ICR Review
Operations Evaluation Department

Report Number : ICRR11495

1. Project Data:		**Date Posted :** 05/29/2003		
PROJ ID:	P005168		**Appraisal**	**Actual**
Project Name :	Pvt Sec Tourism Inf & Env	**Project Costs (US$M)**	805	62.5
Country:	Egypt	**Loan/Credit (US$M)**	130	62.5
Sector(s):	Board: UD - Telecommunications (24%), Power (24%), General water sanitation and flood protection sec (24%), Roads and highways (24%), Central government administration (4%)	**Cofinancing (US$M)**		
L/C Number:	L3545; L3605			
		Board Approval (FY)		93
Partners involved :		**Closing Date**	12/31/2000	10/17/2002

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2. Project Objectives and Components

a. Objectives

Project objectives were to :-

1. support the Government in improving the policy environment for the tourism sector through further investment rationalization, deregulation and privatization of the tourism portfolio;
2. provide catalytic financial support for infrastructure development in major tourist areas sponsored by the private sector in order to mobilize long-term financing from commercial banks and venture capital for equity investments; and
3. ensure sound environmental management of the Red Sea coast with the support of the GEF (Global Environment Fund.)

b. Components

The project costs (excluding contingencies and interest during construction), were $574 million, comprising :-

1. area development in greenfield sites (90%);
2. infrastructure development in existing tourism areas (8%); and
3. environmental management and technical assistance (TA) (2%).

c. Comments on Project Cost, Financing and Dates

Because of delays, after appraisal and before approval , the environmental component was converted to an independent GEF project, which was managed by the same Bank supervision team . Due to failure to disburse, the main project was nearly cancelled in 1996. The appraisal costs were initially expressed in both local and foreign currency and assumed $330 million in commercial equity and $ 300 million in commercial loans. Shortly after approval the loan was recast as single currency US$ with the final borrower paying for cover of foreign exchange risk. Neither equity investments nor commercial bank loans materialized and in September 1997, US$ 57.5 million was cancelled when it was evident that most components would either (a) be financed by other parties; (b) had become unnecessary; or (c) would not be implemented. The restructured project comprised the policy component (with no associated cost) and the ASD (Abu Soma Development Company) costs. The $62.5 million loan, which is also the project cost, equals the sub-loan from the Tourism Development Authority (TDA) to ASD.

3. Achievement of Relevant Objectives:

1. Important policy objectives in deregulation and environmental management were achieved early in implementation. From the beginning the government largely withdrew from infrastructure provision, hotel rates were deregulated, public sector hotels privatized and rational land allocation policies developed by TDA . A number of public sector institutions were transformed from investment agencies to regulatory authorities, albeit with the substitution of USAID for Bank funding of the associated TA . Private sector-driven development and

enforcement of environmental regulations are probably irreversible. One notable outcome was that TDA built up a cadre of experienced and well-qualified staff, able to supervise major private investments.
2. This objective was not achieved and many components were cancelled; the final project cost was less than 10% of that anticipated at appraisal. Only one of the two integrated tourist developments, that at Al Soma, was completed, while the other at Sal Hasheesh was implemented without Bank involvement. The project was not able to achieve the desired demonstration effect of private sector build/own/operate (BOO) projects in water supply, sewage treatment and solid waste management. Private equity was not attracted to participate in project investments. Neither the Nile Cruise Information and Safety System (NCISS) nor the Berthing System were completed.
3. This was achieved, but not as part of the project. The environmental impact of the sister GEF Egypt Red Sea Coastal Project, (P004981) was partly attributable to the project's policy leverage early in implementation, when the sums involved promised to be much larger.

The ERR for the ASD project was estimated to be 22.6% at appraisal, but has been revised to 10.3% in the ICR; the NPV fell even more because of the drastic scaling back of project investments. Delays and interruptions from terrorist activities had effects beyond that anticipated in sensitivity analysis and seriously affected the financial viability of the project.

4. Significant Outcomes/Impacts:

1. Abu Soma was an outstanding example of environmentally friendly, integrated tourism development, serving as a model for others and contributing to the "greening" of the sector. For instance the employee housing received several prizes for environmental management.
2. The project helped secure the passing of a law that will facilitate future private sector investment in water supply, sewerage and solid waste.

5. Significant Shortcomings (including non-compliance with safeguard policies):

1. Quality at entry was not satisfactory with a lack of readiness, capacity and mechanisms to implement "a state of the art approach" to integrated tourism development. In addition to the unmanageable scale of operation, the new and untried TDA was asked to be a financial intermediary, onlending to the private developers and handling the complex inter-ministerial agreements needed for the Nile Valley components.
2. The Bank and government continued to pour scarce supervisory and administrative resources into the project, long after it became evident that it had been badly conceived and would fail to achieve its main objective.
3. The TA consultancy component, while essential for institutional development, was not realistic given the government's reticence to borrow when large sums of grant aid were available from USAID.
4. The non-completion of berthing and safety facilities threaten both environmental and physical security.
5. The project was forced by political circumstance to adopt a financing mechanism which had high transaction costs. The design had assumed that the private sector would both invest equity and secure loans from commercial banks, and that the loans would then be guaranteed by government. Attempts to get commercial counter-guarantees to the obligatory sovereign guarantees, failed. As the ICR puts it - " The project relied heavily on public-private interaction, but failed to take account of lessons learned from previous projects regarding public sector attitudes towards the private sector." There was considerable political opposition to what was seen as a subsidy to the private sector, that would undermine financial sector policy.
6. Major changes to the project took place during implementation but the objectives were not revised.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Unsatisfactory	Moderately Unsatisfactory	Main objectives were mostly not achieved but there were some noteworthy institutional achievements, especially in the areas of regulatory reform, TDA capacity and environmental management.
Institutional Dev.:	Modest	Substantial	Institutional objectives were largely achieved and substantial capacity established for the TDA.
Sustainability:	Likely	Likely	The policy climate has changed to favour a private sector-driven tourism sector, and the regulatory system is much improved. It is unclear how much of the reform the project can claim credit for.
Bank Performance:	Satisfactory	Unsatisfactory	Bank supervision was intensive (19 missions) and received a satisfactory rating from QAG on two separate occasions. But Bank Management did

			not recognize the unworkability of the poor project design, and should have cancelled the project at an early stage or revised the objectives.
Borrower Perf .:	Satisfactory	Unsatisfactory	While the performance of TDA and ADS was satisfactory, central government provided little timely support for the public good components, such as safety, information systems, and promotion of infrastructure for liquid and solid waste .
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

1. No matter how technically well-designed a project is, investment components will fail if financing plans are incomplete and inadequate. The suitability of onlending proceeds from Bank loans to private investors should be carefully considered in the light of the stringent procurement procedures and consequent financial risks involved .
2. Procurement procedures tailored to conditions applicable to large sovereign loans are overly cumbersome and costly in relation to the size of disbursements typically applicable to private sector projects .
3. Too much flexibility is a not a good thing - "the degree of flexibility required in a project must be carefully considered, and not exceed the limits imposed by Bank and Government requirements and regulations " (ICR page 11.)
4. When there are significant changes to a project's components the objectives should be formally revised .
5. Future Bank-supported tourism projects should concentrate on sector analysis, systemic and institutional policy issues, environmental investments and infrastructure with a significant "public good" content.

8. Assessment Recommended? ● Yes ○ No

Why? This was an overambitious and poorly conceived project, which ran on for too long . In view of the renewed enthusiasm for Bank-Private Sector partnerships, the cautionary lessons of this project should be highlighted.

9. Comments on Quality of ICR:

Satisfactory on balance. But the appraised $800 million project cost is not mentioned in the ICR and Table 2 (Cost Annex) is incomplete. Aslo, the IRR/ERR calculation was hard to follow until further explanation was provided by the region. It is really an FRR.