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Report No: PAD1330

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF US\$5 MILLION

TO THE

ARAB REPUBLIC OF EGYPT

FOR A

EQUAL ACCESS AND SIMPLIFIED ENVIRONMENT FOR INVESTMENT PROJECT

October 2, 2015

Trade and Competitiveness Global Practice  
MIDDLE EAST AND NORTH AFRICA REGION

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## CURRENCY EQUIVALENTS

(Exchange Rate Effective July 31, 2015)

Currency Unit = Egyptian Pound  
7.82 EGP = US\$1  
US\$ 0.13 = EGP 1

## FISCAL YEAR

January 1 – December 31

CAS	Country Assistance Strategy
CAO	Central Organization Audit
CPF	Country Partnership Framework
CRM	Customer Relationship Management
DA	Designated Account
EASE	Equal Access and Simplified Environment
ERRADA	Egyptian Regulatory Reform and Development Activity
EBRD	European Bank for Reconstruction and Development
EC	European Commission
FMS	Financial Management Specialist
FS	Financial Specialist
FY	Fiscal Year
GDP	Gross Domestic Product
GOE	Government of Egypt
GAFI	General Authority for Investment
IDA	Industrial Development Authority
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IFR	Interim Financial Report
ILAS	Industrial Licensing System
IT / ICT	Information Technology
M&E	Monitoring and Evaluation
MENA	Middle East and North Africa
MITS	Ministry of Industry, Trade & Small Industries
MOI	Ministry of Investment
MTR	Mid-Term Review
NUCA	New Urban Communities Authority
OM	Operations Manual
OSS	One Stop Shop
PDO	Project Development Objective
PIU	Project Implementation Unit
PP	Procurement Plan
PSC	Project Steering Committee
RRU	Regulatory Reform Unit
RIA	Regulatory Impact Assessment

RVP	Regional Vice President
SBD	Standard Bidding Documents
SCD	Strategic Country Diagnostic
SECO	The Swiss Secretariat of Economic Affairs
SMEs	Small and Medium Enterprises
SOE	State Owned Enterprises
SORT	Systematic Operations Risk-Rating Tool
TA	Technical Assistance
T&C	Trade and Competitiveness Global Practice
TF	Trust Fund
TOR	Terms of Reference
USAID	United States Agency for International Development
USD	United States Dollar
WBG	World Bank Group
WEF	World Economic Forum

Regional Vice President:	Hafez Ghanem
Country Director:	Asad Alam
Senior Global Practice Director:	Anabel Gonzalez
Practice Manager:	Najy Benhassine
Task Team Leader(s):	Sherif Bahig Hamdy, Nabila Assaf

## TABLE OF CONTENTS

	<b>Page</b>
<b>I. STRATEGIC CONTEXT .....</b>	<b>1</b>
A. Country Context.....	1
B. Sectoral and Institutional Context.....	2
C. Higher Level Objectives to which the Project Contributes.....	4
<b>II. PROJECT DEVELOPMENT OBJECTIVES .....</b>	<b>6</b>
A. PDO.....	6
B. Project Beneficiaries .....	6
C. PDO Level Results Indicators .....	6
<b>III. PROJECT DESCRIPTION .....</b>	<b>6</b>
A. Project Components .....	6
B. Project Financing.....	8
C. Project Cost and Financing .....	8
D. Lessons Learned and Reflected in the Project Design .....	8
<b>IV. IMPLEMENTATION .....</b>	<b>10</b>
A. Institutional and Implementation Arrangements .....	10
B. Results Monitoring and Evaluation .....	11
C. Sustainability.....	12
<b>V. KEY RISKS .....</b>	<b>12</b>
A. Overall Risk Rating and Explanation of Key Risks.....	12
<b>VI. APPRAISAL SUMMARY .....</b>	<b>14</b>
A. Economic and Financial Analysis.....	14
B. Technical .....	16
C. Financial Management .....	16
D. Procurement .....	16
E. Social (including Safeguards).....	17
F. Environment (including safeguards).....	17
G. Other Safeguards Policies Triggered (if required).....	17
H. World Bank Greivance Redress .....	17

<b>Annex 1: Results Framework and Monitoring .....</b>	<b>Error! Bookmark not defined.</b>
<b>Annex 2: Detailed Project Description.....</b>	<b>211</b>
<b>Annex 3: Implementation Arrangements .....</b>	<b>277</b>
<b>Annex 4: Implementation Support Plan .....</b>	<b>35</b>

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**PAD DATA SHEET***Egypt, Arab Republic of**Equal Access and Simplified Environment for Investment (EASE) in Egypt (P153487)***PROJECT APPRAISAL DOCUMENT***MIDDLE EAST AND NORTH AFRICA**0000009096*

Report No.: PAD1330

<b>Basic Information</b>			
Project ID P153487	EA Category C - Not Required	Team Leader(s) Sherif Bahig Hamdy, Nabila Assaf	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints		
	Financial Intermediaries		
	Series of Projects		
Project Implementation Start Date 5-Oct-2015	Project Implementation End Date 1-January-2018		
Expected Effectiveness Date 01-Oct-2015	Expected Closing Date 1-July-2018		
Joint IFC Yes	Joint Level Joint Project - involving co financing with IFC (loan, equity, budget, other) or staffing		
Practice Manager/Manager Najy Benhassine	Senior Global Practice Director Anabel Gonzalez	Country Director Asad Alam	Regional Vice President Hafez Ghanem
<b>Approval Authority</b>			
Approval Authority RVP Decision please explain This project is being submitted to the MENA Transition Fund and thus final approval lies with the Regional Vice President.			
Borrower: Government of Egypt			
Responsible Agency: General Authority for Investment (GAFI)			
Contact:	Mr. Ashraf Salman	Title:	Minister

Telephone No.: +202-240-55414		Email: asalman@investment.gov.eg							
Responsible Agency: Industrial Development Authority									
Contact:	Eng. Ismail Gaber	Title:	Chairman						
Telephone No.:	+202-261-34990	Email:	Gaber_2008@windowslive.com						
Responsible Agency: Egyptian Regulatory Reform and Development Activity (ERRADA)									
Contact:	Dr. Tarek Hamza	Title:	Executive Director						
Telephone No.:	+202-240-55452	Email:	thamza@errada.gov.eg						
<b>Project Financing Data(in USD Million)</b>									
<input type="checkbox"/> Loan	<input type="checkbox"/> IDA Grant	<input type="checkbox"/> Guarantee							
<input type="checkbox"/> Credit	<input type="checkbox"/> Grant	<input checked="" type="checkbox"/> Other							
Total Project Cost:	5.00	Total Bank Financing:	0.00						
Financing Gap:	0.00								
<b>Financing Source</b>		<b>Amount</b>							
Borrower		0.00							
MENA Transition Fund – IBRD and IDA as Implementation Support Agency		5.00							
Total		5.00							
<b>Expected Disbursements (in USD Million)</b>									
Fiscal Year	2016	2017	2018						
Annual	500,000	1,800,000	2,700,000						
Cumulative	500,000	2,300,000	5,000,000						
<b>Institutional Data</b>									
<b>Practice Area (Lead)</b>									
Trade & Competitiveness									
<b>Contributing Practice Areas</b>									
<b>Cross Cutting Topics</b>									
<input type="checkbox"/>	Climate Change								
<input type="checkbox"/>	Fragile, Conflict & Violence								
<input type="checkbox"/>	Gender								
<input type="checkbox"/>	Jobs								
<input type="checkbox"/>	Public Private Partnership								
<b>Sectors / Climate Change</b>									
Sector (Maximum 5 and total % must equal 100)									

Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %
Public Administration, Law, and Justice	Public administration - Industry and trade	100		
Total		100		

I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

### Themes

Theme (Maximum 5 and total % must equal 100)

Major theme	Theme	%
Financial and private sector development	Regulation and competition policy	40
Financial and private sector development	Micro, Small and Medium Enterprise support	40
Public sector governance	Managing for development results	20
Total		100

### Proposed Development Objective(s)

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

### Components

Component Name	Cost (USD Millions)
Facilitating Accessible and Transparent Investor Services (GAFI)	2.25
Supporting Industrial Sector Transformational Reforms (IDA)	2.25
Capacity Building for Managing Regulatory Reform (ERRADA)	0.50

### Systematic Operations Risk- Rating Tool (SORT)

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	Low
3. Sector Strategies and Policies	Substantial
4. Technical Design of Project or Program	Low
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial



7. Environment and Social	Low		
8. Stakeholders	Substantial		
9. Other			
<b>OVERALL</b>	Substantial		
<b>Compliance</b>			
<b>Policy</b>			
Does the project depart from the CAS in content or in other significant respects?	Yes [ ]	No [ X ]	
Does the project require any waivers of Bank policies?	Yes [ ]	No [ X ]	
Have these been approved by Bank management?	Yes [ ]	No [ ]	
Is approval for any policy waiver sought from the Board?	Yes [ ]	No [ X ]	
Does the project meet the Regional criteria for readiness for implementation?	Yes [ X ]	No [ ]	
	]		
<b>Safeguard Policies Triggered by the Project</b>			
	<b>Yes</b>	<b>No</b>	
Environmental Assessment OP/BP 4.01		<b>X</b>	
Natural Habitats OP/BP 4.04		<b>X</b>	
Forests OP/BP 4.36		<b>X</b>	
Pest Management OP 4.09		<b>X</b>	
Physical Cultural Resources OP/BP 4.11		<b>X</b>	
Indigenous Peoples OP/BP 4.10		<b>X</b>	
Involuntary Resettlement OP/BP 4.12		<b>X</b>	
Safety of Dams OP/BP 4.37		<b>X</b>	
Projects on International Waterways OP/BP 7.50		<b>X</b>	
Projects in Disputed Areas OP/BP 7.60		<b>X</b>	
<b>Legal Covenants</b>			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Institutional Arrangements (Schedule 2, Section I.A.2)		Not later than 2 months after the Effective Date	
<b>Description of Covenant</b>			
The Recipient shall cause GAFI, not later than 2 months after the Effective Date, to establish a Project Implementation Unit (GAFI PIU), with qualified staff in adequate numbers and with qualifications and experience and terms of reference acceptable to the World Bank.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Institutional Arrangements		Not later than 2	

(Schedule 2, Section I.A.3)		months after the Effective Date	
<b>Description of Covenant</b>			
The Recipient shall cause IDA, not later than 2 months after the Effective Date, to establish a Project Implementation Unit (IDA PIU), with qualified staff in adequate numbers and with qualifications and experience and terms of reference acceptable to the World Bank.			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Institutional Arrangements (Schedule 2, Section I.A.5)		Not later than 3 months after the Effective Date	
<b>Description of Covenant</b>			
The Recipient through the MOI shall, not later than 3 months after the Effective Date, establish a Project Steering Committee (PSC).			
<b>Name</b>	<b>Recurrent</b>	<b>Due Date</b>	<b>Frequency</b>
Implementation Arrangements Schedule 2, Section I.B.1)		Not later than 2 months after the Effective Date	
<b>Description of Covenant</b>			
The Recipient shall cause GAFI and IDA, not later than 2 months after the Effective Date, to prepare, adopt and thereafter implement a joint Project Operational Manual, in a form and substance acceptable to the World Bank.			
<b>Conditions</b>			
<b>Source Of Fund</b>	<b>Name</b>	<b>Type</b>	
MENA Transition Fund	Article IV; Effectiveness	Effectiveness	
<b>Description of Condition</b>			
The Grant Agreement shall not become effective until the World Bank receives from the Recipient formal notification satisfactory to the World Bank of a competent official of the Recipient, showing that the Recipient has duly entered into the Agreement and that the terms and conditions of the Agreement are fully valid and binding and all the necessary internal procedures have been completed by the Recipient.			
<b>Team Composition</b>			
<b>Bank Staff</b>			
<b>Name</b>	<b>Role</b>	<b>Title</b>	<b>Unit</b>
Sherif Hamdy	Team Leader (ADM Responsible)	Senior Operations Officer	GTCDR
Nabila Assaf	Team Leader	Senior Private Sector Development Specialist	GTCDR
Stefanie Ridenour	Team Member	Private Sector Development Analyst	GTCDR
John Wille	Team Member	Senior Private Sector	GTCDR

		Development Specialist			
Andreja Marusic	Team Member	Senior Operations Officer	GTCDR		
Maha Hussein	Team Member	Operations Officer	GTCDR		
Hazem El Wassimy	Team Member	Operations Officer	GTCDR		
Fatma Ibrahim	Team Member	Operations Officer	GTCDR		
Nermeen Abdul Latif	Team Member	Results Measurement Specialist	GTCDR		
Steve Wan Yan Lun	Operations	Operations Analyst	GFMDR		
Jamal Abdulaziz	Procurement	Senior Procurement Specialist	GGODR		
Ashraf Al Wazzan	Procurement	Procurement Assistant	GGODR		
Laila Kotb	Logistics	Program Assistant	MNCEG		
Mazhar Farid	Legal	Legal Analyst	LEGAM		
Syed I. Ahmed	Legal	Lead Counsel	LEGAM		
Wael Elshabrawy	Financial Management	Financial Management Analyst	GGODR		
Amal Faltas	Safeguards	Consultant	GSURR		
Banu Setlur	Safeguards	Senior Environmental Specialist	GENDR		
Salma Sharawy	Project Team	Team Assistant	CMEAS		
Dina Elkhishin	Project Team	Consultant			
<b>Country</b>	<b>First Administrative Division</b>	<b>Location</b>	<b>Planned</b>	<b>Actual</b>	<b>Comments</b>
<b>Consultants (Will be disclosed in the Monthly Operational Summary)</b>					
Consultants Required?    Consultants will be required					

## I. STRATEGIC CONTEXT

### A. Country Context

1. **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.

2. **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.

3. **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.

4. **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.

## **B. Sectoral and Institutional Context**

5. **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.

6. **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.

7. **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

**8. 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.

9. **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.

10. 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. Higher Level Objectives to which the Project Contributes**

11. **The Egypt EASE Project is closely aligned with the new WBG MENA Regional Strategy, of which the first pillar is “Renewing the Social Contract.”** This pillar focuses on renewing the social contract between government and citizens, and gaining citizen trust through the promotion of social and economic inclusion, greater private sector led jobs, and enhancing the quality of public services. Private sector led job creation is at the core of MENA’s development priorities, and lack of quality jobs is one of the key explanations of grievances and lack of trust amongst citizens. This applies not only to regaining the trust of individual citizens, but of private investors as well.

12. **The WBG is preparing a Country Partnership Framework (CPF),** for FY15-19, to be presented to the World Bank Group Board of Directors early next year. **The first round of CPF consultations identified improvement in business environment as one of the four priority topics.** The CPF focuses on two key drivers to increase shared prosperity and reduce extreme poverty: (i) supporting economic stability and improved governance; and (ii) creating opportunities for sustained income generation by promoting private sector policies to level the playing field.

13. **The findings of the recent Systematic Country Diagnostic (SCD) for Egypt also indicate that reforms such as phasing-out of energy subsidies and large-scale investments in infrastructure will produce inclusive growth and jobs only if the complexity, discretion, and uncertainty that businesses face in complying with regulations and**

**accessing services and factors of production are significantly reduced.** This is consistent with the findings of the recently published “*More Jobs, Better Jobs: A Priority for Egypt*”<sup>1</sup> which shows that the main constraint to private sector growth is a business environment characterized by complexity, uncertainty, and unequal treatment which have led investments to be skewed towards large, capital-intensive businesses that created few jobs. What fundamentally constrains the growth of a smaller-scale business sector is the complexity of the regulatory environment, the unequal access to regulatory services and (subsidized) inputs and factors, and the uncertainty this imposes on businesses. The myriad of regulatory barriers facing businesses provide an advantage to those who enjoy unproductive skills like political or bureaucratic connections to get around those barriers. This uncertainty in the interaction with government agencies and the unequal and arbitrary treatment to which businesses are subject, extends to areas like access to land, energy subsidies and even credit. These issues trickle down at the local level and in all areas of government-business interaction, and are not limited to favors to connected large investors. They are particularly harmful to small businesses that do not have connections and resources to shield them from this uncertainty and help them maneuver complex regulatory requirements. The disparity also has a spatial component, where businesses in non-metropolitan areas suffer from an even weaker business environment, despite attempts to decentralize government functions and authority.

14. **This project aims to address the issues identified in the SCD and other recent analytical work, starting with regulatory areas that are most constraining to businesses (land allocation and licensing): it aims to support reforms of the institutional set-up for the delivery of licensing through GAFI and improving the process of regulatory reform for more inclusivity and consultations via ERRADA.** If not addressed, the same issues of uncertainty and discretion in the business environment that have muted or distorted the private sector response to previous waves of reforms may again limit the impact of current reforms and large investment projects. The 2004-2006 wave of macroeconomic and microeconomic reforms, including in the tariff and tax areas, have been successful at increasing private investment rates, foreign direct investment (FDI) and growth. But these investments mostly took place in large, capital intensive industries and were limited in the small scale manufacturing or services sectors. Few jobs were created and informality grew. For the same reasons, the ongoing reforms and investments may have the same disappointing impact in terms of formal job creation and SME growth if the core issues of uncertainty and arbitrariness in regulatory compliance and state-business interaction continue to prevail and to benefit a few. Moreover, these same issues will continue to limit the impact on job creation and business growth of other policies and interventions, including in the infrastructure, skills and financing areas. To reap the jobs benefits of the ongoing reforms and public investment projects, the priority for the Government of Egypt should be to profoundly and credibly reduce the complexity and uncertainty in business-government interaction, which is the focus of this project.

15. **Alignment with Transition Fund Objective: The proposed project is aligned with the overarching goals of the Transition Fund of strengthening governance and public institutions, fostering sustainable and inclusive growth by developing, and advancing**

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<sup>1</sup> World Bank Report Number 88447 issued in June 2014.



**country-owned programs through supporting transformational reforms.** Specifically, it encompasses three of the four themes, namely: (i) inclusive development and job creation, by expanding the outreach of services to lagging regions through the automation and enhanced connectivity of GAFI's OSSs as stipulated in the new Investment Law; (ii) investing in sustainable growth, which will be achieved by creating a more enabling and conducive business environment, through improving the legal, regulatory, and institutional, framework for industrial SMEs, with the ultimate goal of spurring productive investment; and (iii) enhancing economic governance, which will be achieved by supporting regulatory reforms that reduce discretion and enhance transparency and predictability for the private sector by providing support to ERRADA and IDA.

## **II. PROJECT DEVELOPMENT OBJECTIVES**

### **A. PDO**

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

### **B. Project Beneficiaries**

17. The direct project beneficiaries would primarily include: (i) GAFI, by enabling it to achieve its strategy of becoming the window for investment services; (ii) IDA, since the project will enable the regulatory authority to simplify and automate processes and review the legal and regulatory framework for industrial licensing and land allocation; and (iii) ERRADA would also benefit from the project by establishing itself as a strong catalyst for reform once the project achieves its objectives. The Industrial Sector (specifically SMEs) is the ultimate beneficiary of this project and will benefit from a simplified, transparent decentralized process and reduced compliance cost.

### **C. PDO Level Results Indicators**

18. Progress towards achieving the project's development objectives will be measured by:

- Average duration of licensing process; and
- Number of land allocation requests processed through the reformed land allocation system.

## **III. PROJECT DESCRIPTION**

### **A. Project Components**

19. The project aims to provide technical assistance and systems to enable GAFI to implement its mandate based on the newly issued Investment Law, and streamline IDA's licensing and land allocation processes to render them more predictable and transparent. The project will support the deployment of these reforms through GAFI's OSSs by providing technical assistance, systems and capacity building. The project will also provide technical

assistance and capacity building to the ERRADA regulatory governance program (for a detailed project description, refer to Annex 2).

**Component 1: Facilitating Accessible and Transparent Investor Services (GAFI)**  
**(US\$ 2.25 million)**

20. The Project aims to support GAFI to become the national platform facilitating business entry, licensing, and access to investor information at the sub-national level through its OSSs 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 OSSs. This would entail addressing GAFI's processes and interfaces with all the involved regulators, including primarily IDA, as well as other line ministries and local authorities involved in licensing, developing an IT system to deliver business entry, licensing services, and investor information, and capacity building and technical assistance to enable and to support GAFI in this enhanced client-facing role, particularly of its OSSs. This component will also include project management activities to be undertaken by the Project Implementation Unit as defined under Section IV "Implementation".

**Component 2: Supporting Industrial Sector Transformational Reforms (IDA)**  
**(US\$ 2.25 million)**

21. The Project aims to support IDA in focusing on its strategic roles of regulation and transforming 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. IDA is currently engaged in mapping its industrial licensing processes in collaboration with ERRADA and with World Bank Group support. The project will build on this work by supporting a fundamental restructuring of IDA's role in administering industrial licenses. The redesigned process will then be deployed in IDA branches and GAFI OSSs. On industrial land allocation, the project will support reforming the industrial developer concession model of land development and deploying an online industrial land allocation system. This component will also finance IDA staff training, workshops, and ICT upgrading needed to implement these activities.

**Component 3: Capacity Building for Managing Regulatory Reforms (ERRADA)**  
**(US\$ 0.5 million)**

22. The Project aims to strengthen the capacity of the GoE regulatory reform program ERRADA. The project will focus on supporting ERRADA on 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 specific reforms in priority areas like industrial licensing and land allocation that complement Components 1 and 2.

23. Within the horizontal reforms, the project will support ERRADA to:

- complete a comprehensive inventory of business related procedures;

- process mapping and re-engineering of the most relevant /administrative procedures with the objective of streamlining and simplifying them;
- establish an information portal of business related administrative procedures that makes requirements of these procedures accessible to the general public in a simple and comprehensive manner;
- establish a public consultation and review mechanism to ensure that all business related legislative proposals are properly reviewed and consulted with stakeholders, including the private sector.

## B. Project Financing

24. The proposed operation will use the grant instrument financed from the MENA Transition Fund. A summary breakdown of project costs is provided below:

## C. Project Cost and Financing

Project Components	Project cost	IBRD or IDA Financing	% Financing
1. Facilitating accessible and transparent investor services (GAFI)	\$2,250,000	MENA TF	100%
2. Supporting industrial sector transformational reforms (IDA)	\$2,250,000	MENA TF	100%
3. Capacity building for managing regulatory reform (ERRADA)	\$500,000	MENA TF	100%
<b>Total Costs</b>			
Total Project Costs	\$5,000,000		
Front-End Fees			
<b>Total Financing Required</b>	\$5,000,000		

## D. Lessons Learned and Reflected in the Project Design

25. The Project design fully reflects lessons learned from recent, ongoing, and completed World Bank Group activities, as well as donor projects, and international best practice in the investment climate and business enablement area. This includes lessons learnt from previous operations in Egypt and other developing and emerging economies. Key lessons learned are as follows:

- ***Implementing entity's accountability and strong management is essential for the successful execution of the project.*** GAFI is a prominent and credible institution with a good governance structure and as such, has been assigned a clear responsibility for the GAFI component implementation (Component 1). However, it was noted during project design and appraisal that Components 2 and 3 related to IDA and ERRADA, who have limited implementation capacity will require more intensive capacity building and implementation support throughout the life of the project. As a relatively new institution, ERRADA has limited execution capacity and therefore, IDA would execute the ERRADA component (Component 3) on behalf of ERRADA. The WBG Team has

already started early technical support to the Project Partners to help the program define targets and build the technical capacity of existing teams.

- ***Effective stakeholder coordination is a key requirement to ensure synergies in approach for the success of project implementation.*** This project will be carried out in partnership between the World Bank Group—Bank and IFC, and will be implemented in coordination with complementary donor projects to take advantage of collaboration between different donor-funded activities. During the project development and project implementation stages, the project team will carry out continuous consultations process with donors active in investment climate and business development in Egypt to coordinate efforts and better identify the Project's value added, namely with the European Commission (EC), United States Agency for International Development (USAID), European Bank for Reconstruction and Development (EBRD), The Swiss Secretariat for Economic Affairs (SECO), Organization for Economic Cooperation and Development (OECD) and others.
- ***Adequate supervision of the project should include clearly defined and transparent indicators for monitoring the implementation progress and measuring the overall impact.*** Clear project indicators have been defined in the Results Framework. Monitoring will be an important aspect of the project. The regular monitoring indicators will help serve as an early warning system indicating the potential need for any modifications. Particularly, it will push forward legal and regulatory reforms, with a clear timeline and the prioritization of tasks.
- ***Balancing partners' ambitions with practical setting of project objectives and targets by sequencing project activities and targets.*** GAFI and IDA are both very ambitious to achieve reform at the national level. However, past country experience and capacity limitations should be taken into consideration in the project design. Accordingly, the Bank has agreed with both partners to pilot the design and then stage implementation based on pilot success and availability of funds and resources. Sequencing will also allow for parallel capacity leveraging and in turn focusing resources where they are needed.
- ***Political economy assessment and implications on project design to maximize support and reduce effect of competing agendas.*** Egypt has a long history of excessive control over businesses through licensing and inspections. This project would affect the level of authority of some civil servants and units, and may likely face some resistance and push back. To mitigate the risks stemming from conflict of interest, the Bank has considered the main project stakeholders and the likelihood of their reaction to project recommendations, in addition to building strong private sector and government consensus to counter opposition.

26. **The value-added that the World Bank Group provides to this initiative derives from the extensive investment climate work done to date by the Trade & Competitiveness (T&C) team across a number of key priority areas to this project.** Since 2006, the Bank has worked extensively with several of the project partners (i.e. IDA and GAFI), and has thus developed a sound understanding of the political economy and the underlying challenges

facing the investment climate in Egypt. The Bank partnered with IDA during the period 2006 – 2009 to set key strategic directions for IDA to reform industrial licensing and land allocation, and to decentralize IDA services utilizing existing GAFI OSSs. The Bank also worked with GAFI to implement the Investment Zones Law, which applies the single regulator model, and facilitates smart regulations. Throughout its long relationship with many of the project counterparts, the Bank has maintained a strong network of officials, policy makers and private sector groups. Moreover, the Bank’s extensive experience in supporting reform initiatives together with its links to a wide network of international practitioner and other donor agency partners, are key assets recognized by the GoE.

#### IV. IMPLEMENTATION

##### A. Institutional and Implementation Arrangements

27. This project will be implemented by two Project Implementation Units (PIU), one under the supervision of GAFI (for Component 1) and the other under IDA (for Components 2 and 3). The Ministry of Investment (MOI) 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. MITS and IDA are the principal bodies concerned with regulating industry in Egypt. IDA’s mandate includes regulatory functions with respect to both the establishment and operation of industrial activities and industrial land. IDA has not previously implemented projects with the World Bank.

28. ERRADA’s mandate is to 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 MITS 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.

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

- A **Project Steering Committee** (PSC) will be comprised *inter alia* of representatives from GAFI, IDA, ERRADA, the Ministry of International Cooperation (MOIC), MOI, and MITS and will be established by MOI. 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 WBG 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 on a monthly basis particularly in the first year of the project;
- Two **Project Implementation Units** (PIU), one each in 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 officers; the PIU's function would be to: (i) execute purchase requests; (ii) perform project accounting and finance functions and issue periodical reports to the PSC; and (iii) periodically measure results according to the project Results Framework and report to the PSC.

30. An Operations Manual (OM) will be prepared and agreed upon with project partners defining roles and responsibilities of the PIU teams, principles and procedures related to procurement, finance and accounting functions of the project and other relevant fiduciary requirements.

## **B. Results Monitoring and Evaluation**

31. **Baseline Data:** An M&E Officer in the PIUs – supported as required by a WBG M&E Specialist, will ensure that core baseline data relating to the OSS activities and reporting tools are in place to allow for adequate monitoring and tracking of project outputs. The M&E system will be in line with the PDO and intermediate results indicators established for the project.

32. **Baseline figures for Business Registration, Industrial Licensing and Land Allocation have been established and endorsed by both GAFI and IDA.** Each of the targeted processes has been mapped in detail at project preparation, showing the detailed processes, activities and tasks, documentary cycle and document requirements, process owners, pre requisites, forms and the key indicators of process duration and steps and cost. The Bank has agreed with GAFI and IDA management to use average duration of licensing process, as well as the number of land allocation requests processed through the reformed land allocation system, as the main baseline indicators to track project progress. Baseline data and results indicators are further explained in the Results Framework section.

33. **Monitoring and Evaluation (M&E) Plan:** An M&E Framework and Reporting system in accordance with the Project's objectives and strategy will be established by the PMU and documented in the joint OM. Official Semi-Annual Reviews of the project will be undertaken in collaboration with the Bank.

34. **Mid-Term Review (MTRs) will take place annually after the Egypt EASE project becomes effective** in accordance with the terms of reference agreed upon by Government, WBG and other relevant donor partners. The PMT will prepare the mid-term report detailing implementation progress under all Program components and identifying implementation issues. This report will be submitted to the Bank no later than two months prior to MTR. During the MTR, implementation progress and solutions to identified implementation issues will be discussed and agreed upon and, if required, project redesign or restructuring will be undertaken.

35. **Private Sector Consultations:** The WBG team will also conduct private sector consultations during project implementation and supervision missions whereby outcomes will be recorded in project documentation (Aide Memoires, ISRs).

36. **An Implementation Completion Report (ICR)** will be prepared by GAFI, IDA, and the Bank within six months after the Project closing date.

37. **M&E Participatory Mechanisms:** The project will ensure that effective and participatory M&E arrangements are established consistent with a robust M&E function. This includes: (a) the establishment of “third party” demand-based feedback arrangements (at policy, program and project levels) with business associations; (b) feedback from the wider private sector with a stake in development of a stronger governance for jobs agenda; and (c) ensuring that diversity in participation is respected by allowing space for micro, small, medium and large business representation.

### C. Sustainability

38. The sustainability of the project’s impact will largely rest on: (i) the strength of the policy and institutional framework for project implementation and (ii) government ownership of the project. The project dedicates substantive resources towards capacity building and technical assistance to enable GAFI and IDA to effectively implement the project and achieve the expected results. The Project team has already started early technical support to project partners, and will continue to provide implementation support throughout the life of the project.

39. Furthermore, 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. Strong support for and ownership of the project has been indicated by the GOE at the ministerial level (MOI and MISTI), as well as by GAFI, IDA, and ERRADA. 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.

## V. KEY RISKS

### Overall Risk Rating and Explanation of Key Risks

40. The overall risk rating is **Substantial**. The highest risks result mainly from lack of coordination and collaboration between the various agencies involved in the project. The two project partners - GAFI and the IDA have related and complementary responsibilities, which can potentially lead to coordination and overlapping mandate issues which could complicate and undermine reform efforts. In the area of Institutional Capacity, GAFI is planning for a major shift in its mandate as a facilitator for investment, which will have direct implications on its staffing levels and in technical capacity needs. The implementation capacity of both GAFI and IDA are hindered by outdated regulations for public procurement and overly complex administrative procedures that could negatively affect performance. Despite these challenges, GAFI is a credible institution with a strong professional cadre at the senior management and technical levels, and has a solid track record and relationship with the WBG. GAFI’s prominent role in the project, as well as its new mandate within the newly approved Investment Law will set the stage for effective implementation. Second, the Investment Climate Practice within the Trade and Competitiveness Global Practice has extensive global experience designing and implementing business regulatory reform projects. This project will thus draw

upon a vast body of technical knowledge at both the global and local levels in supporting reform initiatives. Finally, government support for reform is strong as the GoE has embarked on an ambitious strategy to reform the business environment and enhance private sector led growth. This is evidenced by the recent amendments to the Investment Law and the Egypt Economic Development Conference in March 2015 where the authorities announced their strategy to attract private investment globally. The project is thus seen as both timely and relevant given the current environment in Egypt.

41. **Political Risk (M):** The ratification of a newly amended constitution, the election of the President, and the upcoming parliamentary elections scheduled for October 2015 help strengthen political stability in Egypt. A new cabinet was also recently announced in September 2015, including a new Minister of MISTI. Principal political risks in the future arise from possible delays or reversal of policy commitment due to: (i) turnover of leadership; and (ii) weak coordination between governmental authorities.

**Mitigation:** Close attention will be paid during this preparation process to the political economy factors impacting government policy priorities and the need to balance the relevance of this initiative with the most effective policy options to meet the project PDO.

42. **Sector Strategies & Policies Risk (S):** The two project partners, GAFI and IDA have related and complementary responsibilities, which can lead to coordination and overlapping mandate issues. This has heightened in the wake of the changing political landscape in Egypt and shifting ministerial responsibilities. Despite the shared objective of facilitating investor entry and operations, both organizations lack systematic coordination mechanisms.

**Mitigation:** Continued close consultation with GAFI and IDA, as well as coordination with the private sector and other major donor partners active in this policy domain will enable the Bank to anticipate potential policy changes that might impact government priorities during project preparation. Particular attention will be paid to develop a Communications Strategy embedded in the project to ensure continued engagement with stakeholders and active messaging of project objectives and results.

43. **Institutional Capacity Risk (S):** The ERRADA program was suspended in the aftermath of the January 25th revolution, which resulted in the erosion of experienced staff skills and capacity. For ERRADA to undertake its mandate, a major capacity building program has to take place to leverage ERRADA's new staff and position ERRADA to catalyze and build consensus on reform. GAFI and IDA on the other hand, are planning for a major shift in their mandates as regulators and/or facilitator for investment, which will have direct implications on their human capacity in number and in technical capacity building needs.

**Mitigation:** The Government is actively addressing some of the risks highlighted. In the case of ERRADA, this entails an active recruitment process which has already started, including the recruitment of the head of ERRADA and members of the program team. The Egypt EASE Project will further augment this effort through the financing of capacity building initiatives, based on detailed assessments of policy design and implementing capacity. Meanwhile, the Bank has already started early technical support to the project partners to assist the program define targets and build the technical capacity of the existing team.



44. **Fiduciary (S):** Deficiencies in internal controls and a lack of a transparent external audit system pose fiduciary risks. For example, the Central Audit Organization (CAO) does not release all audit reports to the public. The budgets and audited accounts of economic authorities (EA) and State-owned companies (SOE) were only published in April 2012, and key financial information on special funds and accounts maintained by government entities as well as the budgets of specific government outfits remain unpublished. In addition, regulations for public procurement are outdated and not in line with international good practice. Administrative procedures are overly complex allow significant discretion that negatively affects performance and fosters arbitrary decision making.

**Mitigation:** An FM chapter in the OM will be developed defining the controls and the flow of information including audit arrangements. An independent external auditor will be hired in accordance with a TOR acceptable to the Bank. The external auditor report shall encompass all project components and activities under the Grant Agreement and shall be in accordance with internationally accepted auditing standards i., International Standards on Auditing (ISA).

45. **Stakeholders (S):** This risk includes: (i) The Industrial Development Authority's (IDA) regulations are currently implemented uniformly over all applicants, regardless of activity's risk level. The Project aims to introduce risk based regulation, which should refocus IDA's scarce resources towards higher risk industries and establishes a smooth fast tracking process for MSMEs. Given that this would result in a shift of the scope of regulation that IDA and its civil servants currently exercise, there is a potential risk of civil servants perceiving that their authority has been diminished; (ii) GAFI and IDA have been perceived as competing organizations, whose mandates often overlap. Furthermore, MoI through the drafted versions of the new Investment Law, limits regulators' interaction with investors, which again has been raised in the consultation sessions on the draft new law; and (iii) the existence of multiple government agencies responsible for the investment climate often with overlapping mandates and limited capacity to collaborate in practice. This can complicate and undermine reform and change actions.

**Mitigation:** The PDO was agreed upon at the ministerial level by both the Minister of Industry & Trade, and the Minister of Investment. Furthermore, the Government has mandated ERRADA (who plays the catalyst role in this project) business environment reform management, and hence exerts political pressure over the relevant opposition small groups. Moreover, Project targets have been set with the project clients' management (Chairmen of both GAFI and IDA) and empowered by ERRADA, who also plays a monitoring and reporting role to the Government. Finally, a third measure is leveraging private sector pressure, since the project objective and targets have been derived from private sector priority reform areas.

## VI. APPRAISAL SUMMARY

### A. Economic and Financial Analysis

46. Streamlining the processes of business entry, licensing and land allocation are expected to have two positive effects: (i) increasing the rate of investment by alleviating obstacles to investment (access to land and licensing); and (ii) increasing investor gains by reducing the lead time to investment. The extent of this effect depends on the degree to which access to land and licenses were impediments to the actualization of industrial investments and the costs associated with these impediments.

47. Simplification projects are not necessarily expected to result in new investment, although improved access to industrial land certainly could have that effect, but rather to speed up the investment rate. Similar projects on industrial licensing simplification in other countries have been associated with an increase in investment rates and this did not include a land allocation component. If we assume a conservative estimate of even a slight increase in investment rates as a result of this project's intervention, we can estimate that there is the potential to affect industrial investment after the project is implemented. This of course would be affected by other factors, positive and negative, in the macroeconomic environment, so it does not equate to an actual target for increased industrial investment as a result of the project.

48. The potential investor gains can be estimated using the opportunity cost of capital as the set at the prevailing interest rate, disregarding all other direct costs, and assuming that the time to compliance (obtaining land and industrial license) is reduced by 50 percent, the potential investor gains are significant. Combining this positive effect with the estimated gains in industrial investment rates results in estimated economic benefits over the course of five years after the full implementation of the project.

49. Beyond the specific outcomes of investing in streamlining business entry, licensing, and land allocation processes, the project also invests in ERRADA as a platform for broader business regulatory reform. The potential benefits from the success of such a platform are not quantifiable, but most certainly have the potential to result in benefits significantly beyond the limited spending envisaged under this project. The economic justification of this investment lies, therefore, not in a non-quantifiable estimated total benefit, but in the fact that with sufficient capacity, the ERRADA mechanism is structured in such a manner to link technical regulatory reform capacity with high level decision making authority, and thus would be an indispensable element to a broader investment climate reform agenda.

## **B. Technical**

50. **Better governance reduces policy uncertainty and favoritism in implementation for businesses, allowing businesses to graduate.** It is difficult for businesses to start and expand in the absence of clarity of which rules will be enforced; this kind of policy uncertainty creates an additional source of risk for already-risky entrepreneurship. The recent Enterprise Survey results indicate that connections and privileged contacts in the administration give a competitive edge to incumbents and limits entry and growth of unconnected competitors. This translates into a dual industry structure where large incumbent firms co-exist with a large majority of small firms that rarely grow to compete the incumbents. This phenomena of SMEs that seldom graduate and grow (known as the Bonsai syndrome), leads to weakening competition, which in turn leads to slow productivity growth and insufficient innovation and diversification of exports. By removing the administrative and entry barriers for SMEs and making available land for expansion, more businesses will grow, graduate and more jobs should be created.

51. **Rationale for public sector provision/financing:** The provision of a supportive investment climate – one that facilitates entrepreneurship and private investment - and corrects for market failures such as information asymmetries or government failures such as arbitrary

enforcement of poorly designed regulatory systems – is a key area for government and public sector financing and engagement. The government expressed commitment to this responsibility, and requires a vehicle to provide a package of technical assistance with a focused and fully financed program to respond to the need to deliver results in a relatively short period. This provides an additional justification for this project and for funding from the MENA Transition Fund.

**52. Brief description of methodology/scope and next steps:** The methodology to be adopted by this project will seek to integrate established evidence-based investment climate practices throughout various levels of government to improve regulatory processes and revamp the institutional setup for delivery of services to the private sector and investors. The focus will be not only be on setting correct procedures and processes and aligned with global best practices, but also on ensuring that the agencies mandated to deliver them do so in a transparent and open manner.

### **C. Financial Management**

**53. An assessment for the financial management (FM) arrangements for the project was undertaken** in March 2015 to assess the capacity of the proposed implementing entity of the project and assist in determining the required FM arrangements for the implementation of the project. A FM manual within the OM will be developed, defining the controls and flow of information, including required audit arrangements. The project will depend primarily on the Direct Disbursements method in addition to the use of US Dollar Designated Accounts (DA) which will be opened and operated by the PIUs. The designated accounts will be opened at a bank acceptable to the World Bank. An independent external auditor will be hired by the project in accordance to TOR acceptable to the Bank.

### **D. Procurement**

54. Procurement for the proposed project will be carried out in accordance with the World Bank’s “Guidelines: Procurement under IBRD Loans and IDA Credits” dated January 2011 and revised July 2014; and “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated January 2011 and revised July 2014 and the provisions stipulated in the Grant Agreement. The “Guidelines on Preventing and Combating Fraud and Corruption in projects Financed by IBRD Loans and IDA Credits and Grants” dated October 15, 2006, and updated January 2011, shall apply to the Project.

**55. An assessment of the capacity of the Implementing Agencies, GAFI and IDA, to implement procurement activities for the project was carried out during project pre-appraisal.** The assessment reviewed the organizational structure and the procurement process of both implementing entities. The key issues and risks concerning procurement for implementation of the project have been identified and include: (i) lengthy process of small value contracts due to centralized decision making, e.g. estimated cost, bidding documents, evaluation reports and contract awards are subject to approval by GAFI and IDA chairpersons; (ii) GAFI’s Board of Directors has an open ceiling for direct contracting without any restriction; (iii) lack of proper SBD for goods and consulting services; (iv) rejection of all bids without proper due diligence; (v) lack of experience in international procurement practice; and

(vi) cost overrun due to unnecessary layers of approvals to be obtained for each step in the procurement process.

56. The proposed mitigation measures include: (i) the preparation of a Procurement Guide to be added to the OM- which defines roles and responsibilities, sequence and timeframe for decisions and payments; and (ii) procurement training for each PIU Team, in addition to other mitigating and quality assurance measures.

#### **E. Social (including Safeguards)**

57. The project is an Environmental Assessment Category C (no assessment). No social safeguards policies are triggered.

#### **F. Environment (including safeguards)**

58. The project is an Environmental Assessment Category C (no assessment). No environmental safeguards policies are triggered.

#### **G. Other Safeguards Policies Triggered (if required)**

59. No other safeguards policies are triggered.

#### **H. World Bank Grievance Redress**

60. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit [www.inspectionpanel.org](http://www.inspectionpanel.org).

**Annex 1: Results Framework and Monitoring**

**Country: Egypt, Arab Rep**

**Project Name: Equal Access and Simplified Environment for Investment (EASE) in Egypt (P153487)**

**Results Framework**

**Project Development Objectives**

PDO Statement

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

**These results are at** | Project Level

**Project Development Objective Indicators**

Indicator Name	Baseline	Cumulative Target Values			
		YR1	YR2	YR3	End Target
Av. Duration of Licensing Process (Days)	320.00	250	180	75	75.00
Number of land allocation requests processed through the reformed land allocation system (Number)	0.00	0	750	2000	2000.00

**Intermediate Results Indicators**

Indicator Name	Baseline	Cumulative Target Values			
		YR1	YR2	YR3	End Target
<b>Component 1: Facilitating Accessible and Transparent Investment Services (GAFI)</b>					
Mapping/Simplification of Entry procedures completed (Yes/No)	No	Yes	Yes	Yes	Yes
CRM Platform Operational in OSSs (Number)	0.00	0	2	5	5.00

Sectors licensing requirements consolidate/published on GAFI Portal (Number)	0.00	100	250	479	479.00
Capacity Building workshops for GAFI OSS staff completed (Number)	0.00	2	5	10	10.00
<b>Component 2: Supporting Industrial Sector Transformational Regulatory Reforms (IDA)</b>					
Mapping/Simplification of Licensing sub-processes completed (Number)	0.00	4	4	4	4.00
Risk based approach for industrial technical evaluation applied (Yes/No)	No	Yes	Yes	Yes	Yes
Industrial Licensing System (ILAS) Deployed in IDA Branches (Number)	0.00	2	5	10	10.00
Online industrial land allocation system designed/deployed (Yes/No)	No	No	Yes	Yes	Yes
Industrial Developer land allocation framework designed and deployed (Yes/No)	No	No	Yes	Yes	Yes
Capacity building workshops for IDA branches staff completed (Number)	0.00	2	5	10	10.00
<b>Component 3: Capacity Building for Managing Regulatory Reform (ERRADA)</b>					
Regulatory reforms proposed (Number)	0.00	5	10	15	15.00
Private Sector consultation on regulatory reform mechanism applied (Number)	0.00	5	10	15	15
Capacity building workshops for ERRADA staff completed (Number)	0.00	2	5	10	10.00

### Indicator Description

#### Project Development Objective Indicators

Indicator Name	Frequency	Data Source / Methodology	Responsibility for Data Collection
Av. Duration of Licensing Process	Annually	Progress Report	PIU
Number of land allocation requests processed through the reformed land allocation system	Annually	Progress Report	PIU

#### Intermediate Results Indicators

Indicator Name	Frequency	Data Source / Methodology	Responsibility for Data Collection
Mapping/Simplification of Entry procedures completed	Annually	Progress Report	PIU
CRM Platform Operational in OSSs	Annually	Progress Report	PIU
Sectors licensing requirements consolidate/published on GAFI Portal	Annually	Progress Report	PIU
Capacity Building workshops for GAFI OSS staff completed	Annually	Progress Report	PIU
Mapping/Simplification of Licensing sub-processes completed	Annually	Progress Report	PIU
Risk based approach for industrial technical evaluation applied	Annually	Progress Report	PIU
Industrial Licensing System (ILAS) Deployed in IDA Branches	Annually	Progress Report	PIU
Online industrial land allocation system designed/deployed	Annually	Progress Report	PIU
Industrial Developer land allocation framework designed and deployed	Annually	Progress Report	PIU
Capacity building workshops for IDA branches staff completed	Annually	Progress Report	PIU
Regulatory reforms proposed	Annually	Progress Report	PIU
Private Sector consultation on regulatory reform mechanism applied	Annually	Progress Report	PIU
Capacity building workshops for ERRADA staff completed	Annually	Progress Report	PIU

## **Annex 2: Detailed Project Description**

### **EGYPT: EQUAL ACCESS AND SIMPLIFIED ENVIRONMENT FOR INVESTMENT (EASE)**

#### **Component 1: Facilitating Accessible and Transparent Investor Services (GAFI) (US\$ 2.25 million)**

The Project aims to support GAFI become the national platform for business entry, licensing, and investor information at the sub-national level through its OSS and GAFI Information Portal. This would entail addressing GAFI's processes and interfaces with all the involved regulators, primarily IDA, but also other line ministries and local authorities involved in licensing, developing an IT system to deliver business entry, licensing services, and investor information, and capacity building and technical assistance to enable and support GAFI in this enhanced client-facing role, particularly of its OSSs. This component will also include project management activities to be undertaken by GAFI.

#### ***Subcomponent 1.1: Develop and Implement Online System for Investor Servicing at GAFI***

GAFI currently provides OSS for business registration which covers business entry procedures but stops short of business licensing. GAFI has been developing and extending its OSS capabilities, and has documented the procedures for obtaining 479 different licenses and permits required from any of 78 different government agencies, depending on the nature of the business investment. The Project will support development of the following activities within GAFI:

- a) **Mapping of the business entry procedures** (major changes are not expected, as this process is already fairly straightforward) and linking this to the mapping of the industrial licensing procedures (which will be mapped and re-engineered under Component 2) in preparation for automation.
- b) **Procurement, configuration and deployment of a customer relationship management (CRM) system at GAFI HQ and its four OSSs.** The CRM will provide online business entry services and act as a platform for hosting the licensing processes of other agencies, starting with IDA. The project will incorporate into the CRM the workflow of the industrial licensing administration system (the ILAS which will be developed under Component 2), then other business licensing systems (tourism, agricultural, and others) can be gradually brought into the platform. The CRM will provide the following capabilities to GAFI management and staff:
  - a. Ability to track interactions with investors and relevant regulators and securely share information and documents;
  - b. Ability to automatically generate facilitation task lists and schedules based on the licensing and permitting requirements for the sector involved;
  - c. Document management and archiving capabilities;
  - d. Reporting capabilities which allow GAFI management to evaluate the pipeline of incoming investments and pinpoint bottlenecks.



- c) **Develop and enhance the GAFI information portal** to provide comprehensive investor information, including:
- i. Information on the procedures and requirements for the 479 licenses and permits from 79 different agencies. The GAFI information portal will include information to guide investors through these procedures (at this time, only the industrial licensing will also be brought into the CRM system).
  - ii. Information on access to land through showcasing all land available for investment under the jurisdiction of the Industrial Development Authority (IDA), on GAFI's website. Information would include areas available, terms and location.

***Subcomponent 1.2: GAFI Capacity Building and ICT Upgrading***

This sub-component will cover IT system upgrading for GAFI and the OSSs and capacity building of staff, including:

- i. Further e-integration of the OSS network, including e-archiving and electronic connectivity between OSS branches to enhance quality of service provided by OSS.
- ii. The Project will also support required upgrades to GAFI's ICT infrastructure to support deployment and operation of the two systems.
- iii. Training of GAFI staff in the use of the CRM system.

***Subcomponent 1.3: Project Management***

This sub-component will cover the costs of the Project Implementation Unit including additional staff needed (to be hired as consultants on the project) and incremental operating costs. The complementary consulting staff to be hired is to be determined, but may include an M&E specialist and an additional procurement officer (to assist on the procurement packages).

**Component 2: Supporting Industrial Sector Transformational Reforms (IDA)  
(US\$ 2.25 million)**

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.

***Sub-component 2.1: Process re-engineering and automation of industrial licensing***

IDA, in collaboration with the ERRADA program and with the support of the World Bank, is currently engaged in mapping out its industrial licensing procedures. This preparatory work will be completed as part of this project to re-engineer these processes and deploy the reformed processes through an automated system. The activities to be supported are:

1. TA to complete the assessment of the process, diagnose bottlenecks, and re-engineer the processes involved in producing an industrial license. This will include work eliminating technical evaluations and inspections as a precondition for industrial registration and perform inspections/evaluations on risk-assessment basis utilizing professional, accredited private practitioners.

2. TA to develop and establish the accreditation system of private sector entities to perform industrial technical evaluations on a risk-management basis which will be overseen by IDA.
3. TA to IDA and other involved agencies to re-design the industrial register process to return it to its original policy objective as a data collection function, and delink import/export and other permits from the industrial register.
4. Development of the software systems and equipment and installation of a new industrial licensing administration system (ILAS). The Industrial Licensing Administration System (ILAS) will be developed and deployed in IDA headquarters, 22 branch offices as well as in GAFI's headquarters and four regional offices. This system will be designed with the following capabilities:

***For Industrial License Applicants:***

- Public portal providing comprehensive information on the requirements for obtaining industrial licenses. Ability to apply online for licenses and upload required supporting documents, as necessary;
- Ability to view the status of applications and issued licenses as well as receive relevant notifications (e.g., approval, renewal required) via e-mail or SMS.

***For IDA and other partner agencies:***

- Customizable forms builder that allow IDA to design and update the online application forms to obtain information required for each industrial sector. Ability to receive applications through online portal or front counter operation in IDA or GAFI HQ and branches.
- Workflow management capabilities, which permit the IDA system administrator to route each type of license application to the appropriate staff for processing, inspection activities, approval, and/or notification. Examples of other functionality includes the ability to generate processing-related and renewal notification e-mails or text messages to clients, schedule inspections or other client meetings during the review process, maintain a database of licenses issued and related documentation as well as support workforce management (e.g., workflow balancing where several staff are processing the same types of applications).
- The capability to integrate with current and future applications used in IDA for financial reporting, compliance monitoring, etc.
- Role-based access management capabilities which allow the IDA administrator to manage staff access to the system and required workflows for each industry sector. Ability for businesses to establish online user profiles to facilitate changes in company information as well as support any additional information which may be required during the licensing process (e.g., environmental testing results).
- Management reporting capabilities, including statistics on license application throughput, backlogs at specific processing steps and processing efficiency of individuals and/or workgroups.
- Integrated database of businesses and licenses issued, enabling IDA and other regulators to better monitor compliance.
- All services and functionality delivered via the web browser, supporting quick deployment within individual branches.

***Sub-Component 2.2: Implementing a New Approach to Industrial Land Management and an Online Land Allocation System***

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 Project will support IDA in its effort to adopt primarily a transparent wholesale industrial land allocation process rather than focus on "retail" land allocation by setting and administering policies and procedures for industrial land allocation and introducing best practice contracting instruments with private developers. Furthermore, IDA has signed a Memorandum of Understanding (MOU) with the New Urban Communities Authority (NUCA) to transfer the role of land allocation for industrial use from NUCA to the IDA. To implement this MOU, the project will support IDA to work with land owners (primarily cities developed under New Urban Communities) to compile and maintain on-line information of land available for industrial development.

Accordingly, this sub-component will comprise the following activities:

1. TA to design the approach for wholesale land allocation and developer concession agreements and support implementation of the reformed system.
2. Development of the software and information system for industrial land allocation, which would include ownership, location, offsite infrastructure, target industries and excluded industries, price, contact details, and any location-specific incentives that may be offered. Hence, the Project will support the development and deployment of a land allocation system which will eventually contain information on all undeveloped commercial and industrial land parcels in investment zones (IZs) and new economic communities. This system will be designed with the following capabilities, which would be available through IDA and accessible at GAFI:
  - Compiling existing GIS mapping of land parcels and other available spatial information (e.g., infrastructure, roads, etc.);
  - Provide searchable access to detailed information on available land parcels, including lot size and layout, available infrastructure (e.g., electricity, water, sewerage), access to roads/rails, pre-built structures, etc.);
  - Allow developers and companies to apply for specific land parcels and support back office processing of applications by IDA and other partners;
  - Allow authorized IDA staff to allocate land for approved applications and document these allocations on the maps;
  - Role-based access management capabilities which allow the IDA administrator to manage staff access to the system;
  - Management reporting capabilities, including information on land sales by location, sector, etc.; and
  - Administering land transfer process in coordination with the designated initial land owners (NUCA and others).

The system will be delivered inclusive of the necessary GIS licenses.

### ***Sub-Component 2.3: IDA Capacity Building and ICT Upgrading***

The project will support IDA's technical and administrative capacity at the governorate level to enable decentralization of regulatory decision making and deployment of the ILAS to be deployed through existing OSSs. Accordingly, this component will include:

1. ICT infrastructure upgrading, including upgrade of existing LAN infrastructure in IDA HQ as well as dedicated internet connections to the branch offices through a government-owned internet service provider and purchase of computers and other equipment.
2. IDA staff training in the use of the ILAS and to support decentralization of decision-making.

### ***Sub-Component 2.4: Project Management***

This sub-component will cover the costs of the Project Implementation Unit including additional staff needed (to be hired as consultants on the project) and incremental operating costs. The complementary consulting staff to be hired is to be determined, but may include an M&E specialist and an additional procurement officer (to assist on the procurement packages).

### **Component 3: Capacity Building for Managing Regulatory Reform (ERRADA) (US\$ 0.5 million)**

ERRADA is a Government initiative aiming to build a regulatory management system to review and streamline business related regulations. ERRADA is currently hosted, on a temporary basis, by the Ministry of Trade and has focus points in all other ministries relevant for the business environment. The principal objectives of ERRADA are to:

- identify all valid business related regulations through inventorization;
- streamline business related regulations through review of inventory, in consultation with different segments of society (government, private sector and civil society);
- provide public access to all business related regulations through an electronic registry system;
- introduce regulatory impact assessment (RIA) to lay down the foundation for transparency and decision making based on analysis.

ERRADA's mandate is extremely significant for reducing regulatory risk and increasing transparency for businesses. Regulatory reform requires an ongoing effort, rather than one-time ad hoc reforms. Therefore, ERRADA needs to not only build its capacities to fully implement its role, but also gradually develop its institutional structure from a temporary initiative to a sustainable, permanent function within the government structure of Egypt.

This component will help establish a sustainable institutional framework for regulatory reform through ERRADA, and provide technical assistance for the empowerment of the ERRADA central unit to fully implement its role and support the existing regulatory reform units at selected piloting ministries such as MoI and MITS. Assistance provided to the ERRADA

initiative will support the activation of its mandate to manage business environment regulatory reform and fix a system that has produced uneven and often burdensome business regulation in Egypt, through addressing the existing stock of regulation, weeding out redundant, inefficient and inconsistent regulation, and eliminating overlapping and inconsistent regulation by various agencies and layers of Government. This will lead to the elimination of sources of delay, excess cost and discretion. The component will focus on supporting ERRADA around a set of horizontal (cross-cutting) reforms whereby they target constraints affecting firms in all sectors of the economy, such as the transparency and predictability of the regulatory environment as well as vertical targeted priority areas of reform of industrial licensing and land allocation. Within the horizontal reforms, the project will support ERRADA in:

- Preparing a strategy and action plan for ERRADA to meet its mission, objectives and goals.
- Completing a comprehensive inventory of business related formalities/administrative procedures. This activity will be coordinated with the business licensing reform activities under Component 2.1.
- Processing mapping and re-engineering of the most relevant/frequent formalities/administrative procedures with the objective of streamlining and simplifying them.
- Establishing an informational portal of business related administrative procedures rendering all information related to the requirements of these procedures accessible to the general public in a simple and comprehensive manner. This activity will be coordinated with both GAFI and IDA to ensure complementation.
- Building appropriate capacity within the Unit through technical assistance, training and study tours.
- Putting in place a public consultation and review mechanisms to ensure that all business related legislative proposals are properly reviewed and consulted with the stakeholders, including the private sector.
- Supporting the development of the Unit's methodology, including the application of Regulatory Impact Assessments.

### **Annex 3: Implementation Arrangements**

#### **EGYPT: EQUAL ACCESS AND SIMPLIFIED ENVIRONMENT FOR INVESTMENT (EASE)**

##### **A. Institutional Context**

1. MOI and GAFI are the principal government bodies regulating and facilitating investment in Egypt. MOI was established in 2004, with a mandate to reform the investment climate in Egypt, further develop non-bank financial services, and introduce a comprehensive Asset Management Program of State-Owned Enterprises (SOEs). GAFI is its affiliated entity responsible for investment promotion, facilitation, investor aftercare, and research and market intelligence. 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. Any changes in key staff - and the impact this may have on the operational effectiveness of the Project - will need to be monitored throughout the life of the project to ensure adequate mitigation is included to sustain implementation performance.

2. MITSU and IDA are the principal bodies concerned with regulating industry in Egypt. IDA was established by Presidential Decree No. 350 of 2005, as a semi-autonomous agency reporting to MITSU with the general mandate to execute industrial policies, stimulate and encourage investments in the industrial sector, devise and implement land development policies for industrial purposes, and to provide land and industrial licenses to investors. IDA's mandate includes regulatory functions with respect to both establishment and operations of industrial activities and industrial land. Subsequent to the political changes of 2011, IDA's institutional capacity was negatively affected, like many other government institutions.

3. The ERRADA Initiative was officially launched in 2008 and involved 10 participating ministries including MOI and MITSU each of whom are to establish an internal Regulatory Reform Unit (RRU) to implement the ERRADA work plan in each respective ministry. ERRADA's mandate is to 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. The ERRADA 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 MOI. Finally, following the assignment of the new government formed by President Sisi, Prime Ministerial Decree No. 1038 of 2014 assigned the MITSU a supervisory role over the program.

4. The ERRADA component is a catalyst component, secondary to the project's main components related to GAFI and IDA; most of its activities are related to capacity building. Furthermore, the program suspension in the aftermath of the January 25th revolution, led to loss of institutional memory and experienced staff. As a relatively new institution, ERRADA has limited execution capacity and therefore, IDA would execute the ERRADA component on behalf of ERRADA in addition to IT systems, which will be undertaken by IDA as well.

5. The management of the project will be governed through a two layered structure:
- A **Project Steering Committee** (PSC) will be established, comprised *inter alia* of representatives from the GAFI, IDA, ERRADA, MOIC, MOI, and MISTI and will be established by MOI. 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 WBG 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 take place on a monthly basis, particularly during 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.
6. An Operational Manual will also be prepared for the project PIUs and agreed upon, including procedures for addressing financial management and procurement issues to ensure smooth implementation. A financial management section will be part of the Operations Manual which will define the FM and disbursement procedures under the project.

## **B. Financial Management Assessment**

### **B.1 Executive Summary**

7. An assessment<sup>2</sup> for FM arrangements for the Project was undertaken in March and April 2015 to assess the capacity of the proposed implementing entity and assist in determining the required FM arrangements for the implementation of the project.
8. The project aims to provide technical assistance and systems to transform licensing and land allocation processes from two of the greatest impediments to investment in Egypt into streamlined and transparent processes, and to support the deployment of those reforms through the GAFI and IDA through the provision of technical assistance, systems and capacity building.
9. A FM chapter of the OM will be developed for the PIUs defining the controls and the flow of information including the auditing arrangements.
10. The project will depend primarily on the Direct Disbursements method, in addition to the use of US Dollar Designated Accounts (DA) which will be opened by each PIU and will be operated by the respective PIU. The DAs will be opened at a bank acceptable to the World Bank.

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<sup>2</sup> The assessment was conducted throughout a meeting held with the envisaged PIU members.

11. An independent external auditor will be hired in accordance to TORs acceptable to the Bank. The external auditor report shall encompass all Project components and activities under the Grant Agreement and shall be in accordance with internationally accepted auditing standards e.g., International Standards on Auditing (ISA).

12. The following are the actions required to successfully implement the FM arrangements of the project in each of GAFI and IDA.

#	Action	Due Date
1.	Establish the PIUs through administrative Decrees	Within two months of effectiveness
2.	Finalize the financial management manual as part of operational manual of procedures. This manual to define the FM and disbursement procedures under the project.	Within two months of effectiveness
3.	Contract an external auditor. The auditor TOR as well as the selected auditor should be acceptable to the Bank.	During Project Implementation

## B.2. Financial Management Risk

13. The FM risks identified and corresponding mitigating measures to address these risks are detailed in the table below:

Risk	Risk Rating	Incorporated Risk Mitigating Measures (MM)	Risk rating after MM
<b><i>Inherent Risk (IR)</i></b>			
Entity and Project Level	Substantial	<ol style="list-style-type: none"> <li>Based on the findings of the various ESW conducted recently, some weaknesses were identified in the accounting and auditing professions in Egypt.</li> <li>The PIUs within GAFI and IDA have not been formulated yet which may result in delays in the implementation of the Grant.</li> </ol> <p><u>Mitigating measures:</u></p> <ul style="list-style-type: none"> <li>PIUs will be established within GAFI and IDA to carry out the technical, management and monitoring requirements of the proposed project;</li> <li>The project Finance Officer will be responsible to follow up on the project accounts and generate the project IFRs and annual FSs;</li> <li>Financial management and disbursement orientation will be conducted during Project launching to enhance the PIUs understanding of World Bank requirements.</li> </ul>	Moderate
<b><i>Overall IR</i></b>	<b><i>Substantial</i></b>		<b><i>Moderate</i></b>
<b><i>Control Risk (CR)</i></b>			
Budgeting	Moderate	GAFI and IDA through the PIUs will prepare on annual basis the project budget. <p><u>Additional measures:</u></p> The Financial Officers at the PIUs will be responsible for preparing a detailed Project budget.	Low
Accounting	Moderate	Lack of an adequate and reliable accounting system at GAFI and IDA PIUs.	Low



		<p><u>Mitigating measures:</u></p> <ul style="list-style-type: none"> <li>▪ Project accounting will cover all sources of project funds and all utilization of said funds.</li> <li>▪ All project-related transactions would be recorded in automated books of accounts and supporting documents will be kept at the PIUs (audit trail).</li> </ul>	
Funds Flow	Substantial	<p>Grant proceeds may not be available in a timely manner.</p> <p><u>Mitigating measures:</u></p> <ul style="list-style-type: none"> <li>▪ The project will depend primarily on the Direct Disbursements method.</li> <li>▪ The Project will open separate DA operated by GAFI and IDA through the PIUs. The accounts will be reconciled on a timely basis and will be replenished periodically.</li> <li>▪ The flow of funds process will be included in the procedure manual to be developed by the Project.</li> </ul>	Moderate
Financial Reporting	Substantial	<p>GAFI and IDA systems may not adequately report on the Project's activities and automatically generate financial reports.</p> <p><u>Mitigating measures:</u></p> <p>Automated accounting system will be used to report on the project activities. The format and details of the report will be agreed upon with the PIUs Financial Officers.</p>	Moderate
Auditing	Moderate	<p>GAFI and IDA accounts are post audited by the Government's Audit Bureau.</p> <p><u>Additional measure:</u></p> <ul style="list-style-type: none"> <li>▪ The Project will appoint a qualified independent external auditor in accordance with TORs acceptable to the Bank to audit the Project on an annual basis.</li> <li>▪ The auditor will issue an opinion on such statements.</li> </ul>	Low
<b>Overall CR</b>	<b><i>Substantial</i></b>		<b><i>Moderate</i></b>

### **B.3. Project Arrangements**

**14. Implementation Entities and staffing:** The Project will be implemented by GAFI and IDA through the PIUs which will carry out the technical, management and monitoring requirements of the project. Also, the PIUs will be responsible for coordinating and reporting to the Bank.

**15. Internal Controls:** The Grant funds will follow the government applied controls, where applicable, and will have in place enhanced supplementary controls to deal with the flow of information and funds. Separate filing will be maintained for Grant proceeds, and expenditures' supporting documentation and all original supporting documents will be maintained in a traceable and organized manner by the project Financial Officer. A financial manual will be prepared by the financial officer depicting the controls that will be applied over the use of funds.

**16. Flow of Funds:** Given the nature of project disbursements which are expected to include a few large contracts, it was agreed with the project's proposed FM officer that the Direct Disbursements method will be primarily used throughout the project life. However, to ensure that funds are readily available for Project implementation, US dollar Designated Accounts (DA) will be opened at a bank acceptable to the World Bank and will be managed by GAFI and IDA through the PIUs. Deposits into and payments from the DA will be made in accordance with the Grant Disbursement Letter. GAFI and IDA through the PIUs will prepare Withdrawal Applications with the related supporting documents, signed by designated signatories.

**17. Budgeting:** The Project's Finance Officers at the PIUs will be required to prepare, on an annual basis, budgets and disbursement plans reflecting project expected disbursements. The plan will be developed based on the initial procurement plan, implementation schedules and estimated payments cycles, and revised thereafter. The budget will be used as a monitoring tool to analyze variances and manage cash. The responsibility of updating the annual budget will lie with the PIUs in coordination with GAFI and IDA

**18. Accounting:** The Project will follow the cash basis of accounting where resources and use of funds are recorded when cash is received or when payments are made. Given the level of transaction under the project, manual records and excel sheets will be used to record and report on project activities. Sample external auditor ToRs and sample excel statements of sources and uses of funds were provided to the PIUs by the Bank.

**19. Auditing:** The Project's financial statements will be audited by an independent auditor. The external independent auditor should be acceptable to the Bank with TORs prepared and submitted for the Bank's no objection, at least nine months prior to the end of the Project fiscal year. The external auditor report shall encompass all the Project's components and activities under the Grant Agreement and shall be in accordance with internationally accepted auditing standards e.g., International Standards on Auditing (ISA). In addition, the auditor is required to prepare a "Management Letter" identifying any observations, comments and deficiencies in the system and controls, that the auditor considers pertinent, and shall provide recommendations

for their improvements. The auditor will also be responsible for reviewing the project's semiannual Interim Financial Reports (IFRs).

## **C. Procurement**

### **C.1. General**

20. Procurement for the proposed project will be carried out in accordance with the World Bank's "Guidelines: Procurement under IBRD Loans and IDA Credits" dated January 2011 and revised July 2014; and "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated January 2011 and revised July 2014 and the provisions stipulated in the Grant Agreement. The various items under different expenditure categories are described in general below. For each contract to be financed by the Grant, the different procurement methods or consultant selection methods, the need for pre-qualification, estimated costs, prior review requirements, and time frame are agreed upon between the Recipient and the Bank in the Procurement Plan. The Procurement Plan will be updated at least annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

21. **Procurement of Works:** This is not anticipated under this project.

22. **Procurement of Goods and non-Consultant services (e.g. printing services):** Goods procured under this project will include system software, computers, laptops, office and electrical equipment, communication equipment, office equipment/furniture and other ICT-related goods, etc. The procurement will be done using the Bank's SBD for all ICB contracts and National SBD satisfactory to the Bank. All goods contracts below US\$1,000,000 would be procured using NCB procedures acceptable to the Bank. Contracts below US\$100,000 would be procured by requesting three quotations following the steps as explained in the POM.

23. **Selection of Consultants:** (a) **Firms** will be selected in accordance with the Bank's Guidelines. The selection method will include Quality and Cost Based Selection (QCBS) for contracts above US\$300,000 and selection based on consultant's qualification (CQS) for contracts below US\$300,000. Single Source Selection (SSS) could be used as appropriate in prior agreement with the Bank. (b) **Short lists of consultants** for services estimated to cost less than US\$300,000 or equivalent per contract may be composed entirely of national consultants. Procedures of SSS of Individual Consultants (IC) would be followed for assignments which meet the requirements of paragraph 5.6 of the Consultant Guidelines.

24. **Capacity Building, Training Programs, Workshops, etc.:** Training and capacity building activities will take place to enhance Ministry and Agency capability to review the eligibility and compliance with procurement. All training and workshop activities would be carried out on the basis of approved annual programs that would identify the general framework of training activities for the year, including the: (i) type of training or workshop; (ii) personnel to be trained; (iii) selection methods of institutions or individuals conducting such training; (iv) institutions which would conduct the training; (v) justification for the training, how it would lead to effective performance and implementation of the project and or sector;

(vi) duration of the proposed training; and (vii) cost estimate of the training. Additionally, a report by the trainee upon completion of training would be required.

25. **Retroactive financing:** The Recipient will procure IT equipment for an estimated cost of no more than US\$250,000 by requesting three quotations from three qualified suppliers. The Bank will review the procurement procedures used by the Recipient before authorizing reimbursement of the same amount for Eligible Expenditures made on or after May 18, 2015.

26. **Operating Costs:** Operating Costs for the PIUs financed by the project are incremental expenses arising under the Project and based on Annual Work Plans and Budgets approved by IBRD. Operating costs means the reasonable incremental expenses incurred by the Recipient and approved by IBRD attributable to Project implementation, management and monitoring, consisting of costs of the following: communication, translation and interpretation, printing, procurement-related advertising, office supplies, banking charges, local transportation, and other miscellaneous costs directly associated with Project implementation. These items will be procured using the implementing agencies' administrative procedures, which are reviewed and found acceptable to the Bank.

## **C.2. Assessment of the agency's capacity to implement procurement**

27. Both GAFI and IDA have an administration procurement affairs department headed by qualified staff who are responsible for all procurement activities. GAFI has an engineering department which is responsible for all technical aspects including technical specifications, TORs, and cost estimation and contract management. The engineering department is supported by technical personnel with mixed skills.

28. An assessment of the capacity of the Implementing Agency GAFI and IDA to implement procurement activities for the project was carried out during project pre-appraisal. The assessment reviewed the organizational structure and a sample of IT procurement process. GAFI and IDA have not previously implemented a World Bank project and are not familiar with Bank procurement procedures.

29. The key issues and risks concerning procurement for implementation of the project have been identified and include: (i) lengthy process of small value contracts due to centralized decision making, e.g. estimated cost, bidding documents, evaluation reports and contract awards are subject to approval by GAFI and IDA chairpersons; (ii) GAFI's Board of Directors has an open ceiling for direct contracting without any restriction; (iii) lack of proper SBD for goods and consulting services; (iv) rejection of all bids without proper due diligence; (v) lack of experience in international procurement practice; and (vi) cost overrun due to unnecessary layers of approvals to be obtained for each step in the procurement process. The proposed mitigation measures are:

- (a) Prepare a Procurement Guide as part of the OM which: (i) defines the roles and responsibilities of all offices that will be involved in any aspect of procurement during the project implementation; (ii) set out the sequence and timeframe for the completion of procurement decisions of all individual players including delegation of authority; and (iii) establish service standards for processing of payments to contractors and suppliers;

- (b) Develop and agree with the Bank on a procurement training plan as part of the OM for all GAFI and IDA staff;
- (c) Use of SBD for NCB which are currently used by other Bank financed projects; and
- (d) Establish separate effective tracking systems of: (i) Procurement Plan implementation, and (ii) processing of payments to contractors and suppliers.

29. Given the lack of experience of GAFI and IDA with World Bank procurement procedures and the need for capacity building during the initial stage of project implementation, the overall project risk for procurement is “Substantial.”

### **C.3. Procurement Plan**

30. The Recipient has prepared a draft procurement plan for project implementation which provides the basis for the procurement methods. This plan was agreed upon during project negotiation. It will also be available in the project’s database and in the Bank’s external website. The Procurement Plan will be updated in agreement with the Bank annually or as required to reflect the actual project implementation needs and improvements in institutional capacity.

### **C.4. Frequency of Procurement Supervision**

31. In addition to prior review supervision which will be carried out by the Bank local office, the capacity assessment of the Implementing Agency has recommended supervision missions every six months to carry out post reviews of procurement actions.

## **Annex 4: Implementation Support Plan**

### **EGYPT: Equal Access and simplified environment for investment (EASE)**

#### **Strategy and Approach for Implementation Support**

1. The WBG will support the implementation of this project through a combination of fiduciary and technical supervision, technical assistance, impact evaluation, and coordination. These activities will be implemented through a combination of Bank staff, consultants, and third-party monitors.

2. Technical support areas: this project focuses on four main technical aspects; (a) process simplification and reengineering, (b) systems design and implementation, (c) management of regulatory reform, and (d) dialogue. The Bank will call on their Global Practice experts and /or international consultants to guide and support these technical areas, particularly for implementation support.

3. **Fiduciary and technical supervision.** World Bank fiduciary staff in Cairo will provide routine supervision of FM and procurement activities. Review and clearance of the OM, IFRs, withdrawal requests, and procurement actions will provide the basic necessary controls over implementation. In addition, technical assistance and guidance will be provided when necessary on fiduciary issues, which are anticipated to most likely be on procurement, so enhanced implementation support from the locally based FM and Procurement Specialists is anticipated. Technical supervision will be provided through Bank staff and local consultants at key design and implementation decision points, including the clearance of the operations manual and adjustment of design features during the course of the project. Technical supervision in terms of verification of implementation of activities will also be undertaken.

4. **Technical assistance** – implementing agency. The PIUs residing in GAFI and IDA are expected to require technical assistance on developing M&E and MIS. Technical assistance will be provided by the Bank to advise on the design of these systems, their implementation and monitoring through midterm reviews (MTR).

5. **Coordination/dialogue with private sector:** The Bank will maintain coordination with other line ministries, relevant regulators, key stakeholders and international agencies to ensure continued synergy and complementarity with other interventions, and relevance of the project to the strategic directions of both MOI and MITS. The Bank will also establish the framework for a continuous dialogue between GAFI, IDA, ERRADA and the private sector to ensure inclusiveness and timely consultation.

#### **Implementation Support Plan**

6. Technical inputs needed: this project focuses on four main technical aspects; (a) process simplification and reengineering, (b) systems design and implementation, (c) management of regulatory reform, and (d) dialogue. The Bank will utilize their global practice experts and /or international consultants to guide and support these technical areas.

7. Fiduciary requirements and inputs: the PIU will assign procurement and finance officers. World Bank fiduciary and procurement experts will provide implementation support including capacity building where needed. The WBG fiduciary and procurement experts will support the PIU in developing and implementing the Operational Manual.

8. Skills Mix Required

<b>Skills Needed</b>	<b>Number of Staff Weeks</b>	<b>Number of Trips</b>	<b>Comments</b>
<ul style="list-style-type: none"> <li>• Industrial/land Development Specialist</li> <li>• Process Design/Reengineering Specialist</li> <li>• Investment Policy Specialist</li> <li>• ICT/CRM Specialist</li> <li>• E.Gov/CRM Specialist</li> <li>• Regulatory Reform Management Specialist</li> <li>• Fiduciary Specialist</li> <li>• Procurement Specialist</li> <li>• M&amp;E Specialist</li> </ul>	<ul style="list-style-type: none"> <li>• 4-6 weeks</li> <li>• 8-12 weeks</li> <li>• 8-12 weeks</li> <li>• 4-6 weeks</li> <li>• 8-12 weeks</li> <li>• 4-6 weeks</li> <li>• On going</li> <li>• On going</li> <li>• On going</li> </ul>	<ul style="list-style-type: none"> <li>• 2-3</li> <li>• N/A</li> <li>• 3-4</li> <li>• 3-4</li> <li>• N/A</li> <li>• 2-3</li> <li>• N/A</li> <li>• N/A</li> <li>• N/A</li> </ul>	<ul style="list-style-type: none"> <li>• Int'l consultant</li> <li>• Local consultant</li> <li>• WBG Investment Policy Team</li> <li>• WBG CRM Expert</li> <li>• Local consultant</li> <li>• WBG Sr PSD / Int'l consultant</li> <li>• Cairo CMU Staff</li> <li>• Cairo CMU Staff</li> <li>• IFC M&amp;E Specialist</li> </ul>