

ANNEX 9 CONCESSIONAL CREDIT

Instrument Objectives

The Concessional Credit Scheme of Finland was established in 1987 with both development related and commercial objectives. Finland's guiding principles of development cooperation of 1998 referred to concessional credits as one of the Finnish instruments to promote trade and economic cooperation.

Design, Implementation and Results of the Instrument

During 1993–2001, the MFA approved 56 projects with a total credit value of 174.5 million Euro. The corresponding interest subsidy commitments were 75.8 million Euro. The concessional credits were extended to 11 countries of which China and Vietnam were the most popular. The average utilisation rate of the scheme in 1993–2001 was only 31%.

A Memorandum of Understanding (MoU) concerning Finnish Concessional Credits to Egypt was signed in Cairo on September 26, 2006. The provision of interest support was subject to the annual approval by the Parliament of Finland of the allocation for Concessional Credits in the budget. Finnvera would be prepared to cover an indicative financial frame up to a credit amount of 40 million Euro for the period of 2007–2009.

The Egyptian Ministry of International Cooperation was to select the projects to be financed under the MFA Concessional Credit Scheme and would forward feasibility studies on the projects to MFA and Finnvera. MFA would initiate appraisal of the project.

For Concessional Credits competitive procurement was required.

The implementation of the instrument has been characterised by the Finnish private sector as bureaucratic, complex and unfair. Although a few applications did come forward, there was zero utilisation rate of the Concessional Credit Scheme in Egypt in the 2006–2009 period.

On Coherence, Complementarity and Compliance

Ad 1. From the Egyptian side there is interest to go forward with the Concessional Credit Scheme. NOPWASD for example approached the Embassy for a project in Cairo. From the Finnish side, the evaluation interviewed one company that mentioned to have identified four projects to be developed under the Scheme.

On Effectiveness

Ad 7. Egyptians do not understand the concessional credit instrument. The Egyptians also do not find the Finnish Concessional Credit Scheme a competitive instrument. Concessional Credit projects earlier identified were taken to the US Embassy in Cairo.

Ad 8. Finnpartnership regrets that it is not able to finance the feasibility studies for concessional credit projects. The private sector wants to have the costs of the feasibility

ity study financed and the tendering rules changed. They find the procedures too lengthy and after putting their own efforts in the development of the project it has to go under public tender, which they consider unfair.

Ad 9. Concessional Credits have not contributed to strengthening the commercial-economic relations between Finland and Egypt.

Ad 10. There have been a few applications only; one for a hospital project, another for a wind power project. A language laboratory project to support higher education is in the pipeline.

Ad 11. To be asked.

On Potential Sustainability

Ad 12. The Egyptian side wanted to have the MoU in a detailed way. No needs assessment is available.

Ad 13. Related activities were the development aid projects that were being phased out.

Ad 14. Costs of feasibility studies have been paid for.

On Value Added

Ad 15. None so far.

Ad 17. Weak administrative system of the instrument.

Forward looking

Ad 18. Strength: Finnish private sector companies making efficient development effects in combination with doing business in Egypt. Weakness: Administrative system of the instrument.

Ad 19. By outsourcing the operation of the instrument.

Ad 20. Funding part of the development costs of the project by the MFA.

D. Recommendations

Concessional credits as a potential useful instrument in the cooperation with Egypt should be continued. It can facilitate the Finnish private sector to participate in development related infrastructure investment projects as a follow up on previous development aid projects in the water-, sanitation- and health sectors and in the ICT- and environmental areas.

MFA should not operate the scheme in Egypt itself. The promotion of the Scheme, the approvals of each project after assessment of its developmental effects and establishing non-commercial viability are tasks for specialists in a country like Egypt. The MFA should therefore outsource the promotion and administration of the Concessional Credit Scheme in Egypt.

After shortlisting of the projects, the costs of conducting the feasibility study should be automatically co-funded by the MFA.