

1. Project Data:		Date Posted : 04/19/2010		
PROJ ID : P082914		Appraisal	Actual	
Project Name :	Eg-airports Development Project	Project Costs (US\$M):	577.2	648.6
Country:	Egypt	Loan/Credit (US\$M):	335.0	375.0
Sector Board :	TR	Cofinancing (US\$M):		
Sector(s):	Aviation (97%) Central government administration (3%)			
Theme(s):	Trade facilitation and market access (34% - P) State enterprise/bank restructuring and privatization (33% - P) Regulation and competition policy (33% - P)			
L/C Number:	L7222; L7514			
		Board Approval Date :		03/30/2004
Partners involved :		Closing Date :	06/30/2009	06/30/2009
Evaluator :	Panel Reviewer :	Group Manager :	Group:	
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2. Project Objectives and Components:

a. Objectives:

The overall Project Development Objective (PDO) shown in the PAD and LA was to increase the levels of performance at Cairo Airport International (CAI) and Sharm El Sheikh Airport (SSH), and promote the public-private development of such airports. The PAD also indicated that the project aimed to:

- i) Eliminate capacity bottlenecks to traffic growth, particularly for tourism and associated foreign exchange earnings;
- ii) Raise CAI and SSH service quality to international best practice standards; and,
- iii) Promote efficient private participation in airport management and airport service delivery in a more competitive market.

These three objectives are used in this review given they are more specific .

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Components (or Key Conditions in the case of DPLs, as appropriate):

There were three components:

- i) Construction of a third terminal at Cairo International Airport. (Appraisal cost US\$ 453.9 million; actual US\$ 564.3 million). This multilevel terminal was intended to handle 11 million passengers a year and to have the capacity to handle passenger flows from wide body aircraft, expected to discharge between 600 and 800 passengers at a time. The scope included electromechanical systems and equipment, and the new terminal was to be integrated with the

existing terminal two. Cairo is the capital city of Egypt and handles large numbers of foreign tourists .

ii) Construction of a new terminal at Sharm El Sheikh Airport. (Appraisal cost US\$ 59.1 million; actual US\$ 78.4 million). The airport had a design capacity of 4.5 million passengers a year (increased from 2 million) and included electromechanical systems and equipment . It serves a thriving coastal resort on the Sinai Peninsula .

iii) Strengthening sector operations and environmental management. (Appraisal cost US\$ 26.3 million; actual US\$ 4.1 million). The component included two elements . First, the Government of Egypt through the Cairo Airport Company (CAC) and the Egyptian Airport Company (EAC), financed project managers and legal advisors to support the preparation and implementation of the civil works, and second, the Bank financed i) the preparation of a national airports masterplan; ii) the preparation of an action plan for gradual air transport liberalization; iii) the definition of a strategy for reorganization and development of air cargo; iv) the deployment of air quality and noise monitoring equipment, and the establishment of environmental units in CAI and SSH; and v) management capacity building and provision of IT equipment at the Egyptian Holding Company for Airports and Air Navigation (EHCAAN), CAC, and EAC.

In addition there was provision for a front-end fee, estimated at US\$ 3.3 million, which in the event was only US\$ 1.8 million.

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

The project's lending instrument was a fixed spread loan with equal repayments . The loan of US\$ 335 million had a 17 year maturity, including a five year grace period . In April 2008 the Board of Executive Directors of the World Bank approved an additional amount of US\$ 40 million to cover cost overruns and design changes . Borrower contribution increased from US\$ 242.3 million to US\$ 273.6 million. In reality it may have been slightly higher because no details are given of the technical assistance costs covered by the government . The design changes were largely due to the need to comply with new requirements by the International Civil Aviation Organization (ICAO) including more rigorous seismic design criteria, and also to accommodate new, larger A 380 aircraft on the taxiways, apron system and in the terminal. Despite these additions the project was completed and fully operational by the planned closing date .

3. Relevance of Objectives & Design:

The project was in line with the Government of Egypt's strategy to promote development and curb unemployment through faster economic growth. Tourism is one of Egypt's largest sources of income (10% of GDP in 2004), and since airports are the primary points of entry for international visitors (nearly three quarters of passenger traffic), any bottlenecks will be a serious constraint to achieving improvement in the rate of growth . (Tourism earned Egypt US\$ 11 billion in FY2008). The expansion of cargo handling facilities is also important because two thirds of air cargo is for export comprising mostly perishable agricultural products .

The Airports Development Project was not planned in the 2001 Country Assistance Strategy (CAS), but the IEG Country Assistance Evaluation (CAE) considered the project to be consistent with criteria set out in the CAS for Bank financing: there was strong government commitment and support, and the Bank would be adding value to an operation through its involvement. Following the September 11 events, investment flows to Egypt declined while the need for expanding transportation facilities continued to rise . The project was also consistent with the Bank's emerging Infrastructure Action Plan which called for more responsiveness to client demands for infrastructure in light of the private sector's declining ability and interest in financing public -purpose infrastructure . The CAE also refers to the 2005 CAS which had a focus on sustainable economic growth, supported by appropriate infrastructure underpinning the development of human resources and poverty alleviation . The CAE points out that while the airport project's focus was only indirectly linked to poverty reduction and arguably not the most exemplary reflection of the Bank's mandate to prioritize poverty reduction in its support to client countries, one of the main factors in the creation of a close working partnership with the government in a number of infrastructure sectors during this period was the Bank's ability to respond with speed and high quality to the government's request for support on the airports project thus countering the Bank's reputation as slow and overly bureaucratic . The positive experience gave the Bank greater credibility, which subsequently extended to policy discussions, such as advice on liberalization of civil aviation, regulation, and privatization as well as to project preparation and implementation . During the discussion of the PAD at approval, some directors also indicated that the project was very appropriate for a middle income country .

The Government of Egypt has a policy of gradual liberalization which the Bank is supporting through infrastructure projects. Prospects for private financing for airport development, however, were limited at the time of project preparation (2003), given the prevailing adverse global and regional infrastructure concession climate following the "Asian Crisis". The incomplete legal framework for Public Private Partnerships (PPP) and gaps in available financial and operational data also justified dropping the concession approach at that time; for the construction of the proposed new terminals, public financing was therefore a valid alternative .

The project design took into account the need for strong counterpart authorities, the need for small practical steps to create an enabling environment for liberalization and the need for good monitoring and evaluation arrangements . The

first steps towards liberalization included private management contracts for both airports, a second cargo handling company to provide competition at CAI, concessions for shops and parking and an action plan for further liberalization measures. A steering committee was established comprising the main entities involved in the implementation, which proved in time to be useful and effective. Quality at entry was highly satisfactory and the overall relevance of the objectives and design was substantial.

4. Achievement of Objectives (Efficacy):

Eliminate capacity bottlenecks to traffic growth, particularly for tourism and associated foreign exchange earnings.

CAIRO: Traffic growth of 3,5% per annum was expected but the actual figure achieved was 11.9%; increased. Revenue from foreign exchange earnings increased from US\$ 1,481 million to 2,564 million. For cargo traffic an increase of 221,000 tons was anticipated and 287,000 tons achieved. **SHARM EL SHEIKH:** annual growth of 4.7% was expected and 18% occurred. Revenue from increased foreign exchange earnings increased from US\$ 1,360 million expected to 2,844 million actual. (Achievement high).

Raise CAI and SSH service quality to international best practice standards.

CAIRO: The planned arrival processing time per passenger was 35 minutes and 33 minutes was achieved. The planned departure time 45 minutes and the target was achieved. For **SHARM EL SHEIKH** planned arrival time was 35 minutes per passenger and 20 minutes was achieved. The departure target was 40 minutes and 12 minutes was achieved. This met best international practice; ICAO certification was given for Sharm El Sheikh in April 2008, but at the time the ICR was prepared such certification was still under consideration for Cairo. The TTL has since confirmed that this certification has now been awarded. (Achievement high).

Promote efficient private participation in airport management and airport service delivery in a more competitive market.

The average commercial revenue raised at CAI was US\$ 4.4 per passenger against US\$ 2.9 planned. At SSH, however, the figure achieved was US\$ 4.5 per passenger, which was below the target of US\$ 5.6 planned. The total number of private sector jobs created (including Egypt Air) was planned as 20,975 and 21,398 achieved. For SSH 904 jobs were anticipated, but in the event 802 were created. Management contracts were signed for both CAI and all Egypt's regional airports in 2004. A second handling company to serve airlines was permitted at CAI. In addition parking concessions as well as concessions for private investors in the terminals were put into effect. (Achievement substantial).

The overall objective to increase the levels of performance at Cairo Airport International and Sharm El Sheikh Airport, and promote the public-private development of such airports was thus highly achieved.

5. Efficiency (not applicable to DPLs):

The individual ERRs for Cairo International and Sharm El Sheikh airports were 16.2% and 28.0% respectively at appraisal and 17.2% and 37.8% at closure. The weighted average ERRs for the project based on the absolute costs for each airport were 17.3% and 18.8% respectively. Coverage increased at closure because of a lower than expected amount spent on component iii) which was not included in the ERR calculation. The higher ERR was mostly the result of higher than expected traffic growth. Benefits calculated included existing traffic, additional traffic that would not have eventuated had the bottlenecks not been removed, an expansion of the revenue base and revenue accruing to Egypt through additional tourists. Economic efficiency is considered high.

The financial analysis of accounts for FY2008, and the financial ratios maintained during implementation show that the airport companies' financial situation has remained sound. Debt service ratios were achieved for CAC and EAC despite their cash flows being affected by a delay in the proposed increase in airport departure fees. Financial efficiency is considered substantial and overall efficiency high.

a. If available, enter the Economic Rate of Return (ERR)/Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation :

	Rate Available?	Point Value	Coverage/Scope*
Appraisal	Yes	17.3%	89%
ICR estimate	Yes	18.8%	99%

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome:

Based on sections 3-5, outcome is rated highly satisfactory.

a. Outcome Rating : Highly Satisfactory

7. Rationale for Risk to Development Outcome Rating:

Maintaining the expected level of private sector involvement is a possible risk, but since EHCAAN is thus far very satisfied with the results of the concessions there is no reason to consider a reversal of the current policy, especially as the gradual liberalization of air transport remains a government priority. A bigger risk, which could affect job growth and financial performance, is the dependency of the airport on tourist travel which can be affected by political and security issues. However, the long term trend still appears positive. Should the expected tourist growth continue uninterrupted terminal capacity will again become an issue after 2017, but design studies have already commenced for further expansion should this become necessary.

a. Risk to Development Outcome Rating : Moderate

8. Assessment of Bank Performance:

The Bank acceded to Egypt's request to move swiftly and prepared the project on a fast track basis. The team paid special attention to identifying and mitigating the potential risks of this large project and hired an engineering firm specialized in airports to review the designs. The Bank was diligent in ensuring that environmental matters were fully addressed and, since EHCAAN had no prior experience with Bank projects, the Bank paid particular attention to assisting in developing tailored implementation arrangements. Quality at entry was highly satisfactory, given that the team had managed to secure the Government's full agreement to revisions to the complex project scope, and to the detailed arrangements for a variety of outcomes covering a range of policy and institutional initiatives.

Thanks to an excellent collaborative spirit between the implementing agencies and the Bank, the supervision process, although complex, yielded very good results. Early on the Bank team focused on compliance with institutional, financial and environmental arrangements as well as closely monitoring the competitive selection of private operators for airports management contracts. Supervising the procurement of contractors was a major undertaking, especially assisting with challenging issues concerning contract selection. In addition, keeping up with all the design changes that involved 167 contract variation notices was a seriously difficult task. To embed technical expertise in the supervision team, the Bank hired an airport engineering consultant. Additional costs were investigated and a recommendation given to the Bank's Board of Executive Directors to approve a further loan amount. A procurement workshop was organized on the selection of consultants under Bank financed projects. During the critical first two years missions were sent out every three months. The borrower was highly appreciative of the transfer of knowledge and best practices and the project was instrumental in restoring the Government of Egypt's confidence in the Bank's ability to address critical infrastructure development issues in the country. Since this project closed, the Bank has been requested to support a further project to upgrade Cairo Airport's aging terminal two.

a. Ensuring Quality -at-Entry:Highly Satisfactory

b. Quality of Supervision :Highly Satisfactory

c. Overall Bank Performance :Highly Satisfactory

9. Assessment of Borrower Performance:

The Government of Egypt's commitment and ownership of the project throughout the project cycle was a very crucial positive factor. At the outset this was exemplified in a Letter of Sector Policy signed by the Minister of Civil Aviation and this level of key involvement continued through the project cycle. Demonstrations of this commitment were inter alia the rapid approval of the conditions of effectiveness which needed Parliamentary consent, the approval of the airport management contracts in early 2005, the approval of higher passenger fees in 2007, and the opening of new air transport services in 2009 - this was in reality a transformation of the Egyptian air transport sector.

The implementing agencies were also fully supportive and the PMU excelled at coordination. Nevertheless, the physical implementation of the works was slower than expected and costs were higher than planned (although primarily due to factors beyond the agencies' control). For example, CAC had to redesign parts of the contracts to meet new international seismic specifications and to comply with new international security rules. But, there were some delays that could have been avoided by more thorough design studies and by delaying tendering by a few weeks to complete the IT system before the works commenced.

Due to a satisfactory rating in one instance, though highly satisfactory in the other, the overall rating is

satisfactory.

a. Government Performance :Highly Satisfactory

b. Implementing Agency Performance :Satisfactory

c. Overall Borrower Performance :Satisfactory

10. M&E Design, Implementation, & Utilization:

Sound performance indicators linked to the project development objectives were developed to be able to monitor and evaluate performance. Their use appears to have been diligently pursued during implementation. EHCAAN collected information on a regular basis, using internal performance indicators supplemented by surveys when appropriate. The information was disclosed by EHCAAN in quarterly and annual reports which the Bank and interested parties in the aviation and tourism industries found very useful for measuring growth trends and market analysis.

a. M&E Quality Rating : Substantial

11. Other Issues (Safeguards, Fiduciary, Unintended Positive and Negative Impacts):

Only the environmental policy OP 4.01 was triggered as there were no land acquisition or resettlement issues. Nevertheless the project was an "A" category project because of potential noise and air pollution impacts. The Environmental Impact Assessment proposed mitigating measures and monitoring arrangements, public hearings were held, and the loan financed the installation of noise monitoring equipment. The Environmental Management Plans were fully implemented for both airports according to the ICR.

The ICR also indicated that fiduciary requirements were addressed through appropriate institutional arrangements. Financial compliance was rated satisfactory by the Bank throughout the project life and 100 percent audit compliance was also achieved.

Procurement was for the most part satisfactory according to the ICR. There was an issue concerning the selection method for the IT system supplier for terminal 3 at Cairo Airport, which involved an unsuccessful attempt to harmonize two contracts. This caused some delays, but was eventually resolved. Having realized the importance of integration the same mistake was not repeated at Sharm El Sheikh. The Bank supervised the procurement of contractors and ensured that the successful firms were in compliance with its rigorous selection procedures according to the ICR.

12. Ratings:	ICR	IEG Review	Reason for Disagreement / Comments
Outcome:	Highly Satisfactory	Highly Satisfactory	
Risk to Development Outcome:	Moderate	Moderate	
Bank Performance :	Highly Satisfactory	Highly Satisfactory	
Borrower Performance :	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTES:

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons:

- Infrastructure sector reform can best be achieved with Bank support through a large scale high impact project, and through early dialogue focusing on strategic aspects, with strong commitment from the highest levels of government.
- Management contracts are an effective PPP model to foster the modernization of economically viable public entities, enhance operational and financial performance, and transfer know-how, especially when private partners are competitively selected at an early stage, on the basis of well prepared bidding documents .
- In future Bank-supported airport terminal construction projects involving integrated facilities, it would be preferable for a single contractor to carry out the works and equipment supply including the IT system .

14. Assessment Recommended? Yes No

Why? This project was unprecedented in the World Bank and the largest airport project ever financed by IBRD, which became involved on the basis that private sector funding was unavailable . Despite the project's initial success it will be important to return to see whether the positive trends are being continued, the facilities maintained, and that the traffic and financial projections are meeting forecasts . The need to verify the rating of outcome is also important .

15. Comments on Quality of ICR:

In general the ICR is well written and supports its evaluation with sound and logically organized evidence . The ICR in its background to the relevance of the project does not mention either the CAS reviews or the CAE . Heading 3.3 should have been labelled "efficacy", not "efficiency", while in Annex 1 the actual latest estimates in tables a) and b) do not add up. The details of the technical assistance costs paid for by the government including tender preparation and advisors does not appear to have been included in the cost estimates .

a. Quality of ICR Rating : Satisfactory