

PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC10597

Project Name	Egypt: PSD "Governance for Jobs" Project (P145906)
Region	MIDDLE EAST AND NORTH AFRICA
Country	Middle East and North Africa
Sector(s)	Public administration- Industry and trade (100%)
Theme(s)	Regulation and competition policy (40%), Micro, Small and Medium Enterprise support (40%), Managing for development results (20%)
Lending Instrument	Investment Project Financing
Project ID	P145906
Borrower(s)	Ministry of International Cooperation
Implementing Agency	General Authority for Investment
Environmental Category	C-Not Required
Date PID Prepared/ Updated	09-Jul-2014
Date PID Approved/ Disclosed	18-Aug-2014
Estimated Date of Appraisal Completion	18-Sep-2014
Estimated Date of Board Approval	14-Nov-2014
Concept Review Decision	Track II - The review did authorize the preparation to continue

I. Introduction and Context

Country Context

A. Country Context

Egypt is undergoing a major political, economic, and social transition. Socially inclusive economic development, job creation, governance, and transparency have become priorities to the Egyptian society and the post January 25th Revolution governments. On June 30, 2013, demonstrators went back to the streets protesting the political and economic situation in Egypt. On July 3rd, 2013, the Egyptian Military Forces in consultation with various political parties announced the suspension of the Constitution, the appointment of the Head of the Supreme Constitutional Court, Councilor Adly Mansour, as an Interim President, holding early presidential and parliamentary elections, and the formation of a national reconciliation committee that would include youth movements. An interim Government was appointed on July 16, 2013 that comprises of a strong Economic Ministerial Committee, headed by the Deputy Prime Minister who has deep knowledge and successful track

record and experiences in managing the mechanics of the Egyptian economy.

There are immediate, medium and longer term policy challenges, all of which that require difficult political and economic choices. Over the medium term this will need to entail - as a macro-economic priority - reform to subsidy programs that are recognized to be distortionary and expensive and to the income and corporation tax system. These reforms need to be effected in a way that takes into account social stability considerations. This requires careful consideration to policy sequencing and the provision of alternative more efficient support and opportunity initiatives that provide the balance that is required for an overall economic program to be sustainable. Over the immediate and shorter term, the Interim Government is seeking to establish the platform on which subsequent elected administrations can proceed to deliver on broadly advocated policy reform objectives that would, inter alia, serve to re-establish private sector led economic growth and job creation.

Sectoral and Institutional Context

B. Sectoral and Institutional Context

According to ICAs, regulatory policy uncertainty is among the top five constraints for the private sector in Egypt throughout the years. Consultations with the business community have highlighted the need to reduce the burden and constraints of the current body of oft-times overlapping, inadequate and contradictory laws and regulations impacting the life cycle of businesses from start-up to exit. Business spokespersons also highlight the added costs of government limitations – due in part to weak capacity, in part to perverse incentives within the wider bureaucracy that can result in predatory or oppressive service delivery and, in part, due to coordination failures across government entities that share a mandate to provide services to the private sector. This includes both government regulatory (eg business registration) and support (e.g. investment promotion, credit and other business development) services.

Among the many areas that the government is targeting to reform, access to land business registration, licensing and permits are some of the more immediate constraints to business growth. Evidence also suggests this is even more the case in the more disadvantaged governorates. According to the Investment Climate Rapid Survey conducted in 2011, business licensing and operating permits in Sharkiya, Lower Egypt, were identified as a major constraint for 27 percent of business respondents, compared to only 8 percent in Cairo. The government is striving to respond. On the part of the Ministry of Investment (MOI), initiatives are being pursued under its current policy strategy, to regain investor confidence and foster inclusive growth that benefits the underserved areas in Egypt. This includes the priority objectives of “Doing Business Simplification and Decentralisation” and “SMEs and Enterprise Formalization”. Consultations to date with business associations reinforce the importance of these constraints, with a particular priority placed on the need to better record and showcase land availabilities.

Better assisting business endeavors to formalize, existing SMEs to operate with a more efficient entry and operating environment and Gazelles to access factor inputs such as land and business advice represent regulatory and support services that lay at the core of the government role in private sector development. Doing this in a predictable (rules-based), accountable (transparent and measurable) and efficient (client-responsive) way would ally a core role with a fundamental obligation – namely acting in the public interest through good governance practices.

There are good political and economic reasons for this focus. From the political perspective a strategy that targets smaller businesses across the country contributes to its inclusion and level playing field policy goals and is a tangible response to the post-revolutionary demands of the electorate. This very importantly includes increasing public confidence in the integrity and effectiveness of state institutions. From the economic perspective there is good evidence that new jobs will, over the short and medium term, predominately come from this segment of the enterprise sector and specifically from small, younger firms that have the agility to adapt to new market opportunities. These “gazelle” firms, which also show far better responsiveness and uptake to training and other business support services, are estimated to be three and a half times more likely to be high growth (measured in employment terms) than one that does not. It also showed that young firms (less than 10 years old) are 5 times more likely than old ones to be gazelles. The study also showed that small firms are more likely than medium firms to be of high employment growth.

Certain institutional arrangements are in place that can serve an initial phase of a “Governance for Jobs” policy agenda. Notwithstanding the political uncertainties over the past two years and more recent developments including the installation of an Interim Government, the commitment to a business-friendly reform agenda has remained unchanged. The Ministry of Investment (MOI) and the General Authority for Investment and Free Zones (GAFI) which is an affiliated entity reporting to the MOI, have launched various initiatives which, while not covering the full range of business regulatory and services failures that cut across the mandates of a number of ministries and agencies, do address some key ones. These include the: (i) Egyptian Regulatory Reform and Development Activity (ERRADA) Program; (ii) One Stop Shop Program (OSS); (iii) Bedaya Center for Entrepreneurship and SMEs Development, and; (iv) Investment Intelligence Centre (IIC):

- **ERRADA:** This is a regulatory reform program which aims at supporting the Government’s efforts in building a regulatory management system, based on a dialogue between public and private institutions, aiming at increasing efficiency, competitiveness and creating more job opportunities. The main objectives of the program are as follows: (i) identifying all valid business related regulations through inventory; (ii) streamlining business related regulations through review of inventory, in consultation with different segments of society (government, private sector and civil society); (iii) making all business-related regulations accessible to the public through an electronic registry; and (iv) introducing regulatory impact assessment (RIA), to foster transparent, incentive and cost-sensitive and analysis-based regulatory development. The Initiative was officially launched in 2008 and involved 10 participating Ministries including the MOI each of whom are to establish an internal Regulatory Reform Unit (RRU) to implement the ERRADA workplan in each respective Ministry. The overall Program was suspended in the aftermath of the January 25th revolution. In June 2013, the program was reactivated by Prime Ministerial Decree No. 620 of 2013 designating the political leadership of ERRADA to Ministry of Investment where the central Executive unit of ERRADA will be located. The initiative has been subsequently further endorsed by the Interim Government. The process of appointing the Board of Trustees and the head of the Executive Unit within MOI is currently taking place, as well as the budget setting for the ERRADA program.

- **One Stop Shop Program (OSS):** In 2002 a presidential decree established a one-stop shop under the General Authority on Free Zones and Investments (GAFI). The one-stop shop brings together officials from “all relevant government entities in one place” to provide “all investment related services”: approvals, permits, and licenses necessary to start and operate a business. OSS

acts as a window for all investment related entities, to facilitate the process of obtaining approvals, permits, and licenses for establishing firms, provision of investment services, and solving problems faced by investors. OSS has outreach in different governorates and is looking to extend its presence in the Lower Egypt governorates and underserved locations elsewhere in the country. GAFI is also now looking to more extensively and comprehensively connect different OSS branches and archive relevant documents for registered businesses.

- **Bedaya Center for Entrepreneurship and Small and Medium Enterprises:** GAFI established the Bedaya Center in January 2010 by virtue of the Board of Directors' Decision No. 97/5 of 2009 in order to support the growth and development of small and medium investments in Egypt in accordance with the Egyptian government strategy in increasing the indicators of economic development and create new and sustainable job opportunities. The Bedaya Center offers start-up equity investments and business development services (BDS) to entrepreneurs, and also fosters firm formalization. Bedaya currently has one branch in Cairo and is striving to further extend outreach to governorates outside of the urban centres.
- **Investment Intelligence Center (IIC):** For monitoring and evaluation purposes, the IIC will have three main functions: (i) sector and policy analysis and research capabilities; (ii) private-public policy dialogue and; (iii) monitoring and evaluation of GAFI policy and program performance and outcomes, including the GfJ project. This will be implemented as a collaborative effort between the Research Center and the Policy Advocacy Unit, both at GAFI. The Research Center conducts sector and policy analysis, as well as research and training on investment related issues, and the Policy Advocacy Unit handles Public Private Dialogue (PPD) with the gamut of institutions concerned with investment enhancement as well as monitoring and evaluating GAFI's performance. The IIC will also establish and maintain an "investment information warehouse" in addition to the monitoring and evaluation of key investment indicators.

These programs, which are managed by different units within MOI\GAFI are at different stages of development, but all face challenges with scale up and outreach. Extending and improving their services will need external assistance, both in terms of funding and technical assistance.

Further to a request from the Government received April 28, 2013, the World Bank signaled its readiness to assess the potential for a Governance for Jobs (GfJ) project to assist MOI and GAFI address these challenges. Subject to the success of this initial effort with GAFI, the potential exists to extend the Governance for Jobs agenda to other relevant Ministries and Agencies with a role in private sector development.

Relationship to CAS

C. Relationship to ISN

The Egypt ISN for the period FY13-14 has three key pillars comprising "Economic Management and Governance", "Job Creation through Private Sector Development" and "Inclusion". The ISN highlights Egypt's poor governance indicators relative to comparator countries. It cites the perceptions of corruption and regulatory uncertainty reported in Investment Climate Assessments as further evidence of the government limited capacity to provide the pre-requisites for the type of private sector and MSMEs development that generates the job opportunities that foster greater social inclusion and stability. This requires also greater attention to disadvantaged segments of the population be it vulnerable groups such as youth and women or vulnerable regions such as Upper

Egypt. This GfJ project would, building on considerable technical and diagnostic work done to date by the World Bank and the IFC (including the recent round of sub-national Doing Business assessments) and through close collaboration with government and private sector, be designed to contribute to each of these strategic ISN objectives.

The recent 2013 World Development Report on Jobs noted that roughly 9 out of every 10 jobs are sourced by the private sector. Dependence on public sector for the direct provision of jobs is increasingly infeasible. Moreover even in highly “public sector-centric” systems there has been a sea change in terms of the source of job creation. China is the most dramatic example. This does not mean that the public sector does not have an essential role, but rather as a market-facilitator not a market provider. Governments for the most part impact enterprise factor and product market decision-making (ie outside of the SOE sector) indirectly through their impact on costs and risks of conducting business and in terms of barriers erected or not to competition and innovation. This is effected by way of the policies, regulations and behavioral practices of the government agencies with mandated responsibility for the private sector. Improving the efficiency, effectiveness and accountability of this ecosystem of market-facilitating roles and responsibilities is essential to foster the job-creating capacities of the business sector.

It is additionally of note that the project will constitute a programming response also to some of the key private sector development themes of the From Privilege to Competition World Bank flagship report. This report provided seminal insights into the political economic workings of Egypt as well as many other MENA countries that were not, before the revolution openly recognized, but are now voiced clearly in the Egypt ISN.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)

The project development objective (PDO) is to augment the quality and accessibility of key government services to the enterprise sector in order to foster an improved investment climate for job creation.

Key Results (From PCN)

The proposed Key Performance Indicators (KPIs) at the PDO level are business start-ups, business expansion, and business simplification. Business start-ups would be generated through OSS and Bedaya support to de novo business activities, business expansion through Bedaya post investment support that fosters increased growth potential for firms, and business simplification through time and cost savings resulting from efforts of OSS and ERRADA initiatives.

Proposed Intermediate Outcome Indicators (IOI) will pertain to investment climate, enterprise development, and monitoring and evaluation. Investment climate indicators would be OSS service growth in targeted Governorates and implementation of the MOI Regulatory Reform Program. Enterprise development indicators include operationalization of the matching grant program including the development of a well-functioning portfolio of grant beneficiaries and mobilization of private sector service providers. Monitoring and evaluation indicators would include the development of an M&E functionality within the GAFI, covering policy and program assessment and incorporating measures of PPD outreach,

III. Preliminary Description

Concept Description

A. Concept

The proposed project is the first to be conducted in private sector development in Egypt after a series of Investment Climate Assessments (ICAs). This project would build on a decade's work of analytics, and would aim to improve governance and create more sustainable jobs. This would be achieved through technical assistance and a matching grant program.

The "Governance for Jobs" project seeks to address the main issues highlighted in consultations with stakeholders and analysis conducted by the World Bank. These issues include regulatory reform, extension of investment related services to marginalized regions, improving BDS support to entrepreneurs, and inclusion of the business community in designing regulations that affect them.

1. Description

The proposed project will comprise three components as follows: (i) Investment Climate Development; (ii) Enterprise Development; and (iii) Monitoring and Evaluation. The components entail the following activities:

Component I: Investment Climate Development (ICD - "leveling the playing field"), (US\$2 million):

Sub-component I: The expansion of OSS services (approximately US\$1 million), comprising support for:

- (i) Expansion of OSS services in Lower Egypt with a focus on support for the establishment of OSS branch in Gamasa which would have the highest and most rapid impact, given that it would serve three governorates in Lower Egypt, namely; Dakahliya, Damietta, and Sharkiya, and would also be in line with the findings of the World Bank Egypt Rapid Survey conducted in 2011, which indicated that firms in Lower Egypt were the most constrained in business licensing and operating permits.
- (ii) Consolidating information on access to land through showcasing all land available for investment under the jurisdiction of the Industrial Development Authority (IDA), Tourism, and Agriculture Authorities on GAFI's website. Information would include areas available, prices, and location.
- (iii) Further e-integration of the OSS network, including e-archiving and electronic connectivity between OSS branches to enhance quality of service provided by OSS.

Sub-component II: Development of the ERRADA Program (approximately US\$1 million), comprising support for:

- (i) Stocktaking and review/streamlining of existing business – related laws and regulations and operationalization of the RIA function within RRU, as a pilot demonstration initiative with potential for roll-out to other RRUs in ERRADA-participating Ministries;
- (ii) Further development of the institutional and implementing arrangements for ERRADA at the overall Government level over the medium to long run.

Component II: Enterprise Development (ED - "creating opportunity"), (US\$2 million), comprising:

- (i) Matching grant pilot program offering BDS to start-ups in both pre and post investment phase. In the case of the post-investment phase capacity building, the matching grants would

support the businesses that obtain equity financing from Venture and Start-Up Capital Funds and/or Angel Investors operating in the Egyptian market;

(ii) Strengthening of Bedaya capacity to implement the Matching Grant program.

Component III: Monitoring and Evaluation (ME - “measuring for results”) (US\$1 million), comprising:

- (i) Development of statistical analysis and website\portal knowledge functions within the Research Centre;
- (ii) Promotion and organization of PPD outreach and consultation process, linked to “investment climate and enterprise development for job creation” policy analysis and development;
- (iii) Development of knowledge partnerships with leading international and regional think-tanks and research institutes;
- (iv) Strengthening and deepening MOI\GAFI capacity for evidence-based Monitoring and Evaluation of policy, program and project performance, with particular attention as a pilot to the GfJ project.

The GfJ project will entail close collaboration between World Bank and IFC advisory technical teams to provide ongoing technical and implementation support for the project, particularly in regard to the ICD and ME components of the project.

IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		x	
Natural Habitats OP/BP 4.04		x	
Forests OP/BP 4.36		x	
Pest Management OP 4.09		x	
Physical Cultural Resources OP/BP 4.11		x	
Indigenous Peoples OP/BP 4.10		x	
Involuntary Resettlement OP/BP 4.12		x	
Safety of Dams OP/BP 4.37		x	
Projects on International Waterways OP/BP 7.50		x	
Projects in Disputed Areas OP/BP 7.60		x	

V. Financing (in USD Million)

Total Project Cost:	5.00	Total Bank Financing:	0.00
Financing Gap:	0.00		
Financing Source		Amount	
Borrower		0.00	
MENA Transition Fund - IBRD as Implementing Agency		5.00	
Total		5.00	

VI. Contact point

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