



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 22-Oct-2018 | Report No: PIDC25602



BASIC INFORMATION

A. Basic Project Data

Country Egypt, Arab Republic of	Project ID P168630	Project Name Private Sector Development and Fiscal Management for Inclusive Growth DPF (P168630)	Parent Project ID (if any)
Region MIDDLE EAST AND NORTH AFRICA	Estimated Board Date Dec 04, 2018	Practice Area (Lead) Finance, Competitiveness and Innovation	Financing Instrument Development Policy Financing
Borrower(s) Arab Republic of Egypt	Implementing Agency Ministry of Investment and International Cooperation, General Authority for Investment & Free Zones		

Proposed Development Objective(s)

Enabling financial inclusion, private sector development and strengthening fiscal management for inclusive growth in Egypt.

Financing (in US\$, Millions)

SUMMARY

Total Financing	1,000.00
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DETAILS

Total World Bank Group Financing	1,000.00
World Bank Lending	1,000.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. Egypt, the largest country in the Middle East and North Africa region (MENA) with a population of 91 million, and the fourth largest economy, has embarked upon a program of major reforms that are needed to address some longstanding structural constraints to inclusive growth. This bold and transformative reform program progresses with early signs of economic gains. The Government of Egypt (GoE) has implemented a series of major reforms over the past few years to promote macroeconomic stability and enhance competitiveness, which are yielding early gains. Real GDP



grew at 5.3 percent in FY18, compared to 4.2 percent in FY17, and expected to be around 6 percent in FY19-FY20. The introduction of a new Value-Added Tax (VAT) and the gradual phasing-out of energy subsidies are helping fiscal consolidation, while the energy sector reforms have led to a more reliable electricity supply for firms. GoE also implemented business environment reforms that includes a new industrial licensing law and an investment law, leading to substantial gains. While impressive, these early gains are yet to translate into economic inclusion of the majority of Egyptians. Some 60 percent of population is either poor or vulnerable to poverty, while inequality is increasing. Stark spatial inequality exists, with poverty and vulnerability being higher in rural areas.

2. This operation builds on the results of the Programmatic Development Policy Financing (DPF) series of three operations that concluded in 2017. Egypt has moved to next phase of deeper structural reforms to facilitate private sector-led job creation, building human capital and improved public sector efficiency to provide services and create jobs. This stand-alone DPF operation on supports reforms for economic inclusion and private sector development. First, it focuses on access to finance as essential for formal employment by small and medium enterprises and private sector firms. Second, it develops the private sector through enhancing transparency and automation of procurement and tax filings, improved legislations and enabling a scale-up in private investment. Third, it supports territorial development in revitalizing cities as engines of growth by initiating an integrated package of land reforms, fiscal empowerment of local institutions, digitally enabled smart cities and clarity in roles of different government agencies in participative planning.

3. The key objective of the Government Program – “Egypt Takes Off” - is to address inclusive growth and job creation in the next four years (2018-2022). It aims to build a competitive and diversified knowledge-based economy, with the expected outcome of promoting inclusion and territorial development. It seeks to implement a package of structural policies to rationalize and direct support to beneficiaries; strengthen social safety nets and develop human capital. The program covers five main themes, namely: 1) Protecting National Security and Egypt's Foreign Policy; 2) Developing Human Capital; 3) Economic Development and Improving Government Performance; 4) Job Creation; and 5) Improvement of Standard of Living.

Relationship to CPF

4. The proposed operation is closely linked to the Systematic Country Diagnostic (SCD), and the Country Partnership Framework (CPF) for Egypt for 2015-2019. On SCD, it supports all three pillars: (i) private sector led job creation, (ii) spatial integration, and (iii) inclusion. On the CPF, it is specifically linked to the second pillar of private sector job creation through improvement of business climate, financial inclusion, and supporting infrastructure development.

5. It is part of a larger programmatic support to Egypt that includes complimentary operations being prepared on enhancing social protection and social inclusion of citizens, improving competitiveness and infrastructure in lagging regions, developing digital development strategy for jobs of tomorrow, leveraging private sector investments for infrastructure and improving human capital in education and health sector. It also contributes to the World Bank Group's Strategy for Middle East and North Africa, and supports its strategic pillars related to renewing the social contract and supporting inclusive economic growth through creating inclusiveness (including financial inclusion), private sector development, and lagging region development.

C. Proposed Development Objective(s)

6. The Development Objective of this operation is “Enabling financial inclusion, private sector development and territorial development for inclusive growth in Egypt.”

Key Results



7. The following key results are envisaged under the Program, and will be confirmed and finalized during preparation: i) Increase in number of microfinance companies or NGO that receive e-payment or mobile payment license; ii) increase in number of microfinance beneficiaries, including female, using mobile payment or e-payment; iii) increase in number of new registrations of security interests in the registry; iv) increase in number of SMEs that have received loans secured with movable property; v) Increase in Value of factoring transactions; vi) increase in number of securities firms selling investment funds to investors; vii) increase in number of SMEs participating and being awarded contracts; viii) updation of Egypt Development Map annually in a transparent manner and made publicly available; ix) Piloting of updating / creating cities and villages strategic plans in a selected number of districts; x) Increase in transparency and predictability of annual capital investment allocations to Governorates and districts; xi) are made using a transparent, predictable and criteria-based formula effective from FY2020/21; xii) new legal framework for property registration in the cadastral sections; xiii) introduction of smart cities application in new cities; xiv) increase in tax revenues due to ETA to be able to adopt a risk-based approach to managing registration, filing, payment, collection and audit functions.

D. Concept Description

8. The proposed DPF is a stand-alone, single-tranche operation aimed at supporting GOE's effort to improve inclusive growth and job creation, structured under three objectives, each supported by a corresponding pillar: i) Improving access to finance through regulating modern financial instruments; ii) Enabling private sector investments in key development areas to encourage entrepreneurship and job creation; and iii) sustainable territorial development through improving land regulation, establishment of new urban centers and fiscal decentralization. The pillars of the proposed operation mainly align with three of the five pillars of the GoE Program: (i) Pillar 3: Economic Development and Improving Government Performance; (ii) Pillar 4: Job Creation; and (iii) Pillar 5: Improvement of Standard of Living. As such, the operation contributes directly to the GoE's overall vision to place inclusive growth and job creation at the center of the development agenda. The operation further contributes to improving governance, transparency, and public service delivery. The GoE program provides the anchor for this DPF, supporting selected policy actions. All measures supported by the DPF carry strong government ownership and are fully embedded within the Government Program.

9. The proposed DPF will contribute to the following policy objectives through specific policy reform actions:
- a. Under **Pillar 1 - Financial inclusion and access to finance**: Improving access to finance for subsistence entrepreneurs; Facilitating greater access to finance for SMEs by strengthening the implementation of the framework for secured transactions; Fairer and more efficient capital markets and broadening the investors base.
 - b. Under **Pillar 2 – Private sector development**: promoting and facilitating SME participation in public procurement; strengthening corporate governance and minority shareholder protection; improving the ecosystem for private-sector led entrepreneurship; simplifying tax payment and improving the business environment.
 - c. Under **Pillar 3 – sustainable territorial development**: Improving spatial planning for optimal use of state land at various administrative levels; improving property registration in new urban communities and simplification in property registration process; improving quality, transparency and sustainability of capital spending at Local Administrative levels; and improving coordination and sustainability of medium-term local development planning at bottom tiers of Local Administrations.



E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

10. Policy reform actions from the operation’s Pillars 1 and 2 may influence small and medium enterprises (SMEs) and enable them to be job creators. SMEs are the largest employers in Egypt and evidence analyzed in World Bank (2014) shows that weak job growth in Egypt can be explained by lack of growth of SMEs. Pillar 3 actions have the potential to impact on basic services provision. Access to improved water and sanitation services directly enhance the livelihoods of individuals, which in turn are expected to improve their human capital accumulation and increase households’ welfare. Potentially positive, though indirect, poverty and social impacts can be realized if the measures of Pillars 1 and 2 support SME growth and hiring. Majority of the prior actions under these two pillars will benefit already formal SMEs; the full job creation potential of these actions may be realized if they incentivize formalization. Pillar 3 prior actions can have potentially positive impacts on the poor if they improve access to basic services. Actions under pillars 1 and 2 will mainly reduce the costs of accessing credit to formal SMEs thereby increasing their job creation potential. Informal firms could benefit from the expanded access to credit only once they formalize.

Environmental Impacts

11. 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. More specifically, the Urban and Environment Pillars of the Environmental dimension are intrinsically related. Some of the expected results of this PDF, mainly under Pillar 3, can only enhance the synergies between the two pillars, and constitute an opportunity for significant environmental benefits if proper and environmentally sound actions are taken to achieve the DPF results. The assessment conducted by the World Bank, as per OP 8.60, concluded that the policies supported by the proposed DPF are likely not to have negative impacts on Egypt’s environment nor its natural resources. Given the potential climate change impacts on the overall development agenda of Egypt in general, and on territorial development and the strategic planning of cities and villages in specific, there is a need to introduce as well as mainstream systematic and pro-active climate risk management into national development and sector planning.

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APPROVAL

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