

**PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PIDA24643

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|---|---|
| Project Name | Equal Access and Simplified Environment for Investment (EASE) in Egypt (P153487) |
| Region | MIDDLE EAST AND NORTH AFRICA |
| Country | Egypt, Arab Republic of |
| 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 | P153487 |
| Borrower(s) | Government of Egypt |
| Implementing Agency | General Authority for Investment, Industrial Development Authority, Egyptian Regulatory Reform and Development Activity (ERRADA) |
| Environmental Category | C-Not Required |
| Date PID Prepared/Updated | 08-Apr-2015 |
| Date PID Approved/Disclosed | 01-Apr-2015, 20-May-2015 |
| Estimated Date of Appraisal Completion | 03-Apr-2015 |
| Estimated Date of First Grant Approval | 19-Jun-2015 |
| Appraisal Review Decision (from Decision Note) | The team was authorized to move forward with project appraisal. |

I. Project Context
Country Context

A difficult and deteriorating business environment. The business environment in Egypt suffers from multi-layer administrative compliance burdens, which represent a serious obstacle to doing businesses 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 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, and setback in growth rates. 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 first quarter of 2015, the political landscape has evolved quickly while the economy is only just beginning to show signs of recovery. The Egyptian economy had achieved high growth rates during 2004-2008, 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. Overall social conditions have been deteriorating, in tandem with the economic downturn since 2011. The unemployment rate reached 13.3% 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% 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% of the population has been living below the national poverty line in FY13, with poverty rates reaching 50% 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 small number of large, capital-intensive firms that do not create 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 have a competition edge as they often can influence bureaucratic outcomes, get things done more easily or have better access to (often subsidized) inputs like land, capital or energy. These factors have contributed to limited economic opportunities, an underdeveloped private sector, and have ultimately hindered job creation. According to the 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 below), a long awaited reform. It 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 reducing stifling bureaucracy and 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 permitting, 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 at easing and decentralizing business entry, licensing and operations. The Industrial Development Authority (IDA) is the principal authority mandated to regulating the industrial sector and allocates 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 remains 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 fundamentally a way for a government to allocate resources – financial, energy, water, transport, labor, materials, foreign exchange – in ways that the market, 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 now are entirely or mostly oriented towards promotion and facilitation of investment.

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 first obtaining a provisional license and then, once production has started, a permanent operating license is issued and the company is entered into the Industrial Register. This last step is far from a formality, and can take a year or more. 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 been only 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. An recent assessment of the industrial regulations in Egypt found that based on the 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 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.

II. Proposed Development Objectives

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

III. Project Description

Component Name

Facilitating accessible and transparent investor services (GAFI)

Comments (optional)

The Project aims to support GAFI become the national platform facilitating business entry, licensing, and access to investor information at the sub-national level through its One Stop Shops and GAFI Information Portal, particularly in light of its new mandate under the updated Investment Law. This component will support GAFI in developing the necessary implementation instruments and action plan to implement the new law which enables the authority to facilitate licensing and land allocation services through its One Stop Shops.

Component Name

Industrial Sector Regulatory Reform (IDA)

Comments (optional)

The Project aims to support IDA in focusing on its strategic roles of regulation and development and transform its approach to implement risk based regulation principles. This component will focus on the two primary functions of IDA, industrial licensing and industrial land allocation.

Component Name

Capacity building for managing regulatory reform (ERRADA)

Comments (optional)

The Project aims to strengthen the capacity of the GoE regulatory reform program (ERRADA). The project will focus on supporting ERRADA around a set of “horizontal” (cross-cutting) reforms that target constraints affecting firms in all sectors of the economy. It will in particular focus on reforms that promote transparency and predictability of the regulatory environment. It will also support “vertical” reforms in priority areas like industrial licensing and land allocation that complement components 1 and 2.

IV. Financing (*in USD Million*)

| | | | |
|--|------|-----------------------|---------------|
| Total Project Cost: | 5.00 | Total Bank Financing: | 0.00 |
| Financing Gap: | 0.00 | | |
| For Loans/Credits/Others | | | Amount |
| Borrower | | | 0.00 |
| MENA Transition Fund - IBRD as Implementing Agency | | | 5.00 |
| Total | | | 5.00 |

V. Implementation

MOI and GAFI are the principal government bodies regulating and facilitating investment in Egypt. GAFI is also a lead agency in the facilitation of business registration, licensing and investment policy formulation. This project will be implemented by two Project Implementation Units (PIU), one under GAFI and another under IDA. 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. MITSME and IDA are the principal bodies concerned by regulating industry in Egypt. IDA's mandate includes regulatory functions with respect to both establishment and operations of industrial activities and industrial land. IDA has not previously implemented projects with the World Bank.

ERRADA's mandate is the support 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. Prime Ministerial Decree No. 1038 of 2014 assigned the Minister of Industry, Trade & Small Industries the supervisory role over the ERRADA program. This component is a catalyst to the rest of the project, and is secondary to the project main components related to GAFI and IDA. Most of the activities under this component are related to capacity building. IDA would execute the ERRADA component on behalf of ERRADA, including FM and procurement.

The management of the project will be governed by two levels:

- A Project Steering Committee (PSC) will be established co-chaired by GAFI, IDA, ERRADA. Its principal role will be to review and advise on project performance at the levels of output and outcome and issues related to inter-governmental, public-private dialogue and donor coordination issues. The World Bank Group will play an advisory role on the PSC. Participation in the PSC is anticipated to be at the chairman level, and meetings are expected to occur monthly particularly in the first year of the project;
- Two Project Implementation Units (PIU), one in each of GAFI and IDA, under the overall guidance of the PSC, will act as the execution arm for the project. The PIUs will each comprise a technical implementation team in procurement, finance and accounting and M&E members; the PIU's function would be to i) execute purchase requests, ii) perform the accounting and finance functions for the project and issue periodical reports to the PSC, and iii) periodically measure results according to the project Results Framework and report to the PSC.

An Operational Manual will be prepared and agreed upon with project partners defining roles and responsibilities of the PIU team, principles and procedures related to procurement, finance and accounting functions of the project and relevant fiduciary requirements.

VI. Safeguard Policies (including public consultation)

| Safeguard Policies Triggered by the Project | Yes | No |
|---|-----|----|
| 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 |

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|--|--|---|
| 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 |

Comments (optional)

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