

**PROGRAM-FOR-RESULTS INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

Report No.:PID0053776

Program Name	<i>Upper Egypt Local Development Program</i>
Region	<i>Middle East and North Africa Region</i>
Country	<i>Arab Republic of Egypt</i>
Sectors	<i>Sub-National Government Administration Rural and Inter-Urban Roads and Highways General Industry and Trade</i>
Lending Instrument	<i>PforR</i>
Program ID	<i>P157395</i>
{If Add. Fin.} Parent Program ID	<i>N/A</i>
Borrower(s)	<i>Government of Egypt</i>
Implementing Agencies	<i>Ministry of Local Development and Ministry of Trade and Industry</i>
Date PID Prepared	<i>January 29, 2016</i>
Estimated Date of Appraisal Completion	<i>May 17, 2016</i>
Estimated Date of Board Approval	<i>July 28, 2016</i>
Concept Review Decision	<i>Following the review of the concept, the decision was taken to proceed with the preparation of the operation.</i>

I. Introduction and Context

1. Public perception concerning poor Government transparency and accountability, as well as lack of opportunities for sustainable jobs and growth, were among the underlying factors that contributed to popular protests in Egypt in 2011. After three years of political uncertainty following the 2011 Revolution, a new constitution was adopted by popular referendum, presidential elections were held in May 2014, and finally, parliamentary elections were also to be completed by the end of 2015. The present Government has made progress in restoring security and bringing down the level of civil unrest and initiating critical reforms. Nevertheless, the underlying causes of the protests – shortage of formal-sector jobs, high unemployment and underemployment among Egyptian youth, and lack of service delivery to poor segments of the population, among others– persist and are the focus of the Government of Egypt (GoE)’s economic and social reforms.

2. Nowhere are these challenges more manifested than in Upper Egypt, a grouping of ten governorates that lag significantly behind the rest of the country in economic growth, employment generation, connectivity, service delivery access and government capacities. Collectively, these factors are associated with high rates of poverty and deprivation in Upper Egypt governorates. Indeed, regional welfare disparities are an enduring feature of poverty in Egypt: Upper Egypt has been and continues to remain the poorest region in the country. While

the region is home to about 38 percent of Egypt's population, it contains 67 percent of the poor. The poverty rate in Upper Egypt was estimated at 35.8 percent in 2012-13, whereas the rate for the country was much below at 20.5 percent¹.

3. Although Upper Egypt has lagged during recent history, it has demonstrated the ability to meet unrealized potential. Between 2004 and 2008, Upper Egypt demonstrated convergence tendencies registering higher growth than the average for metropolitan Egypt and the nation overall.² This growth was driven by strong growth in urban areas in Upper Egypt. The region has several assets it can leverage for future growth. It has a strong comparative advantage in certain types of agricultural activities (e.g. horticulture).³ Further, it exhibits high population density, a characteristic that has been leveraged to improve outcomes in the lagging regions of other countries (e.g. China's SW and Brazil's NE).⁴

4. Based on past experience, GoE now views local development and employment creation as the best way of reducing poverty in Upper Egypt, for which it sees efficient and capable local government⁵, including governorates and districts, as a pre-requisite. This is because the country's local governments could usher in the conditions needed for local development. These conditions in Upper Egypt include (i) reducing gaps in critical infrastructure and services, and improving living standards; (ii) improving government outreach, responsiveness and accountability; and, (iii) establishing the enabling environment for private sector to grow. Thus, enhancing the institutional capability of local governments in order for them to address key binding constraints and provide these three pre-requisites for local development will be key in GoE reforms moving forward.

5. It is in this context that GoE is launching the program "Economic Development for Inclusive and Sustainable Growth in Upper Egypt". The government program aims to adopt a comprehensive approach to growth and development in Upper Egypt, incorporating lessons learnt from past interventions in the region. Importantly, it aims to achieve these objectives in a participatory way, including local communities and private sector stakeholders. It also wishes to roll out the program in a gradual way, starting with a few governorates at the onset, with the view to course-correct along the way and eventually scale up to all Upper Egypt governorates. The objective of the government program is *"to support local economic development in Upper Egypt for the purpose of creating more jobs, especially for youth and women, and enhancing living standards, through promoting private-sector led growth, improving basic services delivery and strengthening sub-national institutions"*.

¹ *Promoting Poverty Reduction and Shared Prosperity: A Systematic Country Diagnostic*, WBG, November 2015. These rates are different from the official poverty rates. In discussions with CAPMAS, the Poverty team learned that for the HIECS 2010/11 and 2012/13 a full re-estimation of the poverty lines and rates had been conducted. As an exercise to calculate poverty rates that are comparable across time, the Egypt Systematic Country Diagnostic report developed a methodology to obtain comparable poverty lines (and rates) for the years 2004/05 and 2010/11. Here, this methodology is expanded to the survey year 2012/13 to produce the results presented.

² *Upper Egypt: Pathways to Shared Growth*, WBG, October 2009.

³ *Promoting Poverty Reduction and Shared Prosperity: A Systematic Country Diagnostic*, WBG, November 2015.

⁴ *Upper Egypt: Pathways to Shared Growth*, WBG, October 2009.

⁵ Egypt's administrative system comprises (i) central government; (ii) governorates – 27 total across the country, 10 of which are located in Upper Egypt; (iii) districts (for urban and rural governorates); (iv) urban local units (cities) and rural local units (mother villages), containing satellite villages and hamlets. Governorates are the largest administrative unit after the central government.

Multisectoral and Institutional Context of the Program

6. Reducing poverty and stimulating growth in Upper Egypt depends on private sector led local economic development and job creation. There are three critical binding constraints to catalyzing private sector investments and enabling local development: a set of regulatory and institutional barriers that hinder business environment; weak connectivity and service delivery backlogs that reduce the living conditions and standards in and competitiveness of the region; and weak capacities of key public agencies at the local level which constrain government to citizen and government to business interface. Addressing these constraints in a comprehensive, integrated and incremental manner is key to unlocking the potential of Upper Egypt and thus reducing poverty of this lagging region.

7. Upper Egypt is characterized by a relatively low level of private investment and weak economic activity. For example, two Upper Egypt governorates of Qena and Sohag contribute just 0.9 percent of gross value added while representing 9 percent of the overall population⁶. Local markets are underdeveloped and access to larger and more sophisticated markets are hampered by the relative non-competitiveness of local industry and sheer distance. As a result, supply chains tend to be fragmented and dependent on inputs and services from Metropolitan and Lower Egypt, increasing costs and further undermining the competitiveness of existing firms. Most economic activity is in small scale agriculture with low productivity relative to Lower Egypt⁷. While industrial land is readily available, occupancy in industrial zones averages only 9 percent in Qena and 22 percent in Sohag. Similarly labor costs are relatively low, but labor productivity is also low, estimated to be around only \$3,484 of value added per worker compared to \$4,940 of value added per worker for Egypt overall⁸. Investors are also hampered by red tape and poor government to business services, especially licensing services and investment facilitation, which tend to be centralized in Cairo.

8. A second key binding constraint to private sector led-growth in Upper Egypt is the local infrastructure and service delivery backlogs that reduce living standards and competitiveness of the region. Access to and quality of basic services and infrastructure is lower in the region across a range of dimensions than elsewhere in Egypt. For instance, only 10% of households in Upper Egypt are served by sewerage networks with treatment plants.⁹ In the 32 poorest villages in Qena, less than 1 percent of households are connected to the public sanitation network.¹⁰ Less than 30% of households in rural Upper Egypt live within 20 minutes of a health facility and less than half live within 20 minutes of a secondary school.¹¹ Less than half the population of rural Upper Egypt (approximately 40%) live in communities where weekly markets are held.¹²

⁶ Economic Census 2013, CAPMAS

⁷ Yemtsov, R.; *Upper Egypt: Pathways to Shared Growth*, WBG, 2009

⁸ Manufacturing firms only. Enterprise Survey 2013, World Bank.

⁹ Water in the Arab World (2009)

¹⁰ ENID Policy Brief 18 (2013)

¹¹ More Jobs Better Jobs (2014)

¹² Upper Egypt Pathways to Shared Growth (2009)

9. Another factor hindering sustainable local development is the limited government to citizen interface at the governorate and district levels. The inclusion of citizens in local planning, budgeting and prioritization of public expenditures is very limited. This consultative function is assigned by the Local Administration Law (43/1979) to elected Local Popular Councils (LPC). These bodies were dissolved in June 2011¹³ and are currently non-existent. In the absence of a systematic approach for ensuring inclusion of and accountability to citizens, even if all other binding constraints are dealt with, the sustainability and impact of Government interventions are likely to remain very limited. This makes inclusion and accountability *sine qua non* of durable local development in Upper Egypt.

10. Acutely aware of these challenges, the Government program for the “Economic Development for Inclusive and Sustainable Growth in Upper Egypt” aims to strengthen local government institutions in Upper Egypt. GoE sees Egypt’s governorates as the locus for providing private sector friendly business environment; enhancing connectivity, infrastructure and service delivery to improve living conditions; and improving government to citizen (and business) interface and accountability. Such focus on Egypt’s governorates as key agents for growth is also enshrined in Egypt’s newly emerging body of law, including the 2014 Constitution and the ministerial decree No.122 (2015) for the “criteria and mechanisms of organizational development of the state administrative units.” GoE now wishes to start implementing these reforms on the ground.

11. To this end, World Bank Group (WBG) support to GoE’s program would aim to enhance the institutional environment in select Upper Egypt governorates in order to enable sustainable and private sector led local development in the region. Differently than most past interventions in the region which relied heavily on public sector driven growth and financed centrally identified large infrastructure investments, the proposed WBG financed Upper Egypt Local Development Program (UELDP) envisions strengthening institutional capacity of select Upper Egypt governorates so that (i) regulatory barriers to private sector investments are reduced; (ii) access to and quality of local infrastructure and service are enhanced; and, (iii) accountability of government and inclusion of citizens are strengthened. It is expected that through the combination of these factors, sustainable local development would be achieved, productive employment would be created, and, thus, entrenched poverty would be reduced.

Relationship to CAS/CPS

12. The proposed UELDP is faithful to WBG’s twin goals of reducing absolute poverty and boosting shared prosperity. It also fully embodies the first pillar of the WBG Strategy for Middle East and North Africa (MENA)¹⁴; “renewing the social contract,”¹⁵ which aims to enhance opportunities, quality services and citizen engagement across the MENA region. As mentioned above, UELDP aims to stimulate private sector led growth to create sustainable jobs; strengthen governorates, districts and service delivery institutions to deliver more efficient and

¹³ The issue of LPC elections will be discussed and planned, either following the existing Local Administration Law or under a newly drafted Local Administration Law.

¹⁴ Economic and Social Inclusion for Peace and Stability in the Middle East and North Africa: A New Strategy for the World Bank Group, 2015

¹⁵ WBG MENA Strategy, 2015, includes the following four pillars: 1. Renewing the Social Contract; 2. Regional Cooperation; 3. Resilience to IDP/Refugee Shocks; and, (iv) Recovery and Reconstruction.

effective services on the ground; and strengthen mechanisms for greater government accountability and citizen inclusion in one of the most lagging and poverty stricken regions of Egypt. These are all key mechanisms to ensure that a disadvantaged region of the country and which in the past has faced significant security concerns, is able to thrive and be included in the overall growth trajectory of the country.

13. The proposed Program’s focus on improving governance, opportunities for private sector job creation and social inclusion are top priorities for the WBG in Egypt, as identified in the WBG Country Partnership Framework (CPF) for Egypt for FY2015-19, which builds on the findings of WBG’s Systematic Country Diagnostic (SCD)¹⁶ for Egypt. All three focus areas are expected to help usher in a social contract built on greater citizen trust; inclusive and accountable service delivery; and a stronger private sector that can create jobs and opportunities for youth and women.

14. The UELDP speaks to the heart of both the SCD and the CPF, with its objectives and results cutting across all three pillars of the CPF. In that sense, the Program embodies the shift in WBG’s Egypt country strategy and program to engagements and initiatives that are strategic, long term, programmatic and responsive to the changed socioeconomic and institutional context of the country. UELDP’s development objectives of improving basic services and enabling economic development are consistent with focus areas (i), (ii) and (iii) of the CPF. In addition, its geographical focus on the poorest and most lagging parts of Upper Egypt is in line with SCD findings to address spatial inequalities.

II. Program Development Objective(s)

The Program Development Objective is to improve the enabling environment for private sector-led growth and strengthen local government capacity for service delivery, in select Upper Egypt Governorates.

III. Program Description

The Proposed PforR: Upper Egypt Local Development Program (UELDP)

15. The launch of the GoE program in two governorates, namely Qena and Sohag, will be supported by the UELDP, in the form of a PforR. The government program and UELDP represent an integrated approach to inducing economic development in Egypt’s lagging regions focused on relaxing the binding constraints to local development – namely better government to citizen and government to business services, connective infrastructure, and an institutional and regulatory environment conducive to private sector development. International experiences have demonstrated that integrated approaches can be critical to catalyzing development in environments where several constraints are binding and traction requires simultaneous improvements. As per good international practice, this approach will be rolled out to the rest of Upper Egypt gradually, based on lessons learnt and accommodating the challenges of individual

¹⁶ WBG, September 2015, <http://documents.worldbank.org/curated/en/2015/09/25096259/egypt-promoting-poverty-reduction-shared-prosperity-systematic-country-diagnostic>

governorates.

16. The choice of Sohag and Qena governorates is based on the following set of selection criteria: population size, poverty rates, geographic contiguity, economic potential, access to basic services and governorate readiness. The ten governorates in Upper Egypt were initially screened based on population size and poverty rates to ensure the biggest impact on poverty reduction. As shown in Table 1 below, Assiut, Sohag, and Qena governorates ranked highest against these criteria, with Sohag being adjacent to Qena and Assiut and meeting the geographic contiguity criterion. These three governorates were then assessed against indicators related to economic potential and local readiness, including access to services. Economic potential and access to service indicators are largely similar between these three governorates¹⁷. The overall structure of economic sectors also appears to be very similar within these three governorates.¹⁸ Although Assiut appears to have a slightly higher number of economic sectors in which there are concentrations of employment and has marginally better industrial infrastructure and support institutions than Qena (see Annex 2 detailed figures),¹⁹ the latter is part of the Government's Golden Triangle Megaproject, which presents a major opportunity to catalyze development in the governorate. Taking this into consideration, Qena was selected for this Program to allow for synergies between two development programs targeting the same geography. Thus, UELDP will support the implementation of the GoE program in Sohag and Qena, with a total population of nearly 7.75 million Egyptians.

17. The proposed PforR will improve the implementation of GoE program through incorporating lessons learnt from international experiences on lagging regions. These experiences point out that, firstly, lasting solutions to job creation and local economic development are associated with private-sector led economic growth that is facilitated by enabling public sector institutional and administrative reforms and interventions; and secondly, successful lagging regions programs are selective and targeted, without attempting to address all the development challenges of such regions. The proposed UELDP also integrates lessons learnt from and past and current interventions in Upper Egypt, all of which highlight the importance of sustainability of interventions and the significance of institutional reforms and capacity building, as well as emphasizes the need to leverage ongoing Upper Egypt related programs.²⁰ Finally, the

¹⁷ For example, the percentage of employment in firms with more than four workers roughly averages around 26 percent for all three governorates. Similarly, the indicator on access to sewerage indicates overall similar access to basic services. Although Assiut appears to have a slightly higher concentration of labor in medium size manufacturing firms than Qena and Sohag, it could be misleading to infer that any quantitative differences are statistically significant.

¹⁸ All three governorates have high concentrations of employment in wholesale and retail activities. For example, Qena and Assiut appear to be extremely similar in terms of the breakdown of economic activity in manufacturing, retail, and services, while Sohag has a higher concentration of employment in construction and manufacturing activities. Any differences between the governorates are slight and should be treated with care due to data limitations.

¹⁹ Including the existence of a GAFI One Stop Shop (GAFI OSS), an Industrial Modernization Center (IMC) branch, a vocational training center, and a university in Assiut.

²⁰ These include, but are not limited to the following efforts: 1.5 Million Feddan and Golden Triangle megaprojects; MoLD led local development promotion, local authority reform, decentralization, regulatory reform; MoTI led cluster development and industrial zone initiatives; WBG supported projects in Egypt: Second Integrated Sanitation and Sewerage Infrastructure, Inclusive Housing Finance, Healthcare Support, Strengthening Social Safety Nets, Emergency Employment Investment, EASE Project and Promoting Innovation for Inclusive Financial Access.

Program balances the need for rapid on-the-ground results at the onset of implementation, while also ensuring sustainability of reforms and institutional improvements, highlighting the need for ensuring that critical analyses and extensive consultations are conducted during preparation so that the Program is ready to move on both fronts as soon as it is approved.

18. Taking these into account, the proposed UELDP will comprise two key areas of focus: (i) competitiveness of economic sectors and (ii) subnational reforms for efficient and accountable governorates, and two crosscutting features: (i) participation, with a particular focus on youth, and (ii) ICT solutions platform for citizens and businesses, in helping implement the three pillars of the GoE program.²¹ In addition, UELDP will have an associated set of capacity building and technical assistance activities to help achieve the institutional reforms, as well as the annual performance assessments which will determine fund disbursements. The PforR will be coordinated jointly by the Local Administration Reform Unit (LARU) of Ministry of Local Development (MoLD), and Industrial Modernization Center (IMC) of the Ministry of Trade and Industry (MTI) at the national level and implemented by the Governorates of Qena and Sohag at the subnational level. The Program is expected to run for a period of five years from 2016 to 2021.

19. Detailed Program features will be determined, in consultation with all stakeholders including but not limited to; citizens, CSOs/NGOs in Qena and Sohag, private businesses and universities. Public consultation during the design and implementation of the Program will be a cardinal principle.

IV. Tentative financing

Source:		(\$m.)
Borrower/Recipient		
IBRD		500
IDA		
Others (specify)		
	Total	500

V. Contact point

World Bank Group

Contact: Mehmet Onur Ozlu

Title: Senior Economist

Tel: 202 458 8728

Email: oozlu@worldbank.org

Contact: Sherif Bahig Hamdy

Title: Senior Operations Officer

Tel: 20-2-2461-4374

²¹ (i) Promoting economic development and private sector investment; (ii) improving basic services delivery, and (iii) strengthening subnational institutions and promoting community participation.

Email: SHamdy@ifc.org

Borrower/Client/Recipient

Contact: Government of Egypt - Mr. Hisham El Halbawy

Title: Ministry of Local Development (MOLD)

Contact: Ministry of Trade and Industry - Mr. Ahmed Taha

Title: Chief Executive Officer, IMC

VI. For more information contact:

The InfoShop

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 458-4500

Fax: (202) 522-1500

Web: <http://www.worldbank.org/infoshop>