

AGENCE FRANÇAISE DE DÉVELOPPEMENT

THE FRENCH DEVELOPMENT AGENCY

A central player in France's official development assistance system, the French Development Agency (AFD) is a specialized financial institution wholly owned by the French Government. AFD finances economic growth, poverty reduction, and international public goods on all five continents. As a specialized financial institution, AFD has to comply with French banking regulations. Its actions are geared towards furthering the Millennium Development Goals (MDGs) and mitigating Climate Change. At the same time, it contributes to the conservation of the environment and the protection of cultural heritage.

With its 57 representations abroad, AFD operates in more than seventy countries. In 2009, its new commitments in foreign countries exceeded € 4.8billions.

AFD's traditional areas of expertise include urban development, rural development, support to the private sector, financial systems and the environment. Beyond these sectors, AFD has been strengthening recently its position in the health and education sectors. It is also increasingly involved in aiding non-State beneficiaries – local governments and local utilities, public-private partnerships, private operators, non-governmental organizations.

AFD Group includes

- **AFD**: grants, sovereign and non sovereign loans eligible to Official Development Aid. AFD Board includes representatives of the Ministries of Finance and Foreign Affairs, of the National Assembly and Senate, and experts from Civil Society;
- **PROPARCO**, a subsidiary of AFD specialized in private sector financing: market terms instruments (loans, equity and quasi-equity, guarantees);
- **FFEM (The French Global Environment Fund)**: grants. Decision by an inter-ministerial committee (Ministries of Finance, Foreign Affairs, Environment and Scientific Research);

- **CEFEF**, AFD's training center for managers coming from beneficiary countries, located in Marseilles.

THE LAUNCHING OF AFD ACTIVITIES IN EGYPT

AFD was authorized in 2004 by the French Government to operate in Egypt. In 2005, AFD started identifying projects and negotiated a Framework Agreement with the Ministry of International Cooperation.

The Framework Agreement for AFD Group (which also allows Proparco, subsidiary of the AFD specialized in the financing of the private sector, to intervene in Egypt) was signed in April 2006. It was approved by Presidential Decree and by the Parliament, and entered into force in February 2007.

As stipulated in its Framework Agreement, AFD opened a permanent office in Cairo, which is operational since February, 2007. Opening the Cairo Office has accelerated projects identification and preparation, as well as the establishment of a periodical dialogue with the Egyptian administration, along with the potential partners of AFD from the public and private sectors.

AFD's STRATEGY IN EGYPT

AFD has prepared, in close cooperation with the Egyptian authorities, a Country Strategy (2009-2011) for Egypt, approved in November 2008. This Strategy was formally handed over by M. Alain Joyandet, State Secretary for Cooperation, to Ms Fayza Abounaga, Minister of International Cooperation on December 23, 2008, during the visit in Egypt of the French Prime Minister, M. François Fillon.

AFD intends to become in Egypt a major diversified development institution, using the whole range of available financial products, and more and more active in policy dialogue and strategic counsel on national sector policies. To reach these development objectives, the French Government assigned to AFD a commitment objective of € 150 Mn per year.

Beyond its financial instruments (sovereign and non sovereign loans, and now a grant for studies and technical supports), AFD has a large experience and recognized expertise in sectors which are strategic for Egypt: infrastructure, water, and the banking sector, with innovative products that are interesting for local banks: financing of downscaling strategies, credit lines dedicated to the environment, to energy savings and clean energies.

The three main development goals of AFD in the country are:

- **Promoting the development of a modern, competitive, private sector ;**
- **Improving the living conditions of the population ;**
- **Promoting a sustainable development respectful of the environment and of the country's cultural heritage.**

AFD concentrates in particular on supporting the economic reform policy undertaken by the Egyptian Government, which aims at modernizing the administration and public services (water and energy utilities, public transport) and improving their efficiency, and also at promoting an accelerated development of the private sector.

AFD INTERVENTIONS IN EGYPT

Among AFD commitments approved before 2009, 5 are signed and under implementation

- **CEG 3001: SPAP Environment Credit Line - € 40 Mn Loan - Approved: 06/29/06 – Signed: 22/03/07**

AFD participates in the Second Pollution Abatement Project through a concessional loan to the National Bank of Egypt. The project is co-financed by the World Bank, the European Investment Bank and the Japan Bank for International Development (JBIC). It finances pollution abatement investments by companies in the Greater Cairo and Alexandria. The investments are appraised by the EEAA (Egyptian Environmental Affairs Agency), which benefits from technical assistance financed by FEMIP (from the European Commission Budget) and by the Government of Finland.

- **CEG 3002: West Delta Irrigation € 25 Mn Loan - Approved 06/27/07 – Signed: 23/12/08**

AFD participates in this project, co-financed by the World Bank, through a concessional loan to the Government of Egypt. The project will build a new irrigation scheme, including water conveyance from the Nile River, for the farms that developed on each side of the Cairo-Alexandria desert road, South of Sadat City. This new water resource will replace underground water pumping for an area of about 36 000 ha (80 000 acres). The scheme will be managed by a private operator under a Design-Build-Operate contract.

- **CEG3004 : PRCC West Delta – € 1,5 Mn Grant - Approved :18/02/2008 – Signed: 23/12/08**

This project is complementary to the precedent and brings a technical assistance to the small farmers of the West Delta irrigation perimeter, so that they can take part in the new irrigation scheme. The project is financed by a grant to the Ministry of Water Resources and Irrigation, within the framework of the Commercial Capacity Building Programme (PRCC) managed jointly by the AFD and the French Ministry of Finance.

- **CEG3000 : FAAPE Egypt – € 0,75 Mn Grant- Approved : 31/03/2008 - Operational**

This Studies and Capacity Building Fund (Grant) will increase and accelerate the identification and preparation of new projects or programs to be financed by AFD.

- **CEG3005 : Water & Sanitation in Delta Region – € 40 Mn Loan - Approved : 25/06/2008 – Signed: 29/04/2010**

This program, called IWSP (Improved Water and Wastewater Services Program), aims at improving potable water and sanitation services in four governorates of the Delta region (Gharbia, Sharkeya, Damietta and Behera); It includes an investment component and an

institutional component (capacity building for the four water companies and for the Holding Company for Water and Wastewater). It is a European initiative co-financed by four development institutions, KfW, AFD, EIB, and the EU Commission. The AFD contributes to the program through a concessional sovereign loan of €40 Mn to the Ministry of Housing, Public Utilities and Urban Development.

AFD Operations approved in 2009

- **CEG1003 : Line 3 extension of Cairo Metro – € 44 Mn Loan - Approved : 02/04/2009**

This sovereign concessional loan to the Government of Egypt will finance the construction of the second phase of Line 3, from Abbassia Station to Al Ahrām (Heliopolis) Station. It will complement the € 200 Mn already granted by the French Ministry of Finance. The executing agency is NAT (National Authority for Tunnels), under the Ministry of Transport.

In addition, a 600000 € grant from the FAAPE Fund will be used to finance technical assistance for the commercial and financial management and the implementation of the strategic plan of the Egyptian Company for Metro – ECM, in charge of Metro’s operation and maintenance.

- **CEG1026 : Support for Urban Transport improvement in Greater Cairo - € 1 Mn Grant from the F-GEF (French Global Environment Fund) - Approved : 03/07/2009**

This project, also supplementary to the Metro financing, aims at promoting sustainable transport in Greater Cairo, together with the relevant institutions. Its objective is more specifically to develop an effective, integrated and multimodal public transport system. The project will be coordinated by EEAA (The Egyptian Environmental Affairs Agency).

- **CEG1001 : Extension of Gabal El Asfar wastewater treatment plant – € 50 Mn Loan - Approved : 28/05/2009**

This sovereign concessional loan to the Government of Egypt will finance the 500000 m³/day capacity extension of this huge plant, which treats the bulk of discharges from the East Bank of Cairo. The project will reduce Nile pollution, and beyond, will contribute to reducing the Mediterranean Sea pollution, which is one of the “Union for the Mediterranean” objectives. The executing agency will be CAPW (Construction Authority for Potable Water and Wastewater), under the Ministry of Housing, Utilities and Urban Development.

- **CEG1000: Development of Saqqara archeological site - € 0.5 Mn Grant – Approved 30/10/09**

The objective of this project is the conservation, development and management of Saqqara archeological site (Memphis Necropolis, South of Cairo). The project’s owner and implementing agency is the Supreme Council of Antiquities of Egypt.

- **CEG1007 - SME credit line to NBE - € 30 Mn Non Sovereign Concessional Loan – Approved 16/12/09**

Loan to the National Bank of Egypt, the largest State-owned commercial bank in Egypt. It will support its new financing strategy for small SMEs, including in the Health and Education Sectors. The loan will refinance NBE investment loans to small SMEs, and also a capacity building program for NBE and SMEs.

Perspectives for 2010

- AFD is considering the financing of the Egyptian Power Transmission Project, together with the European Development Bank and Germany's KfW. The Project will also be supported by the Neighborhood Investment Facility of the EU. The objective of this project is to secure electricity supply in the country and to improve the efficiency of the high power distribution network. The implementing agency will be the Egyptian Electricity Holding Company and its subsidiary the Egyptian Electricity Transmission Company.
- AFD is also considering the financing of a new program for improving water and sanitation services in four governorates of Upper Egypt., together with other European Development Institutions. The implementing agency will be the Holding Company for Water and Wastewater and its four subsidiaries in the Governorates.
- Finally, AFD is considering the financing in 2010 of a new project in the micro-finance sector, in cooperation with the Social Fund for Development.

AFD will continue its identification work in Protected Areas, in close cooperation with the Egyptian Environmental Affairs Agency – EEAA, with the objective of developing non sovereign financing in this sector.

AFD is also working on new projects ideas in the fields of quality higher-education, clean energy, and the promotion of the country's natural and cultural heritage.

It is working more especially on its potential participation in projects launched by the Union for the Mediterranean, including the Mediterranean Solar Plan.

Research and Sector Work of AFD

In the field of studies and sector work, AFD has commissioned in 2009 a study on main agricultural clusters (cereals and milk) in North African Countries (including Egypt). The study was completed in 2009 by CIHEAM and should contribute to the on-going debate on food security. In 2010, AFD has supported a conference organized in March in Alexandria on Water, Solid Waste and Sustainable Development, and the restructuring of the BLAFE (Franco-Egyptian Bureau for Cooperation in Agriculture).

PROPARCO INTERVENTIONS IN EGYPT

Proparco also started its intervention in Egypt in 2005. It has already invested in equity participations in three Egyptian companies, an investment fund specialized in agro-industries, a software company, and an agriculture and food processing company. It has also approved a long term loan for an integrated tourism project, with an AFD co-financing. Proparco's activity in Egypt should increase steadily with the opening in Cairo in April 2010 of a Proparco Regional Office for the Middle East.

OVERALL COMMITMENTS OF THE AFD GROUP

Unit: millions euros

	2005	2006	2007	2008	2009	TOTAL
AFD	0,00	40,00	25,00	72,25	135,50	272,75
PROPARCO	2,30	0,00	3,60	0,00	15,00	20,90
TOTAL	2,30	40,00	28,60	72,25	150,50	293,65

AFD'S FINANCIAL PRODUCTS

In middle income countries such as Egypt, AFD's main financial products are long term, concessional loans. This includes

- **Sovereign loans:** granted directly to the National Government or to public entities benefiting from the State guarantee.
- **Non sovereign loans:** direct loans to financially sustainable public or private entities, without State guarantee. In that case, AFD will have to assess the creditworthiness of the borrower, and for some cases to design a guarantee scheme adapted to the needs and possibilities of each specific project. AFD can also consider loans to financially sustainable, public, **sub-sovereign** borrowers. Such entities are likely to be regional bodies with global or specific responsibilities. Subject to the satisfactory assessment of their financial credit, AFD would envisage lending to such potential borrowers without any sovereign guarantee.

The loan conditions will be determined by the nature of the operation and its degree of economic and financial profitability. AFD's loans are granted in Euros at competitive rates, with a maturity up to 20 years including a grace period of up to 7 years – final conditions varying upon the economic environment and depending on each project.

AFD loans are designed on the basis of floating interest rates. After full disbursement, the interest rate is normally converted into a fixed rate unless the client requests to keep the floating rates. In that case an interest rate cap has to be put in place, to guarantee permanent compliance with Official Development Aid eligibility.

The level of loan subsidies is, irrespective of whether the borrower belongs to the public or the private sector, determined according to the project's intended impact on governance, poverty alleviation, or to its social and environmental impact. However, for non sovereign loans, the final conditions for the borrower will also depend on the counterpart risk assessment. The projects financed through concessional financing may have any of the following justifications:

- Projects that are not financially viable or have a differed profitability: such as some specific infrastructure, rural development, cultural heritage...
- Coverage of additional costs or risks involved in making a service more accessible to the poor: drinking water and sanitary drainage, social housing, microfinance...
- Projects with a positive impact on the environment or on GHG emissions;
- Compensation of additional costs accruing from the implementation of best practices in the area of corporate social and environmental responsibilities.

Eligibility criteria and traceability requirements must be scrupulously respected in order to prevent any crowding out of the private sector (the principle of subsidiarity).

AFD can also guarantee operations that will enhance the mobilization of local resources. AFD offers guarantees to banks providing loans to SMEs or micro-finance institutions, thus limiting their risks. The ARIZ Guarantee Fund, managed by AFD, targets banks and microfinance institutions wishing to obtain such guarantees. In addition, AFD can accompany banks' or companies' bond issues by fully or partly guaranteeing the repayment of capital and /or interests.

FUNDING APPLICATIONS AND PROJECT CYCLE

Applications for project funding are submitted by the client to the local AFD office. Together with the client, AFD undertakes then a preliminary appraisal of the project idea.

The next step is the feasibility study, which is usually carried out by a consulting firm commissioned on the initiative of the client. Depending on the nature of the project, a technical and economic study, a marketing survey, financial projections, or an environmental assessment study may be necessary at the feasibility phase.

If the study is conclusive, AFD proceeds next with the project appraisal. At this stage, the financing plan is designed with the client. The project appraisal work is carried out by a project team from AFD headquarters.

As soon as all conditions for the project's success are agreed upon between the client and AFD, the project is submitted to AFD's Board.

After approval, a loan agreement between the client and AFD is negotiated and signed. The first disbursement may be subject to fulfillment of specific conditions related to financial, organizational or technical issues.

Project implementation is under the entire responsibility of the client, who defines technical specifications for civil works, goods and services, the selection of contractors as well as their supervision and arranges public tender procedures in compliance with local procurement legislation. However, each of these steps may be subject to AFD non objection. AFD can also finance, if needed, technical assistance for project implementation.

The local office reviews the client's disbursement requests, before disbursement of funds by AFD headquarters, and regularly monitors the physical and financial implementation of the project.

When project implementation is completed, AFD systematically carries out an ex-post evaluation of the project management and developmental impact.

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