



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 04-Apr-2022 | Report No: PIDC34009



BASIC INFORMATION

A. Basic Project Data

Country Egypt, Arab Republic of	Project ID P178324	Project Name Green, Inclusive and Resilience Development Policy Loan (P178324)	Parent Project ID (if any)
Region MIDDLE EAST AND NORTH AFRICA	Estimated Board Date Jun 28, 2022	Practice Area (Lead) Finance, Competitiveness and Innovation	Financing Instrument Development Policy Financing
Borrower(s) MINISTRY OF INTERNATIONAL COOPERATION	Implementing Agency MINISTRY OF INTERNATIONAL COOPERATION		

Proposed Development Objective(s)

The proposed Program Development Objective is to enable green transition, promote gender and inclusion, and strengthen financial sector and fiscal resilience.

Financing (in US\$, Millions)

SUMMARY

Total Financing	400.00
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DETAILS

Total World Bank Group Financing	400.00
World Bank Lending	400.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. **Egypt stands at an inflection point on its social and economic growth journey.** While recent structural reforms (in 2016) have helped improve macro-economic stability, the challenges stemming from climate risks and vulnerabilities, global decarbonization trends, and external shocks challenge conventional model of economic development. Egypt has set a national ambition to move towards a more Green, Inclusive and Resilient Development (GRID) which is reflected in



the Egypt's Sustainable Development Strategy Vision 2030 and, more recently, in its National Climate Change Strategy 2050 (NCCS). To achieve medium and long-term economic and social goals, recognizing the interaction between development and the impact of climate change on development is essential. In November 2022, Egypt will preside the 27th UN climate change conference (COP27), further demonstrating Egypt's determination to work on achieving the Egyptian people's aspirations.

2. **Egypt recently undertook exchange rate, monetary, and fiscal measures in response to the adverse global economic developments, including the war in Ukraine.** On 21 March 2022, the CBE allowed greater flexibility in the exchange rate, which led to an overnight depreciation vis-à-vis the US dollar by around 16 percent to stem the widening net exports deficit and raised policy rates by 100 basis points to curb inflation and contain portfolio outflows that had led to large reserve losses. Simultaneously, the government announced a social mitigation package worth LE130 billion (1.6 percent of FY2022/23 GDP) to partially alleviate the impact of the associated rise in prices, through hikes to public sector wages and pensions, tax measures, and expanding coverage, and adding in April 2022, 450k households to the cash transfer programs (Takaful and Karama) and introducing reforms to the food subsidy program by a) optimization of wheat manufacture (through silos, digitization) and b) improving the targeting of the ration card by introducing a new exclusion criteria based on thresholds related to income, taxes, social insurance, or above, private schools fees, mobile bill, electricity consumption along with other factors. These measures are intended to promote inclusiveness, build resilience of households against shocks and promote food security and are also supported by Bank operations and/or by TA. These policy adjustments were precipitated by a combination of (i) shorter-term adverse global economic developments—notably the soaring international commodity prices and tightening financial conditions—themselves exacerbated by the war in Ukraine; and (ii) structural challenges facing the Egyptian economy that result in the below-potential performance of non-oil exports of goods and services and FDI.

3. **This proposed US\$400 million Development Policy Financing (DPF) aims to support the Government of Egypt (GoE) to solidify institutional, governance, and information mechanisms to achieve climate resilience and set the stage for inclusive low carbon development.** The Egyptian authorities requested a DPF operation through an official correspondence from the Minister of International Cooperation on March 26, 2022. The proposed operation will help advance a sub-set of reforms to: (i) strengthen the foundations for a green economic pathway, build resilience and enhance adaptation to climate change; (ii) support inclusion with a particular focus on women; and (iii) improve financial sector and fiscal resilience in the wake of external shocks (including fallouts from the conflict in Ukraine and the ever-mutating COVID-19 pandemic) that exposed existing fragilities. The DPF will support this agenda through improvements in the enabling legal and regulatory framework, financial infrastructure, and policies in macro-critical sectors for climate smart development. This is consistent with the World Bank twin goals of ending extreme poverty while promoting shared prosperity in a sustainable way.

Relationship to CPF

4. **This stand-alone DPF will be part of a series of programmatic and multisectoral engagements in Egypt.** It is underpinned by national and sector-level strategies aiming to address climate-change, gender gaps, and enhance inclusion, and supported by longstanding World Bank Group engagements that have helped generate critical analytical knowledge, technical assistance (TA) and lending operations. The Program is also aligned with the draft Country Partnership Framework (CPF) and the Country Climate and Development Report (CCDR). The operational design has been informed by lessons from the World Bank's country specific DPFs in Egypt.

5. **The program's focus is fully aligned with the World Bank Group's twin goals of eliminating extreme poverty and boosting shared prosperity in a sustainable manner.** It is aligned with the current Egypt CPF (2015–2022) and contributes



to the CPF's three interdependent focus areas: (a) improving governance, (b) private sector job creation, and (c) social inclusion. The reforms supported by this operation will contribute to achieving key high-level objectives identified in the new CPF (FY2023-2027) currently being prepared. These include (a) more and better private sector jobs, (b) improved and inclusive human capital development, and (c) greater resilience to shocks, in addition to two important cross cutting themes: governance and women empowerment. By targeting the social and economic inclusion agenda, social safety nets, basic services including transport, social housing, financial inclusion, and agriculture, the investment projects under the late and upcoming CPF complement the DPF's focus on green growth, fiscal and financial resilience, and the gender/inclusion agenda.

6. **The proposed DPF will also directly contribute to the implementation of the World Bank Group's MENA enlarged strategy, the WBG Gender Strategy, the MENA Regional Gender Action Plan, and the MENA Climate Roadmap.** The operation supports multiple pillars of the MENA regional strategy (renewing the social contract, strengthening resilience to climate, and promoting recovery). It is also aligned with the WBG Gender Strategy's Pillars 2 ("Removing Constraints to More and Better Jobs") and 4 ("Enhancing Women's Voice and Agency"), and aligned with the MENA Regional Gender Action Plan. The operation contributes to advancing gender equality and women's empowerment by removing regulatory barriers to female labor force participation and closing the gender gap in financial inclusion. Finally, the DPF focuses on enabling green growth by implementing reforms to expand green finance and adapting to water scarcity. The DPF-supported program also contributes to the WBG PCM agenda by supporting reforms that promote PPP and contribute to capital markets developments.

7. **This proposed operation builds on the previous reform programs supported by a series of World Bank DPFs,** specifically: (i) the Private Sector Development for Inclusive Growth DPF (US\$1 billion), with the objective of enabling financial inclusion, private sector development, and strengthening fiscal management for inclusive growth in Egypt; and (ii) the Inclusive Growth for Sustainable Recovery DPF (US\$360 million), aiming to enhance macro-fiscal sustainability, enable private sector development, and foster women's economic inclusion.

C. Proposed Development Objective(s)

The proposed Program Development Objective is to improve fiscal and financial sector resilience to external shocks and pave the way for more sustainable, inclusive and green growth.

Key Results

8. **This operation is expected to achieve impactful results with respect to green, inclusive growth, and financial sector resilience.** In terms of green growth, the operation is expected to (i) strengthen and align the PPP enabling environment framework with climate change objectives; (ii) introduce sustainable debt funding through a regulatory framework allowing issuers to issue a diversity of sustainable labelled products; (iii) enhance adaptation to increasing water scarcity; (iv) increase the adoption of modern irrigation systems at the farm level to reduce water withdrawals, energy consumption and fertilizer use; and (v) enable improved planning and enhanced coordination of climate action across different sectors through National Climate Change Strategy 2050.



9. In terms of inclusive growth, the operation is expected to: (i) broaden the scope of labor law to prohibit discrimination based on gender, religion, race, color, language, disability, social status, political affiliation, syndicate affiliation, geographic affiliation, or any other reason that could disturb principles of equality and equal opportunities; (ii) remove gender discrimination in the judicial sector and contributing to full gender equality across all sectors; (iii) increase in financial inclusion through digital payments; and (iv) increase insurance coverage to underserved segments of the population.

10. In terms of financial sector resilience, this operation is expected to: (i) strengthen Egypt's overall financial crisis management framework to be better aligned with international standards, in addition to adopting a specific Emergency Liquidity Assistance (ELA) and bank recovery plans; (ii) place the country in a better position to face banking crises and absorb external shocks through coordination with different entities; and (iii) enhance Egypt's corporate governance framework for private and public banks to ensure further alignment with the international standards.

D. Concept Description

11. **The development objective of the operation is to foster a green, resilient and inclusive economic recovery.** The operation aims to improve fiscal and financial sector resilience to external shocks, in light of recent global developments, and the COVID-19 pandemic, and pave the way for a more sustainable, inclusive and green recovery, as well as growth in the longer run. At the request of the Government, it is a standalone operation taking a multisectoral approach. The proposed DPF pillars are fully aligned with the Government of Egypt's overarching National Structural Reform Program; as well as with the climate-related, gender, and financial sector existing and forthcoming national strategies.

12. **Pillar 1 of the proposed DPF advances Egypt's preparedness towards (i) enhancing resilience in the face of compound climate risks and (ii) leveraging low carbon development opportunities while strengthening its competitiveness in the face of global decarbonization trends.** Given the high uncertainty on future water availability, Egypt needs to minimize losses from climate change risks, reduce inefficiencies in how water and natural resources are used, allocated. Efforts to improve productivity of water should recognize the true value of water through better water allocation policies and a robust water pricing system. Further, institutional fragmentation and overlapping mandates in the water, agriculture, and environmental sector prevent innovation, private sector financing and lead to inefficiencies and wastage in the way resources are allocated and used. This will be addressed through prior actions 1, 2, 3, 4, and 5 of this proposed DPF.

13. **Pillar 2 of this proposed DPF addresses the barriers to female labor force participation (FLFP), which are multi-faceted and complex requiring an integrated vision that addresses the multiple obstacles.**¹ Leveraging the previous DPF on *Inclusive Growth for Sustainable Recovery* (P171311), this operation will further promote reforms to a) strengthen inclusion, non-discrimination and equal opportunities in employment and working conditions; b) remove gender discrimination in the judiciary sector and promote women's access to justice; and c) promote gender equality and inclusion through financial services, which is a key driver for sustainable transition, inclusive growth and the emergence of a modern, well-functioning market economy. These actions can be considered mutually reinforcing because having more women in the judiciary can encourage more women to join the labor force feeling safer and more comfortable to come forward in case of abuse of authority or sexual harassment whereas providing financial services for women can

¹ i.e. restrictive legislation, safe and hospitable workplace, access to childcare services, combating sexual harassment and gender-based violence, safe transportation, addressing gender and social norms and promoting women's entrepreneurship and financial inclusion.



accelerate their overall economic activity and full integration in the economy. This will be addressed through prior actions 6, 7, and 8.

14. **Pillar 3 of this proposed DPF encompasses actions addressing fiscal and financial sector resilience, which is a prerequisite for sound and sustainable socioeconomic development, and essential to absorb current existing economic shocks.** Fiscal resilience can be defined as the ability for a government to withstand economic shocks and their consequences on the Government's finances. Financial sector resilience can be defined as the ability of financial intermediaries (chief among them the banks) to absorb economic downturn without jeopardizing depositors and, ultimately, the taxpayers. While the financial sector in Egypt has demonstrated good resilience to recent shocks since the 2016 Egyptian exchange rate crisis, and the COVID-19 pandemic, several reforms are still needed to supplement the stability toolbox of the monetary and financial authorities. With the recent external developments, additional reforms are even more important as the banking sector is expected to be under additional stress in the short (increased inflation on the background of the conflict between Russia and Ukraine, spillover effects from real economy downturn) and medium to long run (cybersecurity, climate change, crypto assets). Additional reforms in liquidity assistance, bank recovery plans, corporate governance, and changes to the capital markets law to authorize future cashflows securitization will be introduced in this proposed DPF. Through prior actions 9, 10, 11, 12, and 13, enhancements and development of Egypt's fiscal and financial sector resilience will be addressed.

E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

15. **The proposed DPF's prior actions under Pillar 1 "Green" aim to accelerate and enhance the green agenda.** With the current information on the reforms, no direct adverse effects on poverty expected from these actions. These reforms could have indirect distributional impacts via the labor market channel. Fostering green finance may expand financial access to a particular set of firms and increase their labor demand. If the expansions in financial access come at the cost of cutting financing to non-eligible activities or firms, there could be negative distributional implications depending on the impacts on labor demand and the profile of workers engaged in those negatively impacted activities. These actions are expected to largely impact formal firms. Ensuring the transition towards a greener and socially inclusive economy, tackling climate change issues and establishing a national vision for climate reform is expected to increase rural productive capacity and financial savings, reduce vulnerability of households to climate shocks by increasing climate resilience.

16. **The proposed DPF's prior actions under Pillar 2 "Gender and Inclusion" could have positive indirect impact via increased real income and reducing income inequality through promoting equal pay for women in addition to increasing female labor force participation.** Evidence using Egypt Labor Market Panel Survey (ELMPS) in 2018 showed that the share of low-earners increased by 13 percent from 2012 to 2018. This increase was greater among women (18 percent) compared to men (13 percent). Furthermore, the gender wage gap reached 60 percent in favor of men in 2018 compared to 27 percent in 2012.² Additional actions under pillar 2 aim to improve financial inclusion for individuals and increasing access to credit for SMEs and women led enterprises which has been identified as an important constraint for increasing incomes in Egypt. The Prior Actions are expected to support the increased use of transaction accounts, boost financial inclusion, enhance the banking customer experience, and improve access to credit to small, medium firms and individuals. These prior actions could have positive distributional impacts via expanded access to payments and credit,

² Said, M.; R. Galal; M. Sami (2019): Inequality and Income Mobility in Egypt. Economic Research Forum Working Paper Series No. 1368. Cairo, Egypt: Economic Research Forum



and potentially job creation by small firms accessing credit. Enhancing the national payment system to reach different segments of the population (individuals, households, and small businesses), can contribute to increased access and use of digital financial services. This can also potentially reduce the gender gap in access to financial services.

17. **The proposed DPF's prior actions under Pillar 3 "Resilience" aim to strengthen the banking sector resilience to economic shocks.** Evidence indicates that promoting financial sector soundness is important for supporting households' income and poverty reduction. These measures could lead to positive impacts on labor incomes, particularly by minimizing the impact of negative macro shocks associated with the banking sector. With the current information, ex-ante direct negative distributional impacts are not expected. Additionally, strengthening tax system is expected to have positive effect on poverty reduction depending on tax progressivity.

Environmental, Forests, and Other Natural Resource Aspects

18. **Over the past two decades, Egypt has continuously updated its environmental policy and regulatory framework with provisions to integrate environmental concerns with national development plans and ensure the protection of human health and the sustainability of natural resources.** The most recent "Sustainable Development Strategy: Egypt Vision 2030" is putting equal emphasis on its three pivotal dimensions, the Economic, Social and Environmental Dimensions. Egypt is currently embarking on integrating the green agenda into the country's development goals. Egypt's ministries of environment and planning and economic development have agreed on implementing 30 percent of investment projects enrolled in Egypt's plans for environmental development and green economy. This percentage will increase to 100 percent over the coming three years, by which contributing to achieving the national agenda for sustainable development in light of Egypt's Vision 2030.

19. The assessment conducted by the World Bank, as per OP 8.60, to determine whether specific country policies supported by the DPF are likely to cause significant effects on the country's environment and natural resources concluded that the policies supported by the proposed DPF are not likely to have significant negative impacts on Egypt's environment nor its natural resources.

20. The current legal environmental framework in Egypt has adequate requirements to address the moderate potential environmental impacts associated with the priority actions of this DPF. Per the Law No. 4 /1994 amended by Law 9/2009 for Protection of the Environment and the executive regulations, it requires the preparation of environmental impact assessment (EIA) for all investment projects depending on its impact classification. Institutionally, a central department was established, namely: a specialized directorate under the environmental management directorate and the Central Department for Environmental Inspection & Environmental Compliance "CDEIEC" are both following up on the implementation of mitigating measures during the construction and operation phases of projects.

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APPROVAL

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