

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

November 4, 2015
Report No.: AB7791

Operation Name	First Fiscal Consolidation, Sustainable Energy, and Competitiveness Programmatic Development Policy Financing
Region	Middle East and North Africa
Country	Arab Republic of Egypt
Sector	General energy sector (50%); Macro-Fiscal Management (30%); Trade and Competitiveness (20%)
Operation ID	P157704
Lending Instrument	Development Policy Lending
Borrower(s)	Arab Republic of Egypt
Implementing Agency	Ministry of International Cooperation
Date PID Prepared	November 4, 2015
Estimated Date of Appraisal	November 12, 2015
Estimated Date of Board Approval	December 17, 2015
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

In 2014, the Government of Egypt (GoE) introduced bold reforms aimed at putting the economy back on track. The goals of the Government are to be realized through implementing reforms across the following themes: (1) macro-fiscal stabilization; (2) private sector-led growth; (3) transparency and accountability; and (4) social and economic inclusion. This Development Policy Financing (DPF) aims at supporting the government's home grown economic reform program through putting the fiscal deficit and public debt on sustainable paths, enhancing sustainability of energy supply, and enhancing business competitiveness. These reforms would help the government advance its development objectives and create a supportive environment for private sector-led growth.

This programmatic DPF is aligned with the GoE's reform program, as detailed in the 'Egypt 2030 Sustainable Development Strategy' (SDS) and 'Strat-EGY' documents. Both documents were released for the Egypt Economic Conference held in March 2015.

Government's development strategy has focused on addressing four key development challenges:

1. Expensive and inefficient fiscal policy choices, economic shocks, and the impact of distortions on productivity and competitiveness widened the deficit during 2012–2014. This situation was further aggravated by economic policy choices that focused heavily on the short-term benefits of higher spending more than its medium-term costs and implications. This coincided with an underperforming economy and deteriorated financial conditions, especially in the energy sector.

2. From 2009 onwards, Egypt experienced frequent power outages, which had a significant impact on growth. These were driven by a shortage in natural gas and oil and petroleum products, deficiencies in energy infrastructure, and distortions in the energy supply chain arising from persistent fuel and electricity subsidies. Overcoming the underlying structural barriers to improve the financial and technical performance of the energy sector will require significant sectoral governance reforms.
3. Large and regressive energy subsidies are a major contributor to Egypt's fiscal deficit and create significant economic distortions in other sectors. Apart from being fiscally unsustainable, low energy prices have dampened energy production and boosted demand growth, leading to a widening of the energy deficit and distorted incentives in other sectors.
4. Growth over the last decade was driven mainly by resilient consumption and short-lived investment surges that were insufficient to raise and sustain productivity and to generate structural transformation. Enhancing private sector-led, job-generating growth will require improvements in the governance of the business environment in a way that promotes more open competition and better regulatory governance.

II. Proposed Objectives

This programmatic DPL supports Egypt's reform program:

1. Advancing Fiscal Consolidation
2. Ensuring Sustainable Energy Supply
3. Enhancing the Business Environment

III. Preliminary Description

As the DPF operation aims at supporting government's home grown medium term economic reform program spread over three years. The three year program, is structured across three pillars, each corresponding to one of the proposed project development objectives: (1) Advancing fiscal consolidation through higher revenue collection, enhancing expenditure allocation and structure, and improved fiscal transparency and management; (2) Ensuring sustainable energy supply through improved governance and private sector engagement; and (3) Enhancing the business environment through open competition, a streamlined and transparent regulatory environment, and financial inclusion.

The first pillar will support the government's fiscal consolidation program, which is geared toward narrowing the deficit while improving the structure of spending and putting government debt on a firm downward path. The second pillar will support the government's aims of achieving enhanced security of supply, financial and environment sustainability, and improved governance in the sector. The third pillar will support the government's commitment to private sector-led growth by improving the regulatory environment for business as well as open competition.

The DPF pillars make multiple contributions across the four main themes of the country's development strategy.

- Macro-fiscal consolidation will be supported by a range of measures to improve revenue collection—notably the introduction of a value added tax (VAT)—reducing expenditures, and finalizing a medium term debt management strategy.
- Private sector-led growth will be advanced through a package of reforms designed to cut red tape, reduce barriers to entry, and promote better competition policies. The liberalization of energy markets, improving industrial licensing framework and enhancing mandate of competition law will create significant opportunities for private sector engagement.
- Enhanced transparency and accountability will be addressed by strengthening regulatory institutions for energy and business sectors, publishing information on the government’s budget and debt framework, and increasing transparency on business regulations and licensing procedures.
- Economic and social inclusion will be fostered by a number of fiscal and business environment measures that are particularly targeted at Small and Medium Enterprises, like the Secured Transactions Law and the Microfinance Law.

IV. Poverty and Social Impacts and Environment Aspects

The program of reforms supported by the DPF series can be beneficial for poverty reduction and shared prosperity over the long term. The reforms supported by this operation—fiscal transparency and competition, streamlining public expenditures, governance reforms – are broad in scope and they touch upon those areas that have been identified in the Systematic Country Diagnostic (SCD) as being important for boosting poverty reduction and shared prosperity in Egypt. For example, better governance in the power and gas sectors can help improve delivery of these services, potentially benefitting all customers. Several of the measures can indirectly support private sector job creation which would offer a more sustainable way to raise welfare and living standards because households with employed members are significantly less likely to be among the bottom 40. At the same time, the realization of the benefits of these reforms depends on how the government manages the distributional and social consequences of the reform. For example, fiscal transparency measures such as citizen budgets can educate the public about the Government’s activities and help build public support for difficult policy reforms provided there is a strong outreach to citizens to raise awareness.

The policies supported by the proposed DPL are not likely to have negative impacts on the country’s environment or its natural resource base. According to OP 8.60, the World Bank assessed whether specific country policies supported by the DPL are likely to have significant effects on the country’s environment, forests, and other natural resources. The assessment concluded that the proposed DPL operation is expected to result in overall positive effects on Egypt’s environment and natural resources. Pillar 2 of this proposed operation, which pertains to enhancing energy security, comprises a number of policy interventions that are expected to bring about changes in the country’s energy profile. This will essentially take place through a planned increase in fuel switching to natural gas by the production sectors of Egypt. Other planned changes include the shift toward more renewables and cleaner forms of energy in the energy generation mix. Furthermore, it is anticipated that the planned gradual increase in electricity tariffs will lead to lower consumption through rationalization and higher efficiency of use. Within this context, such proposed interventions will clearly result in environmental benefits that are to be realized through the decrease in greenhouse gas (GHG) emissions, which contributes to

Egypt's climate change agenda; decrease in lower emissions of air pollutants; and thus contribute to a reduction of health risks and improvement of air quality. On Public Financial Management, Egypt's reforms have made progress on various fronts, though important challenges remain.

V. Tentative financing

	Source	(US\$, millions)
Borrower		0
International Bank for Reconstruction and Development		1,000
Others (specify)		
	Total	1,000

VI. Contact point

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