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AFRICAN DEVELOPMENT BANK



SUPPORT TO THE NATIONAL PROGRAM FOR TAXI REPLACEMENT SCHEME BASED EMPLOYMENT GENERATION

COUNTRY: ARAB REPUBLIC OF EGYPT

PROJECT APPRAISAL REPORT

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TECHNICAL ANNEXES

Currency Equivalents

As of September 2010

1 UA	=	EGP	8.32996
1 UA	=	USD	1.50891
1 USD	=	EGP	5.52052

Fiscal Year

1st July – 30th June

Weights and Measurements

1 metric tonne	=	2204 pounds (lbs)
1 kilogramme (kg)	=	2.200 lbs
1 metre (m)	=	3.28 feet (ft)
1 millimetre (mm)	=	0.03937 inch (“)
1 kilometre (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

Acronyms and Abbreviations

ADB	:	African Development Bank
CAA	:	Central Audit Agency
CDM	:	Clean development Mechanism
CEIF	:	Clean Energy Investment Framework
CNG	:	Compressed Natural Gas
CSP	:	Country Strategy Paper
DPG	:	Development Partners Group
EA	:	Executing Agency
EEAA	:	Egyptian Environmental Affairs Agency
EGFO	:	Egypt Field Office
EGP	:	Egyptian Pound
ESIA	:	Environmental and Social Impact Assessment
ESMP	:	Environmental and Social Management System
EIRR	:	Economic Internal Rate of Return
GDP	:	Gross Domestic Product
GoE	:	Government of Egypt
M&E	:	Monitoring & Evaluation
MIC	:	Middle Income Countries
MoF	:	Ministry of Finance
MSE	:	Micro and Small Enterprises
NDP	:	National Development Plan for Egypt
NGOs	:	Non-governmental Organizations
NSB	:	Nasser Social Bank
NTRS	:	National Taxi Replacement Scheme
PPP	:	Public Private Partnership
RIEEP	:	Rural Income and Economic Enhancement Project
SFD	:	Social Fund for Development
SME	:	Small and Medium Enterprise
TA	:	Technical Assistance
UA	:	Unit of Account
UNFCCC	:	United Nations Framework Convention on Climate Change
UNDP	:	United Nations Development Program
USD	:	United States Dollars
WB	:	World Bank

Loan and Grant Information

Client's information

BORROWER: GoE

EXECUTING AGENCY: Nasser Social Bank

Financing plan

Source	Amount (UA)	Instrument
ADB	99.40 million	Loan
MIC	0.60 million	Grant
Nasser Social Bank	66.27million	Counterpart Contr.
GoE	12.68 million	Counterpart Contr.
TOTAL COST	178.95 million	

ADB's key financing information

ADB Loan and Grant Currency	USD and UA respectively
FIRR, NPV (base case)	(21%, EGP114.35 million)
EIRR (base case)	(38%)

Timeframe - Main Milestones (expected)

Concept Note approval	August, 2010
Project approval	December, 2010
Effectiveness	May, 2011
Completion	December, 2015
Last Disbursement	December, 2016

Project Summary

Project Overview: The project “Support to the National Program for Taxi Replacement Based Employment Generation” will re-enforce the National Taxi Replacement Scheme (NTRS) designed by the Government of Egypt (GoE) in 2008 to assist taxi-owners in complying with the 2008 Traffic Law without jeopardizing their livelihoods. The law stipulates that mass transport vehicles (including taxis) over 20 years old are not allowed to operate starting July 2011. The scheme, established as a private public partnership involving financing institutions, car manufacturers, scrapping companies, and vehicle administration bodies, supports taxi-owners of such cabs through the provision of finance and facilitation of the replacement of the old taxis with new ones. The first GOE financed phase implemented from April 2009 to March 2010 through local banks mobilized by the GoE succeeded in replacing over 21,272 taxis. The proposed project aims at assisting taxi-owners, of which at least 25% are women, in replacing a further 21,250 taxis throughout the country from March 2011 to December 2015 through the intermediary of Nasser Social Bank (NSB). Incomes of taxi-owners are expected to increase by 40%, while at least 21,250 jobs are sustained and a further 10,500 direct and 1,000 indirect new jobs will be created in the form of drivers, as well as staff of vehicle factories, car maintenance and car scrapping companies. The project will also lead to a reduction of up to 0.6 million metric tonnes of CO₂ equivalent over a 10 year period.

Beneficiary Participation: The direct beneficiaries are the 21, 250 taxi-owners who, in compensation of their old cars are each granted EGP 5,000 (USD 906) from a Special Fund under the Ministry of Finance to be used as down-payment for the loan received from the NSB to replace their old cars. These beneficiaries are required to replace their old taxis, insure and maintain the new ones according to a pre-set schedule and repay the loans over a period of 5-7 years, as per the instalment schedules. Indirect beneficiaries include the NSB, who will benefit from strengthened institutional capacities and additional resources for its social projects. Another indirect beneficiary is the dedicated M&E Unit for the scheme set up by the Ministry of Finance. It will benefit from an improved M&E system.

Project Rationale and Need: Today about 90,000 taxis in Egypt are over 20 years old, with serious negative socio-economic impacts, including: (i) deterioration of air quality with increased incidents of chronic and respiratory diseases; (ii) traffic security and urban transport congestion affecting productivity and growth; (iii) loss of incomes for taxi- owners/ drivers due to increased expenses for car maintenance, loss of valuable time, and inability to operate on increased shifts; (iv) implications on tourism; and (v) increased consumption of subsidized fuel, due to inefficiency of old engines; (vi) lost opportunities for additional employment generation. Furthermore, without external assistance, taxi owners would be unable to replace their cars, and either become unemployed, thereby affecting their personal livelihoods and that of their families; or resort to the sale of household assets or borrow at usurious rates, which would put their livelihood at risk.

Bank's Value Added: The project will build on the Bank's extensive experience in Egypt, on projects with an access to finance component for improved livelihoods and sustained employment. Through this intervention, the Bank will contribute to the first pillar of the Egypt's sixth National Development Plan (i.e. foster economic growth and improve the citizen's standard of living). The core competencies used in project implementation are: social protection, environment and climate change, private sector development, access to finance and support to SME development.

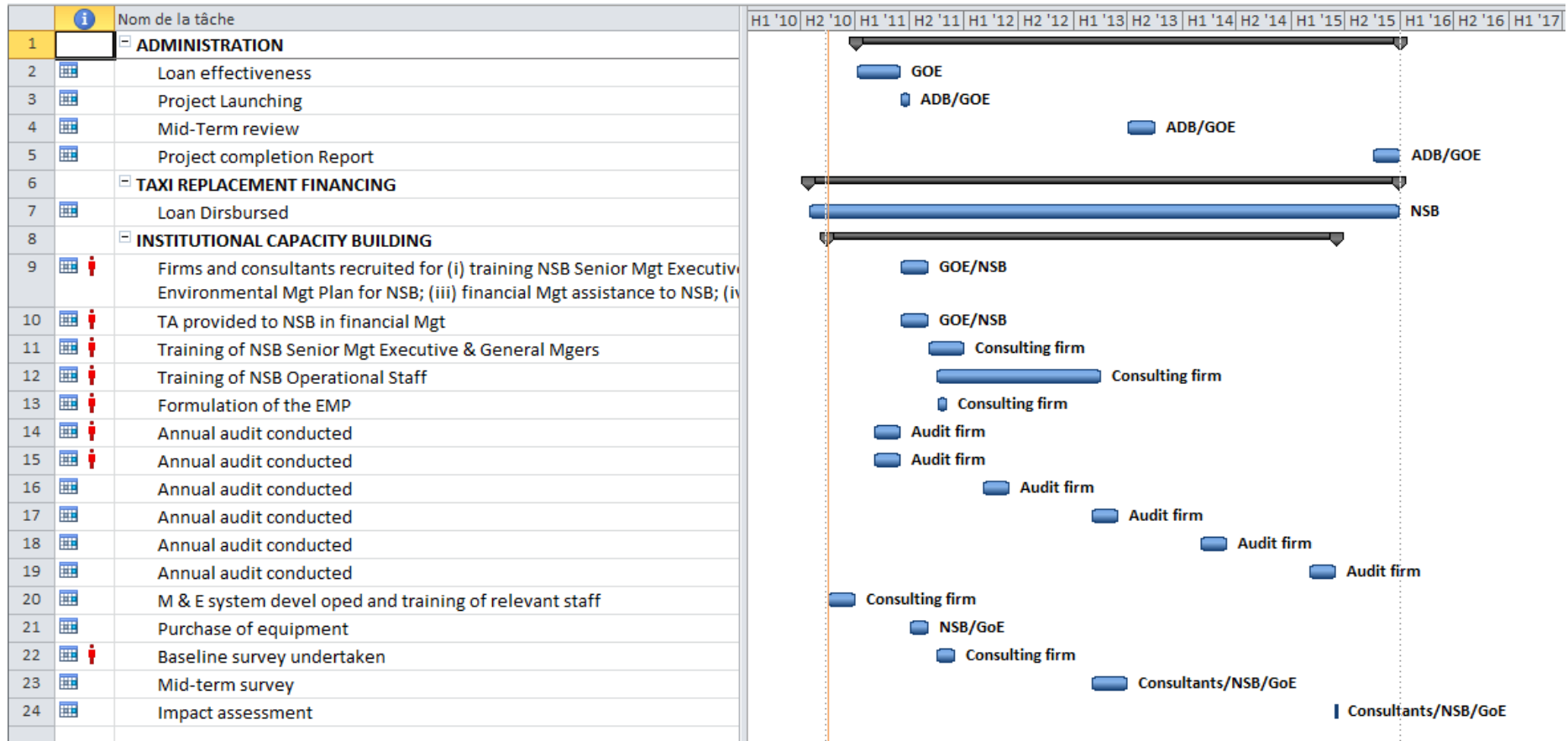
Knowledge Management: Given the multi-dimensional aspect of the project, involving innovative elements such as PPP and addressing climate change through carbon financing, knowledge management will be a key outcome, offering a unique learning opportunity and positioning the Bank as an agent of transfer of such practices to other African countries. Through the M&E system that the project will contribute to put in place, the outcomes of the project and lessons learnt will be closely monitored and disseminated.

Result-based Logical Framework

HIERARCHY OF OBJECTIVES	EXPECTED RESULTS	REACH	PERFORMANCE INDICATORS	INDICATIVE TARGETS TIMEFRAME	ASSUMPTIONS / RISKS
<p>Goal: contribute to sustaining employment and growth towards poverty reduction</p>	<p>Impact:</p> <ul style="list-style-type: none"> - Employment creation for men and women - Poverty reduction 	<p>Beneficiaries: Egyptian population</p>	<p>Impact Indicators:</p> <ul style="list-style-type: none"> - Nb. of job created - Reduction of the overall poverty rate <p>(Source: National Development Plan; LT Development Vision 2020)</p>	<p>Progress anticipated in the long term (2020): Contribute to:</p> <ul style="list-style-type: none"> - 750,000 additional jobs created per year - Poverty level reduced to 15% in 2012 and to 10% in 2020 from 21.6% in 2010 	<p>Assumption statement:</p> <ul style="list-style-type: none"> - Socio-economic and political situation remains stable - Successful implementation of the National Taxi Replacement Scheme
<p>Project purpose: To protect the jobs and increase the incomes of taxi owners and provide more environment-friendly cars</p>	<p>Outcomes:</p> <ul style="list-style-type: none"> - jobs of taxi owners/drivers are sustained - incomes of taxi owners are improved including at least 25% of women; - job opportunities are increased for both men and women - air pollution and greenhouse gas emissions caused by old taxis in the country are reduced 	<p>Beneficiaries:</p> <ul style="list-style-type: none"> - 21,250 owners of old taxi in the country including 5,300 women - Job seekers in Egypt including 30% youth - Inhabitants and visitors of Egypt 	<p>Outcome indicators:</p> <ul style="list-style-type: none"> - Nb. of jobs of the target group - Average incomes of the target group - Direct jobs in car driving, and indirect jobs in car manufacturing, maintenance, scrapping - CO2 emissions in the country by the targeted taxis in the country <p>Sources: ESIA, project M&E system</p>	<p>Progress anticipated in the medium term (2015):</p> <ul style="list-style-type: none"> - 21,250 jobs of taxi owners/drivers maintained - on average, the income of new taxi owners including women has increased by 40% and for taxi drivers, by 100% - at least 11,500 new jobs have been created - reduction of 0.3 million metric tonnes of CO2 emission out of 1.2 million (25%) 	<p>Risk factor 1: Insufficient capacity of car manufacturers and maintenance Mitigation strategy Increase the number of shifts</p> <p>Risk factor 2: Non repayment of loans by taxi owners Mitigation strategy Cars remain the property of NSB until full repayment; extra guarantee by MoF</p>

<p><u>Inputs and activities:</u></p> <ul style="list-style-type: none"> - Taxis replacement financing - Provision of TA and training to relevant NSB staff - Recruitment of a consultant to formulate an Environmental and Social Management Plan (ESMP) for NSB - Annual external audit - Recruit a consultant to put in place an M&E system for the NTRS - Purchase equipment to connect the NTRS to the MoF - M&E training of staff of different stakeholders involved in the NTRS - Undertaking 3 surveys (baseline, mid-term and impact assessment) <p>Financing Plan ADB Loan (UA 99.40M) MIC grant (UA 0.60M) NSB (UA66.27M) GoE (UA12.41 million)</p>	<p><u>Outputs:</u></p> <ul style="list-style-type: none"> - 21,250 old cars replaced and well maintained - NSB capacity to execute the project reinforced - Performing M&E system for the National Taxi Replacement Scheme (NTRS) 	<p><u>Beneficiaries:</u> Owners of old taxis and their families NSB National TRS</p>	<p><u>Output indicator:</u></p> <ul style="list-style-type: none"> - Nb. of cars replaced - Nb. of NSB staff trained, including 30% of women - Formulation of a ESMP for NSB - Nb. of external audits conducted - Nb. of M&E reports produced - Baseline study and mid-term survey undertaken - Computers and Communication system purchased - No of staff trained in M&E <p><i>Source & Method:</i> Project reports ADB supervision missions</p>	<p><u>Progress anticipated in the short term (2013):</u></p> <p><u>Timeframe:</u> By July 2013</p> <ul style="list-style-type: none"> - 12,000 cars replaced - 560 NSB staff trained - 1 ESMP prepared - 3 external audits conducted - 3 M&E reports produced for the NTRS - 1 baseline study and mid-term survey undertaken - Computers and Communication system purchased - 10 staff trained in M&E 	
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Project Timeframe



Years are divided in two Half-Years (H1' and H2')

**REPORT AND RECOMMENDATION OF THE PRESIDENT OF THE ADB GROUP TO THE
BOARD OF DIRECTORS ON A PROPOSED LOAN AND A GRANT TO FINANCE THE
SUPPORT TO THE NATIONAL TAXI REPLACEMENT SCHEME BASED EMPLOYMENT
GENERATION PROJECT IN EGYPT**

Management submits the following Report and Recommendation on a proposed loan for UA 99.40 million and a MIC grant for UA 0.60 million to finance the proposed project in Egypt.

I – STRATEGIC THRUST & RATIONALE

1.1. Project linkages with country strategies and objectives

1.1.1 The Support to the National Program for Taxi Replacement Based Employment Generation project is part of the National Taxi Replacement Scheme (NTRS) designed by the Government of Egypt (GoE) in 2008 in order to assist taxi-owners in complying with the 2008 Traffic Law. This law states that owners of mass transport vehicles (including taxis) that are greater than 20 years old are not eligible for new operating licenses or license renewal. The scheme is geared towards supporting taxi-owners of such cabs through the provision of finance and facilitating the process of replacement of their old taxis. The project aims at replacing old cars of 21,250 taxi-owners, including at least 25% women throughout the country from March 2011 to December 2015 through the Nasser Social Bank (NSB).

1.1.2 The present project is in line with the Government of Egypt (GoE) Long Term Development Vision 2020 and its 6th National Development Plan (NDP) 2007-2012 which has stated its overall goal as working towards reducing poverty and improving livelihoods for the people of Egypt. Within this framework the 6th NDP has set specific objectives to: (i) create 750,000 jobs per year nationwide; (ii) reduce poverty levels to 15% of the population from the current rate of 21.6%; (iii) enable sustainable economic growth driven by the private sector; (iv) promote the development of micro and small enterprises; and (v) increase efforts in environmental protection.

1.1.3 The project will contribute to the achievement of the aforementioned objectives. It will generate about 11,500 new job opportunities (see section 3.2) for taxi-drivers, employees of car supplier companies, as well as technical workers in the after-sales and maintenance sector. Additional shifts, improved services and savings made on car fuel and maintenance expenses will enhance overall incomes of taxi owners by 40% and for taxi-drivers by 100% and thus, contribute to poverty reduction. By targeting individual taxi-owners, of which approximately 25% are women, the project promotes entrepreneurship, contributes to micro and small enterprise development and enhances the active participation of women in the economy.

1.1.4 Furthermore, the Bank's Country Strategy Paper (CSP 2007-2011) and its Mid Term Review Progress report¹ are anchored in the overall goal, specific objectives and targets of the GoE 6th NDP. In that regard, the project supports primarily the Pillar II on social development and protection² with a view to contributing to the GoE objectives and targets on job creation (see CSP Annex 3) and sustainable environmental protection. The project design is, furthermore, in line with and reinforces the GoE's Global Crisis Response of June 2009, which has established an effective social protection

¹ Approved by the Board in June 2009

² The Bank's poverty reduction policy outlines the adoption of selective social protection approaches which empower the poor and contribute proactively to economic growth. Social protection research considers this approach to be economic shock risk mitigation measures as opposed to "risk coping measures" usually pursued through safety net activities.

approach to mitigate the impact of the crises on the poor segments of the population and empowering them to sustain productive livelihoods. This is effectively demonstrated by the project which will sustain 21,250 jobs which could have been lost without the project's assistance to replace the old taxis which will be banned from operation by July 2011. The project will also empower taxi drivers and taxi owners by protecting their income, which would have otherwise been eroded by excessive car maintenance and accidents recovery costs. Moreover, the project will protect their financial and physical tradable assets which would otherwise have to be reduced as a shock coping response mechanism and in many cases where the taxi drivers would even have lost their jobs. Last but not least, the project will create jobs which further the GoE strategy on protection of the poor and vulnerable for additional national social and economic stability.

1.1.5 The Project will also support Pillar I of this strategy through providing new opportunities to small scale entrepreneurs servicing the GoE's Taxi Replacement Scheme, deepening financial access to these entrepreneurs, and expanding the market for new entrants such as in the car manufacturing industry, and scrapping companies. The present project is also in line with the Strategic Area 2 of the Bank's Clean Energy Investment Framework (CEIF) related to promotion of investments in cleaner energies in rural and urban areas. In this regard, the project is designed in close coordination with the World Bank's support to the country under the Clean Development Mechanism (CDM). The new cars, and particularly those operating on Compressed Natural Gas (CNG), will contribute to a reduction of up to 0.06 million metric tonnes of CO₂ equivalent per year over a 10 year period. The project is also in conformity with the Bank policy and strategy on microfinance through: (i) the application of market-based interest rates; (ii) use of demand-driven mechanisms; (iii) increasing focus to women; (iv) provision of a technical assistance (TA) program which is independent but complementary to the key credit program.

1.2. Rationale for Bank's involvement

1.2.1 The National Taxi Replacement Scheme (NTRS) was designed, among others to: (i) assist small-scale taxi-owners in replacing their vehicles that are over 20 years old, in line with the modified Traffic Law No. 121 for 2008; (ii) contribute to improvement of the air quality which had deteriorated beyond acceptable international standards, largely due to polluting vehicles³, presenting serious health-related repercussions; and (iii) contribute to the upgrading of the urban transport system which directly affects economic growth in terms of commuting time, productivity, and income generated from tourism (see details in Technical Annex A).

1.2.2 The GoE has projected that without external financial assistance, taxi owners, many of whom are from low-income groups, are generally unable to replace their cars without risking their own personal assets or borrowing at exorbitant rates. Accordingly, the NTRS was designed as a comprehensive scheme, providing taxi-owners with access to business finance through participating banks, encouraging sales of locally assembled cars despite the global recession, and establishing an environmentally adequate mechanism for the scrapping of old cars. The NTRS has been piloted in the Greater Cairo Metropolitan Region and is expected to be rolled out nationwide. The proposed project will contribute to the overall NTRS target of replacing 90,000 taxis nationwide by 2015.

1.2.3 The Bank's policies on Poverty Reduction and CEIF in addition to the Medium Term Strategy call for the Bank to take a lead role in promoting sustainable poverty reduction investments which reduce negative social and environmental impact. In particular, the Bank has gained extensive

³ In Greater Cairo Metropolitan Area, studies indicate that urban transport vehicles contribute to air quality deterioration by producing 26% of particles, over 90% of carbon monoxide and hydrocarbons, and 50% of nitrogen oxide.

experience in this regard in Egypt. The Bank's support to the Social Fund for Development (SFD) and the Rural Income and Economic Enhancement Project (RIEEP) has provided specific strategic entry points to sustainable entrepreneurship development in the country. The Bank's support of this investment will further build on these positive experiences and provide the comprehensive approach to sustainable growth and development in Egypt. Moreover, the Bank has a clear advantage over other institutions in supporting such a unique public-private-partnership, due to internal flexibility and collaboration between the public and private sector operations within the Bank, allowing appropriate skill mix during project design, implementation and evaluation.

1.2.4 The Bank's primary role in this investment is to assist GoE/ NSB in providing a cost effective access to financing in support of the NTRS as well as increase the availability of long term sustainable funding for the scheme. The GoE has already mobilized more than USD 282 million to replace 20,272 cars from April 2009 to June 2010. Moreover, the Bank will play a major role in enhancing the capacity of GoE/ NSB in updating their skills and knowledge in the financial sector as well as in key areas related to investments in climate change mitigation and sustainable environmental management opportunities for the future. In particular the present investment will contribute to the Bank's crucial commitment to employment generation, particularly in middle income countries. It is also expected that the present investment has key qualities and elements to promote regional integration as the NTRS is a model upon which other countries on the continent can build upon.

1.2.5 Last but not least, the present investment has clear potential to promote NSB's goal to further increase their outreach as the leading bank in promoting social protection oriented financial products; further strengthen local economic growth through strengthening capacity of the branches in the Governorates; and establish a culture of environmental and social management monitoring and evaluation.

1.3. Donor coordination

1.3.1 The Bank collaborates with other development partners in Egypt through the Development Partners Group (DPG). The DPG coordinates eight thematic sub-groups covering various topics such as SMEs, Health, Gender and Development, Environment and Energy, and Governance. These thematic sub-groups provide a platform for donors to coordinate their activities and share information to ensure programme synergy and compliance with GoE policies. The Bank actively participates through the Egypt Field Office (EGFO) in all formal DPG meetings and coordination activities and participates in many thematic sub-groups. In addition, EGFO maintains close direct contacts with the development partners who are active in the areas of Bank interventions.

1.3.2 Due to its multi-dimensional nature, the NTRS can be considered to fall under several different sub-sectors including transport, environment, SMEs, and social protection/ poverty reduction. Currently, the Bank is the only donor directly supporting the scheme and does so from a social protection perspective through the provision of financing to small-scale taxi-owners. As indicated earlier, the GoE has financed, from its own resources, the replacement of the first 20,272 cars. However, in order to reach the nationwide target of replacing further 90,000 taxis by 2015, the GOE has singled out the ADB, as its preferred partner, to support financing the rolling out of this scheme. The World Bank has currently designed its support to assist the GoE in applying for carbon financing for the scrapping activities implemented under the scheme⁴.

⁴ <http://cdm.unfccc.int/ProgrammeOfActivities/Validation/DB/G1NU99KPWG655SQX4X5F0EQE8BNT17/view.html>).

1.3.3 The Table below shows the GoE and donors involvement in micro and small enterprise (MSE) development. Within this sector, most donors collaborate jointly with the Egypt Social Fund for Development, mandated by law to coordinate and leverage resources for SME development in Egypt.

Public Sector Involvement in MSE Development (ongoing operations)			
Government	Donors		
		[World Bank]	[38.2%]
[UA 17 m]	[UA 506 m]	[ADB]	[25.1%]
[3.25%]	[96.75%]	[Kuwaiti Fund]	[11.5%]
		[JICA]	[5.6%]
		[Saudi Fund]	[3.3%]
		[EU]	[3.2%]
		[IFAD]	[3.1%]
		[OPEC Fund]	[3.1%]
		[Others]	[3.6%]
Level of Donor Coordination			
Existence of Thematic Working Groups			[Y]
Existence of SWAPs or Integrated Sector Approaches			[N]
ADB's Involvement in donors coordination			[M]

M: member but not leader, none: no involvement

1.3.4 Support to urban transport has been traditionally provided by the WB, the French Government, JICA and the EU. EIB and the Bank have expressed interest in working in the sector. Currently, GTZ and UNDP/GEF have specific interventions related to traffic safety and management and sustainable transport, respectively. Technical Annex A includes more details on the support by donors to the urban transport interventions.

II – PROJECT DESCRIPTION

2.1. Project Components

2.1.1 The *Project Development Objective* is to contribute to sustaining employment and growth towards poverty reduction. The *specific objective* of the project is to protect and increase the income of taxi-owners whose taxis are older than 20 years by providing them increased access to business finance and new cars that are more environmental friendly.

Table 2.1: Project components

Component name	Est. cost (UA Million)	Component description
<u>Component I:</u> Taxi Replacement Financing	178,32	A loan amounting to USD150 million (UA99.4 million) will be provided to NSB to complement its own NTRS financing, worth USD100 million (UA66.27 million), for financing replacement of 21,250 cars for eligible beneficiaries. NSB will provide sub-loans to the project end-beneficiaries in line with the Taxi Scheme Protocol (see Technical Annex C1) and based on the scheme's car price list. This list is regularly updated as part of the scheme. Sub-loans will not exceed, at any given time, the maximum cost for one car within the approved price list, plus the cost of the premium for comprehensive all-risk insurance.

		<p>The duration of the sub-loans to the end-beneficiary will range from 5-7 years, depending on the size of the loan, and the repayment ability of the end-beneficiary. The car shall remain under the ownership of the NSB until the loan has been serviced and payment has been made for the car license.</p> <p>All end-beneficiaries being supported under this component will need to satisfy the following criteria: (a) being the legal owner of a taxi that is at least 20 years old, (ii) owner of taxi is between the 21-65 year age bracket, (iii) holder of a valid taxi license and (iv) committed to the regular maintenance and permit renewal schedule as detailed in the protocol of the Taxi Replacement Scheme.</p>
Component II: Institutional Capacity Building	0.60	<p>This component will aim at strengthening the capacity of NSB and will put in place a robust Monitoring and Evaluation mechanism for the scheme, particularly with regards to its social and environmental impact. It is composed of the two following sub-components:</p> <p>(i) <i>Strengthening capacities of NSB</i> through:</p> <ol style="list-style-type: none"> Training of its Senior Management Executives and general managers in strategy formulation, marketing strategy, human resources development, leadership skills and the succession plan; Technical training of NSB operational staff (480 persons, of which 30% are women) from the headquarters and branches giving priority to those who will be involved in the execution of the project in customer services, sales, communication, accounting, auditing and legal aspects; Procurement of a consulting firm to formulate an Environmental and Social Management Plan (ESMP) for NSB; Two years of Technical Assistance in project coordination, including financial management and disbursement for NSB staff involved in project implementation; and Procurement of independent external auditors to undertake audit for each year of the project. <p>(ii) <i>Monitoring & Evaluation of the scheme (NTRS)</i> which comprises:</p> <ol style="list-style-type: none"> The recruitment of a consulting firm to assist in putting in place a standard M&E system; The provision of a computer and communication equipment to connect the site of the project to the executing agency of the NTRS (i.e. Ministry of Finance); Training for relevant persons in M&E; and Undertaking three surveys (baseline, mid-term and impact assessment).

2.2. Technical solution retained and other alternatives explored

2.2.1 Two alternatives were considered in the design of the project as reflected in the Table below:

Table 2.2: Project's alternatives considered and reasons for rejection

Alternative name	Reasons for rejection of these alternatives
1. To limit ADB financing only to compressed natural gas (CNG) fuelled taxis	<ul style="list-style-type: none"> • The entire scheme is based on the voluntary participation of taxi owners and is demand-driven. • Factual surveys on fuel consumptions have shown that emission of greenhouse gases (measured in CO₂ equivalent) have not been significantly different for the two fuel types in the new vehicles. • The CNG infrastructure is limited in the country. • The new cars, both fuel-and CNG operated, include environmental friendly technologies and as such offer positive options in comparison to the old cars.
2. To finance taxi replacement outside the scheme	<ul style="list-style-type: none"> • Contrary to general financing, the scheme provides an incentive system which is comprehensive and addresses various activities of the chain (administrative procedures, licensing, insurance, environmental, scrapping, etc.). • The scheme provides many advantages (tax waivers, negotiated prices, MoF contribution, etc.) for the beneficiaries and includes safeguards to limit the risks.

2.2.2 Ultimately, the project design was selected because it provides a targeted support to an important and comprehensive national scheme critical for protecting the livelihood of the beneficiaries and improving the environment in the country. The retained alternative also avoids distorting the main implementation guidelines of the NTRS and thus preserving the country ownership over the scheme. Finally, this alternative contributes to strengthening the capacities of NSB and opening new partnership opportunities for this bank which will benefit its usual low-income clients, among which 40% are women.

2.3. Project type

This project is a stand-alone operation financed by a sovereign long term loan to the Government of Egypt. The loan is also complemented by a Technical Assistance grant geared towards building the capacity off the NSB and improving the monitoring and evaluation system for the NTRS.

2.4. Project cost and financing arrangements

2.4.1 The total project cost is US\$270.05 million (UA178.95 million), including a price increase for the taxis estimated between 5 and 7% on average over the project life and physical contingencies estimated at 2.5%. The project will be financed through an ADB loan amounting to UA 99.40 million, representing 55% of total cost and, a MIC Grant of UA 0.60 million funding 0.33% of project costs. In addition, it will be financed by Government counterpart funding amounting to UA 78.95 million representing 44.12% of the total cost. This counterpart contribution is comprised of (i) NSB contribution as the executing Agency amounting to USD 100 million (UA 66.27 million); and (ii) UA 12.41 million representing the GoE contribution. The tables below summarise the estimated cost of the project by component, source of financing and category of expenditure.

Table B.3: Project cost estimates by component [amounts in million]

	COMPONENTS	Dollars (USD)			UA			% FE
		FE	LC	Total	FE	LC	Total	
C1	Taxi Replacement Financing	107.62	161.44	269.097	71.33	107.00	178.32	40.0%
C2	Institutional Capacity Building	0.095	0.86	0.954	0.06	0.56	0.63	10.0%
	Total	107.71	162.30	270.051	71.39	107.56	178.95	

Table B.4: Sources of financing

Sources of financing	FE (USD'000)	LC (USD'000)	Total Cost (USD'000)	FE (UA'million)	LC (UA'million)	Total Cost (UA'million)	% Total
ADB Loan	60,000.00	90,000.00	150,000.00	39.76	59.64	99.40	55.55%
MIC Grant	90.54	814.82	905.35	0.06	0.54	0.60	0.33%
GoE	47,634.50	71,510.50	119,145.00	31.57	47.38	78.95	44.12%
TOTAL	107,725.04	162,325.32	270,197.01	71.39	107.56	178.95	100%

Table B.5: Project cost by category of expenditure [amounts in 000 UA]

Categories of expenditure	FE	LC	Total cost	% FE
EQUIPMENT	1.80	16.16	17.96	10.0
SERVICES	61.36	552.24	613.60	10.0
MISCELL. (Taxi Replacement)	71,328.91	106,993.35	178,322.26	40.0
TOTAL	71,392.07	107,561.75	178,953.82	

Table B.6: Expenditure schedule by component [amounts in 000 UA]

	COMPONENT	2011	2012	2013	2014	2015	Total
C1	Taxi Replacement Financing	30,242.76	31,727.37	33,335.92	43,822.33	39,193.89	178,322.27
C2	Institutional Capacity Building	253.54	175.68	179.58	8.33	14.44	631.57
		30,496.30	31,903.05	33,515.50	43,830.66	39,208.33	178,953.84

2.5. Project's area and target population

2.5.1 The target population of the project is 21,250 owners of taxis older than 20 years, including at least 25% of women throughout the country from 2011 to 2016. This constitutes about a quarter of the target of the national scheme. This target group will have their jobs sustained. As a result of owning new cars, their incomes will be increased by 40% at the end of the project through reduced fuel consumption by about EGP 50 per month; use of natural gas as fuel instead of petroleum resulting an additional saving of about EGP 200 per month; and a reduction in car maintenance costs by at least EGP 300 per month.

2.5.2 Most of the taxi-owners targeted by the project are among low-income people without collateral and thus no access to private banks. The fact that they will only become owners of the new cars after full repayment of the loans to NSB is a very strong incentive for them to succeed.

2.6. Participatory process for project identification, design and implementation

Bank identification, preparation and appraisal missions held meetings and focus group discussions with several stakeholders most of which were involved in the first phase of the scheme financed by the GoE, including officials in the Ministry of International Cooperation, Ministry of Finance, Ministry of Environmental Affairs and Egyptian Environmental Affairs Agency (EEAA), banks participating in the NTRS, car manufacturers and taxi-owners and drivers, and beneficiaries of previous loans. The objective of these meetings was to gain insight into the challenges faced during implementation and lessons learnt.

2.7. Bank Group experience, lessons reflected in project design

2.7.1 The design of the NTRS is built on the lessons learnt from the implementation of two previous pilot projects from GoE resources which aimed at financing 100 taxi-owners through Nasser Social Bank in April 2007 and completed now, followed by 1000 taxi-owners through the National Bank of Egypt, in 2008 in good progress. Availing financing to eligible taxis under these two pilot projects was only for buying CNG-operated vehicles.

2.7.2 The NTRS was officially launched as a comprehensive framework in April 2009 and by June 2010 had succeeded in replacing 20,272 taxis. The default rate under the scheme is negligent. During this phase, 20,272 jobs have been maintained and about 10,000 new jobs have been created for drivers and people employed in cars manufacturing, maintenance and scrapping. An advertising agency was included in this scheme which committed to sharing a 30%-40% portion of the average loan size in return for the placement of ads on the new taxis. However, the advertising agency could not honour its commitment during the implementation stage and it discontinued its payments. This led to a temporary negative impact on the ability of taxi owners to make their loan repayments. The strong sense of ownership of the scheme by the Government and different stakeholders resulted in quick modification of the scheme by eliminating the advertising component; and the GoE committing to absorb the payments due by the advertising agency in case another agency could not be found. Furthermore, the GoE brought in the NSB to increase its outreach while increasing the loan tenure from 5 to 7 years.

2.7.3 The main lessons learnt from these two pilots informed the NTRS and included: (i) allowing replaced taxis to operate on CNG as well as fuel, in view of the limited CNG infrastructure in the country and the positive environmental impact of both types of energy consumption; (ii) raising awareness on the scheme, through media campaigns; (iii) setting up a multi-stakeholder steering

committee for oversight purposes and maintaining strong Government ownership over the scheme; and (iv) establishing a unit within the MoF for the day-to-day monitoring of the scheme.

2.7.4 The proposed project will build on the Bank's interventions in the social sector in Egypt, particularly those projects with an access to finance component for improved livelihoods and sustained employment. Generic lessons learnt from the review of the Bank's portfolio in Egypt include: (i) the need for close follow up and guidance in the implementation of projects, to be ensured through EGFO; (ii) strong quality-at-entry and the need for a baseline survey and a strong monitoring and evaluation system in order to adequately assess the developmental impact of the project; (iii) making a provision for technical audits to ensure fiduciary assurance and provision of regular workshops to explain Bank rules on procurement, financial management and disbursement; (iv) ensuring shared ownership through the use of participatory approaches in project design, implementation and evaluation; (v) ensuring the correct mission skills mix from the Bank's side during implementation; (vi) providing adequately targeted technical assistance to help the EA; (vii) minimizing the loan conditions precedent to first disbursement; (viii) using a strong agency with nationwide appeal to implement lines of credit and (ix) raising awareness on the need for improved environmental management initiatives during project implementation. These have been taken into account in the design of the project.

2.8. Key performance indicators

2.8.1 The Key performance indicators are outlined in the Result-based Logical framework. The main outcomes expected are related to the number of jobs that will be protected for targeted taxi-owners/drivers, the average increase in the incomes of taxi-owners and drivers, the number of direct and indirect jobs created and the reduction CO2 emissions in the country by the targeted taxis.

2.8.2 Progress towards achieving these outcomes will be monitored in the quarterly progress reports to be prepared by the project, through the monitoring and evaluation system to be put in place (see section 4.2 on monitoring) and during the Bank's supervision missions, mid-term review and achievement.

III – PROJECT FEASIBILITY

3.1. Economic and financial performance

Table C.1: key economic and financial figures

FIRR, NPV (base case)	(21%, EGP114.35 million)
EIRR (base case)	(38%)

3.1.1 The project will generate an Economic Internal Rate of Return (EIRR) of 38% and a Financial Internal Rate of Return (FIRR) of 21%.

3.1.2 The EIRR and FIRR have been calculated based on the following assumptions: (i) the project costs and benefits would last for over 20 years, which is the expected legal working duration for a taxi in Egypt; and (ii) the on-lending terms from Government to NSB would be at 3.5%, current 6 month swap rate plus spread. Several environmental benefits have not been included in the analysis

due to lack of reliable data. It is estimated that 0.6 million tonnes of Carbon Dioxide will be reduced in the first 10 years of the life of the taxis. In addition health costs that will be avoided through reduction of accidents and the related social costs due reduced fatalities have not been included due to inconsistent data.

3.1.3 The most sensitive factor in the analysis is fuel efficiency. Assuming that fuel efficiency under the project is 10% less than the assumptions, the EIRR will be reduced to 33%. If the unit cost of the taxis goes up by 10% fewer taxis will be financed under the project and therefore the benefits will be reduced bringing the EIRR down to 32% which is still well above the opportunity cost of capital. The project is therefore feasible from the financial and economic point of view. Detailed Tables for calculation of FIRR and EIRR are in Technical Annex B6.

3.2. Environmental and Social impacts

Environment

3.2.1 In accordance with the Bank's Environmental and Social Assessment Procedures for Public Sector Operation (2001), the Egypt NTRS project has been classified as category 4. The rationale is that it involves a financial intermediary (NSB) which would on-lend Bank funds to individual taxi owners in Egypt. The NSB is therefore required to have policies and procedures for managing environmental risks of on-lending activities. Consequently, NSB has committed to developing an Environmental and Social Management Plan (ESMP) which would be applied in future investment considerations and the Bank would provide assistance in this respect. The positive environmental impact due to new cars operating on the road is expected to noticeably improve the air quality levels and decrease pollution levels.

3.2.2 It is also noted that a Framework Environmental and Social Assessment for the Egypt Vehicle Scrapping and Recycling Program has been carried out, in collaboration with the World Bank, to assess the strategic impact of the overall scheme and its different components (scrapping and recycling of car parts). Consequently, the Bank has set loan conditions which would ensure that these other aspects of the scheme meet statutory environmental requirements set by the Egyptian Environmental Affairs Agency (EEAA) and guidelines provided in the strategic environmental and social assessment. In particular, the selected scrapping company (Radwan) is undertaking technical improvements to fully comply with the Egyptian environmental, safety and social rules. Details are presented in Technical Annexes B3 and B7.

Climate Change

3.2.3 The present project contributes to the Bank's commitment on climate change as outlined under the Strategic Area 2 in CEIF. The Bank's involvement would lead to positive environmental impact in view of the fact that new cars would lead to comparatively lower environmental pollution and greenhouse gas emissions (which are linked to climate change) due to lower fuel consumption in their operation. For a given distance travelled, each new vehicle potentially emits 25%⁵ less CO₂ equivalent than the old replaced vehicles which are over 20 years old. In view of the scope of the Bank's operation (targeting about 20,000 vehicles) this can lead to a reduction of up to 0.06 million metric tonnes of CO₂ equivalent per year over a 10 year period. By project completion (2015), this represents a total reduction of 0.3 million metric tonnes of CO₂ emission. Besides, the Egyptian

⁵ In real life situation several factors would influence the emission and fuel efficiency of any car; these factors would include pay load, traffic congestion, quality of road etc.

Government has made considerable progress in accessing financing due to the carbon credits from the project. The scheme was recently validated by the Clean Development Mechanism (CDM) processes and a partial disbursement of €1 million has been made to the GoE.

Gender

3.2.4 Currently, women form approximately 20% of taxi-owners in Egypt according to NTRS loan monitoring reports. They are positioned as women entrepreneurs who rent out the taxis to individual drivers, generally men, based on two working shifts per day. In principle, this is a means for generating income for women and allowing them some financial independence. Thus it will potentially increase the participation of women in productive economic activities.

3.2.5 The other advantage it presents is that it provides women with personal asset which can be used as collateral, positioning women as bankable clients, thereby addressing a major challenge inhibiting women's economic participation in Egypt. In addition, the scheme is particularly favourable for women, as the pre-approved car parts and maintenance cost list, and the comprehensive insurance, allows the female owners to better monitor maintenance expenses undertaken on their behalf by the taxi drivers.

3.2.6 To ensure provision by NSB of access to finance to women under this project, a 25% target indicator was agreed to cover sub-loans for women. This was readily accepted by the NSB management, which oversees the implementation of several gender-sensitive initiatives for women, including the lending program for widows, the home furnishing loans and the income enhancement loans targeting single women. It is estimated that approximately 30% of the NSB beneficiaries are female; and many employees within the institution are women, including the top management officials. Furthermore, the 11 member Board of Directors of the NSB Bank includes two female members.

3.2.7 More than 140 women will also benefit from the technical training of NSB operational staff from the headquarters and branches who will be involved in the execution of the project in customer services, sales, communication, accounting, auditing and legal aspects, as at least 30% of the operational staff to be trained will be female. The proposed institutional strengthening and capacity building program will provide system improvements and increased professional capacity in the delivery of both financial and non-financial services to the project beneficiaries.

Social

3.2.8 As mentioned in section 2.5, the project will assist in maintaining about 21,250 jobs for taxi owners/drivers and increasing their incomes. As a result each taxi owner is expected to generate an average net monthly income of about EGP 1,500 compared to EGP 900 with old taxis. Taxi drivers will also see their incomes increased by 100% because of the reduced costs of fuel and maintenance.

3.2.9 The project is also expected to contribute to the creation of 10,500 direct jobs for taxi drivers since the taxi owners will have the capacity to use the new cars for an additional shift per day. In addition, an estimated 1,000 indirect new jobs will be created for skilled and unskilled workers in the car manufacturing industry, spare parts suppliers, car maintenance industry, as well as the environmentally friendly car scrapping activities. On average, it is estimated that each new job will generate a net daily income of about EGP 85 (approximately USD 15). Taking into consideration the average household consumption pattern it is estimated that an average monthly saving of about USD

120 can be accumulated by each benefitting household resulting in a larger impact of at least USD 1 million injected in the economy as micro and small investments and/ or savings.

3.2.10 Other positive social impacts from the project include a women's economic empowerment element focusing on increasing access to women as taxi owners. Moreover, with the additional net income generated as a result of increased indirect and direct employment as well as by the taxi owners themselves, it is envisaged that there will be larger impact on the community with improved household livelihoods, greater food security, and a certain level of investments in other micro enterprises.

3.2.11 The NTRS is also positioned as an initiative for improved targeting of subsidies. Indeed, fuel is subsidized by the GoE and therefore savings to the tune of EGP 399 million from GoE budget has been anticipated from efficiency in fuel consumption due to new cars with adapted technology including CNG-retrofit. The new, improved and efficient taxis will have an overall positive impact on tourism which is a main pillar of the Egyptian economy, through reduced pollution, enhanced ease and comfort, reduced transport congestion, as well as transparent and equitable payments through functioning taxi meter-systems.

3.2.12 The project will also promote entrepreneurship, and the lending operation will help turn this group of citizens into bankable persons, with a credit history which they can later make use of. This will assist in formalizing the economy. The negative social impact from this project could occur in the case where a taxi-owner defaults on his/her payments, becoming more vulnerable than ever. This could have been the case of many taxi-owners during the first phase of the NTRS, due to the unhonoured commitment of payment by the advertising agency, however the sense of ownership and political commitment to the scheme resulted in ensuring that the stakeholders find a quick and efficient solution to this challenge, without jeopardizing the status of the taxi-owner, which they did. The scheme, positioned as a social protection initiative designed by the government to assist a certain socio-economic class of society, has been appreciated as such, as indicated by the substantial demand.

3.2.13 Last but not least, the project will also generate additional benefits for clients targeted by the social window of NSB in the form of increased availability of investment funds as a result of profits generated through the scheme. This, in particular, will benefit about 30% female clients which constitute NSB's low incomes target group. The additional positive benefits within the framework of climate change risk mitigation have already been outlined in section 3.2.3.

Involuntary resettlement

3.2.14 No form of involuntary resettlement involved.

IV – IMPLEMENTATION

4.1. Implementation arrangements

4.1.1 The proposed project is part of the broader National Taxi Replacement Scheme (NTRS) being executed by the GoE since 2008. It is a comprehensive and well-designed scheme with clear rules, regulations, responsibilities and mitigation measures built in and set out in an official protocol signed by the following stakeholders: (i) the Ministry of Finance (MoF) represented by the Special

Fund for Procurement of Some Rapid Transport Equipment; (ii) Ministry of Interior as the main body responsible for issuance and regular renewal of the permits for each new tax through the one-stop-shop facility; (iii) the Ministry of Environmental Affairs responsible for ensuring that the whole scheme, and in particular the scrapping of old taxis, is executed under non-hazardous and environmental-friendly conditions; (iv) the participating banks responsible for provision of finance to end-beneficiaries; (v) five local car assembly factories; (vi) the selected insurance company, which provides a discounted premium to the scheme participants against comprehensive all-risk insurance and (vii) the scrapping company in charge of executing the scrapping of old cars following strict environmental rules closely monitored by the Ministry of Environmental Affairs. The MoF plays a major role in the scheme as it is: (a) the scheme's executing agency; (b) the main guarantor for the sub-loans issued by the participating banks to the end-beneficiaries; (c) the entity which takes possession of the old taxis in return for a fee of EGP 5,000 used as a down-payment for the sub-loan; (d) the entity which provides the customs waivers on imported parts used in the car assembly; and (e) the entity which provides the sales tax waivers to the end-beneficiaries.

4.1.2 A steering committee comprised of all these stakeholders was established since the beginning of the scheme to monitor the implementation and smooth running of the scheme as well as report on, and solve bottlenecks. The committee meets once per month.

4.1.3 The Executive Agency of the proposed project is Nasser Social Bank(NSB) whose Board is chaired by the Minister of Social Solidarity. Within NSB, the project will be under the direct coordination of the Head of the Investment Department. A project coordinator will be recruited and will work closely with three individuals for day to day management of the project activities and following up on fiduciary requirements and technical issues. This coordination team will require training and exposure to the specific Bank project implementation requirements.

4.1.4 The lending operation under component 1 will be carried out through the NSB branch network, which is directly responsible for loan transactions. The NSB will be the owner of the new procured taxis until full repayment by the taxi drivers of the principal of the contracted loan plus a margin. It has been calculated that with the inclusion of all the transaction costs, the clients will eventually pay flat interest rates equal to 6.0% which is in line with the market. Consultants will be recruited by NSB to undertake training and TA under component 2. For the sub-component 2.2 relating to M&E of the NTRS, the coordination team under NSB will work closely with the MoF in the preparation of the Terms of Reference, the recruitment of the consulting firms to undertake the activities and the monitoring of their implementation..

4.1.5 The review and analysis of the Egyptian regulations under which the bank is currently operating shows that NSB is a public authority with a separate legal entity, whose mandate is to provide financial services for social purposes and is governed by a body of rules specific to public entities.

Implementation Arrangements and NSB Financial Analysis

4.1.6 The project is financed through a public loan and its commercial viability has been assessed. NSB has a very strong capital base, low leverage, significant provisions for asset impairments and a solid track record of profitability. The day to day running of NSB is vested in a Senior Management team consisting of suitably qualified persons with extensive experience in banking operation. The key operational executives and second line of management team will be benefiting from the proposed TA arrangements from ADB which will assist in sharpening their management skills and accordingly improve on the bank's performance and reduce operational and other risks.

Procurement Arrangements

4.1.8 All procurement of goods and acquisition of consulting services financed by the Bank through the ADB loan and the MIC Grant resources will be in accordance with the May 2008 Bank's *Rules and Procedure for Procurement of Goods and Works* or, as appropriate, *Rules and Procedures for the Use of Consultants*, using the relevant Bank Standard Bidding Documents. Technical Annex B5 provides a detailed description of the project's procurement arrangements.

Goods

4.1.9 With respect to goods, under the MIC grant component, four computers and related communication equipment (UA16,570) required for the Monitoring and Evaluation System will be procured through shopping procedures. Shopping procedure was selected because the value of the goods is small; are readily available off-the-shelf and can be found in the local market.

Consultancy Services

4.1.10 Consulting firms will be recruited to undertake the Technical Assistance for Establishment of a Monitoring and Evaluation system (UA 18,560); and training of staff in Monitoring and Evaluation (UA 6,630). In addition the services of consultants will be required to carry out: Technical Assistance for Project Coordination (UA 39,764); Environmental Management Plan (UA 13,250); 360 Degree Assessment (UA 9,940); Training and Coaching Senior Management (UA 16,570); Management and Training for General and Branch Managers (UA 185,560); and Technical Training for Operational Staff (UA 265,090). All services will be recruited in accordance with the Bank's procedure through the Quality- and Cost-Based Selection (QCBS). On the other hand, for the selection of the Audit firm (UA 33,140) and Surveys and Studies (UA 13,250), the selection will be based on Least Cost Selection (LCS), as the values of the assignments are small; routine and standard. In addition an individual Consultant will be recruited to provide 3 months' Technical Assistance in Financial Management and Disbursement on the basis of the qualification for the assignment as per Bank procedure.

Miscellaneous (Financing Taxis Replacement)

4.1.11 The major procurement activities relate to the financing of taxis replacement through NSB. Taxis estimated to cost UA178.32 million (Bank contribution UA99.4 million) will be procured in accordance with the existing commercial practice being used by NSB. The practice of NSB is to utilize a short list of pre-qualified suppliers. The pre-qualification has been carried out by the Ministry of Finance and five local car assembly manufacturers where pre-selected. The process of pre-qualification is conducted from time to time and new companies which meet the qualification criteria have the opportunity to participate in the scheme. The approach is in line with the Bank's Rules and procedures as stipulated in Section 3.12. This is a competitive process which ensures economy and transparency.

4.1.12 NSB, being a financial intermediary, will not procure these vehicles directly. Individual taxi owners will make their purchase decisions based on personal factors using the current practice enshrined in the Taxi Replacement Protocol of Agreement. Suppliers have been prequalified using transparent criteria by GOE to supply the taxis. In line with the existing arrangement under the ongoing MSEs Support Project as well as the RIEEP, all the micro loan appraisal and disbursement documents will be subject to post review. In this regard, all loan processing documents notably the loan applications, review documents, appraisal and evaluation reports, and signed contracts shall be well kept and maintained at the NSB head office for periodic examination by Bank supervision missions and Bank auditors.

Disbursement

4.1.13 Disbursements will be in accordance with Bank Group Procedures for Disbursement. All disbursement methods shall be considered for procurements under the MIC Grant. However payment for audits shall only be through direct payments. For financing of the taxi replacements, the Special Account method shall be used.

4.1.14 The project shall open the following accounts: (i) two separate Special Accounts for the loan and MIC Grant proceeds, respectively, in bank (s) and under terms and conditions acceptable to ADB. Funds in these two accounts shall not be comingled. (ii) An account will be opened to hold the repayment of the loans made by taxi-owners. (iii) Two accounts will be opened to receive the Government's contribution under the loan and the MIC Grant.

4.1.15 All disbursements under the Loan and the MIC Grant will be made based on an approved work plan and provisional budget for the activities to be financed over a six-month period. An initial disbursement worth six months' activities under the MIC grant and the loan will be respectively processed using Bank disbursement rules and procedures. For subsequent replenishments, NSB will provide Statements of Expenditure showing that the previously disbursed amount has been utilized up to at least 50%. In addition to these documents, NSB should keep in project files, copies of the documents evidencing disbursement to the end-borrowers. All these documents must be made available for review by periodic ADB review missions, internal and external auditors.

Financial Management and Reporting

4.1.16 Nasser Social Bank follows Egypt public financial management systems including general accounting and external auditing. NSB has its own planning and budgeting system which is approved by the Board of Directors and has some linkages to the Government Systems. However it has its own systems and procedures for loan accounting and credit systems, which are computer based. Although the loan accounting systems are reliable, the branch network is not integrated causing some delays in reporting and response to customers. NSB is taking steps in its draft strategy to integrate its branch network.

4.1.17 Loan processing (which is a core system under the project) takes place at the various NSB Branches which have qualified staff in this area. The financial management division of NSB has a track record in managing huge government financed projects, the notable one being the Government's unclaimed inheritance scheme. NSB also manages other complex financial management arrangements and investments on behalf of Government with respect to many other social projects. Accounting staff are well qualified but need more exposure to ADB or other MDBs financial management and disbursement arrangements. Training in the specialised ADB financial management and disbursement arrangements will therefore be required. A Project Coordinator will be recruited and three months' Technical Assistance in financial management and disbursements at the beginning of the project has been built into project design for this purpose. NSB accounting systems and Chart of Accounts will need to be adapted to facilitate the preparation of relevant monthly, quarterly and annual financial statements. NSB through GoE will be required to submit audited Annual Financial Statements for the project, within six months after the end of each fiscal year. Relevantly qualified, experienced and independent external auditors will perform the audit, based on terms and conditions acceptable to the Bank.

4.1.18 The NSB borrowing and lending transactions are governed by Islamic banking principles. Article 3 of the law establishing the NSB provides that no interest rates should be charged. Nevertheless, as per the Islamic Banking Principles and Methods, a loan service charge can be paid by the borrower and depositors can enjoy benefits which have accrued under the annual profit sharing arrangement by the Bank.

4.1.19 The ADB's financial due diligence has concluded that the on-lending agreement between the Egyptian Government and NSB will have the same terms and conditions as the loan agreement, between the African Development Bank and the Government of the Arab Republic of Egypt. In this regard, it would be possible for NSB to enter into borrowing transactions with the Government of Egypt through the on-lend agreement.

4.2. Monitoring

4.2.1 The project will support the development of a Monitoring and Evaluation (M&E) system of the scheme at the MoF, which has the overall responsibility for the NTRS. The M&E system will clearly outline the NTRS objectives, processes, outputs, outcomes and impact indicators, methods of data collection, analysis, reporting formats, etc. NSB management will assume overall responsibility and accountability for monitoring specific indicators for the ADB financed project and outcomes in accordance with the Result-Based Logical framework. The capacity of all stakeholders (including MoF and NSB) to carry out this role will be enhanced in the project. For all activities beyond the ADB financed project, data on project outputs and results will be provided to NSB by NTRS's stakeholders on a monthly basis, in an agreed format; this will also include periodic performance reports.

4.2.2 Baseline data and information will be established to facilitate measuring of the progress and impact made by the project through a baseline survey of NTRS to be undertaken within six months after the project starts. Data generated will be made gender sensitive. A mid-term assessment will be undertaken 2.5 years after the start of the implementation to provide for re-alignment as necessary. In addition, due to the participatory demand-driven nature of the project, a client survey (largely using community monitoring tools) will be carried out prior to the mid-term review of the project in order to assess the beneficiary perceptions on the implementation of the project and its effects on the lives of the beneficiaries. At the end of the project, an impact assessment will be undertaken involving all stakeholders to capture the increase of incomes for taxi-owners (by gender) and drivers; the number of jobs created at different levels (drivers, car manufacturers, maintenance, scrapping); the improved capacity of NSB staff and management; the environmental impact of the project and the scheme in general as well as the budgetary impact of the scheme for the MoF.

4.2.3 NSB will submit to the Bank Quarterly Project Progress Reports in accordance with the established format covering all aspects of the project, within 30 days following the end of each quarter. The supervision will also monitor the establishment of the ESMP by NSB and management of the scrapping company.

4.3. Governance

4.3.1 Since 2004, the GoE is undergoing major structural and institutional reforms, including sector-based reforms in health and the financial sector as well as overall reforms, such as governance, transparency, accountability, etc. In particular, the Central Audit Agency (CAA), whose head is nominated by the President, reports on the patterns of government spending and can

investigate unions, syndicates, the media, political parties, government agencies and any public enterprise. For the past two years, the CAA has been active and influential in ensuring transparency and accountability including ensuring probity into government spending. The same authority is mandated to provide oversight over the Nasser Social Bank, including undertaking bank supervision roles. To ensure continuous monitoring and oversight, 10 CAA staff work full time reviewing Nasser Social Bank operations, records and accounts and; occupy some office space in the same building accommodating NSB headquarters. The CAA conducts yearly annual audits on the financial accounts of the NSB, which are then officially presented to Parliament for review and discussion.

4.3.2 With regards to the NTRS, a comprehensive protocol has been put in place, with clear roles, financial and non-financial responsibilities, as well as safeguard measures, including close coordination between the taxi-license renewing unit within the Traffic Department and the participating banks to ensure that licenses are renewed (quarterly during the first year and semi-annually thereafter) only upon repayment of the monthly instalments due. Other safeguard measures include the mandatory nature of the comprehensive insurance, transfer of car ownership to the loan beneficiary only after repayment of the full loan amount, and commitment by the Transport Fund to repay outstanding loans to the participating banks in case of non-repayment by the sub-loan beneficiary. Since implementation of the scheme, these rules and regulations have been applied and adhered to. Most importantly, strong ownership of the protocol has been demonstrated by the Government and stakeholders, as reflected in the solutions agreed to following the non-honoured commitment by the advertising agency during phase 1 (see section 2.7).

4.4. Sustainability

4.4.1 There is ample evidence of ownership and commitment by the GoE to the NTRS. The scheme was designed as a result of modified legislation and was launched and rolled out only after the implementation of two pilot projects, which served to fine-tune the new scheme and include lessons learnt. As a result of the modified law, a new institution – the Transport Fund- was established with clear functions, accountability and financing from government budget.

4.4.2 Furthermore, the NTRS steering committee includes representatives from all stakeholders – both from the public and private sector- and meets regularly to review progress and resolve issues which may arise. Finally, the Ministry of Finance has setup and funded a dedicated unit for the monitoring and reporting of the NTRS. This is of particular importance since the MoF has allocated a substantial amount of funds from central government budget towards this scheme.

4.4.3 NSB will have the possibility to maintain the financing of vehicles beyond the project life through the establishment of a revolving fund mechanism with the proceeds of the repayments on the sub-loans. This will consolidate further NSB's position in the niche market of car financing and it will continue providing an impetus to the local car-manufacturing and feeding industry which is important in terms of employment generation.

4.5. Risk management

4.5.1 The project is based on the assumption that the socio-economic and political situation remains stable in Egypt. Indeed, the sustainability of the project relate to political, financial and socio-economic stability in the country. Financial stability is important since the GoE is currently allocating funds towards this scheme from government budget. However, there are on-going attempts

by the Government, in support with the WB, at securing carbon financing under this project. This would ease the financial burden of the government.

4.5.2 Two main factors of risks have been identified. The capacity of car manufacturers and maintenance (risk factor 1) may be insufficient to meet the demands of new cars. However, experience of the first phase of the TRS showed that the mitigation strategy of these enterprises have been to employ additional staff and enhance their production lines. The risk factor 2 is related to non repayment of loans by taxi owners. However, effective safeguards have been included in the TRS: (i) the cars remain the property of the banks until the loan is fully repaid; (ii) the MoF through the Transport Fund provides a guarantee for any default loan.

4.6. Knowledge building

4.6.1 The project is multi-dimensional as it related to social protection, urban transport, MSE financing, environment and climate change. It is also innovative from several angles: (i) it addresses climate change elements, with major environmental benefit in the reduction of emissions, and is currently being considered by the UNFCCC for carbon-financing; (ii) it is structured as a Public-Private-Partnership, with different parties contributing to its overall operations; (iii) it promoted gender economic empowerment since 25% of the taxis are owned by women. It therefore offers a great learning opportunity and can position the Bank as an agent of transfer of such practices to other busy cities around Africa suffering from similar problems. As mentioned in section 4.2 on monitoring, a large number of data will be generated by the project that the GoE and the Bank could disseminate.

V – LEGAL INSTRUMENTS AND AUTHORITY

5.1. Legal instrument

An ADB Loan and a MIC Grant will be used to finance the project.

5.2. Conditions associated with Bank’s intervention

5.2.1 ADB Loan Conditions

A. Conditions Precedent to Entry into Force of the Loan

The entry into force of the ADB Loan Agreement shall be subject to the fulfilment by the Borrower of the provisions of section 12.01 of the General Conditions.

B. Conditions Precedent to First Disbursement

The obligations of the Bank to disburse the Loan shall be subject to the entry into force of the Loan Agreement and the fulfilment by the Borrower of the following conditions to the satisfaction of the Bank:

The Borrower shall:

- (a) Cause the Nasser Social Bank to submit evidence that a US Dollar Denominated Special Account has been opened to receive the disbursements of the Loan.
- (b) Cause the scrapping company to submit evidence to the Bank that the equipment, site and procedures utilized for scrapping of the taxis under the Project are in compliance with the Egyptian environmental, social and safety regulation.
- (c) Submit to the Bank a copy of the signed Subsidiary Loan Agreement between the Borrower and the Nasser Social Bank, pursuant to which the Borrower will on-lend the entire amount of the Loan to the Nasser Social Bank in acceptable terms and conditions.

5.2.2 MIC Grant Conditions:

A. Conditions Precedent to Entry into Force of the Grant

The entry into force of the Agreement shall be upon the signing of a Letter of Agreement between ADB and the Government of Egypt.

B. Conditions Precedent to First Disbursement

The Borrower shall have submitted evidence that a US Dollar Denominated Special Account has been opened in a bank acceptable to ADB to receive the MIC Trust Fund resources.

5.3. Compliance with Bank Policies

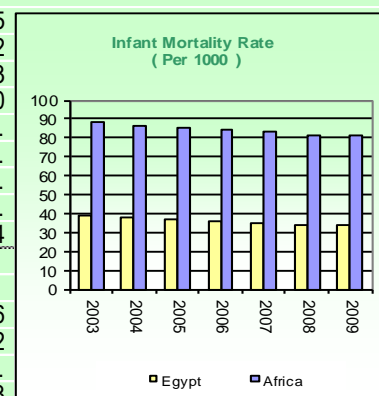
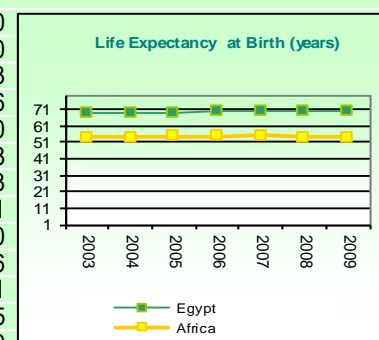
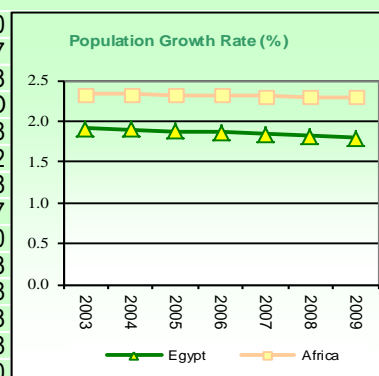
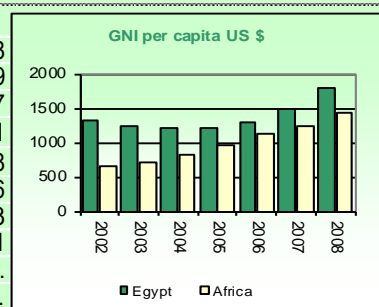
This project complies with all applicable Bank policies, namely, the Medium-Term Strategy, the Poverty Reduction Policy, the Microfinance Policy and the Clean Environment Investment Framework.

VI – RECOMMENDATION

Management recommends that the Board of Directors approve the proposed loan of UA 99.40 million and grant of UA 0.60 million to the Government of Egypt for the purposes and subject to the conditions stipulated in this report.

Appendix I. Egypt comparative socio-economic indicators

	Year	Egypt	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km ²)		1 001	30 323	80 976	54 658
Total Population (millions)	2009	83.0	1,008	5,629	1,069
Urban Population (% of Total)	2009	42.7	39.6	44.8	77.7
Population Density (per Km ²)	2009	82.9	3.3	66.6	23.1
GNI per Capita (US \$)	2008	1 800	1 428	2 780	39 688
Labor Force Participation - Total (%)	2009	32.4	41.2	45.6	54.6
Labor Force Participation - Female (%)	2009	25.6	41.2	39.8	43.3
Gender -Related Development Index Value	2005	...	0.525	0.694	0.911
Human Develop. Index (Rank among 182 countries)	2007	123	0.514	n.a	n.a.
Popul. Living Below \$ 1 a Day (% of Population)	2005	2.0	50.8	25.0	...
Demographic Indicators					
Population Growth Rate - Total (%)	2009	1.8	2.3	1.3	0.7
Population Growth Rate - Urban (%)	2009	1.9	3.4	2.4	1.0
Population < 15 years (%)	2009	32.3	56.0	29.2	17.7
Population >= 65 years (%)	2009	4.6	4.5	6.0	15.3
Dependency Ratio (%)	2009	58.4	78.0	52.8	49.0
Sex Ratio (per 100 female)	2009	101.2	100.7	93.5	94.8
Female Population 15-49 years (% of total populatic	2009	26.4	48.5	53.3	47.2
Life Expectancy at Birth - Total (years)	2009	70.3	55.7	66.9	79.8
Life Expectancy at Birth - Female (years)	2009	72.2	56.8	68.9	82.7
Crude Birth Rate (per 1,000)	2009	24.4	35.4	21.5	12.0
Crude Death Rate (per 1,000)	2009	5.8	12.2	8.2	8.3
Infant Mortality Rate (per 1,000)	2009	33.3	80.0	49.9	5.8
Child Mortality Rate (per 1,000)	2009	38.8	83.9	51.4	6.3
Total Fertility Rate (per woman)	2009	2.8	4.5	2.7	1.8
Maternal Mortality Rate (per 100,000)	2005	130.0	683.0	440.0	10.0
Women Using Contraception (%)	2005	59.2	61.0	61.0	75.0
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2007	227.3	42.9	78.0	287.0
Nurses (per 100,000 people)*	2007	283.3	120.4	98.0	782.0
Births attended by Trained Health Personnel (%)	2008	78.9	50.5	63.4	99.3
Access to Safe Water (% of Population)	2008	94.0	64.0	84.0	99.6
Access to Health Services (% of Population)	2006	...	61.7	80.0	100.0
Access to Sanitation (% of Population)	2006	66.0	38.5	54.6	99.8
Percent of Adults (aged 15-49) Living with HIV/AIDS	2005	0.1	4.5	1.3	0.3
Incidence of Tuberculosis (per 100,000)	2007	21.0	313.7	161.9	14.1
Child Immunization Against Tuberculosis (%)	2007	98.0	83.0	89.0	99.0
Child Immunization Against Measles (%)	2007	97.0	74.0	81.7	92.6
Underweight Children (% of children under 5 years)	2005	6.0	25.6	27.0	0.1
Daily Calorie Supply per Capita	2005	3 331	2 324	2 675	3 285
Public Expenditure on Health (as % of GDP)	2006	2.6	5.5	4.0	6.9
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2007	99.7	100.2	106.8	101.5
Primary School - Female	2007	97.1	91.7	104.6	101.2
Secondary School - Total	2004	79.3	35.1	62.3	100.3
Secondary School - Female	2004	76.9	30.5	60.7	100.0
Primary School Female Teaching Staff (% of Total)	2007	55.8	47.5
Adult Illiteracy Rate - Total (%)	2007	28.0	59.4	19.0	...
Adult Illiteracy Rate - Male (%)	2007	16.4	69.8	13.4	...
Adult Illiteracy Rate - Female (%)	2007	39.3	57.4	24.4	...
Percentage of GDP Spent on Education	2007	3.7	4.5	...	5.4
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2007	3.0	6.0	9.9	11.6
Annual Rate of Deforestation (%)	2006	...	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2006	...	10.9
Per Capita CO2 Emissions (metric tons)	2008	2.0	1.1	1.9	12.3



Sources : ADB Statistics Department Databases; World Bank: World Development Indicators;

last update : September 2010

UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports.

Note : n.a. : Not Applicable ; ... : Data Not Available.

Appendix II. Table of ADB's portfolio in Egypt

	Name	Type	Rating IP/DO	Amount (UA million)	Date Approved
Energy (Power) Sector					
1.	El Kureimat Combined Cycle Power Plant	Loan	2.93/3	163.89	27 July 2005
2.	Abu Qir Thermal Power Plant	Loan	2.79/3	225.47	14 Nov 2007
3.	Ain Sokhna Thermal Power Plant	Loan	3/3	277.63	22 Dec 2008
Total sector approvals				666.99	
Social Sector					
1.	Social Fund III: Support to SMEs	Loan	3/3	55.10	11 Oct 2006
		Grant	3/3	0.60	
2.	RIEEP - Rural Income & Economic Enhancement Project	Loan	N/A	46.2	9 Dec. 2009
		Grant	N/A	0.6	13 January 2010
		Grant	N/A	0.68	2 May 2010
Total sector approvals				103.18	
Water/Sanitation/Agriculture					
1.	Gabal El Asfar Wastewater Treatment Plant	Loan	2.38/2	46.9	7 Oct. 2009
2.	Nubaria and Ismailia Canals Study	Grant	N/A	1.70	18 Oct 2007
3.	Zefta Barrage Feasibility Study	Grant	N/A	0.60	15 June 2009
4.	Egypt MIC Master Plan	Grant	N/A	0.6	11 Oct. 2009
5.	Master Plan for Major Hydraulic Structures	Grant	N/A	1.8	Nov. 2009
Total sector approvals				51.6	
Private Sector					
1.	Citadel Capital Fund	Loan	N/A	12.62	14 October 2009
2.	Egyptian Refinery Company (ERC)	Loan	N/A	148.5	17 March 2010
3.	Damietta Port Container Terminal	Loan	N/A	91.26	4 Dec 2007
4.	SME Support Project (2nd LOC to NBE)	Loan	2/3	121.69	12 Oct 2005
5.	Franchising Sector Support Programme	Loan	N/A	27.3	25 April 2009
6.	Windsor Garden City Hotel	Loan	1.57	8.52	21 May 1997
7.	NBE MIC TAG	Grant	N/A	0.3	31 March 2007
8.	Franchising Sector Support programme	Grant	N/A	0.65	13 April 2009
Total sector approvals				410.84	
Communications					
	NAVISAT Project	Grant	N/A	0.6	20 May 2009
Grant Total				1,232.61	

N/A: Not available. Projects just approved/ not yet supervised

Appendix III. Key related projects financed by the Bank and other development partners in Egypt

PROJECT	FUNDING AMOUNT	DONOR
MSE Development - On-going		
1. Enhancing Access to Finance	USD 300 M (UA 200 M)	World Bank
2. MSE Assistance Project	3.7 B Yen (UA 29.5 M)	JICA
3. Rural Development Upper Egypt	USD 15.1 M (UA 10 M)	IFAD
4. On Farm Irrigation	USD 9.5 M (UA 6.3 M)	IFAD
5. Development of small-scale Poultry Industry	KD 26 M (UA 60.4 M)	Kuwaiti Fund
6. Support to SFD Projects	SR 100 M (UA 17.7M)	Saudi Fund
7. SFD Support Project	USD 25 M (UA 16.6 M)	OFEC Fund
8. Support to Social Development	EURO 20 M (UA 16.9 M)	EU
9. MSE Support Project	USD 87.15 M (UA 58.1M)	AfDB
10. Franchising Sector Support Project	USD 40 M (UA 26.6 M)	AfDB
11. Rural Income and Economic Enhancement Project	USD 70 M (UA 46.6 M)	AfDB
MSE Development - Pipeline		
MSE Support	USD 100 M	Chinese Development Bank
MSE Support	USD 40 M	Agence Francaise de Developpement
Urban Transport		
Cairo Urban Transport -pipeline	USD 250 M (incl. 100 M CTF)	World Bank
Sustainable Transport	USD 7M	UNDP/GEF

Appendix IV. Map of the Project Area



This map was provided by African Development Bank exclusively for the use of the readers of the report to which it is attached. The names used and borders shown do not imply on the part of the Bank and its members any judgement concerning the legal status of the territories nor any approval or acceptance of these borders.