SUMMARY

# International Financial Institution Operations in Southern & Eastern Mediterranean Countries –Review of Evaluation Findings

MAY 2015

EBRD EVALUATION DEPARTMENT

European Bank
for Reconstruction and Development

The Evaluation Department (EvD) at the EBRD evaluates the performance of the Bank's completed projects and programmes relative to objectives in order to perform two critical functions: reinforcing institutional accountability for the achievement of results; and, providing objective analysis and relevant findings to inform operational choices and to improve performance over time. EvD reports directly to the Board of Directors, and is independent from the Bank's Management. Whilst EvD considers Management's views in preparing its evaluations, it makes the final decisions about the content of its reports.

This summary has been prepared by EvD and is circulated under the authority of the Chief Evaluator. The views expressed herein do not necessarily reflect those of EBRD Management or its Board of Directors. Responsible members of the relevant Operations team were invited to comment on this report prior to internal publication. Any comments received will have been considered and incorporated at the discretion of EvD.

Nothing in this document shall be construed as a waiver, renunciation or modification by the EBRD of any immunities, privileges and exemptions of the EBRD accorded under the Agreement Establishing the European Bank for Reconstruction for Development, international convention or any applicable law.

This report was prepared by Shireen El-Wahab, Principal Evaluation Manager, and Saeed Ibrahim, Evaluation Analyst, of the EBRD Evaluation department.

© European Bank for Reconstruction and Development, 2014

One Exchange Square
London EC2A 2JN
United Kingdom
Web site: www.ebrd.com

All rights reserved. No part of this publication may be reproduced or transmitted in any form or by any means, including photocopying and recording, without the written permission of the copyright holder. Such written permission must also be obtained before any part of this publication is stored in a retrieval system of any nature.

Cover photo: Jordan
© Michelle Stone

# Foreword

The core mandate of the Evaluation Department (EvD) at the EBRD is to contribute to superior institutional performance by delivering on two key responsibilities: to reinforce institutional accountability for the achievement of results; and, to produce objective analysis and evidence-based findings to inform operational choices and improve performance over time. The bulk of EvD's annual work programme involves the evaluation of the performance of EvD projects and programmes relative to objectives, and the oversight of a wider institutional system built in part for this purpose.

EvD also produces on an occasional basis papers intended to present the Bank's Board and Management with operationally useful and relevant insights derived from experience outside of the EBRD. The independent evaluation work done within comparator organisations, such as the World Bank Group and the regional development banks, often contains findings from which this institution might benefit; and EvD is alert to opportunities to draw profitably upon such work where it can.

Numerous multi- and bi-lateral financial organisations have been active in the countries of the Southern and Eastern Mediterranean since well before the EBRD's shareholders asked it to engage. They have completed many projects there, and have also built a body of independent evaluations of these projects, while the EBRD's operations are all of a more recent vintage.

This paper draws on findings in these evaluations and presents them in a compact form we hope will be of use and interest to Board members and operations staff. It has been prepared independently by EvD and is circulated under the authority of the Chief Evaluator. The views expressed herein do not necessarily reflect those of EBRD Management or its Board of Directors. EvD Principal Manager Shireen El-Wahab and Evaluation Analyst Saeed Ibrahim were the principal authors; Noureddine Berrrah, a Consultant, provided valuable assistance.

J. Eichenberger; Chief Evaluator

May 2015

# Abbreviations

| | |
|---|---|
| ABI | Annual Business Volume |
| ACP | African, Caribbean and Pacific countries |
| AfDB | African Development Bank |
| EIB | European Investment Bank |
| ESCO | Energy Service Company |
| EvD | Evaluation Department |
| FEMIP | EIB's Facility for Euro-Mediterranean Investment and Partnership, |
| GEF | Global Environment Facility |
| JBIC | Japan Bank for International Cooperation |
| ICA | Industry Commerce and Agribusiness business group |
| ICD | Islamic Corporation for the Development of the Private Sector |
| ICT | Information Communications Technology |
| IEG | Independent Evaluation Group |
| IFC | International Finance Corporation |
| IFI | International Financial Institution |
| KfW | Kreditanstalt für Wiederaufbau |
| MDB | Multilateral Development Bank |
| MEI | Municipal and Environmental Infrastructure |
| OFID | OPEC Fund for International Development |
| PPP | Public Private Partnerships |
| SBS | Small Business Support |
| SEMED | Southern and Eastern Mediterranean Region |
| SME | Small and Medium Enterprise |
| TC | Technical Cooperation |
| WBG | World Bank Group |

# Introduction

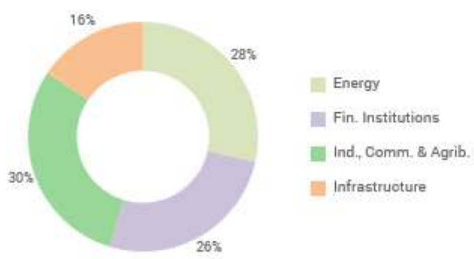
After extensive technical assessments and review, in 2012 the EBRD Board of Governors authorised the Bank to commence operations in the Southern and Eastern Mediterranean Region (SEMED) on the basis of a gradual and selective approach. Resolutions were passed by the Board of Governors to commence operations in Jordan, Tunisia and Morocco in September 2012 (SGS12-212), and Egypt in November 2012 (SGS12-262). Since then, the Bank's Board of Directors has approved investments of almost €2 billion in Jordan, Tunisia and Morocco. Priority focus has been on the financial sector, infrastructure, sustainable energy, and industry and agribusiness; 76% of investment has gone to the private sector. Technical assistance of almost €50 million has also been provided, focussing on manufacturing, financial institutions and local authority services, with the largest volumes committed in Egypt and Morocco (2H 2012 – 1Q 2015, excludes regional and goods and services TC).

**Regional Composition: Southern and Eastern Mediterranean**

| €million at reported rates | Active Operations | Portfolio | YTD operations | ABI |
|---|---|---|---|---|
| Egypt | 21 | 833 | 1 | 19 |
| Jordan | 16 | 349 | 2 | 23 |
| Morocco | 19 | 405 | 1 | 5 |
| Tunisia | 17 | 244 | 3 | 45 |
| Total | 62 | 1,831 | 7 | 92 |

Source: EBRD Business Performance Navigator, as of March 2015

**EBRD Portfolio composition in SEMED by sector**




Source: EBRD Business Performance Navigator, as of March 2015.

The Bank's monitoring and evaluation mechanisms ordinarily provide a steady flow of project and portfolio performance material to inform Board and Management consideration of new operational proposals and strategies. However, given their very recent vintage SEMED operations have not reached sufficient maturity for evaluation and are thus not yet a source of information to inform Board and Management decision-making. Nevertheless, numerous other international financial institutions have been operating in these specific countries and sectors for quite some time, and have accumulated a body of experience and evidence certain to be of some relevance to EBRD's operations.

EvD has completed an extensive review of evaluation material available from other organisations in order to assess the state of analysis and to extract where possible findings that might be immediately useful to the EBRD. After an initial review of 281 publically available documents, this paper reviews a total of 28 evaluations found to contain relevant and useful material and summarises their main insights and findings. Most are drawn from evaluations of private sector related operations completed between 2000 and 2014. Institutional sources include: global multilaterals (World Bank and IFC); regional multilaterals (EIB, AfDB, ICD); and, major bilaterals (JBIC; AFD's Proparco; OFID). Issues covered include: internal and cross- IFI coordination; synergy between TC and operations; fiscal challenges of PPPs; corporate governance challenges; procurement issues; monitoring and evaluation. Specific studies from which findings are drawn are available through indicated links and a comprehensive list of institutional and operational findings is appended according to theme.

Several limitations of the paper should be noted. First, the study found that relevant evaluation data are somewhat limited and often more general than specific. Second, though cross cutting issues are also included, the sector specific operational insights do not cover all EBRD sectors (specifically manufacturing & services and trade facilitation). Finally, and inevitably given the nature of the institutions from which the sample is drawn, the paper includes some operational insights that relate to public rather than private operations; these nevertheless also provide valuable contextual insights for the EBRD.

# Institutional coordination

### Limited institutional coordination results in missed opportunities for leverage

– During preparation of the Morocco Financial Sector Development Programme Phase II, the African Development Bank (AfDB) and the World Bank consulted regularly during missions; this strengthened the synergy and coherence of their respective interventions.

– Cooperation across IFIs is necessary to meet financing needs for renewable energy. The AfDB estimates that "approximately US$ 7 billion is needed during the next 10 years for the renewable energy scale-up in Egypt alone", thus close cooperation by IFIs and pooling of their financial resources will be required.

– A World Bank assessment of SEMED local manufacturing potential found increasing potential for local manufacturing of components for solar power in the region, if the market grows; however, efforts were fragmented and industry cooperation low. Full potential of local manufacturing in renewable energy industries requires enhanced regional cooperation among SEMED countries and harmonization of IFI's procurement rules.

### IFI coordination can itself be a source of additionality

A World Bank Financial Sector Development Policy Loan placed special weight on the World Bank's role in coordinating development assistance. The review noted however that the Bank failed to act as a clearinghouse for supervision reports and as a result project supervision suffered.

# Staff skills and knowledge

### Strong and knowledgeable IFI teams are essential for financial sector reforms

– An evaluation of AfDB's Financial Sector Reform Programme in Egypt identified weakness of the project team, especially in its field office, as the major cause of the limited capacity to engage effectively in the relevant policy dialogue.

– The "Ex-post Evaluation of EIB's Investment fund operations in FEMIP and ACP countries" stressed the need to change EIB departmental structure and strengthen private equity expertise among loan officers.

# Support for investment lending

### Sound economic analysis and technical assistance strengthens investment lending and implementation of reforms

– A World Bank Country Partnership Strategy for Morocco benefitted from good quality economic and sector work which was well linked to the lending program; technical assistance was found to have informed policy and supported implementation of sector reforms.

– The AfDB noted in an interim review of the Morocco Country Strategy that lessons from a growth diagnostic confirmed the relevance of its design and helped fine-tune support for the remaining period.

**Selective advisory work well linked to transactions is a driver of project performance**

An IFC report on advisory services operations in the Middle East and North Africa noted that as a result of targeted thematic interventions, they were able to bring about improved access to finance, SME skills development, and youth employment.

# Stakeholder feedback

### Stakeholder feedback during implementation can enhance outcomes

An assessment of AfDB's overall Morocco program found that elements such as government feedback on respecting audit report deadlines, holding quarterly donor coordination meetings, making monitoring a more comprehensive effort and requesting regular and quality project reports, significantly enhanced project effectiveness.

# Evaluability of project design

### Evaluability shortcomings can be an early signal of project implementation problems

– The design of a World Bank power project in Egypt inadequately linked project components and expected outcomes, making it difficult to see ex ante that the proposed objectives were too ambitious for the project's limited project scope and time-frame.

– A review of a World Bank Jordan Amman Development Corridor Project, whose second development objective was to assist the Borrower in providing access to affordable land for productive investment and urban development purposes, concluded that key project activities would at best only begin steps toward the intended objective; even if fully implemented they were insufficient to deliver the overall objective.

– The current practice of stopping the monitoring of PPPs once the contract is awarded or a few months into their life span is insufficient. Having defined principles for monitoring PPPs over the long run helps to best capture vital performance aspects of PPPs, including— where relevant— user aspects.

– Effective monitoring indicators should be within the scope of project control and execution. As an illustration - indicators such as turnaround time of freight cars, incoming orders and adherence to timetables were in retrospect, judged as unsuitable project indicators because they depended on external factors which had been outside the influence of one particular rail project.

# Gender mainstreaming

**Gender mainstreaming needs to be embedded in country strategies and IFI systems, and backed by adequate institutional resources**

An AfDB Gender Strategy evaluation found that weakness in country strategy design led to missed opportunities. It recommended that gender mainstreaming be an integral to the Bank's established mechanisms, systems and procedures; it also noted that strong partnerships with key actors are needed for better resource mobilisation, and leveraging experiences and capacity.

# Policy dialogue through resident offices

**Resident office location is an important factor in sustaining policy dialogue**

An AfDB strategic review for Morocco noted that the location of premises outside Rabat diminished the institution's capacity to sustain effective policy dialogue.

# Integrated approaches in infrastructure

**An integrated approach to complex infrastructure projects can produce better results than separate projects, especially where capacity gaps are addressed in parallel**

KfW found during support for Egypt National Railways that such a complex project could not be designed in isolation of sector framework considerations. The overall objective could not be achieved partly because of operational shortcomings, such as the insufficient marketability of the rail services, passive market approach by the client and growing competition from haulage firms, together with a shift away from state-owned enterprises.

# Assessing fiscal implications of PPPs

**IFIs need to assess carefully the fiscal implications of PPPs**

A review of the World Bank Group's PPP portfolio indicates that downstream contingent liabilities for government that emerge from PPPs are rarely fully quantified at the project level. The World Bank Group has actively been building country capacity to assess these, through advisory services by IFC and technical assistance financed by trust funds, grant supported or reimbursable technical assistance by the World Bank.

# Complementary roles of regulatory and project work

### Regulatory and "doing deals" approaches should not be viewed as mutually exclusive to encouraging growth in fragile environments

A recent review of World Bank global investment climate reform assistance (echoing the World Bank 2011 World Development Report) suggested that though there is no clear consensus on sequencing, experience demonstrates that both can work in parallel and are complementary to each other.

# EBRD operations in Morocco to April 2014

### An internal review of EBRD operations in Morocco indicates several areas for further strengthening EBRD operations there[1]

The document indicated low business community awareness of the EBRD and its mandate, a challenge to reaching a private sector whose needs have proved difficult to address by the existing local or international initiatives. Delays in completing the Host Country Agreement negatively affected recruitment. Wide availability through other institutions of concessional funding and grants, mainly in infrastructure and power, with limited conditionalities, have reduced incentives to involve the private sector.

The report indicates: (i) Need for tailor-made financing products not widely available in Morocco for example mezzanine, Trade Facility Programs products; (ii) The EBRD's business model based on strong local presence and a combined offer of Small Business Service and Banking is very relevant for Morocco; (iii) Dialogue with "Office des Changes" and commercial banks could soon allow the EBRD to be the first IFI to offer lending in local currency; and, (iv) private sector involvement in infrastructure can be influenced through policy dialogue and capacity building.

[1] Presented to Board in April 2014 as part of the presentation of Country Strategy Concept (WS14-04)

# Annex

The evaluation report review found that IFIs and MDBs experienced similar problems and issues in designing and implementing projects in the SEMED countries. The report has synthesised and categorised these by themes and sector. Findings which appear above are not repeated:

1. Cross Cutting Issues: Gender and Youth Employment
2. Energy Efficiency And Climate Change (E2C2)
3. Municipal & Environmental Infrastructure (MEI) and Transport
4. Financial Institutions (FI) and Small Business Support (SBS)
5. Industry, Commerce and Agribusiness (ICA)
6. Natural Resources
7. Power and Energy
8. Knowledge Economy & Innovation

## Cross cutting issues: Gender and Youth Employment

### Targeted labour market reform is needed to remove regulatory barriers that constrain female and youth employment

A report on the Jordan New Work Opportunities for Women Pilot, indicated that in the longer term, interventions should focus on removing regulatory constraints[2].

### Education system reforms designed and implemented in partnership with the private sector are required to sustainably bridge the skills gap

The "Economic Participation, Agency and Access to Justice in Jordan" report recommends that reform initiatives should be designed and run in partnership with the private sector, ensuring sustainability and skills matching to better prepare the youth and in particular female graduates to transition from school to work.

### Improving access to credit for female entrepreneurs leads to increased job creation for women

The World Bank report "Economic Participation, Agency and Access to Justice in Jordan" notes that women business owners believe they are more likely to be discriminated against merely on the basis of gender. The claim is somewhat corroborated by the 2011 Financial Inclusion Index, which showed that women in Jordan do seem to have less access to loan and credit in general and from formal institutions in particular.

### Reducing the real and perceived costs of female hiring is important to boost female employment

The World Bank report "Economic Participation, Agency and Access to Justice in Jordan" notes that private employers find women more costly to employ than men due to perceived low productivity and some real costs related to compliance with the country's laws and regulations, which together adversely affect employers' decision on female hiring. The report recommends that: "distributing the cost across males and females reduces the "per head" cost and effectively "socializes" the cost across genders".

2 The report found that job vouchers only boost employment in the short run with no long run effect compared to the control group, and that employability skills training had no statistically significant impact on employment outcomes

**Addressing youth demands for meaningful social and economic inclusion requires an integrated package of measures that particularly focus on two key areas: (a) linking employability to labour markets and entrepreneurship and (b) active youth participation in such program and policy design**

A review of a wide range of institutions and programs that offer diverse services[3] to young people in Morocco and concluded that the programs had fragmented coverage (especially among disadvantaged youth), inadequate resources, poor partnerships, poor or inaccessible facilities, and absence of poverty focus as key constraints.

## Energy Efficiency and Climate Change (E2C2)

**Energy pricing reform is key to the success of the energy efficiency programs. However, while price rationalization is widely accepted by stakeholders, they all stress that it needs to be gradual to avoid social disruptions.**

Setting energy price below its full cost dis-incentivizes energy conservation and has been cited as a reason for unsuccessful energy efficiency programs in Egypt. The IBRD/IFC Egypt Interim Strategy Note stresses that "Energy subsidies accounted for about US$ 16.6 billion in 2012 and are on the rise…these subsidies disproportionately benefit higher income households and profitable industries, which can afford to pay full price".

**A successful energy efficiency program requires an adequate legal and regulatory framework, dedicated institutions for developing and implementing energy efficiency programs, and enforcing mandatory energy efficiency policies and regulations, and proper selection of financing and delivery models best suited to the country context.[4]**

In its report "Clean Energy Development in Egypt-2012", AfDB notes that although an Energy Efficiency Unit was established in 2009 it had no implementation authority. This led to the absence of coherent national energy efficiency regulations and programmes and weakened the national energy efficiency programme in Egypt. AfDB stressed the need for a specialized entity that would function as the country's hub for promoting energy efficiency. AfDB also suggested that the institutional set-up should utilize the private sector capacity, for instance ESCOs, in implementing energy efficiency activities.

**Appropriate energy efficiency financing and delivery models should be carefully selected based on country's characteristics.**

In its review of the "Implementation Completion Report of the GEF Tunisia-Energy Efficiency Program/Industrial Sector", IEG found that developing an ESCO model is challenging in immature energy efficiency markets with weak legislation frameworks specifically on ESCOs. Further, entrenching the trust among key stakeholders (i.e. industrial companies and commercial banks) was important, and here the report considered that the importance of building personal contacts and trust for doing business in Tunisia was not adequately taken into account. In the end, commercial banks, then new to the energy efficiency financing

3 Including employment, training opportunities, community participation, summer camps, sports and recreational activities, which form the foundation for a comprehensive youth program in Morocco.

4 While active dedicated energy efficiency institutions worked well in developed countries with strong legal and regulatory frameworks. In Developing countries, they increased awareness and developed policies and regulations but struggled in enforcing implementation. To the contrary in China's ambitious EE targets were met without dedicated energy efficiency institutions as the government made energy efficiency a national priority, promulgated adequate laws and regulations, put in place the administrative and financial incentives and made all government institutions accountable for the implementation of the programme.

business, were reluctant to extend loans to ESCOs without collateral assets despite the availability of the guarantee facility.

## Municipal & Environmental Infrastructure (MEI) and Transport

### Lack of bankable PPP projects can be a serious limitation, due to lack of skills and resources for the preparation of a PPP pipeline

IEG evaluators of the World Bank portfolio suggested that a dedicated PPP pipeline and project development facility would be beneficial, which partly resulted in the decision to develop, a Global Infrastructure Facility. The evaluation also recommended the provision of authoritative guidance to staff on how to handle unsolicited PPP proposals.

### Successful sector reforms, government commitment and coordination among concerned government agencies are essential

A review of the IFC PPP portfolio found that only about half of the projects reached contract closure, primarily due to political and economic risk factors and lack of government commitment. The report also noted that success on essential corresponding sector reform was only evident in about half of the loans The completion report of the “Egypt West Delta Water Conservation And Irrigation Rehabilitation Project” (from World Bank and AFD) found that the project was prepared without involvement of the relevant ministries at the early stages, which led to lack of leadership and decisive action by the government that allowed the project to drift to eventual cancellation. Similarly, the IFC supported Morocco Guerdane Irrigation PPP transaction success was ensured by government commitment and their provision of required guarantees.

## Financial Institutions (FI) and Small Business Support (SBS)

### Sustainable support for SMEs needs to be driven by evidence-based, understanding of distinguishing features and SME binding constraints

The weak focus on SME led to lower than average performance rating of some SME projects for example, an evaluation of IFC investment Portfolio (2006-2012) showed that only 59% achieved their development outcome, much lower compared than the 69% experienced for both the overall portfolio or the rest of the financial markets portfolio.

### Complex and ‘Christmas tree’ projects are less likely to achieve their developmental objective.

A review by IEG of 30 closed investment projects evaluations, suggests that projects identified as overly complex in design or have more components, are less successful than others. The study suggests that these projects in general suffer more restructuring, time extensions and management flagging of risks.

### Limited programmatic evaluation and lack of quality data on developmental impacts within projects obstructs learning.

Evaluations on SME related projects indicated insufficient information to truly understand their development impacts, both in terms of beneficiary impact and impact on market development. As an illustration, of the 51 World Bank SME lending projects, IEG found that 27 projects had inadequate M&E frameworks with poor data quality which neither fully captured how SMEs benefited but also, how the financial system benefited. In late 2012, the World Bank’s Financial Inclusion Practice issued an impact assessment of the framework for SME finance offering experimental and non-experimental approaches to evaluating SME policy, program, and project interventions. The practice also reported working on a results framework for monitoring MSME finance activities.

## Correspondingly, targeted SME projects require strong evaluability guidance and quality control

This guidance should ensure that project documents:

1. Define the group of firms to benefit by measurable criteria such as number of employees/annual revenues.
2. Justify the definition of the beneficiary group targeted (which could be a subset of SMEs) based on country-specific evidence that this group suffers from size-specific market failures or constraints.
3. Specify and wherever appropriate embed in legal provisions the mechanism to reach the targeted group.
4. Include in its results framework and M&E framework indicators of the impact of the project on the targeted group and on the constraints or market failures justifying the project.

## The quality of the technical analysis, as well as the link between analytical activities, lending, and technical assistance is crucial to the success of policy-based operations in the financial sector.

The Implementation Completion Report of the AfDB "Morocco Financial Sector Development Support Programme", confirmed that success was supported by a project design which was based on the results of analytical work recently undertaken and, that took into account the salient lessons learned from previous AfDB budget support. An IEG Comparative Review found in three successful financial sector reform projects in Egypt, Guatemala and Morocco that high quality technical analysis provided the basis for successful policy dialogue, and underpinned the cooperation between the authorities and the World Bank teams during project implementation.

## Projects which are strongly aligned with the country priority agenda, and which are structured using covenants and conditionalities to ensure government and stakeholders' commitment can substantially contribute to project success.

To ensure the strong ownership of the measures included in the "Morocco Financial Sector Development Support Programme by the government authorities, AfDB and the World Bank aligned the measures with the Government's Programme and budget cycles. This programme selected some preliminary measures among those deemed most necessary to boost development and implementation of these measures prior to Board approval put the program on the right track to meet development objectives. To the contrary, reports note a weaker design of the Egypt Financial Sector Reform Programme, where the inclusion of numerous and unrealistic effectiveness delayed project implementation and contributed to project failure.

## Restructuring of state-owned banks without going as far as privatization, requires strong safeguards to avoid regression.

An IEG comparative review noted that in Egypt the reform program covered the privatization of the fourth largest state-owned commercial bank and the sale of participations in joint-venture banks but did not include the privatization of the two largest commercial banks nor the large insurance companies. Many measures were taken to improve the management of these institutions, which were akin to an effective privatization of ownership. However, some reports suggest that the safeguards created to prevent regression back to unsound practices appear to have not been sufficiently strong since state bank lending to SOEs on a long-term basis with thin margins has resumed.

### SME financing in SEMED depends on international financial institutions.

An evaluation by KfW of their work in Tunisia emphasised the need for SME finance in Tunisia. The evaluation stated that credit lines of other banks, heavily dependent on IFIs, provide the principal way for partner banks to obtain funding given the nascent bond market and bank sector development and rating. According to the evaluation, without this continuous support and with the persistent limitation on deposit use, there is no reason to expect the increased development of long-term investment lending business.[5]

## Industry, Commerce and Agribusiness

### Complex and multi-layered projects are unlikely to achieve development objectives because they end up in practice being implemented by several un (or weakly) coordinated agencies and suffer from insufficient resources to make any impact in any one area.

The "Tunisia Agriculture Support Service Project" consisted of 5 components and multiple subcomponents, implemented by 12 different agencies which IEG noted worked largely in isolation, and coordinated by a project management unit which had insufficient leverage due to its ministerial placing. Major implementation issues were thus often brought to the inter-departmental coordinating committee for review which contributed to delays in implementation.

### Direct consultation with farmers is essential to understand their needs and tailor project design to address them as they view producer associations as arms of the government, which did not represent their interests.

The IEG report of the "Tunisia Agriculture Support Services Project" considered improvement of the governance of the agriculture producers' association as "critical for ensuring that they actually represent farmers' interests". Here there was little active participation by members who viewed these entities as arms of the government. The report also found that the substitution of public for private extension services was constrained partly by the low quality of the extension services pilot prepared and included in the project without consultation with them, which meant they were not happy with the offer. The experience with extension services in other countries demonstrates that small farmers are willing to pay for extension advice when it meets their production and marketing needs. The report stressed weak design of the project, which did not include activities to improve the governance structure of the agriculture producers' association, as the underlying problem.

## Natural Resources

### The success and sustainability of natural resource management projects can be undermined by the limitation of "forms of organization" available to targeted communities.

Community Development Committees are informal entities created by certain projects which do not have formal legal status to engage directly with government agencies and thus, most ceased following project closure. In a different way, the Agriculture Development Group involved in the "Tunisia Northwest Mountainous and Forestry Areas Development project" is a legally recognized associative structure but membership limitations prevented it from representing the interests of the entire community. In addition, the agriculture and fisheries

[5] Refers to loan terms greater than 7 years.

development associations are prohibited from engaging in profit-generating commercial activities, constraining their financial sustainability and capacity for self-management. The weaknesses undermined genuine collaboration with communities over the long term and consequently affected project effectiveness. IEG noted that this could be overcome to a certain extent by extensive consultation and helping communities to conduct new elections and revalidate the priorities in their local development plans.

### Developing successful income-generating micro-projects requires not only technical support for production but also attention to markets and the availability of micro-credit.

In the "Tunisia Natural Resources Management Project", training and basic materials were provided to women to develop income generating micro-projects and demand for these projects exceeded forecasts. However, IEG noted that the success of those micro-projects was largely constrained by insufficient micro-credit and that the small scale also reduced their economic benefits

## Power and Energy

**Failure to embed a mechanism to hedge foreign exchange risk in the project design leads to unexpected cost over-run due to volatility of foreign exchange rate and the delay in project implementation.**

This is corroborated in the IEG "Implementation Completion Report Review – Egypt – El Tebbin Power". IEG stressed that "estimate of project cost at the project design stage is vital; however, equally important at this stage is a careful study of how to manage the risk of cost over-run" due to volatility of foreign exchange rate. Here, the loan was denominated in US dollars while the procurement contracts were denominated in Euros. No financial mechanism was in place to hedge the foreign exchange risks which emerged during implementation. As a result, the total project cost at completion was 58% higher than at appraisal, in part due to appreciation of the Euro and in part due to rising prices of commodities. IEG noted that the additional time required for closing of the additional financing contributed to the delay in project implementation.

## Knowledge Economy and Innovation

**Successful implementation of e-government applications demands a small number of technically competent implementing agencies.**

This is corroborated in the IEG "Implementation Completion Report – Tunisia Information and Communication Technologies Sector Development Project". As stated in the report, one of the project development objectives was to "assist the Borrower in promoting the development of the Information and Communication Technology sector by developing e-government applications". In this project, a total of 10 implementing agencies were involved in the component of "e-government applications development". IEG stressed the coordination difficulties of involving too many agencies in the implementation. IEG further noted that the World Bank team made "insufficient allowance for the lack of ICT knowledge (especially in rolling out new applications), project management experience and procurement capacity in some of the implementing agencies. IEG attributed coordination difficulties and capacity insufficiency to the delay in project implementation of "e-government" application component. IEG noted that "measures were taken to address these limitations through additional staffing with expertise in procurement, ICT and project management, and provision of specialized training in procurement". However, these mitigation measures were not adequate to avoid the implementation delay.