



Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 12-Oct-2018 | Report No: PIDISDSA25765

**BASIC INFORMATION****A. Basic Project Data**

Country Egypt, Arab Republic of	Project ID P169157	Project Name Equal Access and Simplified Environment for Investment Project - Phase II	Parent Project ID (if any) P153487
Parent Project Name Equal Access and Simplified Environment for Investment (EASE) in Egypt	Region MIDDLE EAST AND NORTH AFRICA	Estimated Appraisal Date 15-Oct-2018	Estimated Board Date 31-Jan-2019
Practice Area (Lead) Finance, Competitiveness and Innovation	Financing Instrument Investment Project Financing	Borrower(s) Ministry of International Cooperation and Investment/General Authority for Investment, Industrial Development Authority	Implementing Agency General Authority for Investment and Free Zones

Proposed Development Objective(s) Parent

To improve the regulatory environment for investors through simplified licensing and transparent industrial land allocation processes.

Components

Facilitating accessible and transparent investor services (GAFI)
Supporting Industrial Sector Transformational Reforms (IDA)
Capacity building for managing regulatory reform (ERRADA)

PROJECT FINANCING DATA (US\$, Millions)**SUMMARY**

Total Project Cost	1.75
Total Financing	1.75
of which IBRD/IDA	0.00
Financing Gap	0.00



DETAILS

Non-World Bank Group Financing

Trust Funds	1.75
MENA Transition Fund - IBRD as Implementing Agency	1.75

Environmental Assessment Category

C-Not Required

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

A difficult business environment. The business environment in Egypt suffers from multi-layer administrative compliance burdens, which represent a serious obstacle to doing business in Egypt, and significantly affects small businesses. In the Ease of Doing Business 2015 Report, Egypt ranks 112 out of 189 countries (as a comparison, Morocco ranks 71 and Tunisia 60). In the World Economic Forum (WEF) Competitiveness Index 2014, Egypt ranks 118 of 148. The complexity and uncertainty in acquiring an industrial license exemplifies the problems faced by investors.

Uncertain times and the need for a private-led economic rebound. The revolutions that started in Egypt in January 2011 led to a tumultuous period marked by instability, stagnating growth and per capita incomes, rising unemployment and poverty. Egypt went through two regime changes and presidential elections in just three years, with periods of unrest, uncertainty, insecurity, and violence that have left the population eager for stability and direction. With a new constitution adopted in January 2014, a new President elected in May 2014, and parliamentary elections expected in the last quarter of 2015, the political landscape has quickly evolved while the economy is only just beginning to show signs of recovery. The Egyptian economy had achieved high growth rates during 2004 to 2008, however, the global financial crisis of 2008, followed by the unrest and uncertainty associated with the 2011 revolution, led to a slowdown in economic activity. The unemployment rate reached 13.3 percent during the last quarter of FY14 (April-June 2014), marginally lower than the rates recorded since the beginning of FY14. Out of the 3.7 million currently unemployed, some 70 percent are between 15 and 29 years old, making youth unemployment a key challenge for economic inclusion and stability. The latest poverty data indicate that 26.3 percent of the population has been living below the national poverty line in FY13, with poverty rates reaching 50 percent in rural Upper Egypt. The loss of formal employment has been a key reason for households falling into poverty. This increases the vulnerability of women, youth and rural Egyptians, since they are the most likely to be unemployed.



A complex and unlevelled business environment that favors a few and limits competition. Throughout its fluctuating economic performance, the structure of the Egyptian economy remained broadly the same over the past decade. Formal business entry and growth is muted, and investments have been skewed towards a small number of large, capital-intensive firms that do not create many jobs, that coexist with a vast majority of micro firms – with limited development of a small or medium scale business sector. This lack of dynamism, particularly in the manufacturing sector is fostered by weak governance and a complex regulatory environment that fosters an unlevelled playing field as privileged (large) investors and incumbents benefit from a competitive edge as they often can influence bureaucratic outcomes, get things done more easily or have better access to (often subsidized) inputs like land, capital and energy. These factors have contributed to limited economic opportunities, an underdeveloped private sector, and have ultimately hindered job creation. According to the World Bank Group (WBG) Worldwide Governance Indicators, government effectiveness, regulatory quality, and rule of law rankings for Egypt have all declined in the past few years.

The Equal Access and Simplified Environment for Investment in Egypt (“EASE Investment in Egypt”) project aims specifically at addressing these regulatory, institutional and governance issues that have plagued private sector dynamism in Egypt for years. The current context and the strong will of the government authorities to address these longstanding regulatory reforms offer a unique opportunity for making progress in these areas.

Sectoral and Institutional Context

A new window of opportunity for ambitious reforms. Egypt’s Cabinet recently approved significant amendments to the Investment Law (see Box 1), a long awaited reform. This is an important step in the right direction to improve the business climate and level the playing field for investors. Effective implementation of the amended law will be essential, and the WBG is preparing this TA project to support the Ministry of Investment and the General Authority for Investment (GAFI) to implement their mandates under the new law. GAFI aims to reduce stifling bureaucracy while eliminating room for discretion in the licensing and permitting process and land allocation for new investments. Most importantly, the law aims to empower GAFI to act as a one-stop-shop (OSS) for investors and to empower it to seek the necessary approvals from various agencies that investors need to obtain.

The need to focus on binding business environment constraints: industrial licensing, land and regulatory governance. The current government’s agenda aims at sending a strong signal to investors by engaging on an ambitious plan to address the deep-rooted problems of unequal treatment of businesses. Among these top priority areas are industrial licensing, access to land and construction permits which are among the most severe constraints to industrial growth. The agencies with the mandates for the relevant roles are all actively engaged on the reform agenda. GAFI is the principal governmental authority concerned with facilitating investment through its network of OSSs and aims to ease and decentralize business entry, licensing and operations. The Industrial Development Authority (IDA) is the principal authority mandated to regulate the industrial sector and allocate land for industrial projects, while the Egyptian Regulatory Reform and Development Activity (ERRADA), which was revived with Prime Ministerial Decree No. 1038 of 2014, and is currently supervised by the Minister of Industry, Trade & Small Industries (MITSI), is mandated to catalyze and support reform implementation. The Minister of MITSI assigned ERRADA to focus on industrial licensing, land allocation and construction permitting as priority focus areas for reform.



A legacy of past policies that remain a burden for investors and a source of discretion. Egypt is one of few countries which still requires screening and licensing of industrial projects as part of its industrial policy, or for assessing conformity with the national interest. Industrial licensing is essentially a means for a government to allocate resources – financial, energy, water, transport, labor, materials, foreign exchange – in ways that the market, if left to its own devices, would not. Investment screening of the kind performed by IDA was formerly common throughout the world, but has been phased out in most countries. Often the agencies formerly responsible for screening and negotiating with investors are now entirely or mostly oriented towards promotion and facilitation of investment.



Box 1: New Investment Law in Egypt and the EASE Project

President Abdel-Fattah El-Sisi approved a package of amendments to Egypt’s investment law in early March 2015, aimed at enhancing a business friendly environment that attracts private investors globally. The Investment Guarantees and Incentives Law of 1997 was updated to “adopt clear policies that offer equal opportunities to investors through a transparent framework,” according to presidential spokesperson.

One of the main deficiencies of the old law often cited by the private sector and international experts was that the authority to grant licenses and land was split between several entities, which in turn led to slow, inefficient and burdensome processes for investors. The new investment law sets the legal framework that enables GAFI to facilitate licensing and land allocation services through its OSS in coordination and collaboration with relevant government authorities. GAFI currently provides OSS services for business registration which covers business entry procedures, but stops short of business licensing. The new law will simplify the regulatory compliance process by minimizing the points of investor direct interaction with multiple regulators.

The Egypt EASE project will directly support the implementation of these policy changes by establishing the systems and building the capacity that enables GAFI and its OSSs to provide these services. EASE will help enable GAFI to carry out its new mandate under which it is required to systematize all procedures and services provided to the investor. The project will provide TA and capacity building, as well as IT systems, to support GAFI in its new client facing role and in its interfaces with other ministries, primarily IDA. The project will also support IDA in simplifying its regulatory processes and requirements to be automated and delivered through GAFI OSSs.

The new law also introduces a new system in order to control the mechanism of land allocation. One of IDA’s core functions is to help companies and private sector zone developers identify, purchase/lease, and develop land, and assist them in their dealings with local and national administrations. The EASE project will support IDA in its effort to adopt primarily a transparent wholesale industrial land allocation process rather than the focus on the “retail” land allocation by setting and administering policies and procedures for industrial land allocation and introducing best practice contracting instruments with private developers.

In addition, new mechanisms for handling investor complaints and disputes will be put in place under the new law, as well as the ability to provide additional non-taxation incentives in order to encourage investment projects. Modifications were also made to the companies’ law, the general sales tax law, and the income tax law. New incentives will be offered to investors by reducing custom taxes on imported machinery and production equipment, while reducing the potential expansion on free zones and fiscal incentives and expanding on non-tax and non-fiscal incentives except for underprivileged regions and for specific economic activities targeted for development such as renewable energy.

A two-stage permit issuance system that imposes great uncertainty on investors and too much discretionary powers to public authorities. Egypt practices a “two-tier” licensing process, which involves obtaining a provisional license, and then, once production has started, issuing a permanent operating license, and the company is entered into the Industrial Register. This last step is far from a formality, and can take a year or more to finalize. Because industrial companies not yet in the Industrial Register are debarred from many important activities, including obtaining a certificate of origin, selling in the domestic market, and bidding on government contracts, this



requirement is a serious obstacle, which has only been partly alleviated by the issuance of renewable six-month registration certificates. Some industrial companies have reportedly operated under temporary registration for as long as five years.

A strong culture of control that generates unpredictable delays in permits issuance which can take years. A recent assessment of industrial regulations in Egypt concluded that based on process mapping and evidence from interviews with both business owners and regulators, **the procedures for obtaining initial approvals, acquiring land, then obtaining an operating license and a certificate of industrial registration require a minimum of several months but may take several years.** The Industrial Register, initially intended as a means of data collection on industrial activity in Egypt, has morphed into an instrument of control, which involved detailed technical evaluations and inspections of factories by the Industrial Development Authority (IDA) technical staff, and became another administrative barrier to investment and business activity.

A strategic assessment carried out by the International Finance Corporation (IFC) of business licensing and other administrative procedures found that as a result, **“Egypt has one of the most complex, unwieldy, and time-consuming licensing systems in the world.”** The complexity of industrial licensing and land allocation is further magnified at the subnational level, where evidence suggests that governorates other than Cairo are more vulnerable to administrative challenges. According to the Investment Climate Rapid Survey conducted in 2011, licensing and permits in the Governorate of Sharkiya, Lower Egypt, were identified as a major constraint for 27 percent of business respondents, compared to only 8 percent in Cairo.

C. Proposed Development Objective(s)

Original PDO

To improve the regulatory environment for investors through simplified licensing and transparent industrial land allocation processes.

Key Results

This AF will use the results framework developed under the parent project.

D. Project Description

The Additional Financing (AF) will scale-up activities being implemented under the Component 1 “Facilitating Accessible and Transparent Investor Services (GAFI)” of the parent project. The AF remains fully aligned with the Country Partnership Framework (CPF) and Systematic Country Diagnostic (SCD) overarching goals of promoting a private sector led job creation agenda and inclusive growth. The details of activities to be supported through this AF are described below:

Activity 1: Supporting the Role of Investor Service Center (ISC) as the National Platform for Business Registration

The AF aims to strengthen GAFI’s role, in line with the new Investment Law, as the main business entry point for all sorts of companies and the “one window” for providing certain licensing and permits activities to investors. This requires the development of a comprehensive and functional digital system to mainstream business



procedures, connect the central and subnational levels, facilitate easy access to the system in all geographical areas and adopt international successful practices in provision of government services. To that end, the AF will build on the work being implemented under the parent project and will promote the electronic coordination and synchronization among relevant line ministries, local authorities at different governorates, and public entities that are involved in granting business licensing and permits; and establish a quality control system to guarantee its efficiency and effectiveness.

Task 1.1: Assessment of Technical Requirement for digitalized process among stakeholders

The AF will provide a full readiness assessment to relevant national entities that are involved in the licensing and permits of business activities with the objective of evaluating their capacities and preparedness to implement this digital transformation of the licensing services. It is inevitable to bring national stakeholders to become active participants in this new digital eco-system irrespective of the current status of their digital maturity, to move to a “one window” model as mandated by the new Investment Law and recommended by the outcomes of current project.

Task 1.2: Procurement and installation of needed IT Equipment

The AF will support the preliminary step of deploying “digital integration units\kits” that can enable relevant ministries and government institutions to perform licensing transactions in a complete digital cycle using basic hardware, software, and digital signature solutions. An initial deployment of this model to streamline some key licensing activities will be implemented as a model for a national rollout to follow based on assessment conducted and the experience and lessons gained from this initial deployment. The process should also include establishing a sustainable business model for these new deployments, providing stakeholders with the needed capacity building, and decision on the key measures to insure program effective operations, sustainability, and scalability.

Task 1.3: Creating Agents’ Network to Support Digital Transformation

The AF will assist GAFI in creating a network of digitally enabled certified agents to support full deployment of GAFI online systems and mitigate the current deficiency and limitations in the community of users, allowing GAFI to reach a complete digital transformation scenario. In particular, this would facilitate the creation of certified lawyers and auditors’ network who are trained on the usage, features and benefits of the new system and are licensed to provide services to the investment community. The AF will support GAFI in:

- a) Establishing new business unit to manage and operate the network activities.
- b) Providing internal capacity building activities, developing necessary training manuals, and providing Training of Trainers (TOT) modules to ensure sustainability and knowledge sharing.
- c) Providing external training activities and setting criteria of participation and certification.
- d) Supporting a communication campaign that targets (i) informing the investment community of the complete transformation from physical to digital submission to create the incentive and for the trainees to enroll in the system and for the investors to use it, and (ii) recruiting candidates for training.

Activity 2: Expanding Digital Transformation in GAFI

The parent project assists GAFI in establishing an online portal and in providing electronic services to investors through the Investors Service Center. Further developments are needed to efficiently manage investment data,



expand investors' online services and connect affiliate entities to the digital network, which will be supported through the AF.

Task 2.1: Developing a Unified Information Management System for Investment

The AF will enable GAFI with the latest solutions to support multiple data sources, data consolidation and reporting tools. This will be realized through an efficient information management system to facilitate the storage, organization and retrieval of investment information, which will allow for the flow of data across all departments and eliminates errors that occur due to manual processing. This will in turn unify data reporting mechanisms, avoid duplication and inconsistency of records and support policymakers develop informed decisions. The investment information management system will support the digital transformation policy in GAFI, and ensure that all sectors, departments and units use and share unified, efficient, timely and user-friendly information platform.

Task 2.2: Expanding Investment Map Services

The AF will support introducing new features and business services through the Investment Map. The parent project contributed to the launch of the first phase of the Investment Map, which provided the necessary data and information on key investment opportunities, classified by sector and geographical location, through an interactive system. More services and features are necessary to increase value to investors and boost the role of the map in promoting investments and business opportunities. Thus, the AF will support GAFI in introducing the following additional features through the Investment Map:

- a) "Customer 360" module, which is a Customer Relationship Management (CRM) best practice that targets strengthening the relationship with current investors, reaching out to new ones, and reconnecting with former customers. It will enable GAFI to carry out targeted promotional events in order to attract investors.
- b) Activating revenue-generating features on the map that include: detailed information and data elements to support the investors' feasibility studies, notifications of new available investment opportunities as well as bidding procedures.

Activity 3: Sustaining Reforms through Enhancing Human and Organizational Capacities

The AF will support the sustainability of reform outcomes through a comprehensive strategy targeting organizational and human competencies. This will be guided by international successful practices in improving managing institutional change, as well as the lessons learnt from the parent project capacity building activities that emphasize the value of developing a strategic approach to strengthening human capacities.

Task 3.1: Supporting the Change Management Process

The AF will support GAFI to institutionalize functions aimed at facilitating the implementation and sustainability of the new reforms and digital transformation. This unit will act as a catalyst for change to ensure the adaptability and effective and efficient implementation of the newly introduced digital systems and processes, and the proper coordination among different, internal and external, involved entities. Its role will include the regulation of activities, development of strategies, and risk management of the transformation process. It will also ensure that all branches and affiliated organizations of GAFI are included in the transformative plan, and proper communication channels are established with change agents in other government organizations. This component is in line with the international best practices and systematic approaches to dealing with major organizational



changes, including the relevant processes and technologies.

Task 3.2: Improving standardized operation in GAFI's Information Technology Department

The AF will provide GAFI staff with the needed information technology service management skills to effectively and efficiently manage the digitalized system. The current capacities of GAFI's IT department is not compatible with the scale and speed of digital transformation. Under this component, the IT team will receive technical training on ITIL systems, which adopts international best practice for managing information technology. The introduction of ITIL will support the automation processes.

Task 3.3: Project Management

The Project Implementation Unit (PIU), established in the Ministry of Investment and International Cooperation (MIIC) under the parent project will continue the management of the AF activities. The unit will comprise a project manager, financial manager, procurement manager and a monitoring and evaluation specialist. The component will also support the recruitment of additional staff members of the PIU as consultants, if needed, as well as the eligible operating costs.

E. Implementation

Institutional and Implementation Arrangements

This project will be implemented by the Project Implementation Unit (PIU) under the supervision of GAFI. The Ministry of International Cooperation and Investment (MIIC) and GAFI are the principal government bodies regulating and facilitating investments in Egypt. GAFI is also a lead agency in the facilitation of business registration, licensing and investment policy formulation. MOI and GAFI currently have a strong professional cadre at the senior management and officer levels that in turn has a good track record with the World Bank

An Operations Manual was prepared under the parent project defining roles and responsibilities of the PIU, principles and procedures related to procurement, finance and accounting functions of the project and other relevant fiduciary requirements.

F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

The aim of the project is to reform key investment processes and services, as well as enhance the Government of Egypt's capabilities to implement these services, which would be achieved primarily through analytical and advisory services. The project will be implemented both in Cairo and throughout Egypt, particularly it will involve TA to the GAFI One Stop Shops which are located in governorates outside Cairo. World Bank safeguard policies are not triggered as a result of proposed activities under the AF applicable to Component 1. The AF is mainly focused on the provision of IT equipment, installation of linked digital systems and capacity building. These activities will not involve activities that require the management of environmental and social risks. Furthermore, the project will not include the construction of physical infrastructure or civil works and will not result in any land acquisition or resettlement for assets or people. Increased business activity that may indirectly result from the project is not expected to have adverse environmental impacts as beneficiaries are expected to largely be SMEs in less capital intensive sectors.



G. Environmental and Social Safeguards Specialists on the Team

Amal Nabil Faltas Bastorous, Social Specialist
Mohammad Farouk Ibrahim Kandeel, Environmental Specialist

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	
Performance Standards for Private Sector Activities OP/BP 4.03	No	
Natural Habitats OP/BP 4.04	No	
Forests OP/BP 4.36	No	
Pest Management OP 4.09	No	
Physical Cultural Resources OP/BP 4.11	No	
Indigenous Peoples OP/BP 4.10	No	
Involuntary Resettlement OP/BP 4.12	No	
Safety of Dams OP/BP 4.37	No	
Projects on International Waterways OP/BP 7.50	No	
Projects in Disputed Areas OP/BP 7.60	No	

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

There are no safeguards issues or impacts associated with the proposed project.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.



4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.

N/A

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.

B. Disclosure Requirements (N.B. The sections below appear only if corresponding safeguard policy is triggered)

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting) (N.B. The sections below appear only if corresponding safeguard policy is triggered)

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Implementing Agencies

General Authority for Investment and Free Zones

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APPROVAL

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Approved By

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