



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

---

Appraisal Stage | Date Prepared/Updated: 24-Jan-2019 | Report No: PIDISDSC23630



**BASIC INFORMATION**

**A. Basic Project Data**

Country Egypt, Arab Republic of	Project ID P162835	Project Name Catalyzing Entrepreneurship for Job Creation	Parent Project ID (if any)
Region MIDDLE EAST AND NORTH AFRICA	Estimated Appraisal Date 15-Jan-2019	Estimated Board Date 29-Mar-2019	Practice Area (Lead) Finance, Competitiveness and Innovation
Financing Instrument Investment Project Financing	Borrower(s) Arab Republic of Egypt	Implementing Agency Micro, Small, Medium Enterprise Development Agency - MSMEDA	

Proposed Development Objective(s)

The project development objective is to foster job creation and improve other economic opportunities for targeted beneficiaries

Components

- I - Financial Support to Income Generating MSMEs
- II - Risk Capital for Innovative Startups and High Growth SMEs
- III - Business and Capacity Development

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

**SUMMARY**

<b>Total Project Cost</b>	200.00
<b>Total Financing</b>	200.00
<b>of which IBRD/IDA</b>	200.00
<b>Financing Gap</b>	0.00

**DETAILS**

**World Bank Group Financing**

International Bank for Reconstruction and Development (IBRD)	200.00
--	--------



Environmental Assessment Category

F-Financial Intermediary Assessment

Decision

The review did authorize the team to appraise and negotiate

---

**Note to Task Teams:** End of system generated content, document is editable from here. *Please delete this note when finalizing the document.*

Other Decision (as needed)

## **B. Introduction and Context**



## A. Country Context

**Egypt's economic reform program is showing early signs of success, as economic growth rebounds, inflation falls, and fiscal consolidation efforts remain on track to bring public debt back to sustainable levels.** The Government of Egypt (GoE) has implemented major reforms, such as the move to a flexible exchange rate in November 2016, to bring about macroeconomic stability, improve the climate for the private sector and to enhance competitiveness. Real GDP grew at 5.3 percent in FY18, compared to 4.2 percent in FY17; and inflation reached 16 percent in September 2018, down from a high of 33 percent in July 2017. The last three years of government expenditure reforms (to curb significant fiscal outlays for energy subsidies and the wage bill) and revenue measures (the introduction of Value-Added Tax (VAT) extended to the services sector), pave the way for a sustained macroeconomic adjustment and downward debt trajectory. Government debt has come down to just below 99 percent of GDP in end-FY18. The external accounts are improving, supported by the liberalized exchange rate, a narrowing current account deficit and a surge in capital inflows in the form of sovereign bond issuances and loans from international financial institutions. Net international reserves reached a record high of US\$44.5 billion in end-September 2018, (8.5 months of FY19 merchandise imports). However, the recent turmoil in emerging markets and a spike in global oil prices are exerting pressure on Egypt's external and fiscal accounts for the medium term. These reforms have been widely endorsed, including by the World Bank's programmatic Development Policy Financing and the IMF's 3-year Extended Fund Facility. Egypt's sovereign credit outlook has thus been upgraded to 'positive' by rating agencies S&P, Moody's and Fitch.

**The development of a private sector-led economy requires further efforts to alleviate key binding constraints.** The GoE has also implemented structural reforms that include a new industrial licensing law and an investment law, as well as updating the companies law and introducing legislation to cover bankruptcy all which have laid the ground work for a private sector response to the new macroeconomic conditions. Access to finance and land, as well as the lack of a level-playing field remain key impediments to private sector activity. Thus, the implementation and proper implementation of the newly adopted legislative reforms are imperative to enhance the business environment and ensure fair competition and equal-opportunity for all market players.

**Social conditions remain difficult.** High inflation over the course of FY17 and FY18 has taken a toll on social and economic conditions due to the erosion of real incomes. Poverty rates based on national estimates indicate that about a third of the population were below the poverty line in 2015. Regional disparities endure, rural Upper Egypt lags behind other regions, with poverty rates reaching as high as 60 percent in some governorates. The government's efforts to scale up social protection measures including through higher allocations on food smart cards and targeted cash transfer programs have been key in partly mitigating the short-term negative effects. Yet, these need to be complemented with efforts to improve targeting and widen coverage, also in addition to enhancing public service delivery.

**To ensure that the economic reforms have a positive impact on citizens, Egypt needs the private sector to create new jobs, particularly in the formal labor market, notably jobs for women and youth.** While recent data shows some downward movements in the unemployment rate (from a high of 13.4% in FY14 to 10.9% in FY18) this improvement partially reflected a decline in labor force participation rather than pure job creation, as the unemployed (mostly youth) exited the labor force. At the same time, youth and female unemployment remain high at 30 percent and 22 percent. Private investment is historically low in Egypt compared to other countries in the region, and globally compared to countries at similar levels of development. The private sector investment as a share of GDP constituted only 11.4 percent over the period 2000-2016, which is approximately 7 percent lower than in other emerging economies, and the recent uptick in investment since 2016 has been driven by public investments. Furthermore, jobs have been increasingly informal: between



1998 and 2018, informal private sector employment increased from 31 percent to 76 percent of the total.

**There are several constraints to private sector growth: finance and land access, competitiveness and an equal playing field.** Access to finance was cited as a top business constraint by 13 percent of firms in 2016, up from 10 percent of firms in 2013. Finance, particularly for MSMEs and start-ups, is predominantly debt financing with channels through the banking and non-banking sectors – with a majority of bank financing. To be fully effective, financing for entrepreneurs requires various mechanisms to open-up, and effective provision of equity finance through capital markets, venture capital, and private equity. In addition, access to land is essential to run and manage a business, and yet more than 90 percent of land is owned by the government, furthermore land registration processes have not been modernized. The share of firms reporting access to land as a major constraint increased from 11 percent in 2013 to 16 percent in 2016.<sup>1</sup> While the exchange rate adjustment has had a significant and positive impact on competitiveness in the last two years, and both exports and tourism have responded well, structural reforms will be required to reduce non-tariff barriers and improve the trade and transport logistics performance. The Egyptian Competition Authority (ECA) has been established – new reforms that are underway to strengthen its autonomy would enhance its effectiveness further.

#### B. Sectoral and Institutional Context

**The GoE has launched a set of legislative and institutional reforms that foster an improved environment for the business sector, especially for smaller enterprises, focusing on the demand-side constraints.**<sup>2</sup> Recognizing that new job creation is likely to come from new firms and the growth of smaller enterprises, the government has taken measures such as: i) creating a formal registry for movable assets to be used as collateral, to overcome constraints especially for smaller enterprises, and women and youth entrepreneurs who do not own/cannot own land or have access to traditional collateral; ii) amending the companies' law to allow single person companies to be formally incorporated and to strengthen protection for minority shareholders; iii) issuing a new Investment Law to encourage new inward investments; iv) introducing a new Bankruptcy Law which de-criminalizes bankruptcy, simplifies the procedures and minimizes the need for companies or individuals to resort to the courts; and (iv) the establishment of a one-stop shop and on-line services to start a business, and offering dedicated services for women entrepreneurs

**At the same time, there is a renewed impetus behind the reform of the education sector with a focus on acquiring skills for the jobs of the future.** Compared to other lower middle-income countries, access to education in Egypt is high, and subsequent generations are going on to acquire higher levels of education than their parents. However, children are not acquiring the knowledge and learning skills that they need to prepare them for the jobs of the future, and the government is committed to a reform of the education sector to capitalize on new technology to advance both the management of the sector and the approach to learning in the classroom.

**Yet even with reforms in both the demand- and the supply-side of the labor market, informality is widespread across income groups. Even fifty percent of the middle class are employed in the informal sector.** While supply-side challenges are dominant in some geographic regions, mainly in Upper Egypt, where low skills are a constraint to employment, it is demand-side problems which dominate in most governorates. They arise from low job creation or a shortage of formal employment opportunities outside the public sector. There is also a gender dimension to accessing quality jobs. The task content of private sector jobs in the labor market is skewed toward manual and physical work, and this has been increasing over time, as a result the average job is not conducive to female labor force participation and employment. New jobs in new markets are also required to generate additional employment options for women.

**To foster a stronger private sector response to the improved business environment, the government has offered a number of entrepreneurship support programs, as well as, launched various initiatives to build entrepreneurial skills – particularly given the needs for women and youth.** Among the different programs and initiatives, the latest was Egypt Ventures established to develop the Egyptian entrepreneurial ecosystem, increase deal-flow from startups to

<sup>1</sup> Enterprise Survey Data, 2013 and 2016

<sup>2</sup> World Bank. 2017. "Women Entrepreneurship in Egypt: High growth potential start-up report".



scaleups, as well as support the development of new and existing accelerators and venture capital firms. The government also launched the Fekretak Sherketak (your idea, your company) initiative which provides financial and technical support to entrepreneurs all over Egypt. In Egypt, over a third of entrepreneurs remain driven by opportunity, which means that they have started a business due to the absence of other work alternatives; higher than the global average of 23.2 percent. In terms of age distribution, there is a noticeable increase in the percentage of youth that decide to open their own business, especially those in the age range 18-24 years. This growth in youth entrepreneurship could be attributed to the higher rate of necessity entrepreneurs driven by the unemployment rate. In terms of gender, one in four entrepreneurs is a woman, and one in six established business owners is a woman. The trend has been a decline, 25 percent of early stage entrepreneurs were women in 2015 compared to 32 percent in 2010. Furthermore, women-led businesses have a lower probability of continuation compared to men-led businesses, although women entrepreneurs tend to make higher returns than their male counterparts.

**Globally, small and medium-sized, and young firms are associated with high growth and job creation, and significant investments have been made in Egypt to build a dynamic ecosystem to encourage high-growth firm development, an ecosystem that is still under development.** Several private sector stakeholders and development partners (including MEPI, Endeavor, Rise Up, Flat6Labs, the EU, UK and US) have invested in creating a pipeline of startups in the ideation and early stages of development. These initiatives resulted in the establishment of the Technology Innovation and Entrepreneurship Center (TIEC); the first private start-up accelerator Flat6Labs in 2011; and the launch of The Greek Campus, which has become the de facto hub for entrepreneurship and innovation activities in Cairo. Rise Up was founded in 2013, attracting key stakeholders of the entrepreneurial ecosystem including local, regional, and global entrepreneurs, angel investors, venture capitalists, entrepreneurship advocates, and support organizations to an annual global entrepreneurship summit that had the snowball effect of triggering similar events in other governorates, including Alexandria and Asyut. However, there is still a gap in supporting early stage startups as they move to the next level, resulting in startups losing their growth momentum and getting locked-in at relatively low revenue levels. As a result, a large proportion of start-ups and young companies do not manage to reach a more developed stage and exit the market quickly. According to the 2016/17 Global Entrepreneurship Monitor (GEM) Report, the rate of discontinued start-ups and businesses in Egypt is around 7.3 percent, compared to a global rate of 3 percent, where Egypt ranked 4th out of 65 countries. Among the top three reasons for business discontinuation in Egypt was problems getting financing (11.7 percent of cases).

**There has been an innovation focus to the government's entrepreneurship activities.** Efforts have been made by the Ministry of Communication and Information Technology (MCIT) in the entrepreneurship space as well, specifically through The Information Technology Industry Development Agency (ITIDA). ITIDA is a public-private partnership between MCIT and the private sector dedicated to developing IT in Egypt and providing capacity building activities. MCIT also promotes the Technology Innovation and Entrepreneurship Center (TIEC) which aims to promote innovation and entrepreneurship in Information and Communication Technology (ICT). Several programs were launched under TIEC such as: (i) the Startup Support Program ; (ii) the Entrepreneurship Accelerator (TEA); and (iii) the Egypt Internet of Things (IoT) League . As part of the Egyptian government's efforts to support innovative young entrepreneurs and provide them with tools to develop their potentials and enhancing their chances of competing in the global markets, MCIT and MIIC signed a cooperation protocol aimed at creating a supportive environment for entrepreneurship; developing innovative young people's capabilities; attracting international investments in ICTs; stimulating investment for startups; and promoting technological innovations that help integrate and empower People with Disabilities.

**While the problem of limited access to finance for entrepreneurs is widespread, it is more acute for female and youth-led enterprises, who also face more challenges in accessing business development services.** The World Bank FINDEX 2017 survey finds that only 27 percent of females aged 15 years and above had an account with a financial institution, compared to 57 percent of males. In addition, only 14 percent of Egyptians aged 15 to 24 years had an account with a financial institution in 2017, compared to 23 percent in Tunisia, 25 percent in Jordan, and an average of 34 percent



in the MENA region. In Egypt, the majority of women-owned businesses are concentrated in rural areas in the agricultural sector and wholesale retail trade, and their entrepreneurial activities in high growth sectors is very limited. . The main constraints women and youth face are: restrictive collateral requirements and inadequate loan sizes and terms. In addition, women and youth tend to lack awareness and understanding of available financing mechanisms. In the case of start-ups, entrepreneurs identify lack of investors and shortage of funding at all the stages of the start-up financing lifecycle as one of the main constraints. In the case of women and youth entrepreneurs, this is aggravated by two factors: i) women and youth have lower access to networks of investors compared to men; and ii) investors perceive women and youth led enterprises as riskier than other investments. Investors have expressed a preference to work with men rather than women, and young entrepreneurs are perceived as high risk due to lack of business experience.

**Support to women entrepreneurs (business development services) is not yet yielding the expected impact and would benefit from a more structured and systematic approach.** According to the Women Entrepreneurship Development Assessment, although there are various NGOs providing mainstream business development services, the geographical reach, depth of services and quality of interventions are reported to be low. These factors, together with lack of convenient scheduling options and affordability of services cause women’s take-up of mainstream business development programs to be very low in Egypt. Women entrepreneurs in ILO focus groups confirm that they are not aware of such services and only 8.5 percent have ever attended a training program for women, and only 5 percent have received business counselling or mentoring targeting women entrepreneurs. According to the ILO’s Women Entrepreneurs Survey results, 56 per cent of respondents obtain most of their information on business related matters from family, friends and neighbors. Similarly, young entrepreneurs also have difficulty getting information on business development, marketing, sales, management and operations, all vital for their businesses to survive and grow.

#### Relationship to CPF

**The operation contributes to implementation of the World Bank Group’s Strategy for Middle East and North Africa, and directly supports strategic pillars related to renewing the social contract pillar and supporting economic recovery, and it is aligned with the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity in a sustainable manner.** The project contributes to an inclusive growth strategy, by unlocking finance and business development constraints to entrepreneurs enabling them to start-up, grow and go on to create new economic opportunities and jobs. With specific targets for those typically excluded, the project will also focus on inclusion of women and youth. The proposed operation is fully aligned with the IFC regional priorities, which include small and medium-sized enterprises, gender and youth employability, with the objective of supporting the region’s private sector, helping to create jobs and drive sustainable growth.

**The operation is closely linked to the Systematic Country Diagnostic (SCD), and the Country Partnership Framework (CPF) for Egypt for 2015-2019.** Focus Area 2 of the CPF is to improve opportunities for private sector job creation, and objective 2.5 of the CPF is “*enhanced access to finance for MSMEs*”. The proposed operation also addresses the gender gap and jobs cross-cutting themes of the CPF.

### C. Proposed Development Objective(s)

#### Development Objective(s) (From PAD)

The project development objective is to foster job creation and improve other economic opportunities for targeted beneficiaries



## D. Project Description

The project is a Financial Intermediary Loan (FIL), amounting to US\$ 200 million that will be channeled through the MSMEDA—the apex institution, which is mandated to lead and coordinate the MSE development sector in Egypt. MSMEDA would then on-lend to financial intermediaries that would ultimately reach the end beneficiaries, namely MSEs, as well as start-ups. Numerous innovative mechanisms will be tapped on to enhance access to finance through offering financial products for MSEs (financial leasing, debt and equity); designing products that would mitigate the hurdles faced by some enterprises (special products for women); expanding outreach to all segments of the population; and providing non-financial support to ensure capacity building, business development services and deal flow activities. All this will contribute to improving financial intermediation, enhancing access to finance for different segments of the society, which will ultimately contribute to the creation of sustainable private sector jobs.

### Component 1 – Financial Support to Income Generating MSMEs (\$148.5 million)

**This component will provide debt financing for entrepreneurs through financial intermediaries, with a focus on firms as end-beneficiaries that can generate jobs; and specific targets for the share of financing for women- and youth-led MSMEs and first-time borrowers.** This component aims to address access to debt financing gaps amongst MSMEs in Egypt, noting that a majority of MSMEs feel more financially constrained since the revolution (the share of MSME loans to total loans decreased from 5% to 3% between 2010 and 2013) and only 5% of small firms have access to formal financial credit.<sup>3</sup> The microfinance market is currently reaching only 25% of its potential market.<sup>4</sup>

### Component 2 – Risk capital for innovative Startups and high growth SMEs (\$47.5 million)

**The objective of this activity is to increase the supply of seed, early stage and venture capital going to innovative startups and young SMEs with high potential for growth and job creation.** Funding under this component will be provided as equity, and quasi equity (Venture debt, mezzanine) to startups and SMEs through capital made in risk capital intermediaries (RCI) such as Angel funds, Accelerators, VC funds and investment companies that meet the criteria (this includes capacity, track record, and investment strategy).

### Component 3 – Business and Capacity Development (\$4.0 million)

**This component will cover all non-financial support to ensure that there is capacity built within the implementing agency, particularly to manage component 2; and to provide specific support to generate deal flow for the equity component.** The component will build awareness of the program among start-ups and stimulate business development services in partnership with other development partners. This activity will bring out good business ideas through competitions and rigorous acceleration programs and help mitigate the elevated risk of failure, typically experienced by startups due to lack of experience in management, marketing and navigating through legal requirements. To this end, the component will also work on improving the quality of mentors and mentorship services in general. This component will include activities to attract potential entrepreneurs, such as training and business plan competitions.

## E. Implementation

<sup>3</sup> Per 2017 Investment Climate Assessment Data

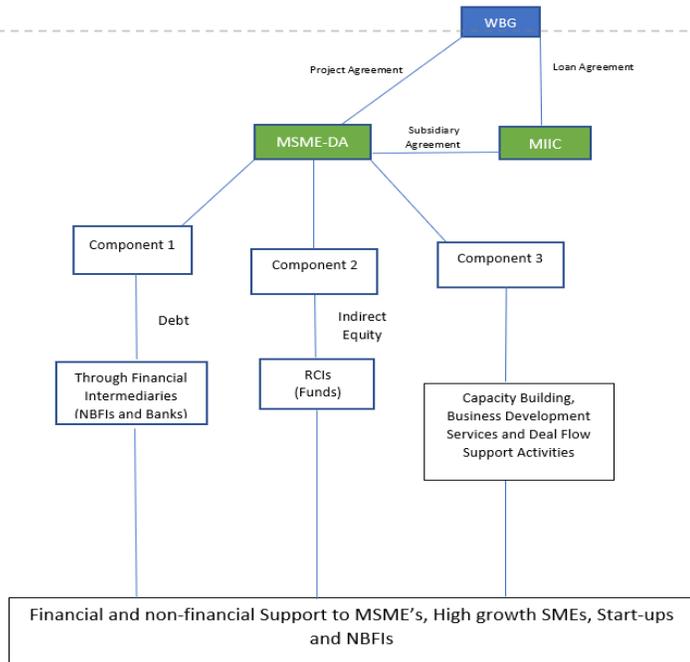
<sup>4</sup> According to a 2017 World Bank market assessment.



## Institutional and Implementation Arrangements

- 1. The Ministry of Investment and International Cooperation (MIIC)** will sign the Loan Agreement (LA) and receive the World Bank loan on behalf of the Government of Egypt (GoE), who will be responsible for repayment of the loan to the World Bank.
- 2. The World Bank** will sign a Project Agreement (PA) with MSMEDA as the entity responsible for implementing the project in accordance with the LA and project operations manual (POM).
- 3. MIIC** will sign a Subsidiary Agreement (SA) with MSMEDA as the implementing agency.
- 4. For component 1**, decision-making and involvement in review and selection of beneficiaries will be the responsibility of MSMEDA staff with the relevant expertise and skill set. Accountability issues and other details will be laid out in the Project Operations Manual.
- 5. For component 2**, decision-making and involvement in review and selection of equity investments will be the sole responsibility of the Investment Committee (having majority representatives from the private sector, to be designated by the MSMEDA Board. A set of boundaries to the decision-making process to address accountability issues will be laid out in the Operations Manual.
- 6. The World Bank loan repayment is not dependent on the returns and closure of the Fund.** The government is liable to repay the World Bank loan in accordance to the terms in the Loan agreement.
- 7. MSMEDA will be responsible for project management and implementation, as well as reporting back to MIIC and the World Bank.** All expenses for the operation's project management will be funded under Component 3. The project team at MSMEDA will be responsible for the following: (i) Overall project management; (ii) Coordination; (iii) M&E of outcomes and results; (iv) Procurement and implementation support; (v) Financial management; (vi) Ensuring gender focus in implementation.

**Figure 3: Implementation Arrangement and Flow of Funds**



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

Funding will be available to potential start-up companies throughout Egypt. However, it is expected that most small and medium enterprises (SMEs) will be based in Cairo or other major cities.

**G. Environmental and Social Safeguards Specialists on the Team**

Amer Abdulwahab Ali Al-Ghorbany, Environmental Specialist  
Fawah Ngeniform Akwo, Social Specialist

**SAFEGUARD POLICIES THAT MIGHT APPLY**

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	This project is classified as category FI (Financial Intermediary) according to OP 4.01 on Environmental Assessment. This project will support the following interventions: a) start-ups and high-growth potential SMEs e.g. renewable energy, pharmaceuticals, agri-business, b) interventions in the services, trade or technology spheres, c) leasing



activities, in which the project will focus mostly on financing vehicles, machinery, medical equipment and equipment for production lines. The environmental impacts of these interventions are expected to be limited, site-specific and reversible. To ensure that the project's interventions are compliant with the relevant requirements of the national policies and legislations as well as the World Bank relevant operational policies and procedures; and to ensure that any potential negative environmental or social impact would be properly mitigated, an Environmental and Social Management Framework (ESMF) is being prepared and will be consulted on by the borrower, and reviewed and cleared by the Bank. The ESMF will include an assessment of the institutional capacity of MSMEDA and using the existing Environmental and Social Management System (ESMS), the ESMF will detail the procedures for screening, assessing, managing, and monitoring the environmental and social risks and impacts of subprojects. The ESMF will provide an overall framework for the operation and will include a screening process to exclude any subprojects that might cause significant environmental impacts i.e. category A. The ESMF - including the consultation report- will be disclosed in the country and on the World Bank external website. Hard copies of the ESMF and subsequent Environmental Assessment studies will be made available to PAPs in MSMEDA, its branches and MFIs offices.

The Environment Unit of the MSMEDA will be responsible for implementing the ESMF. As part of the former SFD, the Environment Unit has years of experience in implementing and monitoring World Bank-funded projects including FIs; a robust environmental safeguards management system with well-established procedures is in place and will be used for subproject's screening, categorization, monitoring and reporting. MSMEDA safeguards institutional arrangements include a central Environment Unit with qualified environmental and social specialists and trained Environmental Focal Points (EFPs) in 33 SFD branches at governorate/local level.



For component 1, decision-making and involvement in review and selection of equity investments in NBFIs will be the responsibility of MSMEDA staff with the relevant expertise and skill set. Where MSMEDA has direct equity in high growth SMEs and startups, MSMEDA will directly implement the ESMF. In cases (under component 1) where equity is through NBFIs or risk capital intermediaries, accelerators and incubators, MSMEDA will ensure that all intermediaries in turn implement the ESMF through contractual agreements. For component 2, decision-making and involvement in review and selection of equity investments will be the sole responsibility of the Investment Committee (having majority representatives from the private sector, MSMEDA, MIIC, MCIT), to be designated to it by the MSMEDA Board. A set of boundaries to the decision-making process to address accountability issues as well as ESMF implementation will be agreed upon and laid out in the Operations Manual (OM). Also to promote transparency and social accountability, the OM will define principles and procedures for a project-level grievance redress mechanism (GRM) which will be highly publicized and made accessible by MSMEDA in order to receive and process information requests, complaints, and feedback pertaining to the project.

Furthermore, the Project will benefit from the existing modern and efficient MIS available at MSMEDA which has been put in place for on-line reporting on the compliance with environmental safeguards measures at governorate/local level. As the MIS was mainly used for monitoring infrastructure type of subprojects, this system will be upgraded to include reporting on the compliance of MSEs that will be supported under this Project, as well as reporting on the GRM, including sub-project level GRMs. The capacity of the Environment Unit, the EFPs, and social specialists will further be enhanced under the Project in terms of monitoring and reporting on MSMEs and project activities.

Performance Standards for Private Sector Activities OP/BP 4.03	No	Does not apply
Natural Habitats OP/BP 4.04	No	The project will not finance any interventions which might have impacts on natural habitats.



Forests OP/BP 4.36	No	The project will not finance any interventions which might have impacts forest or forested land.
Pest Management OP 4.09	No	The project does not promote or support the use or purchase of any kind of pesticides.
Physical Cultural Resources OP/BP 4.11	No	The project’s activities are not expected to be implemented in any area that includes physical cultural resources. A procedure will be included in the ESMF for any “chance find”.
Indigenous Peoples OP/BP 4.10	No	No indigenous people are likely to be present in, or have collective attachment to, areas where the project activities are located. MSMEDA will have the responsibility of screening investments under the ESMF to ensure that funded activities do not adversely affect indigenous peoples.
Involuntary Resettlement OP/BP 4.12	No	Project-financed activities are not expected to involve any works that would require land acquisition. MSMEDA will screen investments under the ESMF to ensure that any sub-activities involving land acquisition or involuntary resettlement are ineligible for financing.
Safety of Dams OP/BP 4.37	No	The project will not support any interventions related to new or existing dams.
Projects on International Waterways OP/BP 7.50	No	The project will have no impact on international waterway as defined by OP/BP 7.50
Projects in Disputed Areas OP/BP 7.60	No	OP 7.60 is not triggered as there are no known disputes over the project area.

**KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT**

**A. Summary of Key Safeguard Issues**

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

This project is classified as category FI (Financial Intermediary) according to OP 4.01 on Environmental Assessment. This project will support the following interventions under components 1 and 2: a) start-ups and high-growth potential SMEs e.g. renewable energy, pharmaceuticals, agro-business, b) interventions in the services, trade or technology spheres, c) leasing activities, in which the project will focus mostly on financing vehicles, machinery, medical equipment and equipment for production lines. The environmental impacts of these interventions are expected to be limited, site-specific and reversible. No large scale, significant or irreversible impacts are anticipated under this project.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area: There are no potential indirect or long term impacts anticipated under this project in the project area.



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

N/A

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

Environment:

The Environment Unit of the MSMEDA will be responsible for implementing the ESMF. As part of the former SFD, the Environment Unit has years of experience in implementing and monitoring World Bank-funded projects including FIs; a robust environmental safeguards management system with well-established procedures is in place and will be used for subproject's screening, categorization, monitoring and reporting. MSMEDA safeguards institutional arrangements include a central Environment Unit with qualified environmental and social specialists and trained Environmental Focal Points (EFPs) in 33 SFD branches at governorate/local level. The Project will benefit from the existing modern and efficient MIS which has been put in place for on-line reporting on the compliance with environmental safeguards measures at governorate/local level. As the MIS was mainly used for monitoring infrastructure type of subprojects, this system should be upgraded to include reporting on the compliance of MSEs that will be supported under this Project, as well as reporting on the GRMs. The capacity of the Environment Unit and the EFPs should be further enhanced under the Project in terms of monitoring and reporting on MSMEs.

To ensure that the project's interventions are compliant with the relevant requirements of the national policies and legislations as well as the World Bank relevant operational policies and procedures; and to ensure that any potential negative environmental or social impact would be properly mitigated, an Environmental and Social Management Framework (ESMF) is being prepared and will be consulted on by the borrower, and reviewed and cleared by the Bank. The ESMF will include an assessment of the institutional capacity of the MSMEDA and using the existing Environmental and Social Management System (ESMS), the ESMF will detail the procedures for screening, assessing, managing, and monitoring the environmental and social risks and impacts of subprojects. The ESMF will provide an overall framework for the operation and will include a screening process to exclude any subprojects that might cause significant environmental impacts i.e. category A. The ESMF -including the consultation report- will be disclosed in the country and on the World Bank external website. Hard copies of the ESMF and subsequent Environmental Assessment studies will be made available to PAPs in MSMEDA, its branches and MFIs offices. As some PFIs might be supporting high risk activities (not under the project), PFIs through MSMEDA will be required to clearly ring-fence activities supported under this project and 'separate' them in terms of processing from other activities that are not supported by the project.

The Bank will assist MSMEDA in fulfilling its oversight/ monitoring role, and in particular: (i) review of the project's Environmental and Social Policy and Procedures and, on a sample basis, screening lists, categorization and clauses prepared by MSMEDA for PFIs for consistency with ESMF requirements; (ii) review annual consolidated E&S Performance Reports submitted by MSMEDA on the E&S performance of both PFIs and sub-projects; (iii) provide non-objection to MSMEDA's clearance of the site-specific ES plans and any other relevant E&S plans (v) conduct supervision activities at all levels to supervise the project's compliance with ESMF & ESMS requirements, including monitoring and reporting, and provide requisite implementation support to MSMEDA and PFIs. Regular reports on the implementation of and compliance with the ESMF/ESMS will be provided as part of the progress reporting. Separate reporting on environmental and social safeguards may be requested on an ad hoc basis as needed.

Social: As noted above, the ESMF under preparation will outline a list of ineligible sub-activities for financing, a screening mechanism, and the necessary mitigation and monitoring measures that will be included in the POM and



subsequently undertaken to handle potential social and environmental risks. MSMEDA will be responsible for screening investments in MSMEs and startups in accordance with the ESMF. The screening will ensure that funded activities will not involve land acquisition, involuntary resettlement or affect indigenous peoples. Screening will further ensure that activities that might involve elevated labor influx and related gender-based violence risks are excluded. GBV risks are to be assessed leveraging the Bank Guidelines on GBV Risk Assessment, Prevention, and Response. The ESMF will further outline a framework, including adopting codes of conduct and undertaking training on these for MSMEDA and PFI staff, in order to ensure a safe workplace and skills development environment (particularly for business development services anticipated in Component 3) that assures fair and respectful treatment for all, with particular sensitivity to protecting women staff and MSME entrepreneurs from various forms of GBV.

The project components and particularly BDS interventions will build on the ongoing needs assessments for evaluating gaps in hard and soft entrepreneurial skills, contributing to a citizen-oriented approach. The assessments put emphasis on identifying common constraints as well as identifying specific needs of women and youth entrepreneurs to ensure tailored solutions in project design. Feedback on the business development activities will be obtained from beneficiaries on a regular basis and will be used to iteratively improve the activities over the project period. These efforts will be complemented by a catch-all grievance redress mechanism (GRM) at MSMEDA, for which a protocol will be set out in the POM, and which will lay out clear procedures and resources—leveraging the Bank Guidelines on GBV Risk Assessment, Prevention, and Response—in the event of complaints involving or related to gender-based violence. PFI ESMS' are to follow a similar framework under the ESMP. Following the ESMF, each financial intermediary will also be required to ensure the development of GRMs at the sub-project level. Coordination between GRMs at MSMEDA and those at the various FI levels will be outlined in the POM, leveraging the MSMEDA MIS for monitoring and reporting on compliance. Each GRM will emphasize a closed-loop feedback mechanism that is widely advertised and accessible to women and youth MSMEs, underlining issues such as equitable access to funds, fair and respectful treatment, protection from GBV, issues around inclusion (e.g., elite capture, exclusion of targeted or vulnerable groups), management of funds, etc. Various feedback channels will be leveraged to improve accessibility of the system, including in-person, through NGOs, hotlines, the MSMEDA MIS, social media, and other ICT-enabled mechanisms as applicable.

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

MSMEDA's Environmental Unit will be responsible for implementing the ESMF, and will retain trained Social Focal Points to assure monitoring of social issues. Particularly for Business Development Services anticipated under Component 3, as well as debt and equity financing supported via Component 1 and 2, MSMEDA's POM will outline a communications and outreach strategy for reaching the most vulnerable groups, as well as for fostering transparency and accessibility of the funding application process for participating financial intermediaries. Communication campaigns for the project will be designed with gender and family sensitive considerations to promote participation and engagement of women and youth MSMEs. Demand-side BDS activities including training, mentoring, and capacity-building for MSMEs will also incorporate measures for promoting inclusion and participation of vulnerable groups (e.g. ease of access and transport to training sites, flexible event timing and hours, childcare options), all to be elaborated in the POM.



**B. Disclosure Requirements**

**Environmental Assessment/Audit/Management Plan/Other**

Date of receipt by the Bank  08-Nov-2018	Date of submission for disclosure  12-Nov-2018	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
--	--	--

**"In country" Disclosure**

Egypt, Arab Republic of  
12-Nov-2018

Comments

**C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)**

**OP/BP/GP 4.01 - Environment Assessment**

Does the project require a stand-alone EA (including EMP) report?

Yes

If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?

Are the cost and the accountabilities for the EMP incorporated in the credit/loan?

Yes

**The World Bank Policy on Disclosure of Information**

Have relevant safeguard policies documents been sent to the World Bank for disclosure?

Yes

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?

Yes



### All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?

Yes

Have costs related to safeguard policy measures been included in the project cost?

Yes

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?

Yes

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?

Yes

### CONTACT POINT

#### World Bank

Laila Ashraf AbdelKader Ahmed  
Financial Sector Specialist

Lucero Del Carmen Burga Bravo De Rueda  
Economist

#### Borrower/Client/Recipient

Arab Republic of Egypt  
Shehab Marzban  
Senior Advisor to the Minister  
smarzban@miic.gov.eg

#### Implementing Agencies

Micro, Small, Medium Enterprise Development Agency - MSMEDA  
Nevine Gamea  
Head  
ngamea@sfdegypt.org



**FOR MORE INFORMATION CONTACT**

The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
Telephone: (202) 473-1000  
Web: <http://www.worldbank.org/projects>

**APPROVAL**

Task Team Leader(s):	Laila Ashraf AbdelKader Ahmed Lucero Del Carmen Burga Bravo De Rueda
----------------------	---

**Approved By**

Safeguards Advisor:	Brandon Enrique Carter	25-Nov-2018
Practice Manager/Manager:	Jean Denis Pesme	25-Nov-2018
Country Director:	Poonam Gupta	24-Jan-2019