Egypt:
Executive Summary

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Executive Summary

Introduction and Background

This report presents the findings of the Independent Development Evaluation (IDEV)'s first country evaluation of the African Development Bank (AfDB or the Bank)’s strategy and program in the Arab Republic of Egypt, covering 2009–2018. This evaluation is particularly important as the Bank has supported the country over three distinct periods: pre-revolution, revolution, and post-revolution. The evaluation period, 2009–2018, was framed within the last three Country Strategy Papers (CSPs): CSP 2007–2011, CSP 2012–2013 (extended to 2015), and CSP 2015–2019 (extended to 2021).

The evaluation has both a retrospective and a prospective dimension with the main purpose being to assess the performance and results of the Bank’s program and to provide useful lessons to inform decisions on future support. A theory-based approach was adopted, which involved assessing overall program performance against a reconstructed Theory of Change that was derived from the last three CSPs. The review addressed three questions: i) How did the Bank organize itself to support Egypt during the period? ii) How did the Bank contribute to the country’s specific needs and development priorities? and iii) What are the relevant lessons for future Bank’s support to Egypt?

The evaluation also took into consideration the Board’s approval in November 2019 to extend the CSP (2015–2019) to 2021. Consequently, the evaluation tried to reflect upon key country factors in 2019 and in 2020 that could influence results and program continuity.

Country Context and Key Factors

Egypt’s political landscape has evolved rapidly over the past decade, notably since an uprising in 2011 as part of the “Arab Spring”. In response to this, Egypt has strengthened its transformation towards a market-oriented economy, initiated in the 1990s with the Economic Reform and Structural Adjustment Program, otherwise known as ERSAP. During this period, the country has faced a number of long-standing economic development challenges, including: i) a high population growth rate of 2% per annum; ii) rapidly growing basic needs and high expectations in terms of social, spatial and economic inclusion; iii) macroeconomic challenges combined with constrained fiscal space; iv) perceived corruption challenges; v) insufficient infrastructure to meet its development goals; and vi) national security concerns in a challenging regional context.

Since 2018, a measure of macro-stability has been restored and the country is on a good growth trajectory. Egypt embarked on a series of reform programs supported by the International Monetary Fund and other development partners (including AfDB) as part of its efforts to address the long-lasting macroeconomic imbalances accentuated during the years of political transition. As a result of strong reform efforts, Egypt’s economy began to recover with a GDP growth rate of 5% in 2017 and increases thereafter in addition to improvement in key macroeconomic indicators such as increased foreign reserves, flexible exchange rates and an open capital account. The growth recovery has also been aided by rising inflows of foreign direct investment. The full floatation of the Egyptian Pound and the ensuing devaluation generated high inflation reaching 33% in 2017 but a restrictive monetary policy pushed inflation down to 8.7% as of July 2019.

Despite the significant progress made, the current global COVID-19 pandemic poses a severe health, social and economic threat to Egypt. This threat is difficult to address due to the high population
density of urban areas, the significant poverty and, despite fiscal consolidation, a remaining lack of fiscal space due to the cost of the debt.

The Bank’s Program in Egypt

Egypt is among the top ten borrowers of the Bank with total approvals up to UA 2 billion (close to USD 2.5 billion) during 2009–2019. The program comprises the three CSPs covered by this evaluation, which focused on the following areas:

- **CSP 2007–2011** involved two pillars: i) private sector development; and ii) social development and protection. The Mid-Term Review undertaken in 2009, and the combined CSP completion report concluded that the Bank’s support during this period focused mainly on infrastructure, which accounted for 78.8% of active operations, compared with 21.2% for social development and protection.

- **CSP 2012–2013 (extended to 2015)**: The Bank ensured continuity in its support during the transition phase following political uncertainty caused by the Arab Spring. Two pillars were developed: i) stabilization and economic recovery; and ii) inclusive growth to reduce poverty. Lending was suspended from 2013 until April 2015 when support was refocused on grants for capacity development during the transition phase in such sectors, as governance and social, agriculture, water and power.

- **CSP 2015–2019 (extended to 2021)**: The Bank sought to achieve high and well-diversified growth that creates jobs and higher value added in addition to social justice and inclusion while ensuring sound macroeconomic management through two pillars: i) infrastructure development (for private sector competitiveness and sustainable and inclusive growth); and ii) governance (for enhanced transparency, efficiency, fairness, and increased private sector participation). Operations were focused on infrastructure and governance including skills development and capacity building. The extension of this strategy period emphasizes continuity of the existing pillars and alignment to the government’s defined priorities over the remaining period.

Across all three CSPs, the focus was on infrastructure development, macroeconomic stabilization, and inclusive growth. The additional focus on governance was channeled mainly through three Program-Based Operations (PBOs) over the evaluation period. Overall, 53 projects were approved over the evaluation period representing more than UA 2 billion, for 46 public and 7 private sector operations, with the largest beneficiary sectors being power and water. PBOs comprised more than half (53%) of the value of the portfolio, with the rest distributed between investment operations (42%) and others such as grants and technical assistance (5%). In practice, the Bank shifted from investment projects during the sub-period 2009–2011 (95% of approvals) to budget support targeting key reforms on macroeconomic policy and business environment (90% of approvals) from 2015 to end of 2018. On the investment side, the Bank has been a leading financier in the energy sector, funding new generation capacity through a mix of support for renewable and non-renewable energy sources.

Key evaluation findings

The findings below cover the overall assessments by evaluation criteria.

| Relevance: Highly Satisfactory | ● |
| Efficiency: Satisfactory | ● |
| Effectiveness: Satisfactory | ● |
| Sustainability: Satisfactory | ● |

● = Highly Satisfactory ● = Satisfactory

Relevance

The evaluation assesses the relevance of the CSP program over the review period as **highly satisfactory**. There was a highly satisfactory alignment of the Bank’s strategy documents and interventions with: i) Egypt’s development needs
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An IDEV Country Strategy Evaluation

An IDEV Country Strategy Evaluation outlined in its Sustainable Development Strategy 2015 and its Vision 2030 (the Bank’s three strategy documents were aligned with the key principles of these development policies); ii) the priorities of the Government of Egypt in each period; iii) the needs of the final beneficiaries; and iv) the Bank’s overall strategies for the continent and its sectoral priorities.

The Bank responded to the changes in country context, particularly in terms of selecting the appropriate assistance modality. During the pre-revolution period, the emphasis was mainly on support for economic infrastructure. During the immediate post-revolution period, the emphasis was (rightly) shifted to technical assistance and economic and policy work to forge new directions for development, economic governance and policy reform. In the post-revolution phase, the assistance shifted to structural reform support to help restore macroeconomic stability and to put the economy on a more sustainable growth and development trajectory. Since then, the Bank has appropriately emphasized policy-based lending and strategic infrastructure investment operations through 2020, which aligns well with government needs and priorities.

The Bank has demonstrated considerable flexibility in the support it has provided in accordance with its capacity and comparative advantage, focusing on delivering results in infrastructure development and improving economic governance, two of the main areas of intervention under the Bank’s Ten-Year Strategy (2013–2025).

Effectiveness

The effectiveness of the Bank’s assistance is assessed to be satisfactory. Though there were gaps between the Bank’s strategic ambitions defined in its CSPs and the portfolio it has been able to deliver, the interventions have: i) mostly achieved their intended results at the output level, particularly in terms of infrastructure development and macroeconomic and business environment improvements pillars; and ii) met most expected outcomes of completed operations in the energy and water supply sectors as well as in terms of contributing to macroeconomic stability. In other areas, such as transport and private sector operations, the programs could not meet their expectations partly due to some projects in the pipeline not being prioritized in the changing country context, and to the fact that the available resources were not enough to support within the prevailing context.

The Bank contributed to generating strong results in the energy sector, the most important of which was 3,400 MW of electricity production capacity financed through the Abu Qir, Ain Sokna and Suez Power sovereign projects. Others include support to the Government of Egypt’s initiative to implement 2,300 MW of Solar PV by funding three 50 MW power plants (Shapoorji Pallonji, Alcazar I and Alcazar II non-sovereign projects). Non-lending activities contributed to improved institutional capacity and more sustainable sector policies, through the reforms undertaken under the umbrella of the three PBOs (Economic Governance and Energy Support Programs – EGSP I, II & III). In the water sector, Bank support helped upgrade and increase the water treatment capacity of both the Gabel El Asfar (by 500,000 m³/day benefitting directly existing as well as an additional population of 2.5 million in Cairo) and the Abu Rawash wastewater treatment plants. In the social sector, the Rural Income and Economic Enhancement Project and the Franchising Sector Support Program facilitated employment and reduction of poverty among the rural poor in some targeted areas through improved access to finance for Micro, Small, and Medium Enterprises. Objectives in the transport sector, however, were not attained, as the main transport project was de-prioritized and not implemented as initially planned.

The role of grants for technical assistance and Economic and Sector Work as part of the Bank’s knowledge work was suspended during 2011–2013, notably as lending focus changed over time. Several of the Bank’s studies were important in supporting government policy reforms, while few were used to support the design of new Bank operations. However, overall non-lending operations were not equally effective in achieving
their targeted results, due to capacity constraints and shifting policy priorities.

The Bank strategies, portfolio, and results varied in terms of their coverage of crosscutting issues including gender, inclusiveness and support to green growth. For each crosscutting issue examined, coverage in the strategies increased over time but the extent to which there was an explicit focus on these issues during implementation showed a mixed picture. For example, only 15% of the 53 operations assessed contained information on how these projects contributed to developing specific gender skills or attributes as part of project implementation.

Efficiency

Overall efficiency is assessed as satisfactory in terms of resource use, portfolio quality and returns on investment in the water and power sectors. Efficiency would have been rated even higher were it not for delays in the investment operations due to procurement bottlenecks, difficulties in alignment with Government of Egypt’s operational and financing rules as well as the 2011 uprising.

Limited dedicated resources at the Bank’s Egypt Country Office as compared to other development partners hampered the Bank’s ability to boost policy dialogue and to develop new lines of private sector business. Despite this major constraint, the Bank did play and sustain an important role of maintaining dialogue through capacity support during the political events of 2011 and thereafter. The budget support operations, and the harmonization of partner support around a common agenda in the energy sector are excellent examples of government-led aid coordination and harmonization.

Sustainability

The overall sustainability of results of the Bank’s operations in Egypt is satisfactory. Project cost recovery was good over the evaluation period, moreover, the projects were designed and implemented with sustainability considerations in mind. The projects had sufficient operation and maintenance funding mechanisms in place with stakeholders participating actively in these operations. Almost all the completed investment operations reviewed demonstrate a solid potential for achieving sustained financial and economic benefits.

Lessons and Conclusions

Several factors positively impacted the achievement of results. This related notably to well-informed, flexible, and selective design of program support. 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. Lastly, good ownership and leadership by the Government of Egypt as well as the positive performance of borrowers was also critical.

At the same time, some factors hampered achievement of development results, including: i) a challenging procurement process with Bank-funded projects; ii) insufficient funding to meet priorities identified during programming; iii) lengthy project ratification processes of the government; iv) occasional communication difficulties; and v) a lack of appropriate and adequate Bank in-country staffing.

The evaluation assesses overall Bank performance as satisfactory. Despite a volatile and challenging context, performance has been good. The Bank delivered a highly focused and selective program although CSPs did promise to do more and in more areas than the Bank was ultimately able to deliver on. The Bank’s performance was excellent predominantly in energy and water supply and sanitation, but the non-lending activities did not progress well. In addition, little was accomplished in the transport sector, and the Bank was unable to achieve critical mass of funding in private sector operations. The outputs and some outcomes of Bank assistance were generally in line with what was planned and,
although less than anticipated was accomplished in terms of results in mainstreaming crosscutting themes (gender equality, inclusiveness and green growth), considerable improvements were made between the three CSPs. It is expected that the large and positive benefits of the Bank’s support will be maintained, although governance reforms are still too new for definitive conclusions in that area.

Recommendations

In view of the above analysis, the Country Strategy and Program Evaluation recommends the following:

Recommendation 1: The Bank’s pipeline and next Egypt CSP should strike an appropriate balance between budget support and investment operations underpinned by the Bank’s comparative advantage. Both lending modalities have responded to the changing country context and performed well over the evaluation period. Going forward, consider focusing on the following:

- The fiscal situation in Egypt could change suddenly due to the current volatility of the global economy and pandemics and its economic consequences. In such cases, if the Bank initiates a PBO, it should build on the experience gained over the years in implementing this lending modality to strengthen or further pursue reforms.

- Building on the Bank’s strong portfolio in infrastructure development in the poorer regions of the country, support investments in improving connectivity that will help bring disadvantaged regions into the economic mainstream.

- Through enhancing partnerships and coordination with other development partners, venture into support for the emerging priorities of the country where the Bank does not have a strong leverage. These priorities include the government’s current focus on transport under infrastructure development and efforts to reach more deprived regions of the country.

Recommendation 2: The Bank should strengthen the balance in its program and project portfolio, by:

- Increasing private sector focus by enhancing capacity for private sector space with adequate resources for business development.

- Considering better integration and synergies across the portfolio of Economic and Sector Work, grants and loans.

- Continue enhancing dialogue with the Government of Egypt on measures to ensure realism and greater stability in the program pipeline.

Recommendation 3: The Bank should enhance its role as a knowledge broker, by:

- Defining a clear strategy and program logic for its focus on knowledge generation and use in the next CSP.

- Ensuring selectivity in financing knowledge work to support critical areas of need considering the likely scarcity of grant resources.

- Establishing ways of measuring and better reporting of results for the Bank’s knowledge support activities such as studies, Economic and Sector Work and technical assistance.

Recommendation 4: The Bank should strengthen program implementation, by:

- Ensuring appropriate staffing in the Bank’s Country Office to match the requirements of policy dialogue, portfolio development and partnership building.

- Continuing to work closely with the government to reduce systemic delays by developing capacities to improve the speed and transparency of public procurement.

- Reinforcing dialogue with the government to adopt measures to ease the project ratification process, which has been causing delays.
About this evaluation

This report presents the findings, lessons and recommendations of the first independent evaluation of the African Development Bank Group’s (AfDB) country strategy and program in the Arab Republic of Egypt. The evaluation covers a crucial period for the country: 2009–2018, including pre-revolution, revolution, and post-revolution, during which the AfDB portfolio in the country amounted to about USD 2.5 billion. The purpose of the evaluation was to account for the AfDB’s operations in Egypt and to foster learning to help improve the Bank’s future country strategy and program.

The evaluation found that the performance of the AfDB is satisfactory, despite a volatile and challenging context. The Bank delivered a highly focused, though over-ambitious, program which adapted to the country’s changing needs. The program recorded excellent performance in the energy and water supply and sanitation sectors, but not in its non-lending activities, such as technical assistance. Many operations incurred implementation delays. Crosscutting issues such as gender equality, inclusiveness and green growth have received attention at the strategic level, but less so at implementation and results reporting levels. It is expected that the positive gains from the AfDB’s support will be maintained.

The evaluation recommended that the AfDB should strike an appropriate balance between budget support and investment operations underpinned by its comparative advantage; strengthen the balance in its program and project portfolio (including increased private sector focus); enhance its role as a knowledge broker; and strengthen program delivery.