



Business Plan 2007 - 2010

For

The New

Environmental Protection Fund

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Business Plan 2007-2010 for the Environmental Protection Fund

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1. EXECUTIVE SUMMARY

A well-designed Environmental Protection Fund (EPF) can improve governance and institutional capacity in project development and appraisal, thereby increasing the number of financially feasible environmental projects in Egypt to the benefit of the country.

It is planned that the EPF will participate with financing of totally EGP 71 mio in 2007/2008 (hereof EGP 31 mio financing of EMG/ACI projects), EGP 61 mio in 2008/2009 (hereof EGP 29 mio financing of EMG/ACI projects) and 51.5 mio in 2009/2010.

Spending will target the general guideline of 60% to projects through the Competitive Project Program (CPP), maximum 25% to EEAA expenditures and about 15% on administration and operational costs. Surplus and deficit will be transferred to reserves on an annual basis.

A strategic focus will be to direct EPF towards becoming a revolving fund that generates income from its own lending and investments.

The EPF will also pursue financing of projects with new and innovative technologies, which may involve relatively long pay back periods.

Accountability to all stakeholders and freedom from political interference is a necessary condition for running the EPF efficiently and for winning local and international credibility and hence attracting financial as well as human resources.

Accountability, transparency and efficiency must be cornerstones of everyday operations and governance. Professional executive management shall have a high degree of operational independence in project cycle management, subject to strict accountability for performance. A results based management system is implemented to assure focus on achieving set objectives, allowing for efficient management and motivation of staff.

The project cycle will have clearly defined stages, responsibilities, procedures and project selection criteria.

Significant effort is devoted to promote EPF towards clients, donors and other stakeholders in order to improve EPF's image.

2. BACKGROUND AND PERSPECTIVE

The Business Plan was mainly developed as part of the support provided by the Environmental Sector Programme to the Environmental Protection Fund. The purpose of this Business Plan is driven from the fact that considerable awareness within the Ministry of State for Environmental Affairs and EEAA has grown towards unlocking the EPF potentials as it acts as the government's tool for stimulating and funding environmental projects all over the republic. This four year plan acts as the first step for the EPF to reach the Operating Manual and perform as a fully operational Fund.

The environmental challenges in Egypt are significant, including issues such as:

- the protection of water resources
- inadequate wastewater treatment plant capacity
- deteriorating wetland habitat, endangering wildlife and fisheries
- air pollution damaging public health and cultural heritage
- rapid urbanisation engendering slums and squatter settlements
- inadequate handling and disposal of domestic and hazardous wastes
- pollution of coastal waters

The need for EPF is considerable when considering the environmental challenges facing Egypt and the urgent need to actively initiate projects with environmental benefits.

Donor funding can be raised in this area, but it is crucial that EPF is positioned to become a professional and respected agency.

EPF will strive to increase its revenue base and e.g. generate revenues through public private partnerships by organising or promoting environmental fairs, Corporate Social Responsibility initiatives with private companies etc.

3. VISION, MISSION AND VALUE ADDED

Vision:

EPF's role is to stimulate investment in the environmental sector in Egypt to support the environmental, social and economic policies in the pursuit of sustainable development.

Mission:

EPF will provide finance and monitor the implementation of projects complying with environmental laws and regulations.

Value added:

- *financing on attractive conditions*
- *helping to structure the projects*
- *brokering co-financing possibilities*
- *facilitating relations to other public institutions*
- *providing access to EEAA expertise*

EPF financing is attractive because of the low effective cost to borrowers, as financing is provided as grants or lending on concessionary terms and no fees are charged for project handling or advice.

Project structuring will be facilitated by EPF because EPF has linkages to other public institutions, including a close link to EEAA.

Core competences:

- *Integrity*
- *Geographically cover all of Egypt*
- *All types of environmental projects*
- *Care and Know-how about the environment*
- *Softer and more flexible finance conditions/structures/financial engineering than can be achieved on market conditions*
- *Access to EEAA expertise – including ability to “coordinate” internally and externally*
- *Network in the sector*

Main clients/stakeholder:

- *governorates*
- *public and private sector including particularly the industrial sectors*
- *nature preservation organisations*
- *universities/research institutions*
- *NGO's*
- *EEAA*

4. ENVIRONMENTAL PRIORITIES

The EPF overall environmental priorities are based on the National Environmental Action Plan (NEAP). EPF environmental priorities differ from one year to another to cope with the changing environmental needs as well as EEA priorities.

Water Quality and Quantity

The Fund's environmental priorities in this area include initiatives that aim at the protection of water resources, especially the River Nile, the marine environment, and coastal marine waters from pollution resulting from industrial and tourism activities as well as from the discharge of untreated domestic wastewater into these water bodies. In this domain, the Fund particularly encourages projects that aim at:

- Reduction of water consumption in industry and other sectors
- Prevention and abatement of pollution resulting from domestic and industrial wastewater. This category also includes projects aiming at preventing pollution, cleaner methodologies, waste reduction, conservation of resources (water, energy, chemicals... etc), sound environmental management, environmental awareness and improve sanitation systems in rural and remote areas

Air Pollution Control

The Fund's priorities in the area of air pollution include initiatives that aim at reducing emissions of pollution from stationary sources and improving air quality especially in crowded residential and industrial areas.

In this area, the Fund encourages projects that aim at reducing air pollution resulting from industrial processes, controlling lead pollution, relocating small workshops engaged in polluting activities to new industrial areas, increasing the area of green spaces, and using renewable energy sources.

Hazardous and Solid Waste Management

The Fund's priorities includes initiative that aim at protecting the environment and public health from pollution caused by all types of wastes including municipal solid waste, agricultural waste, industrial waste, and hazardous and non-hazardous health-care waste.

In this domain, the Fund encourages projects that aim at reducing the amount of waste generated, sorting and segregating waste at the source for recycling and reuse, as well as environmentally safe transfer, treatment and disposal of solid waste. The Fund also encourages private sector investment initiatives in this area and the importance of establishing cost recovery systems for effective solid waste management.

Nature Conservation and Management

The EPF supports initiatives that aim at protecting biodiversity at the national level as well as in established nature protectorates. In this area, the Fund specifically targets projects that are initiated by the private sector and non-governmental organizations. Potential projects cover a wide range of projects such as the provision of tourism related services and eco-tourism facilities, and the operation and maintenance of docking facilities including docks that are designed to provide wastewater collection, treatment and disposal services.

5. PRODUCTS / SUPPORT PROGRAMS

EPF's funding instruments will be: grants, soft loans, interest rate subsidies and shareholdings were applicable.

A prudent strategy will be to focus mainly on financing projects with grants and standard soft loans in the initial phases, and then step-up the use of more advanced financial instruments such as tailored soft loans and shareholdings as institutional capacity builds up. Co-financing should be emphasised in order to leverage financing and position EPF better amongst similar institutions in Egypt and abroad.

Soft loan lending and successful share capital investments will allow EPF to maintain and generate its own revenues which can on a continuous and revolving basis be used for new project financing.

Following is a description of the various support mechanisms that will be implemented and their respective conditions and terms:

Grants

The Applicant

- Governmental Agencies
- Universities and research centers on condition that the projects are applicable and not research.

The Project

- The project targets any of the Fund's environmental priorities
- The project has to achieve revenues sufficient to recollect the investment cost after a specific time period in order to ensure continuity of operation, maintenance, replacement and renewal.

Financial Information

- Fund contribution up to 60% of project costs with a maximum contribution per project up to L.E. 350,000
- The applicant's contribution amounts to min. 40% of project costs in the form of cash and/or "in-kind" contributions approved by the Fund.

Costs Covered by Grants

- Purchase and installation of machinery and equipment pertaining to the project.
- Operating expenses including power supply, raw materials and training of the project's administrative and technical units.
- Other expenditures necessary for project execution – to be identified and approved by EPF according to internal procedures.

Disbursement Procedure

- Grants are disbursed in accordance with the project implementation time-schedule.
- Disbursement is conditional on fulfillment of all conditions stated in the contract agreement between the project (project holder) and EEAA (the EPF).
- Funds can be disbursed up to the allocations made in each item. No transfer of cash allocations among the various items is authorized without the EPF's approval.
- Upon contract agreement and the Fund's approval, a bank account is opened for the project in one of the banks.
- All receipts and bills pertaining to the various expenditures must be maintained by the project holder. For each payment, the project holder is responsible for submitting to the Fund an original copy of all bills and receipts along with a detailed expenditure statement.

Soft Loans Program

The Applicant

Applicants to the soft loan program include any small or medium sized organization that plans to undertake a project within the Fund's environmental priorities, provided that the applying organization is legally established, and demonstrates seriousness, sound reputation, and capacity for project execution and long-term project sustainability.

The Project

- The project targets any of the Fund's environmental priorities
- Project has to achieve revenues to achieve long term sustainability and be able to meet loan payments
- Approval of the loan by the lending participating bank

Financial Information

- Loan accounts for 60 to 90 percent of total project cost.
- Minimum project cost is L.E. 50,000.
- Interest rate is 7% p.a. on the given loan. However, differentiation of interest rates could be applied according to credit risk and/or loan duration.
- Maximum limit for the loan is L.E. 4 million per project.
- The loans are used to fund new and present projects.
- The loan term is maximum 5 years including the grace period.

Expenditures

The loan may be used to finance the purchase of equipment, machinery, construction, and working capital (to the extent approved by EPF) as well as any other pollution reduction equipment. This does not include any taxes or customs imposed.

NGOs Funding Program

- L.E. 2 million are allocated from the EPF budget to support the NGOs Unit in EEAA per year.
- The unit supports environmental projects implemented by the NGOs in governorates through a steering committee.
- Maximum amount for funding is L.E. 125,000

Minimum contribution is 25% of total cost.

Shareholding

The Applicant

Applicants to shareholding investments include any organization that plans to undertake a project within the Fund's environmental priorities, provided that the applying organization is legally established, and demonstrates seriousness, sound reputation, and capacity for project execution and long-term project sustainability.

The Project

- The project targets any of the Fund's environmental priorities
- Project is suitable, feasible and acceptable both financially and environmentally

Financial Information

- EPF's shareholding accounts for maximum 30 percent of total project cost.
- Minimum shareholding amount from EPF is L.E. 1 million
- Both new and existing projects may be financed
- The investment partners are considered suitable

Expenditures

The share capital investment may be used to finance the purchase of equipment, machinery, construction, and working capital as well as any other pollution reduction equipment. This does not include any taxes or customs imposed.

SUMMARY OF EPF PRODUCTS AND SERVICES

Product Solution	Product Description	Client/ Partner
Grants	Funding projects improving environmental conditions. Ceiling of 350,000 L.E.	Governmental agencies, universities and research centers
Soft Loans	Loans provided with a lower-than-market interest rate so as to encourage environmental investments	Small or medium sized organizations
Interest rate subsidy	Subsidy of 6% of the bank's interest rate	Small or medium sized organizations
NGO's program	Funding environmental projects implemented by EEAA NGO unit	EEAA / NGO's
Share capital	Financial share capital investment in private sector companies implementing unusual and innovate environmental projects	Private sector companies

6. ORGANISATION

Management and governance

The Fund Management Committee (FMC) will systematically examine individual project proposals, which will be received by EPF all year round.

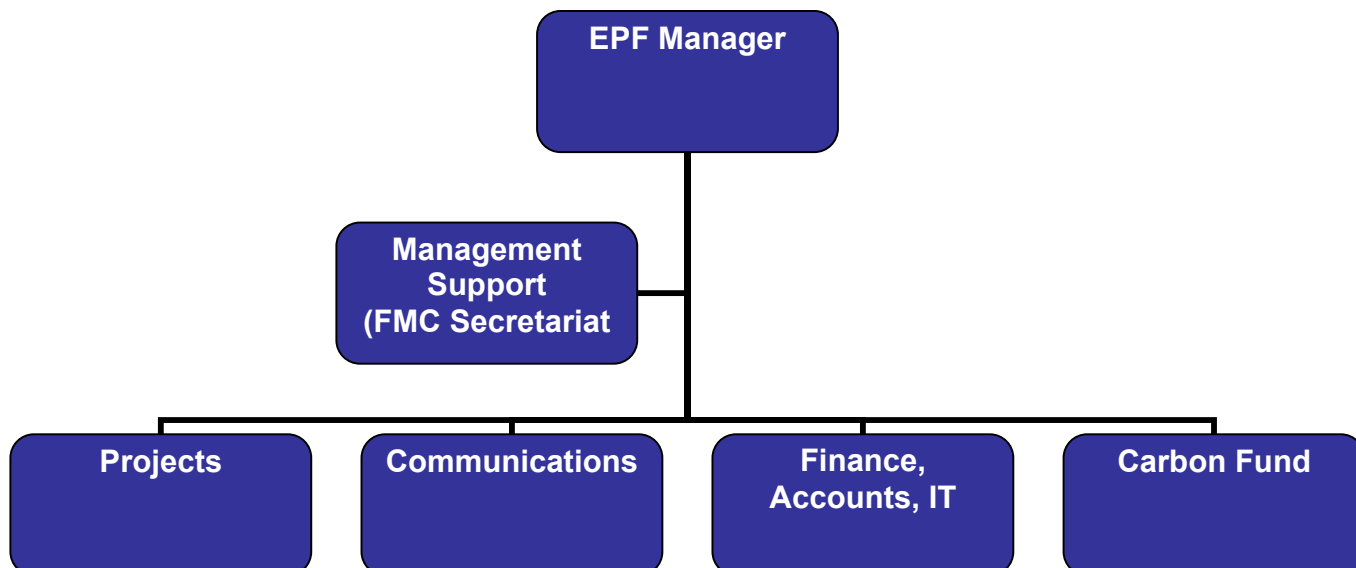
EPF specialists appraise the projects proposed in technical, economic, environmental and organisational terms. In case of innovatory, large or complicated projects, EPF additionally commissions expert's opinions from independent professionals or consultants who are recognised experts in the specialty involved. EPF will emphasise careful selection of cost-effective projects and actively strive to attract co-financing to projects wherever needed.

EPF specialists will also take part in conferences, seminars and meetings during which EPF's principles of operation and procedures of appraisal are presented.

The Organization and the Team:

The departments will have real delegated responsibilities and concurrent power to carry through the objectives set for each. Each department will be headed by a department manager who has the overall responsibility towards senior management but also a central responsibility for building team spirit in each department.

Organisational structure:



The number of staff is indicated with ranges indicating the starting point and the foreseen number of staff when the business plan is fully implemented. The structure and staff number is indicative only as EPF should on a continuous basis adapt to needs and external changes. A maximum staff of 23 is targeted with necessary capacity and know-how being sourced through a network of associated consultants and experts in fields as: environmental technology, financial appraisal, communication, project management etc.

Each department will be responsible for the functions listed below. Performance will be tracked through the Key Performance Indicators (KPI) listed with each department:

Projects:

- Screening, evaluation and processing of applications
- Presentation of project proposals
- Monitoring and follow-up of projects
- Project promotion

KPI's:

- Volume of grants
- Volume of soft loans
- Volume of share capital investments
- Number of projects under implementation
- Number of projects assessed

Finance, accounting and IT:

- Daily accounting
- Financial management
- Budgeting and follow-up
- Linking with banks
- Maintain and develop IT-systems
- Assist staff on IT issues
- Cash management

KPI's:

- Transparency
- Regular Financial statements
- Timeliness of financial management and reporting

The finance and accounting department will handle and monitor all EPF financial transactions.

EPF allocations from the state budget will be registered in the Central Bank with a drawings right to the EPF. Upon approval of each project, funding needed for that project will be released from the Central Bank to EPF's bank account in National Bank of Egypt. From the EPF bank account disbursement can take place to the project itself.

EPF will have full control over disbursement procedures. This implies the EPF manager to have full signature rights to disbursements approved by EPF and drawn from EPF's own project account.

Communication and Public Relations:

- Marketing and communication about EPF
- Organise workshops, seminars and fairs
- EPF annual report
- Newsletter
- Website
- Periodical promotional material (brochures, posters etc)

KPI:

- Raising awareness
- Number of workshops
- Number of applications received.
- Annual report

Carbon Fund Unit:

- Screening, evaluation and processing of applications
- Presentation of project proposals
- Monitoring and follow-up of projects
- Project promotion
- Liaison with CCU/DNA

KPI's:

- Project volume
- Number of projects funded

Management

- Direct and develop the fund
- Manage and motivate staff
- Optimise stakeholder relationships

KPI's

- Strengthen EPF's core competencies
 - Employee development and motivation
 - Increase revenues to the fund
-

Fund Management Committee

The FMC is responsible for:

- Formulating the Fund's policies, objectives and strategic plans in accordance with the national plan for protection of the environment
- Authorizing all internal systems (technical, financial and administrative) to ensure effective operation of the Fund
- Authorizing the EPF budget and financial statements to be submitted to the EEAA Board of Directors
- Approving the Fund's Revenue Enhancement Strategy in accordance with governing laws and regulations
- Authorizing applications and project proposals to be funded by the Fund in accordance with its defined plan
- Approving the Fund's auditing and monitoring systems including standards for the Fund's award grants, loans etc
- Approving the Fund's plans and programs to enhance the overall performance of Fund activities
- Reviewing the quarterly follow-up and progress reports and the Fund's financial position, as well as deciding on actions based on the BSC
- Reviewing all matters and issues presented by the FMC chair that are of relevance to the Fund's activities
- *Appointment of Fund Manager*

The FMC will target a meeting every 3 months. This is mainly to assure continuous and timely processing of applications, and more strategic and long-term issues on the agenda will be spread over the year.

The FMC will be composed by a decree from the Cabinet Chairman, headed by the Minister of State for Environmental Affairs. The members will be as follows:

- EEAA CEO and will act as the Vice Chairman of the board.
- Head of the Legal Advisory of the State's Council.
- Representative from the Ministry of Finance chosen by the Minister of Finance.
- Representative from the Ministry of Economical Development chosen by the Minister of Economical Development.
- Representative from the Ministry of Local Development chosen by the Minister of Local Development.
- Representative from NGOs concerned with the environment chosen by the Minister of State for Environmental Affairs.
- One of EEAA leaderships chosen by the Minister of State for Environmental Affairs.
- EPF Manager and will be in charge of the board secretariat.
- Ad hoc representatives can be invited with no right to vote

The project cycle management procedures provide a formal framework that will ensure:

- Clearly defined environmental priorities and project eligibility criteria;
- Clear requirements for applications,
- Professional, efficient and service-oriented relationships with applicants;
- Clearly defined appraisal criteria emphasizing environmental benefits and cost-effectiveness;
- Disbursement criteria based on completion of work
- Careful monitoring of projects to ensure the proper use of funds to achieve positive environmental effects.

Procedures for project cycle management are laid out in the EPF Operating Manual.

7. OBJECTIVES

EPF will have a balanced scorecard of financial, customer/stakeholders, process and learning/growth objectives as below:

Financial objectives:

Strategic Dimension	Strategic Objectives	KPI Indicator	Baseline * 2006/2007	Target 2007/2008	Target 2008/2009	Target 2009/2010	Activities
Financial	Revenue enhancement	Total revenue	EGP 80,1m	EGP 80-90m	EGP 80-90m	EGP 90-100m	<ul style="list-style-type: none"> Funds from new and existing revenue sources optimised

* Up till 30/4/2007

Customer/stakeholder objectives:

Strategic Dimension	Strategic Objectives	KPI	Baseline 2006/2007	Target 2007/2008	Target 2008/2009	Target 2009/2010	Activities
Customer/ Stakeholder	Grants	Grant amount	L.E. 2.1m	L.E. 12m	L.E. 12m	L.E. 16.5m	<ul style="list-style-type: none"> Raise awareness Pro-active project development
	Soft loan lending	Loan amount	L.E. 0	L.E. 20-30m	L.E. 20-30m	L.E. 30-40m	<ul style="list-style-type: none"> Raise awareness Pro-active project development
	Loan guarantee	Guarantee amount	L.E. 0	L.E.	L.E.	L.E.	<ul style="list-style-type: none"> Raise awareness Pro-active project development
	Share capital investments	Investment amount	L.E. 0	L.E. 0m	L.E. 0m	Consider share investment	<ul style="list-style-type: none"> Raise awareness Pro-active project development

Internal process objectives:

Strategic Dimension	Strategic Objectives	KPI	Baseline 2006/2007	Target 2007/2008	Target 2008/2009	Target 2009/2010	Activities
Internal Process	Timeliness of financial monitoring	Date in each month on which monthly financial reporting should be ready	N/A	20	15	10	<ul style="list-style-type: none"> Optimise financial reporting standards and systems
	Raising awareness and participation through workshops, seminar, events	No. of external workshops, seminars, events attended	0	5	10	20	<ul style="list-style-type: none"> Awareness raising and PR

Learning and growth objectives:

Strategic Dimension	Strategic Objectives	KPI Indicator	Baseline 2004/2005	Target 2006/2007	Target 2007/2008	Target 2008/2009	Activities
	Employee development and motivation	Staff performance and development plan	None	Semi-annual staff performance and development meeting with each employee	Semi-annual staff performance and development meeting with each employee	Semi-annual staff performance and development meeting with each employee	<ul style="list-style-type: none"> Performance and development standard forms & tasks for each department

The targets and objectives set are stretch targets. They are aligned with the budget numbers; however, the budget numbers are by default fixed and within the boundaries of the above stretch targets.

8. BUDGET OVERVIEW

Profit & Loss (L.E. million)	2007/2008	2008/2009	2009/2010
Annual revenues	90,8	90,1	99.6
Grants	12.0	12.0	16.5
Soft loan disbursements	28.0	20.0	35.0
Share capital investments	0.0	0.0	0.0
Administrative costs	6.2	6.7	6.7

Balance (L.E. million)	2007/2008	2008/2009	2009/2010
Loans outstanding	28.0	48.0	77.4
Loan guarantees outstanding			
Equity	364,9	369,8	389,8

EPF works as an extra-budgetary account; unspent money remaining at the end of the year is carried over for use the following year.

A detailed budget is annexed.

9. TRAINING AND EDUCATION

Training elements:

- IT
- English (at various levels)
- Communications skills
- Business writing
- Presentation skills
- Marketing
- Organisation, management and leadership
- Motivation
- Team building
- Procurement
- Customer service skills
- Data study and analysis
- Project appraisal
- Financial appraisal
- Finance
- Project finance
- Financial provisioning
- Evaluation and monitoring techniques
- Preparation of reports and filing
- Accounting
- Corporate Social Responsibility
- Total Quality Management
- Environmental Management

10. IMPLEMENTATION PLAN AND MILESTONES

Activities	Responsible	1H 2006	2H 2006	1H 2007	2H 2007	1H 2008	2H 2008	1H 2009
Training and education	AUC/Berlitz							
Finance, Accounting and IT unit fully operative	F&A							
Awareness campaign	Comm. and PR							
Twinning with sister fund	Project							
Review and optimization of processing procedure	Quality							
Soft loan lending	Project/F&A							
Share capital investment initiated	Project/F&A							
Identification and negotiation/organization of new revenue sources	Revenue							
Staff performance and development reviews	Management							
Management Information System (MIS)	F&A							
Financial accounts of international standard	F&A							
Integrate output objectives into business plan	EPF							
Plan for client satisfaction feedback	Quality							
Establish list of external advisors and consultants	Comm. and PR							

11. APPENDICES

Eligibility Criteria

- Project targets one or more of the environmental fields that address the Fund's environmental priorities as mentioned in number (3) above.
- Applicant's institution is a legally registered local entity.
- Applicant demonstrates the availability of own-resources to contribute its share of project cost in accordance with financial conditions established for each support mechanism.
- Applicant's institution/organization is of sound reputation (approval of Social Affairs for NGOs, and a no objection of the lending bank for loans).
- Absence of any restrictions such as problems related to the applicant's current activities or relationship with banks (if applicable).
- Project ensures sustainability after receiving the loan or the grant.

Evaluation and Selection Criteria

Criteria	Degree
(1) Degree of Importance and Effect: <ul style="list-style-type: none"> • Projects that address serious environmental problems in their specific geographic areas • Projects that serve a large number of beneficiaries, or provide solutions to urgent environmental problems. • Severity of the environmental problem and its impact on health, social and economic aspects. 	30
(2) Integration and Sustainability: <ul style="list-style-type: none"> • Projects which forms a part of a planned integrated system, which when implemented provides a sustainable solution for the environmental problems. • Presence of the sustainability factor in the project even after the end of the support. • Presence of the sustainable development factors. 	30
(3) Transferring Know-How: <ul style="list-style-type: none"> • Demonstration projects that have the potential for disseminating environmental know-how and technology to others are considered replicable in other areas with similar problems. • Projects, which include activities that will contribute to the dissemination of project results, such as special consultations and workshops, or publication of articles in specialized journals. 	20
(4) Study and Preparation: <ul style="list-style-type: none"> • Projects, for which there are readily available studies and documents to facilitate quick project start-up and implementation, or projects that are already being implemented. 	10
(5) Participation: <ul style="list-style-type: none"> • Environmental projects that integrate and foster partnerships among various stakeholders, agencies and sectors. • Projects which contribute to the achievement of developmental objectives such as job generation, poverty alleviation and empowerment of women. 	10
Total	100