strategy Paper Public Works Program. *Final, March 2001*

SFD, SWOT Analysis Report (HRDP). Final, January 2001

SFD, Targeting Status and Progress at the SFD, January 2001

SFD, The Development of Project Monitoring and Evaluation Systems (PMES), January 2000

SFD, The Financial and Administrative Regulations for the Rural Development Project, Qena Governorate, 1/3/2003, in Arabic, March 2003

SFD, The Future Vision of the Social Fund for Development (Mission Statement) (Draft)

SFD, Voices of the Poor in Egypt, Center for Development Services, 2000

SFD, West Delta Regional office, Micro Credit Project,-Project Goals, September 2004

SFD, West Delta Regional Office, Productive Families Community Development Project, Alexandria, September 2004

Sozialfonds / Arbeitsbeschaffengsprogramm landliche Infrastruktur III (SFD/PWP III) Abschlusskontrollbericht, 23/12/2002 (in German)

The Economist Intelligence Unit, Country Report, Egypt, August 2000

The Ford Foundation, Poverty and Poverty Alleviation Strategies in Egypt. A report submitted to the Ford Foundation, R. Assaad & M. Rouchdy, Janaury 1998

UNDP and WB, Commercial Banking and Microfinance in Egypt: National Bank for Development

UNDP and WB, MicroStart

UNDP EGY/00/013-SFD- Bridging Phase

UNDP Project Budget Revision, EGY/96/011/01/NEX (shadow 1)- SFD Phase II

UNDP Project number EGY/96/011SFD-Phase II

UNDP, "Egypt Human Development Reports" 1995/96, 1997/98, 2000/2001, and 2002/2003 (2 volumes)

UNDP, ACDI-VOCA Microstart –Egypt Final Wrap Up Seminar Report

UNDP, ACDI-VOCA Microstart Project Final Report

UNDP, Cairo, Subjective Poverty and Social Capital; Towards a Comprehensive Strategy to Reduce Poverty in Egypt, April 2003

UNDP, Egypt Human Development Report 2003

UNDP, Egypt Human Development Report 2003

UNDP, Egypt Human Development Report 2004

UNDP, Financial Audit of SFD, Bridiging Phase, Unde rproject No. EGY/00/013 funded by UNDP for the period of January1m, 2003 through December 31, 2003

UNDP, Handousa, Heba, "Seminar on Poverty - Egypt's Case", UNDP Seminar No. 2, 16 May 1999.

UNDP, Human Development Indicators , 2000

UNDP, MicroStart Egypt Programme, Midterm Technical Review. By Kim Alter, Microfinance Specialist, Principal of Virtue Ventures, October 2001

UNDP, Poverty Preventing and Eradicating. Main Elements of a Strategy to Eradicate Poverty in the Arab States

UNDP, Project Operation Plan, EGY/00/013/Social Fund for Development-Bridging Phase, 2003

UNDP, SFD Project Budhge, October 2003t

UNDP, SFD, Bridging Phase Annual Report, 2001 and 2002.

UNDP, Social Fund for Development Phase III, May 2004

UNDP, USAID, KfW, Microfinance Sector Development Approach, March/April 2003

UNIDO, Business Incubation Program Luxor, Egypt. Feasibility Analysis and Business Plan. *Restricted, May 2000*

WB, Arab Republic of Egypt - Stabilization and Structural Change", 26 January, 1999

WB, Arab Republic of Egypt, Poverty Reduction in Egypt, Diagnosis and Strategy, Volume 1: Main Report, Volume 2: Statistical Tables, June 2002

WB, Arab Republic of Egypt: A Poverty Reduction Strategy for Egypt, September 2004

WB, Baker, J. and Schuler, Analyzing Urban Poverty; A Summary of Methods and Approaches, World Bank Policy Research Paper, September 2004

WB, Business Development Services for SMEs. Preliminary Guidelines for Donor-Funded Intervention. Summary of the Report to the Donor Committee for Small Enterprise Development

WB, Egypt – Stabilization and Structural Change, January 1999

WB, Egypt Social Fund for Development, Multi-Donor Review January 23 - February 10, 2000, World Bank Briefing Note for Review Team," 2000.

WB, Egypt: Alleviating Poverty during Structural Adjustment, 1991

WB, El Laithy, Heba, Lokshin, M., and Banerji, A., Egypt: Poverty and Economic Growth 1995-2000, World Bank Policy Research Paper, June 2003

WB, Evaluating the Impact of Development Projects on Poverty

WB, Evaluating the Impact of Development Projects on Poverty

WB, Evaluating the Impact of Development Projects on Poverty, A Handbook for Practitioners, Judy L. Baker

WB, Implementation Completion Report, (IDA - 28650;TF-21678), On a credit in the amoount of SDR 82.3Million (US$ 120.0 Million equivalent) to the Arab Republic of Egypt for the Second Social Fund, December 26, 2001

WB, Implementation Completion Report, Social Fund Project, 1997

WB, Poverty Reduction in Egypt Diagnosis and Strategy. Volume I: Main Report, June 2002

WB, Poverty Reduction in Egypt. Diagnosis and Strategy. Volume II: Annex Tables June 2002

WB, Project Appraisal Document for a Third Social Fund for Development Project, May 1999b

WB, Project Appraisal Document on a Proposed Credit of SDR 36.9 Million to the Arab Republic of Egypt for a Third Social Fund for Development Project, Report No 19044-EGT, May 5, 1999a.

WB, Project Appraisal Document on a proposed credit of SDR 36.9 million, to the Arab Republic of Egypt got the Third Social Fund for Development, May 5, 1999

WB, SFD Impact Evaluation Public Works and Community Development Program-Draft Terms of Reference, March 2000

WB, Third Social Fund for Development Project, Mid Term Review Mission, December 2003, Aide Memoire

WB, Third Social Fund for Development. Project (Cr. 3230-EGT), Mid Term review Mission of December 14 - 24, 2003

WB, Third Social Fund for Development. Project Agreement between International Development Association & Social Fund for Development, August 1999

Annex 5
SFD sources and use of funds

Analysis of Use and Source of Resources
Phase I
Status as of 30/4/2004
USD

Source	Type	Total Committed	Total Received	Public Works Disbursed	Public Works % Prog.	Public Works % Donor	Community Development Disbursed	Community Development % Prog.	Community Development % Donor	Small Enterprise Development Organization Disbursed	Small Enterprise Development Organization % Prog.	Small Enterprise Development Organization % Donor	Human Resource Development Disbursed	Human Resource Development % Prog.	Human Resource Development % Donor	Institutional Development Disbursed	Institutional Development % Prog.	Institutional Development % Donor	Total project Disbursals	Funds at 30/4/2004
China - Cars	C	6,400,000	4,313,008	-	0.0%	0.0%	-	0.0%	0.0%	4,312,895	1.1%	100.0%	-	0.0%	0.0%	-	0.0%	0.0%	4,312,895	113
Austria	G	5,000,000	5,000,000	2,498,242	1.3%	50.0%	2,501,675	2.7%	50.0%	-	0.0%	0.0%		0.0%	0.0%	-	0.0%	0.0%	4,999,917	83
Canada (1st)	G	2,480,288	2,103,992	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	2,103,992	4.5%	100.0%		0.0%	0.0%	2,103,992	-
Denmark	G	1,696,229	1,696,229	662,733	0.3%	39.1%	257,383	0.3%	15.2%	558,681	0.1%	32.9%	167,084	0.4%	9.9%	50,348	0.1%	3.0%	1,696,229	-
Egypt	G	58,927,519	58,927,519	19,784,785	10.4%	35.3%	8,388,257	9.0%	15.0%	27,709,505	7.2%	49.5%	40,106	0.1%	0.1%	101,915	0.2%	0.2%	56,024,568	2,902,951
European Union	G	230,134,518	230,134,518	42,859,507	22.5%	18.6%	36,438,618	39.1%	15.8%	110,073,694	28.5%	47.8%	17,851,919	38.4%	7.8%	22,908,152	47.5%	10.0%	230,131,890	2,628
France (1st)	G	11,044,444	8,690,891	-	0.0%	0.0%	4,357,286	4.7%	56.7%	-	0.0%	0.0%	3,323,654	7.1%	43.3%		0.0%	0.0%	7,680,940	1,009,951
Germany (1st)	G	32,011,055	32,242,942	32,242,942	16.9%	100.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%		0.0%	0.0%	32,242,942	-
Germany (2nd)	G	18,691,363	18,776,067	18,776,050	9.9%	100.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	18,776,050	17
Holland	G	9,526,294	9,526,294	3,669,814	1.9%	38.5%	1,028,242	1.1%	10.8%	3,469,043	0.9%	36.4%	1,359,195	2.9%	14.3%		0.0%	0.0%	9,526,294	-
Ireland	G	3,116,813	3,116,813	-	0.0%	0.0%	3,116,813	3.3%	100.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	3,116,813	-
Norway	G	2,074,997	2,074,997	-	0.0%	0.0%	2,074,997	2.2%	100.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	2,074,997	-
Sweden	G	8,364,537	8,364,537	2,246,035	1.2%	26.9%	4,686,144	5.0%	56.0%		0.0%	0.0%	1,432,307	3.1%	17.1%	-	0.0%	0.0%	8,364,486	51
Switzerland	G	30,000,000	30,000,000	10,717,462	5.6%	35.7%	4,465,807	4.8%	14.9%	9,410,218	2.4%	31.4%	3,592,072	7.7%	12.0%	1,814,405	3.8%	6.0%	29,999,964	36
UNDP (1st)	G	5,500,000	5,500,000	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	5,500,000	11.4%	100.0%	5,500,000	-
Abu Dhabi Fund	L	49,972,774	49,972,774	-	0.0%	0.0%	-	0.0%	0.0%	49,972,774	12.9%	100.0%	-	0.0%	0.0%	-	0.0%	0.0%	49,972,774	-
Arab Fund	L	46,321,918	45,996,007	-	0.0%	0.0%	-	0.0%	0.0%	45,996,007	11.9%	100.0%	-	0.0%	0.0%	-	0.0%	0.0%	45,996,007	-
China	L	10,000,000	7,410,000	-	0.0%	0.0%	-	0.0%	0.0%	7,410,000	1.9%	100.0%	-	0.0%	0.0%	-	0.0%	0.0%	7,410,000	-
Germany (1st)	L	6,554,299	6,554,299	-	0.0%	0.0%	-	0.0%	0.0%	6,554,288	1.7%	100.0%		0.0%	0.0%		0.0%	0.0%	6,554,288	11
Germany (2nd)	L	5,863,113	5,863,113	-	0.0%	0.0%	-	0.0%	0.0%	5,474,300	1.4%	100.0%	-	0.0%	0.0%	-	0.0%	0.0%	5,474,300	388,813
IDA	G	153,877,884	153,877,884	56,117,493	29.5%	36.5%	23,805,258	25.5%	15.5%	48,972,227	12.7%	31.8%	16,505,101	35.5%	10.7%	8,477,805	17.6%	5.5%	153,877,884	-
Kuwait Fund	L	46,399,281	46,399,281	-	0.0%	0.0%	-	0.0%	0.0%	45,925,604	11.9%	99.0%	-	0.0%	0.0%	473,677	1.0%	1.0%	46,399,281	-
Total Donor Funds Percent Donor Disbursals		743,957,326	736,541,165	189,575,063			91,120,480			365,839,236			46,375,430			39,326,302			732,236,511	4,304,654
Loan Interset	I	12,323,430	12,323,430	244,581	0.1%	4.1%	188,493	0.2%	3.1%	5,645,789	1.5%	93.7%	50,517-	-0.1%	-0.8%	-	0.0%	0.0%	6,028,346	6,295,084
Deposit Interest	I	16,321,701	16,321,701	672,814	0.4%	5.9%	1,938,169	2.1%	16.9%	253,950-	-0.1%	-2.2%	175,601	0.4%	1.5%	8,948,885	18.5%	77.9%	11,481,519	4,840,182
Repayments	I	61,936,265	61,936,265	-	0.0%	0.0%	-	0.0%	0.0%	15,518,211	4.0%	100.0%		0.0%	0.0%		0.0%	0.0%	15,518,211	46,418,054
Total Internal Funds Percent SFD Disbursals		90,581,396	90,581,396	917,395		9.9%	2,126,662		20.0%	20,910,050		191.4%	125,084		0.7%	8,948,885		77.9%	33,028,076	57,553,320
Total		834,538,722	827,122,561	190,492,458	100.0%	9.9%	93,247,142	100.0%	20.0%	386,749,286	100.0%	191.4%	46,500,514	100.0%	0.7%	48,275,187	100.0%	77.9%	765,264,587	61,857,974
Percent Total Disbursals				24.9%			12.2%			50.5%			6.1%			6.3%			100%	

Analysis of Use and Source of Resources
Phase II
Status as of 30/4/2004
USD

Source	Type	Total	Total	Public Works			Community Development			Enterprise Development			Human Resource Development			Institutional Development			environment			Total project	Miscellaneous (bank commission)	Total project Disbursals
		Committed	Received	Disbursed	% Prog.	% Donor	Disbursed	% Prog.	% Donor	Disbursed	% Prog.	% Donor	Disbursed	% Prog.	% Donor	Disbursed	% Prog.	% Donor	Disbursed	% Prog.	% Donor	Disbursals		
Canada	G	6,500,000	3,916,393	-	0.0%	0.0%	-	0.0%	0.0%	3,916,393	0.6%	100.0%		0.0%	0.0%		0.0%	0.0%		0.0%	0.0%	3,916,393		3,916,393
Cost Sharing	G	25,583,382	24,136,067	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	22,740,916	40.0%	100.0%		0.0%	0.0%	22,745,761	4,845	22,745,761
Denmark	G	9,913,781	7,813,838	3,429,665	3.2%	49.2%	3,542,847	3.0%	50.8%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	6,972,512	-	6,972,512
DFID	G	7,944,891	6,546,414	-	0.0%	0.0%	6,765,967	5.7%	100.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	6,765,967	60	6,766,027
Egypt	G	44,195,639	36,556,519	-	0.0%	0.0%	-	0.0%	0.0%	8,544,490	1.2%	100.0%	-	0.0%	0.0%	-	0.0%	0.0%		0.0%	0.0%	8,544,490	-	8,544,490
European Union	G	189,749,558	124,961,332	19,040,792	17.9%	17.0%	17,294,119	14.7%	15.5%	69,876,964	10.0%	62.4%	5,259,295	9.3%	4.7%	149,215	0.3%	0.1%	293,072	32.9%	0.3%	111,913,457	-	111,913,457
German (3rd)	G	26,467,230	25,819,095	26,295,393	24.8%	100.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	26,295,393		26,295,393
Germany Naga Hammady	G	6,633,823	1,116,016	682,309	0.6%	100.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	682,309		682,309
Germany 4th	G	23,065,800	13,070,945	12,759,467	12.0%	100.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	12,759,467	-	12,759,467
Holland	G	15,627,465	15,627,465	13,150,439	12.4%	82.4%	2,206,629	1.9%	13.8%		0.0%	0.0%	-	0.0%	0.0%		0.0%	0.0%	*598,687*	67.1%	3.8%	15,955,755	-	15,955,755
UNDP	G	4,384,324	4,383,140	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	4,383,140	7.7%	100.0%	-	0.0%	0.0%	4,383,140	-	4,383,140
Islamic Development	G	420,000	105,000	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	-	-
Egypt	G	73,659,399	32,540,270	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	-	-
France	G	786,351	786,351	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	233,081	0.4%	100.0%	-	0.0%	0.0%	233,081	-	233,081
IDA	G	110,881,743	110,881,743	23,853,136	22.5%	21.5%	43,940,451	37.3%	39.6%	29,026,260	4.1%	26.2%	14,006,748	24.7%	12.6%	-	0.0%	0.0%		0.0%	0.0%	110,826,595	-	110,826,595
Germany Grant of Loan 3	G	2,338,462	398,873	-	0.0%	0.0%	-	0.0%	0.0%	398,873	0.1%	100.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	398,873	-	398,873
Abu Dhabi Fund	L	10,000,000	10,000,000	-	0.0%	0.0%	-	0.0%	0.0%	10,000,000	1.4%	100.0%	-	0.0%	0.0%	-	0.0%	0.0%		0.0%	0.0%	10,000,000	-	10,000,000
African Development Bank	L	21,000,000	12,553,050	-	0.0%	0.0%	8,481,589	7.2%	100.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%		0.0%	0.0%	8,481,589	-	8,481,589
Arab Fund	L	66,418,533	42,753,561	209,193	0.2%	0.5%	2,072,017	1.8%	4.7%	41,937,619	6.0%	94.8%	-	0.0%	0.0%	-	0.0%	0.0%		0.0%	0.0%	44,218,829		44,218,829
Germany (3rd)	L	23,995,875	13,037,410	-	0.0%	0.0%	-	0.0%	0.0%	13,446,719	1.9%	100.0%	-	0.0%	0.0%	-	0.0%	0.0%		0.0%	0.0%	13,446,719	-	13,446,719
IDA Polpulation	L	9,727,000	5,839,272	-	0.0%	0.0%	5,605,530	4.8%	100.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%		0.0%	0.0%	5,605,530	-	5,605,530
Italy	L	15,000,000	-	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%		0.0%	0.0%	-	-	-
Kuwait Fund	L	52,673,236	52,673,236	-	0.0%	0.0%	2,442,656	2.1%	5.9%	39,255,080	5.6%	94.1%	-	0.0%	0.0%	-	0.0%	0.0%		0.0%	0.0%	41,697,736	-	41,697,736
Islamic Development	L	9,800,000	1,894,946	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%	-	0.0%	0.0%		0.0%	0.0%	-	-	-
																								-
Total Donor Funds Percent Donor Disbursals		756,766,492		99,420,394			92,351,805			216,402,398			19,266,043			27,506,352			891,759			455,843,596	4,905	455,843,656
Loan Interset	I	290,000,000	287,398,360	-	0.0%		250,106	0.2%		287,148,234	41.0%		-	0.0%		-	0.0%		-	0.0%		287,398,340	20	287,398,360
Deposit Interest	I	120,000,000	115,000,000	6,668,809	6.3%		25,122,648	21.3%		15,904,737	2.3%		37,395,559	66.0%		29,318,228	51.6%		-	0.0%		114,409,981	1,723	114,411,704
Repayments	I	279,649,226	215,067,416	-	0.0%		-	0.0%		181,412,731	25.9%		-	0.0%		-	0.0%		-	0.0%		181,412,731	984	181,413,715
Total Internal Funds Percent SFD Disbursals		689,649,226	617,465,776	6,668,809		0.0%	25,372,754		0.0%	484,465,702		0.0%	37,395,559		0.0%	29,318,228		0.0%	-			583,221,052	2,727	583,223,779
Total		1,446,415,718	617,465,776	106,089,203	100.0%	0.0%	117,724,559	100.0%	0.0%	700,868,100	100.0%	0.0%	56,661,602	100.0%	0.0%	56,824,580	100.0%	0.0%	891,759	100.00%		1,039,064,648	7,632	1,039,067,435
Percent Total Disbursals				10.2%			11.3%			67.5%			5.5%			5.5%			0.1%					

Annex 6
Executive Summary of the Impact Assessment Study
(September 2004)

Executive Summary

In existence since 1991, the Egyptian Social Fund for Development (SFD) has moved from being a social safety net mechanism aiming at mitigating the negative social impact of structural adjustment into a leading Egyptian organisation mobilising national and international resources to invest in social development. In its mandate, SFD gives special attention to job creation through SME development and the enhancement of the quality of life of low-income groups. For its second phase of operation, starting in 1997, it is estimated that the SFD benefited from a total resource allocation of around USD 750 million, for the most part from grants and loans from more than 15 multilateral and bilateral donors. Overall, SFD has attracted external donor funding estimated at USD 2 billion since its creation.

The first Multi-donor Review Mission (MDRM I) of the SFD took place in February 2000 by a group of independent experts financed by a multiplicity of donors. The conclusions and recommendations of the mission were accepted by the Government of Egypt (GoE), SFD's Board of Directors and SFD Management. The overall appreciation of the results achieved by the SFD as well as the recommendations formulated by the MDRM have resulted in the GoE's decision to transform the SFD into a permanent social development institution.

The donor community to the SFD has decided to launch a second Multi-Donor Review Mission (MDRM II) during the year 2004. The MDRM II is supported by the following donors: European Union, World Bank, KfW, UNDP, JBIC, AfDB and the Italian Co-operation. It has been agreed between the SFD and the donors to undertake an Impact Assessment (IA) Study prior to the MDRM II to provide the review mission members with pertinent information about the impact of the investments of the SFD. So far, impact assessments in the SFD had been limited in scope to specific areas or sectors and these impact assessments have been hampered by the absence of baseline studies prior to the start of the operations of the sector programmes of SFD.

The Impact Assessment was carried out by four local consultant teams, each with a designated Team Leader, and coordinated by an International Impact Assessment Expert (IIAE).

The *global objective* of the Impact Assessment was to measure the impact of sectoral project interventions of SFD in key areas of intervention, on the respective target groups based on quantitative and qualitative data sources; thus contributing to the solidity of the findings of the MDRM II. The *specific objective* of this assignment was to produce a final consolidated Impact Assessment report based on four sectoral studies:

- Credit

The measurement of employment creation, asset accumulation and sustainability of operations among groups of clients of the SEDO credit schemes.

- Micro-credit

An independent assessment of economic and social impact of micro-credit provision on the livelihood of beneficiaries;

- Training

The assessment of the appropriateness of training courses offered and the success or otherwise of the trainees, upon completion of the training, from the perspective of the target group, to start a business or enter into gainful employment;

- Infrastructure

From the perspective of the target group, the assessment of client satisfaction regarding service delivery of infrastructure projects implemented by CDP, PWP and HRDP;

This report presents the consolidated findings from the four sectoral studies. For more detailed information, readers are advised to consult the respective sectoral reports.

1.1 Main Findings

The status of the beneficiaries of SFD activities was assessed in relation to two poverty lines, one for “ultra-poor and one for “poor”. Those falling above these are considered non-poor. The poverty lines were based on household incomes, family size and location (urban/rural). The income criteria were then combined with social indicators relating to gender, access to basic services, age composition (dependency ratio), and average level of education.

The study methods included sample surveys, focus group discussions, case histories of loan clients and non-clients, in-depth interviews with key informants, and technical audits (of infrastructure).

All the four sectoral studies have summarised and ranked the impacts they found on a scale between high = 3, medium = 2, and low = 1. In all cases, the overall impact was assessed to be positive and above medium.

1.1.1 SEDO

Since 1997, SEDO/EDP has provided over EGP 3 billion to 140,000 loan clients as on-lending through banks. The sample of this study covered 420 SEDO clients and 195 non-clients for comparison in two governorates, Minia and Dakhalia.

It was found that, at *enterprise level,* the programme had several positive impacts in terms of enterprise growth, especially for (genuine) start-up businesses. Survey findings question whether these people would have been able to start their business without the assistance of SFD/SEDO.

Survey findings indicated that each of the start-up businesses created on average around 4 new jobs. Employment growth took place in half of the existing businesses, resulting in an average growth of around 1 new job per business, with an average of 2.7 jobs for start-ups and existing businesses together. The majority of the existing businesses reported increased sales volume (80%), while most of the businesses increased their customer base. Assets increased in 74% of the businesses, partly through the loan investments and partly through reinvestment of profits.

At *household level*, findings suggest that participation in the programme has had a positive impact on household income (80%) and access to certain social services, especially education. Finally, at *individual level*, entrepreneurship development reportedly increased the clients’ role in decision-making and risk taking and increased their confidence and self-esteem, while they gained more control over economic resources.

According to findings of focus group discussions with clients, participation in the loan programme had positive impact on financial independence of others (54%), sense of personal dignity and self esteem (50%), ability to negotiate with others (43%), public acceptance and respect (32%).

Participation in the programme rendered several important impacts on the clients' lives and businesses. Above all, the findings with regard to employment creation, household income, empowerment and access to creation to certain social services suggest that the SEDO programme contributes to poverty alleviation.

Findings of the survey underline that *SEDO programme plays a key role in the development of new businesses*. This target group is often left behind by other funding sources, as financially sound decisions lead them to focus on less-risky existing establishments. This proves to be an element of conflict in the delivery mechanism of the credits, where banks operating under a different rationale show a preference for existing enterprises and have strong collateral requirements.

However, the number of loan applications and disbursement has seriously declined since the year 2000. Findings indicated an underlying number or factors for the downward trend:

- The economic recession has lead to uncertainty and risk avoidance of potential applicants.
- A clear marketing and promotion strategy has been lacking for a long time and was only implemented since 2003.
- Banks indicated that with the low bank spread from which they have to cover the full risk makes collaboration more unattractive to banks. Traditional guarantee instruments are used to assess the risk, rather than the cash-flow from feasibility studies. Initiatives are under way aim to further transfer risk from the bank on to CIS and SEDO.
- Since the SEDO incentive system was cancelled in 2000, the banks interest in dealing with SEDO loans has further diminished.
- The shortened repayment period for working capital loans is believed to have resulted in a lower number of loan applications.

In spite of the declining use of SEDO resources, the programme may have had *a multiplier effect on the lending market for SMEs*, encouraging long-term sustainability.

The provision and use of non-financial services seems insufficiently exploited. The need for these services, especially training in business skills was highlighted on all levels.

1.1.2 Micro-Finance

SFD/CDP has disbursed EGP 11.5 million to 8,623 micro-finance clients (3,963 men and 4,660 women) in the three studied governorates Fayoum, Qalubiya, Qena over the previous year. The study sample consisted of 150 clients in each of the three governorates.

It was found that the SFD micro-finance programme reaches the poorest strata of the Egyptian society, especially in rural areas, which constitute 70% of the total sample of the programme beneficiaries included in this study. 75% of the sample was found to be poor or ultra-poor.

The programme resulted in increase in *household income, which* helped 50% of the sampled families in crossing the income poverty line. The programme also succeeded in generating *self-employment* in 45% of the cases studied, the majority of which are women. Employment outside the family only occurred in 3% of cases, however. The cost of creating one permanent job was estimated at EGP 1500. Indirectly, the programme helped in acquiring household and productive assets.

Socially, the programme indirectly led to improvement in quality of life and increasing the ability of the beneficiaries to respond to their social responsibilities and to participate in the community as an indirect impact of increased income levels.

The study revealed differences in the performance of the implementing intermediaries. CDAs performed best of the intermediaries in terms of positive impact on the local communities, especially those CDAs that implement "Micro-Finance Best Practices". Consequently, SFD is challenged to expand its partnership with NGOs and CDAs, while emphasizing building the capacities of these NGOs.

A major challenge, however, is for SFD to set criteria for measuring efficiency and effectiveness of the micro finance programme in achieving the intended results. This requires a study of the poverty and the needs of the poor in order to design credit products suitable these needs. Credit products should also be linked to non-financial services, which not only help in reducing poverty but also result in upgrading the poor and the marginalized and merging them into the formal society. Such an impact requires a strategic vision by the Micro-finance unit to be implemented in a practical manner with the current and future partners.

This study suggests that since MFAs aim at poverty reduction, it would be better to direct all their efforts to IGAs since these are basic activities which most of the poor apply for. They are also the most labour-absorptive activities and do not require much capital "credit". They are often found in informal sectors. Such informal activities should be transformed into formal ones and given all the support necessary such as access to commercial loans.

1.1.3 Training

The study looked at two training programmes, namely the Entrepreneurial Training implemented by the Egyptian Incubators Association having graduated 9,700 trainees, and the Training for Employment programme by the Future Generations Foundation, providing computer and English language training to so far 18,000 students. The study took place in Cairo, Minia and Gharbiya governorates, and the quantitative sample consisted of 400 participants and non-participants, supplemented with a high number of in-depth interviews and focus groups.

It was found that the target groups of the two training programmes are reflected in the admission criteria, which requires graduation from public – not private – secondary school and or tertiary education. Both programmes also target women who are represented in the programmes with over 50%. The programmes have a strong urban bias. A significant number of former trainees are not first-time market entrants. Location of the training centres in low-income areas, and concern of the families over the minimal subscriptions fees (EGP 50) tend to suggest that the training participants originate from low-income families.

The majority of respondents to the field survey attended the programme with the aim of changing their career, i.e. engage into a new field, which is not related to their previous – mainly tertiary-education. A large proportion also hoped to qualify for credit to start up their businesses.

A striking positive result is the finding of the participants' *growth and development at the personal, professional (basic employability skills) and at social level.* The overwhelming majority of respondents and participants of focus group discussions in all governorates underlined their increased confidence (over 95%) in their skills and competencies. They report of having developed a new attitude towards work and the labour market.

However, the results in terms of employment are disappointing. At present, an average of 54% of trained respondents (52% of ET and 61% of TfE group) are working, compared to 37% of the non-participant group. However, an average of 49% of respondents used to work *prior* to the training as well (46% of ET and 61% of TfE). For the overwhelming majority employment is in the private sector.

The findings on the discrepancy between the very positive perceptions on the skills and competencies acquired, and the actual chances of putting them to use, has lead to dissatisfaction of respondents and their families on the employment outcomes of the training. They are convinced of their abilities, but for many this did not lead to the expected results, for business or wage employment.

When comparing the employment status of all respondents with the data on previous employment, the results do not indicate that the training had a significant direct impact on their employment status and the positive achievements did not result in the direct positive impact on sustainable and training- related employment. Main reasons for not gaining an employment are no access to loans and lack of premises to start an enterprise (ET). These reasons partially explain the gaps between the positive effect of training at the personal level and the low impact on actual employment. For those seeking wage employment they felt that the demand of the labour market (TfE), did not match their skills.

An important and unintended impact was identified among the graduates of the programmes. Over 32 % of them had a small enterprise before joining the training. A small majority of them (54%) reported a significant improvement of their enterprise a year after, and a growth of 1-2 employees.

1.1.4 Social Infrastructure

About EGP one billion was invested countrywide through the PWP infrastructure programme from the beginning until end 2002. Eight facilities in four governorates representing a total investment of EGP 14.5 million were studied, and a total of 823 people were included in the samples:

- Beni Suef: Vocational Training Centre, Literacy Classes, Public Health Centre
- Sharkia: Public Building, Solid waste Management
- Menoufia: Rural Road, Water and Sanitation
- Alexandria: Canal Rehabilitation

It was found that, in terms of location and relevance for poor communities, the facilities were found to respond to local needs and made important differences for the served communities. The average rating is above medium. However, it is cause for concern for a social programme aiming at the poor that some people do not connect to the water and – especially – sanitation systems when constructed in their communities.

Overall, the technical quality of the infrastructure was found to be satisfactory, but maintenance was a problem everywhere. Operation was often in the hands of government departments and subject to their rules and procedures. There is clear potential for improvement in some of these cases.

The sampled investments resulted in the creation of 36 permanent jobs and 372 man/years of temporary employment in the construction phase. It is likely that substantial numbers of additional jobs have been generated indirectly through the injection of wages for the construction workers into the local economy.

1.2 Conclusions

The overall result of this study is that substantial positive impacts can be observed in most SFD programmes. Results of the impact ranking are summarised in chapter six of this report, with full details provided in the sectoral reports.

1.2.1 Poverty Targeting

The Impact Assessment has shown that SFD programmes effectively and directly reach out to the poor (if not the very poorest). Three-quarters of micro-finance clients were found to be poor or ultra-poor, while the equivalent for SEDO was half of the clients. These results are not only a consequence of direct or indirect strategic targeting. Much depends on the capacity of the intermediaries who implement the projects on SFD's behalf. State or commercial banks, NGOs, CDAs, PFAs, private contractors have different objectives that govern their work, which will eventually also influence the way in which they are able to, and interested in, delivery of SFD programmes.

The impact assessment has noted that poverty targeting and job creation is often not foremost in the mind of the staff of intermediary organisations and SFD field staff. Administrative requirements regarding disbursements, accounting, delivery targets and practical matters take up more space in the daily work. For some intermediaries, implementation of SFD programmes is not different from any other Government programme.

1.2.2 Employment generation

The creation of new jobs within the sectoral samples amounted altogether to some 1,882 (more or less) permanent jobs (SEDO: 1,024; micro-finance: 722; training 40; infrastructure 36) and 372 man/years of temporary employment in infrastructure construction works, or 744 "job opportunities" of six months each as defined by SFD. Most of the evidence produced by the Impact Assessment, whether in the form of quantified data or individual interviews and focus groups, point to this additional employment being considered as very important in the local areas, where jobs are very few and incomes very low.

It is important to realize that a great deal of SEDO loans actually are small and go to micro-enterprises (32% of sampled SEDO loans being under EGP 10,000). If the definition of five employees as the upper limit for micro-enterprises is applied, then the majority of these loans below EGP 10,000 can be expected to be for micro-enterprises. There is therefore no clear distinction to say that CDP offers micro-loans to micro-enterprises, and SEDO gives loans only to Small and Medium Enterprises (SMEs). It could rather be said that CDP (successfully) offers loans to the poor through CDAs predominantly for Income-Generating Activities (IGAs) aimed at sustainable livelihoods, while SEDO offers loans to the more business-oriented Micro-, Small and Medium Enterprises (MSME) through banks.

A sizeable part of the new jobs in IGAs and (to a lesser extent) micro-enterprises have been found to be done by family labour. Not all of these will qualify for being considered as real gainful employment. The vast majority of the new jobs are for men, even in many cases when loans are taken by women, as the money often goes into the business of the husband or son, with only marginal involvement of the woman herself. This tendency is much more pronounced in the case of IGAs than in the real (more business-oriented) enterprises.

The temporary jobs in infrastructure are almost exclusively carried out by men, the majority of whom are from the poor or ultra-poor strata. Typically, investments in labour-based construction generate a multiplier effect out of the wages paid in the local communities that will indirectly generate considerable numbers of local jobs; studies in other countries indicate the multiplier factor to be up to 2-3 jobs indirectly created for each direct job. Currently however, no documentation exists to show the magnitude of this indirect job creation in relation to the SFD/PWP investments.

Training does not create employment by itself but it can improve a person's employability and access to jobs. The reviewed TfE courses hopefully increase the chances of graduates to get into existing jobs. The entrepreneurial training has contributed to the growth of existing entrepreneurs and made it possible for some of them to employ more workers.

Vocational training can only be cost-efficient when it leads to the graduates actually getting jobs related to the received training. However, much current training is based on a variety of outdated standards and is not sufficiently linked to the needs of the local labour market. Graduates from entrepreneurial training generally have aspirations to get a credit to set up an enterprise, however, the links between the training and the credit providers (SEDO and others) are currently not effective and many fail to establish themselves due to lack of access to financial and non-financial services.

1.2.3 Efficiency and Effectiveness

Some observations are offered here for further consideration by the SFD and MDRM II.

Cost-efficiency is achieved when a programme can produce maximum poverty reduction at least cost. The cost calculations by SFD are normally based on the number of jobs produced in relation to the direct investments, e.g. in loans. As a rule of thumb, SEDO assumes that a loan of EGP 5,000 will on average produce one job. Based on the same method of calculation, the loan amount per "permanent" job in the studied samples are EGP 1,500 for micro-finance, and average EGP 12,366 for SEDO, but with great variation between start-up and existing enterprises. The investment cost of one man/year of temporary employment in infrastructure is about EGP 40,000, but this does not take into account the indirect employment. If that is counted in, the amount per man/year may be cut to half or even less. Translated into SFD six-months job opportunities, the cost is again cut by half of that of a man/year. To the extent that these figures can be compared to those reported by SFD for 2001 – 2002 the amounts in the samples still appear higher. This is especially the case for infrastructure, which was reported at EGP 4,146 per job opportunity.

Jobs in micro-finance appear very inexpensive at EGP 1,500 each; however, this may also reflect the high number of very small income-generating activities in the sample, and the widespread involvement of family labour on less than full-time basis.

The sampled enterprises receiving SEDO loans worth EGP 12 million produced 1,024 jobs. Job creation was higher in start-up enterprises (858 new jobs), where the loan client invariably procured a job for him/herself, than in existing enterprises where the owner was already self-employed (166 new jobs). The average cost of a job in successful start-up enterprises was EGP 7,439. However, a failure rate of 13% was recorded for this category; taking this into account, the amount rises to EGP 8,406. Existing enterprises have a lower failure rate, reported at only 2%, and their equivalent figure was EGP 34,184 per new job. While the existing enterprises are the favourites of the banks, their immediate potential for employment generation appears more costly and their scope more limited. In addition, SEDO believes that the participation in the loan program has an important job-conservation effect. However, the magnitude of this effect can only be established if the business closure rate of comparable businesses is known.

If one applies the average job generation rate of 2.7 per loan found in the sample to the total amount disbursed by SEDO between 1997 and August 2004, which was EGP 3 billion to 141,582 clients, the number of jobs created was 382,000 at an average "cost" of EGP 8,000 per job. This does not account for business failures; with a modest failure rate of 13% the loan amount becomes about EGP 9,000 per job.

Except for the micro-finance, the costs of job creation are higher than those reported in the 2002 – 2002 Annual Report While these differences may to some extent be accounted for by the calculation methods applied, and while costs will surely have risen as a consequence of the high inflation of the EGP since 2002, there is reason to revisit the actual costs of employment generation in SFD programmes. This is should allow SFD, GoE and donors to know more exactly the level of employment generated at which price, and to set their priorities accordingly.

1.2.4 Sustainability

The sustainability of SEDO-assisted businesses was found to be high since the number of closures was very modest compared to small enterprises in other countries.

The sustainability of investments in physical infrastructure is threatened if proper maintenance is not secured. This was shown to be a problem in all the visited facilities and should attract serious concern. SFD/PWP has taken initiatives to set aside funds for initial operation and maintenance, and a pilot study to determine a suitable system is in the pipeline. Infrastructure is a relatively expensive way to create jobs and, unless the facilities are well operated and maintained, their value is quickly reduced. The surveyed facilities were generally highly appreciated in the communities they served, and they deserve to be well looked after.

The involvement of the private sector in the operation of the facilities is generally very limited or non-existent; however, proper public-private arrangements can help on cost-efficiency and sustainability. This is clearly the case in the use of local SMEs in solid waste management and recycling, but could also work in other infrastructure facilities.

In the field of training for enterprise development, some sustainability is likely as the result of intensive capacity building of both master trainers and trainers which is part of the EIA strategy to implement the ET programme nation wide. Today, EIA has established a reasonably good network of qualified trainers at governorate level. However, regular and systematic promotion of the training should be encouraged at local level to ensure a larger coverage and its continuity.

1.2.5 Monitoring and Evaluation

The assessment of impacts of SFD programmes could have benefited immensely, and the conclusions could have been made with more certainty, had baseline data existed and indicators for achievement at the outcome level been regularly monitored. Most monitoring is currently focused on financial accounting and delivery of outputs. The present report makes an attempt to estimate the employment effects of the programmes, as this is an overall objective of SFD. SFD's use of the term "job opportunities" is found to be misleading and makes it quite difficult to arrive at clear ideas of the magnitude of the impact in this respect.

An MIS system is currently being set up and will hopefully contribute to more precise collection of data and transparency that will help SFD to be able to react quickly to any negative trends that may come up from time to time.

A poverty monitoring system is also being discussed for setting up with assistance from the World Bank, which should be able to provide information on impacts.

1.3 Recommendations

The following provides very brief summaries of recommendations made in the sectoral studies. Please consult the respective reports directly for details.

1.3.1 SEDO

- Banks could be encouraged to use alternative instruments than collateral to guarantee loans.
- Strengthen capacity of SEDO staff to prepare realistic feasibility studies, and bank staff's capacity to analyse business plans and feasibility studies. Bank staff could receive technical assistance and be trained to better understand the nature of SMEs and the needs of the sector.
- The new risk sharing mechanism between the banks, CIS and SFD should be carefully monitored as banks may lose motivation to screen clients, monitor and track loans and enforce repayment commitments, if most of the loan is covered by CIS (80%) and SFD (10%).
- SEDO should increase its impact by providing more non-financial services.
- It is recommended that a better screening takes place of the applicants' real business status to ascertain they are real start-ups, for example by visiting the household or potential business site prior to loan approval. This would reduce misuse of subsidies and tax-exemption.
- The reliability of impact assessment would increase with a longitudinal research with several rounds of data collection. This would require a baseline study and the identification of a control group that is comparable with regard to the main characteristics of the SEDO beneficiaries.

1.3.2 Micro-finance

- The expansion of micro credit activities of the CDP should be supported by donors.
- More CDAs could be involved in the delivery of support to Income Generating Activities. A clearer distinction should be drawn between IGAs and Micro-Enterprises, as IGAs are mostly implemented by women within households in the informal sector.
- IGA loan amounts should not exceed EGP 1,500. Micro-Enterprises are implemented outside the household with the potential of shifting to the formal sector. The maximum loan amount should not exceed EGP 5,000.
- Give attention to both rural and urban areas alike.
- CDP should develop an overall strategic MFA plan based on poverty mapping.

- CDP should play a pivotal role in enhancing the standardisation of micro finance activities in Egypt and advocate for the regulatory framework of Civil Society Organisations especially CDAs in order to implement other financial services such as savings and insurance.
- CDP should develop standardized procedures to be implemented by intermediaries particularly with regard to market studies, business plans, operational and financial costs, and interest, with operational policies and procedures manuals.
- CDP should apply the following loan characteristics in its project design for IGA:
    - Scalable credit "cycle" schemes with increasing loan amounts in each cycle in a way that allows for client graduation from MFAs to SME sector; to be linked to savings schemes where possible
    - The first loan should be relatively small with short period of repayment and should differ according to the type of activity (e.g. IGAs in trade and services or small animal husbandry (goats): max. EGP 700; larger animal husbandry max. EGP 2,000)
- Develop an institutional performance appraisal for intermediary organizations in order to assess portfolio management and related financial and technical indicators in addition to the capability of achieving developmental objectives required.
- Use feasibility study forms as measurement tools (pre and post) to trace the changes of the socio-economic status of the beneficiaries.

1.3.3 Training

- Participatory internal impact monitoring is encouraged through the application of simple, user-friendly but effective monitoring tools, targeting the employers as potential users of the graduates, the training providers, and the trainees themselves. A monitoring of this kind would shift the focus from training activities and the training participants and their accomplishments to programme impact.
- Attention should be given to the regular tracing of training graduates.
- Training did not lead to wage employment nor to the funds/loans necessary for starting or improving their own business. Support measures to be considered include that HRDP, sponsoring and implementing agencies join hands and fill this gap, learning from the labour market and feeding the knowledge into the training programmes.
- Skills development in Egypt will be greatly enhanced with the introduction of the National Skills and Accreditation Standards as a flexible National Qualification Framework. Vocational trainers will need to change into learning facilitators through a cascading training of trainers programme.
- More attention needs to be given again to the huge cohort of less educated unemployed youths age 15-20, with special attention to the vulnerable group of school leavers/graduates of the parallel technical educational school system. They belong to the poorer segment of society who cannot find jobs, attributed to the poor quality, relevance and practical dimension of their basic and technical education.
- It is recommended to create more homogeneous groups for entrepreneurial training to meet their specific training needs. The appropriateness of each of the modules/learning materials should be reviewed and adapted with regard to length and duration of programmes.

1.3.4 Social Infrastructure

- Maintenance should be part of the design and the financial plan of each project where SFD in involved. Communities may be asked to share in covering part of the cost in every project.
- There should be a plan to determine training needs based on market studies. Plans should be continually evaluated.
- The so-called productive training in VTCs should compete in the market for quality not only for price. In pricing, real costs should include real wages and depreciation.
- Better designs would increase the impact of rural roads if based on actual studies on the types and density of expected traffic. A better design may increase thickness of the surface layer to serve heavy traffic.
- Sanitation systems should be taken into account whenever potable water projects are financed. Otherwise, the ultimate objectives could be negatively affected.
- Effectiveness of SFD funded projects requires that the preliminary studies should consider the suitability and effectiveness of pre-existing systems.
- Waste collection should include sorting out hazardous from other wastes and dispose them in an environment friendly way.
- SFD should take the initiative to complement SWM projects with green belts of trees and with recycling activities of waste items, including composting, ensilage and biogas generation. For the sake of efficiency, recycling activities should be for a cluster of villages or at district levels.
- The ultimate positive impact of the current rehabilitation and landscaping project in Alexandria could be highly increased by extending the project to cover upstream of the current part of the canal.
- The environmental and socio-economic impact indicators have to be defined and continually monitored after implementing environmental projects.
- Relevant baseline information needs to be collected, prior to the implementation of future projects. Appropriate studies should be planned for this purpose.

1.3.5 Common Recommendations Summary

i. The findings of the impact assessment indicate that the CDP Micro-finance programme has been successful in providing credit assistance for income-generating activities to the poorer families in a cost-effective manner. The same applies to the lower end of SEDO loans, which have provided start-up micro-enterprises with important opportunities at modest cost. Evidence from many countries has shown that small enterprises can thrive and expand with positive economic growth, whereas many close down when the conjuncture is negative. It would seem that, in the current economic recession in Egypt, a concentration on these directly poverty-focused activities may be warranted as it brings out good results in relation to SFD’s poverty reduction objective and limits the risks of the entrepreneur. It is therefore recommended to focus on direct assistance to the poorer strata whose already low incomes are being further undermined by high inflation through financial and non-financial assistance to micro-enterprises, as well as financing of income-generating and other community development activities.

ii. Much positive synergy could be gained from a closer coordination between the credit programme of SEDO, which lends to both the start-up and existing businesses and the entrepreneurship programme of HRDP. Linking systematically the entrepreneurial training to the credit programme could ensure a higher effectiveness and lower risk of the credit programme and consolidate the well-recognised achievement of HRDP in developing self-confidence and professional attitude among fresh graduates. In addition, the clients of the micro-finance program could eventually 'graduate' to become SEDO clients. Another suggestion is that the entrepreneurship training to SEDO loan applicants could be done by the HRDP network of trainers, rather than being provided by SEDO directly.

iii. There are plans for CDP to concentrate activities in ultra-poor areas of each governorate. Realising that the location of development projects is often subject to local political pressure, it is important to develop neutral and objective criteria for selection of the geographical target areas. The efforts of CDP should be supported in developing such a system for poverty mapping.

iv. Provision of basic services such as water supply and sanitation are important elements in poverty alleviation. However, the programme objectives are not reached when such services are extended to communities and only part of the potential beneficiaries make use of them, especially if the reason is that some are too poor to pay for house connections. SFD is contemplating setting up a loan scheme aimed at financing house connections of potential beneficiaries. It is not known if loans will prove a sufficiently attractive mechanism to all households, and it is recommended that SFD experiments with several systems in order to ensure that full participation is achieved; solutions to be considered are likely to be developed in consultation with the local communities.

v. It is also recommended that SFD, in conjunction with NGOs and local communities, tries to devise community-based social security programmes for the very poorest, which are suitable for SFD support.

vi. The capacity of implementing partners has been shown to be a critical factor in the success of SFD programmes. There is a need to make a concerted effort in this regard with the staff at banks that provide loans on SEDOs behalf. Likewise, NGOs providing micro-credit should be encouraged to apply phased approaches to lending ("best practices") by which the client gradually gets used to understanding the various aspects of credit. It is also recommended to link savings and credit through a pilot activity; currently, CDAs are not allowed to operate savings schemes, but links could be built with existing or new traditional savings groups (gam'eya).

vii. Much infrastructure is still constructed by contractors without experience in labour-based methods, and the potential for generation of employment may not be fully exploited. It is recommended that SFD/PWP carries out a study on the employment generation in infrastructure, which would include the identification of the types of infrastructure that have the highest potential, as well as the most appropriate technologies to be used. The study should also include estimates of the indirect employment generation locally from such construction. It is further recommended that SFD carries out a study of the economic effects of labour-based works in the local communities measured in increased economic activity and job creation.

viii. Some SFD programmes are operated by central or local government departments; this is especially the case for infrastructure that is taken over by MoH, MISA, municipalities, etc. Infrastructure is often built, and equipment provided to partners that are trapped in inefficient systems, as experienced in the general lack of maintenance and the weak links between VTCs and the labour market that they serve, resulting in disappointing achievements in the employment of new candidates.

ix. It is recommended that SFD, in addition to the planned contributions to the initial operation and maintenance costs, also strengthens its efforts to ensure that the investments in infrastructure are safeguarded through firmer commitments by the recipient GoE department and the availability of a maintenance budget as a prerequisite for approval of a project. Technical assistance may need to be provided by SFD to set up adequate maintenance schemes where there is little tradition for, or priority given to, such schemes.

x. SFD is, through CDP, PWP and HRDP, involved in training at various levels. Development of training systems is crucial for achieving better matches in the labour market, and the SFD involvement in the NSSP is a positive example of how SFD can contribute in this regard. However, the development of a national training system is a long-term exercise. It is recommended that SFD in the short term embarks on development of local pilot schemes that bring together the training providers and their clients (the employers) in order to analyse the real needs for trained manpower in a local area. This could be done in the context of upgrading existing VTCs. It is further recommended that SFD helps to limit the inefficiencies of the education system by primarily supporting training and re-skilling of graduates in subjects related to their educational background.

xi. Ultimately as SEDO is moving toward the integration of non-financial and financial services, it would be very critical at this stage to carefully review the practices and lessons learnt from the HRDP programme and internalise its achievement and best practices.

xii. An MIS system is currently being developed that will strengthen the monitoring at the activity/output level. It is recommended that more effort is devoted to the monitoring of SFD programmes at the outcome level, in relation to the higher-level objectives to which the outputs should contribute (employment generated, poverty reduction…). This means measuring the employment effects and other economic and social impacts of the programmes in relation to the overall objectives of the programmes. Some of these objectives are not sufficiently specific to allow precise measurement, and it is recommended that SFD revisits the objectives of all programmes as a follow-up to the recommendations of the MDRM I. It is also recommended that the monitoring system, in addition to establishing baselines and benchmarks, will also include longitudinal studies in selected locations.

xiii. It is also recommended that more precise indicators are devised than measuring employment in numbers of "job opportunities". Indicators should include the length of employment, whether full- or part-time, quality and levels of remuneration. Other social indicators should be established, and it is hoped that the approach of the present impact study, although more limited in scope, may serve as a source of inspiration in that regard. As seen in the present study, benefits of SFD programmes accrue rather differently to men and women in the Egyptian context, and it will be important to disaggregate data according to gender on a systematic basis.

xiv. Monitoring through intermediaries is necessary in many cases, however this is currently not always effective and needs strengthening. Bank staff for example, tends to concentrate more on the financial side of loans to enterprises than on how many workers each of them employ. To the extent that monitoring relies on intermediaries, these must be trained for the task, given simple and precise measurement tools, and be supervised by SFD Regional Offices.

xv. An effort is currently under way for setting up a system for the assessment of the impact of SFD programmes on poverty. In view of the size and importance of SFD, this endeavour should be accorded high priority by SFD and all donors. Setting up a comprehensive system is likely to take a long time, probably years. It would probably be suitable for the next Multi-Donor Review Mission to take place in 2007. Hopefully, a fully-fledged impact assessment system will then be in place. If for some reason, this is delayed and impact cannot be assessed with a reasonable degree of certainty through it, it is recommended that as a second option, an impact assessment will be organised prior to the MDRM III, to be organised for completion in 2006 and given more time and resources than the present impact assessment.

Annex 7
Microfinance database
Proposed list of data

ATTACHMENT
SUGGESTIONS FOR DATA TO BE INCLUDED IN THE PROPOSED DATA BASE FOR THE MICROFINANCE PROGRAMMES.

This data should be collected monthly from all programmes, and used in ratio analysis, trend analysis, and budget variance analysis.

Loan Portfolio Outstanding

Number of active loans

Loan Portfolio in Arrears

Loan Portfolio written off over any set period

Number of loans disbursed in a certain period

Amount of loans disbursed in a certain period.

Loan repayments for a certain period

Number of loan officers

Loan portfolio by account officer

Loan by cycle

Gender statistics

Purpose of loan

Movements in the loan loss provision

Total number of employees

Income statement

Balance sheet

Annual business plan.

Savings mobilised

Number of savers

Ratios/ Statistics to be Tracked:

Portfolio at Risk
>1 day
> 30 days

Ratio of loan loss provision to portfolio in arrears.

Loan write-off ratio

Risk coverage ratio

Yield on portfolios

Gross profit margin

Net profit margin

Operational self-sufficiency

Financial self-sufficiency

Return on assets

Return on equity

Net income ratio

Funding expense ratio

Cost of funds ratio

Number of clients per loan officer

Portfolio amount per loan officer

Average initial loan size disbursed

Operating expense ratio

Cost per borrower

Cost per client