European Bank
for Reconstruction and Development

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EVIDENCE THAT DRIVES CHANGE

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# What can we learn from International Financial Institutions' operations in Egypt?

Intrinsic to the Bank's work in the Southern and Eastern Mediterranean (SEMED) region, the European Bank for Reconstruction and Development's (EBRD) portfolio in Egypt is diverse in instrument, broad in theme and deepening in volume. Since EBRD started its engagement in Egypt in 2012, the total portfolio of approved investments has grown considerably from 20 projects in December 2014 to over 100 active projects six years later; investment has hit EUR7.4 billion, with three quarters in the private sector. Much engagement, in collaboration with partner from International Financial Institutions' (IFIs) and the International Monetary Fund (IMF) programmes, has prioritised and supported efforts to increase socioeconomic inclusion, the operation and governance of state-owned enterprises (SOE), and the green agenda. Certainly these priorities continue, with much still to do in the areas of economic governance, competitiveness in the private sector, inclusion and resource scarcity.

With this in mind, we ask: what we can learn from evaluation on supporting such work in Egypt?

Independent evaluation in EBRD (EvD) offers operational and strategic insights in this note from over 30 EBRD self and independent evaluations in Egypt, seven independent special studies and two recent evaluations from Independent Development Evaluation at the African Development Bank (AfDB) and the World Bank Group (WBG).

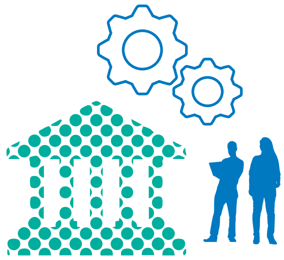
**From evaluative evidence, four key lessons emerge of IFIs' support to Egypt**

1. Getting the right institutional structures in place is crucial for IFIs' support in Egypt to achieve good results.
2. Promoting a more inclusive economy for businesses, women and youth needs to be grounded in country needs, be supported by in-country expertise, and balance ambition with capability.
3. Accelerating Green Transition requires a pragmatic and sustained approach, leveraging the IFIs' instruments alongside supporting local capacity development.
4. Accelerating Competitiveness by Strengthening Private Sector and Governance requires to think local in terms of capacity and context and concurrently to balance this with ambitions for sector impacts.

# 4 Key lessons of IFIs’ support to Egypt

## 1

## Getting the right institutional structures in place is crucial for IFIs’ support to Egypt to achieve good results



**A programmatic, flexible approach, focusing on integrated policy and institutional change and capacity building, achieves results** in complex reform areas. The WBG emphasised how joint global practice groups led to positive programmatic design and implementation that can cut across a sector, such as in feed in tariffs or work on power utilities, and provide holistic solutions such as through programmatic Development Policy Financing. Further, it found that fully exploiting the potential of the Advisory Services and Analytics product line maximizes synergies with policy-based and results-based lending – for example having modest entry points for capacity building that were able to be expanded once credibility and trust had been established, and resulted in the achievement of significant milestones toward fiscal decentralization under the private sector Development Policy Financing programme.

**Good program design, policy dialogue, and ownership and leadership by the government of Egypt are factors** that facilitate achievement of results at the AfDB. Factors that hampered this achievement included insufficient funds and in-country staff, challenges in the projects’ procurement process and lengthy government project ratification processes. In the case highlighted by the AfDB’s independent evaluation report, well-informed, flexible, and selective design of program support were critical. Further, the report emphasised that policy dialogue and technical assistance contributed to maintaining the Bank’s activities when lending activities were suspended and led to enhanced coordination with development partners.

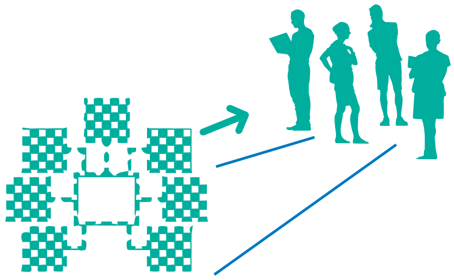
**A staffing model centred on field-based task team leaders is key to building a stronger client relationship and maintaining implementation momentum.** This was noted by both the WBG’s Performance and Learning Review, and EBRD’s independent evaluation on Investment Climate. More specific to strategic aims in the future, inclusion expertise on the ground will be critical to launching operations. Limited dedicated resources at the AfDB’s Egypt Country Office, as compared to other development partners, were reported to hinder the Bank’s ability to boost policy dialogue and to develop new lines of private sector business.

**Expansive treatment of policy-related diagnostics in country strategies and at early stage of operations is critical.** As the EBRD’s Independent Evaluation report on Policy Engagement in the SEMED region indicated, teams need to consider the mechanics to link the priorities identified in country diagnostic with those identified in the Country Strategy. Teams need also to take into account how the medium priorities are to be included in upfront strategic prioritisation and results monitoring framework, which is integral to their effective inclusion as explicit objectives. Mapping political economy factors early in the design of an operation is also important, as is the avoidance of complex implementation structures - also emphasised in the WBG’s review of its work in Egypt.

**Evidence shows that a comprehensive integrated and accessible database on policy engagement would help measure progress and be beneficial to the implementation of Country Strategies,** encompassing work that is funded by budget or donor resources.

## 2

## Promoting a more inclusive economy for businesses, women and youth needs to be grounded in country needs, be supported by in-country expertise, and should balance ambition with capability



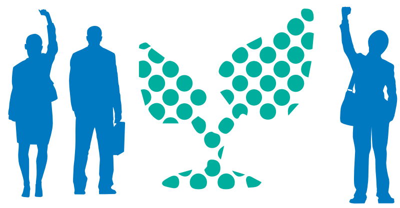
**A Country driven approach in gender equality is critical.** Evidence from EBRD's recent synthesis note on IFIs' insights on Mainstreaming gender shows that an enhanced country-driven approach to close gender gaps links various gender components systematically and requires that operations, supported by policy dialogue and diagnosis of gender gaps, align with Country Strategy objectives in a coherent manner that helps reduce these gaps. For example, an AfDB's evaluation report found limited alignment between Country Gender Profile (CGP) focus or content and the Gender Analysis Annex of Country Strategy Paper; the Annex tended to provide a generic narrative guided by the indicators, without explicitly linking those data to the Bank's sectoral priorities, nor to the priorities in the CGPs.

**Economic inclusion benchmarks should be ambitious but realistic.** Several of EBRD's Independent Evaluation project level assessments found that appraisal of a project's potential to support economic inclusion objectives (which in the future may include increased employment), needs to take into account regional context such as employment trends in a given sector including wage competitiveness and share of migrant workers, and cultural barriers: The feasibility of achieving economic inclusion benchmarks needs to be discussed and agreed with clients, and their background explained in the Board approval documents.

**Inclusion expertise on the ground is critical to launching operations, but has been under-resourced in some cases.** Evaluation analysis shows that increasingly, resources will be stretched, particularly in the areas of inclusion and governance – the independent evaluation of policy engagement in SEMED indicated that staff are being tasked to lead delivery of strategic priorities, but they are under resourced compared to traditional banking teams. The same evaluation found that the presence of an inclusion specialist has made the country work in inclusion possible.

## 3

## Accelerating Green Transition requires a pragmatic and sustained approach, leveraging the IFIs' instruments alongside supporting local capacity development



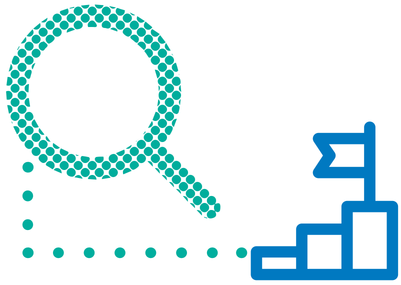
**Sustained engagement (working side-by-side with authorities and providing frequent consultation) can help strengthen the authorities' commitment** to mainstream climate change concerns in policy interventions. This was highlighted in EBRD's Independent Evaluation Department's recent Knowledge Paper looking at IFIs' support to Climate Finance.

**Stronger policy incentives are required to encourage a reduction in gas flaring, as evidenced in EBRD's Independent Cluster Evaluation on Hydrocarbons.** Investments in gas flaring reduction need high capital expenditures. Low gas prices, and small and dispersed volumes of gas flares, further reduce the economics of investing in associated petroleum gas (APG) utilisation.

**Continuity and a certain level of seniority on the Bank's side is required to ensure the achievement of transition-related objectives,** as oil and gas companies are firmly focused on profitability. In the case of EBRD, independent evaluation evidence shows that the departure of an operations leader may result in a loss of gravitas and the ability of the Bank to deal assertively with such clients.

**EBRD's Egypt Sustainable Energy Financing Facilities programme technical co-operation support and Investment Incentive components are very effective and highly appreciated by clients** as it has a strong impact on their capacity building and awareness of the benefits and opportunities of the proposed investments.

## 4 Accelerating Competitiveness by Strengthening Private Sector and Governance requires to think local in terms of capacity and context and concurrently to balance this with ambitions for sector impacts.



**Most of EBRD's project level self-assessments highlight Legal/Regulatory as the main topic for learning lessons.** Egypt projects' lessons tell of complex land titling, the importance of legal due diligence and investment in local legal capacity. Some quotes from staff in banking departments who led the self-assessments are (i) "Land title issues in Egypt are more complex and take longer to be resolved than in other Bank countries of operations"; (ii) "Extensive legal due diligence is required as the EBRD is a new player in this domain in the country"; (iii) "EBRD needs to invest in locally based legal capacity to be better aware/prepared for local legislation and requirements".

**Policy dialogue is challenging due to high turnover**, both on the Egyptian side and, to a lesser extent, the EBRD. The Egypt Case Study of the EBRD's independent evaluation of Investment Climate Support Activities underscored that as the EBRD's resources are more limited, the Bank could play a different role, being more hands-on in linking the different investors.

**Projects' results have in some cases been limited to client-centred impacts due to their size.** EBRD's Independent Operation Evaluation of the support to the National Bank of Egypt, showed how IFI's support increased small and medium-sized enterprises (SME) lending capacity and processes and introduced new specialised loans, and targeted new market segments. However, in a country with over 2.5 million MSMEs, the report found that the loan programme **was too small to make a substantial sector-wide impact**. Moreover, in later years, the Central Bank of Egypt's subsidised programme for SME financing diminished the relevance of the EBRD's loans to smaller SMEs.

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The importance of these lessons derive from their potential to inform future IFIs' support interventions, not only in Egypt, but also in other countries where similar approaches may benefit from this experience.

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