INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON

A PROPOSED LOAN

IN THE AMOUNT OF US$300 MILLION

TO THE

ARAB REPUBLIC OF EGYPT

FOR A

PROMOTING INNOVATION FOR INCLUSIVE FINANCIAL ACCESS PROJECT

March 6, 2014

Finance and Private Sector Development Group
Egypt, Djibouti, Yemen Country Department
Middle East and North Africa Region

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THE ARAB REPUBLIC OF EGYPT

Currency and Equivalent
Unit of Currency = Egyptian Pound (LE)
US$1 = LE 6.96 (As of February 12, 2014)

Fiscal Year
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>AfDB</td>
<td>African Development Bank</td>
</tr>
<tr>
<td>AFSED</td>
<td>Arab Fund for Economic and Social Development</td>
</tr>
<tr>
<td>CAS</td>
<td>Country Assistance Strategy</td>
</tr>
<tr>
<td>CBE</td>
<td>Central Bank of Egypt</td>
</tr>
<tr>
<td>CGAP</td>
<td>Consultative Group to Assist the Poor</td>
</tr>
<tr>
<td>DA</td>
<td>Designated Account</td>
</tr>
<tr>
<td>DFATD</td>
<td>Department of Foreign Affairs, Trade, and Development</td>
</tr>
<tr>
<td>DPL</td>
<td>Development Policy Loan</td>
</tr>
<tr>
<td>EBI</td>
<td>Egyptian Banking Institute</td>
</tr>
<tr>
<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>EFSA</td>
<td>Egyptian Financial Supervisory Authority</td>
</tr>
<tr>
<td>EMP</td>
<td>Environmental and Social Management Framework</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
</tr>
<tr>
<td>FIRST</td>
<td>Financial Sector Reform and Strengthening</td>
</tr>
<tr>
<td>FM</td>
<td>Financial Management</td>
</tr>
<tr>
<td>FMS</td>
<td>Financial Management System</td>
</tr>
<tr>
<td>FY</td>
<td>Fiscal Year</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GIRAFE</td>
<td>Governance, Information, Risk Management, Activities, Funding and Liquidity, Efficiency and Profitability</td>
</tr>
<tr>
<td>HQ</td>
<td>Headquarters</td>
</tr>
<tr>
<td>IA</td>
<td>Internal Audit</td>
</tr>
<tr>
<td>IAD</td>
<td>Internal Audit Department</td>
</tr>
<tr>
<td>ICA</td>
<td>Investment Climate Assessment</td>
</tr>
<tr>
<td>ICS</td>
<td>Investment Climate Survey</td>
</tr>
<tr>
<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>IEG</td>
<td>Independent Evaluation Group</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation</td>
</tr>
<tr>
<td>IFR</td>
<td>Interim Financial Report</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>JICA</td>
<td>Japan International Cooperation Agency</td>
</tr>
<tr>
<td>LE</td>
<td>Egyptian Pound</td>
</tr>
<tr>
<td>M&amp;E</td>
<td>Monitoring and Evaluation</td>
</tr>
<tr>
<td>MENA</td>
<td>Middle East and North Africa</td>
</tr>
<tr>
<td>MFI</td>
<td>Microfinance Institutions</td>
</tr>
<tr>
<td>MoSS</td>
<td>Ministry of Social Solidarity</td>
</tr>
<tr>
<td>M&amp;E</td>
<td>Micro and Small Enterprises</td>
</tr>
<tr>
<td>MSMEs</td>
<td>Micro, Small, and Medium-Sized Enterprises</td>
</tr>
<tr>
<td>NBI</td>
<td>Non-Bank Financial Institutions</td>
</tr>
<tr>
<td>NGOs</td>
<td>Non-Governmental Organizations</td>
</tr>
<tr>
<td>NPLs</td>
<td>Non-Performing Loans</td>
</tr>
<tr>
<td>OM</td>
<td>Operational Manual</td>
</tr>
<tr>
<td>ORAF</td>
<td>Operational Risk Assessment Framework</td>
</tr>
<tr>
<td>PAR</td>
<td>Portfolio at Risk</td>
</tr>
<tr>
<td>PDO</td>
<td>Project Development Objective</td>
</tr>
<tr>
<td>PIU</td>
<td>Participating Implementing Unit</td>
</tr>
<tr>
<td>PFI</td>
<td>Participating Financial Institution</td>
</tr>
<tr>
<td>ROs</td>
<td>Regional Offices</td>
</tr>
<tr>
<td>SEDO</td>
<td>Small Enterprise Development</td>
</tr>
<tr>
<td>SFD</td>
<td>Social Fund for Development</td>
</tr>
<tr>
<td>SIDBI</td>
<td>Small Industries Development Bank of India</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
</tr>
<tr>
<td>USAID</td>
<td>United States Agency for International Development</td>
</tr>
<tr>
<td>VCC</td>
<td>Venture Capital Company</td>
</tr>
<tr>
<td>WBI</td>
<td>World Bank Institute</td>
</tr>
<tr>
<td>WLSME</td>
<td>Women’s Leadership in SME</td>
</tr>
</tbody>
</table>

Regional Vice President: Inger Andersen
Country Director: Hartwig Schafer
Sector Director: Loic Chiquier
Sector Manager: Simon C. Bell
Task Team Leader: Sahar Nasr
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**Basic Information**

<table>
<thead>
<tr>
<th>Project ID</th>
<th>Lending Instrument</th>
<th>EA Category</th>
<th>Team Leader</th>
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<tbody>
<tr>
<td>P146244</td>
<td>Investment Project Financing</td>
<td>FI - Financial Intermediary Assessment</td>
<td>Sahar Ahmed Nasr</td>
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<table>
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<tr>
<th>Project Implementation Start Date</th>
<th>Project Implementation End Date</th>
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<tr>
<td>1-Apr-2014</td>
<td>30-Jun-2019</td>
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<table>
<thead>
<tr>
<th>Expected Effectiveness Date</th>
<th>Expected Closing Date</th>
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<td>01-Jun-2014</td>
<td>31-Dec-2019</td>
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<table>
<thead>
<tr>
<th>Joint IFC</th>
<th>Joint Level</th>
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<tbody>
<tr>
<td>Yes</td>
<td>Complementary or Interdependent project requiring active coordination</td>
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</table>

<table>
<thead>
<tr>
<th>Sector Manager</th>
<th>Sector Director</th>
<th>Country Director</th>
<th>Regional Vice President</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simon C. Bell</td>
<td>Loic Chiquier</td>
<td>Hartwig Schafer</td>
<td>Inger Andersen</td>
</tr>
</tbody>
</table>

**Borrower**: Arab Republic of Egypt  
**Responsible Agency**: The Social Fund for Development  
**Contact**: Ms. Ghada Waly  
**Telephone No.**: 37622255  
**Email**: ghada.waly@sfdegypt.org

**Project Financing Data (in USD Million)**

<table>
<thead>
<tr>
<th>Loan</th>
<th>Grant</th>
<th>Other</th>
<th>Credit</th>
<th>Guarantee</th>
<th>Total Project Cost: 300.00</th>
<th>Total Bank Financing: 300.00</th>
<th>Total Cofinancing:</th>
<th>Financing Gap: 0.00</th>
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</table>

**Financing Source**

<table>
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<tr>
<th>Borrower</th>
<th>Amount</th>
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<tr>
<td>International Bank for Reconstruction and Development</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>300.00</strong></td>
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<tr>
<td>Expected Disbursements (in USD Million)</td>
<td></td>
</tr>
<tr>
<td>----------------------------------------</td>
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<tr>
<td>Annual</td>
<td>30.00</td>
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<tr>
<td>Cumulative</td>
<td>30.00</td>
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**Proposed Development Objective(s)**

The project development objective is to expand access to finance for micro and small enterprises (MSE) in the Arab Republic of Egypt, using innovative financing mechanisms, with a special focus on youth and women, as well as underserved regions.

**Components**

<table>
<thead>
<tr>
<th>Component Name</th>
<th>Cost (USD Millions)</th>
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<td>Line of Credit to MSEs</td>
<td>300</td>
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**Institutional Data**

**Sector Board**

Financial Inclusion Practice

**Sectors / Climate Change**

Sector (Maximum 5 and total percent must equal 100)

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<thead>
<tr>
<th>Major Sector</th>
<th>Sector</th>
<th>percent</th>
<th>Adaptation Co-benefits</th>
<th>Mitigation Co-benefits</th>
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</thead>
<tbody>
<tr>
<td>Finance</td>
<td>Microfinance</td>
<td>50</td>
<td></td>
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<td>Finance</td>
<td>SME Finance</td>
<td>50</td>
<td></td>
<td></td>
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<tr>
<td>Total</td>
<td></td>
<td>100</td>
<td></td>
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I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

**Themes**

Theme (Maximum 5 and total percent must equal 100)

<table>
<thead>
<tr>
<th>Major theme</th>
<th>Theme</th>
<th>percent</th>
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<tbody>
<tr>
<td>Financial and private sector</td>
<td>Micro, Small and Medium Enterprise support</td>
<td>60</td>
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<tr>
<td>Financial and private sector</td>
<td>Other Financial Sector Development</td>
<td>40</td>
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<tr>
<td>Total</td>
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<td>100</td>
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### Compliance

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<tr>
<th>Policy</th>
<th>Yes</th>
<th>No</th>
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</thead>
<tbody>
<tr>
<td>Does the project depart from the Country Assistance Strategy (CAS) in content or in other significant respects?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does the project require any waivers of Bank policies?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Have these been approved by Bank management?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Is approval for any policy waiver sought from the Board?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Does the project meet the Regional criteria for readiness for implementation?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Safeguard Policies Triggered by the Project

<table>
<thead>
<tr>
<th>Policy</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Environmental Assessment OP/BP 4.01</td>
<td>X</td>
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</tr>
<tr>
<td>Natural Habitats OP/BP 4.04</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Forests OP/BP 4.36</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Pest Management OP 4.09</td>
<td>X</td>
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<tr>
<td>Physical Cultural Resources OP/BP 4.11</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Indigenous Peoples OP/BP 4.10</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Involuntary Resettlement OP/BP 4.12</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Safety of Dams OP/BP 4.37</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Projects on International Waterways OP/BP 7.50</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Projects in Disputed Areas OP/BP 7.60</td>
<td>X</td>
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### Legal Covenants

<table>
<thead>
<tr>
<th>Name</th>
<th>Recurrent</th>
<th>Due Date</th>
<th>Frequency</th>
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</thead>
</table>

### Conditions

<table>
<thead>
<tr>
<th>Name</th>
<th>Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsidiary Agreement</td>
<td>Effectiveness</td>
</tr>
</tbody>
</table>

**Description of Condition**

The Subsidiary Loan Agreement has been entered into between the Borrower and the Project Implementing Entity.
## Team Composition

### Bank Staff

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Specialization</th>
<th>Unit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sahar Nasr</td>
<td>Lead Economist</td>
<td>Team Leader</td>
<td>MNSF1</td>
</tr>
<tr>
<td>Laila AbdelKader</td>
<td>Financial Sector Specialist</td>
<td>Financial Sector</td>
<td>MNSF1</td>
</tr>
<tr>
<td>Karim Badr</td>
<td>Financial Economist</td>
<td>Financial Inclusion</td>
<td>MNSF1</td>
</tr>
<tr>
<td>Ghada Wahid</td>
<td>Financial Sector Analyst</td>
<td>Financial Inclusion</td>
<td>MNSF1</td>
</tr>
<tr>
<td>Thomas Lutete</td>
<td>Stakeholders Feedback Mechanism Expert</td>
<td>Citizens Feedback</td>
<td>WBIOG</td>
</tr>
<tr>
<td>Yara ElAbd</td>
<td>Research Assistant</td>
<td>Financial Inclusion</td>
<td>MNSF1</td>
</tr>
<tr>
<td>Amira Zaky</td>
<td>Program Assistant</td>
<td></td>
<td>MNCEG</td>
</tr>
<tr>
<td>Peter McConaghy</td>
<td>Financial Sector Development Analyst</td>
<td>Microfinance, SME Finance</td>
<td>MNSF1</td>
</tr>
<tr>
<td>Ahmed Rostom</td>
<td>Financial Sector Specialist</td>
<td>Islamic Finance</td>
<td>EASFP</td>
</tr>
<tr>
<td>Mohammed Khaled</td>
<td>Senior Operations Officer</td>
<td></td>
<td>CMEAF</td>
</tr>
<tr>
<td>Mayada El Zoghbi</td>
<td>Senior Microfinance Specialist</td>
<td>Financial Inclusion</td>
<td>CGP</td>
</tr>
<tr>
<td>Jamal Abdulaziz</td>
<td>Senior Procurement Specialist</td>
<td>Procurement</td>
<td>MNAPC</td>
</tr>
<tr>
<td>Alaa Ahmed Sarhan</td>
<td>Senior Environmental Economist</td>
<td>Environmental Management/Safeguards</td>
<td>MNSEE</td>
</tr>
<tr>
<td>Chaogang Wang</td>
<td>Senior Social Development Specialist</td>
<td>Social Safeguards</td>
<td>MNSSSU</td>
</tr>
<tr>
<td>Mohamed Yahia</td>
<td>Senior Financial Management Specialist</td>
<td>Financial Management</td>
<td>MNAFM</td>
</tr>
<tr>
<td>Wael Elshabrawy</td>
<td>Financial Management Analyst</td>
<td>Financial Management</td>
<td>MNAFM</td>
</tr>
<tr>
<td>Maiada Kassem</td>
<td>Finance Officer</td>
<td>Loan Disbursement</td>
<td>CTRLA</td>
</tr>
<tr>
<td>Mei Wang</td>
<td>Senior Counsel</td>
<td>Legal Counsel</td>
<td>LEGAM</td>
</tr>
<tr>
<td>Syed I. Ahmed</td>
<td>Lead Counsel</td>
<td>Lead Counsel</td>
<td>LEGAM</td>
</tr>
</tbody>
</table>

### Non-Bank Staff

<table>
<thead>
<tr>
<th>Name</th>
<th>Title</th>
<th>Specialization</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mohamed Ferid</td>
<td>Venture Capital Expert</td>
<td>Venture Capital, Angel Financing</td>
</tr>
<tr>
<td>Parsa Bastani</td>
<td>Gender Specialist</td>
<td>Gender Mainstreaming</td>
</tr>
<tr>
<td>Moataz El Guindy</td>
<td>Financial Leasing Expert</td>
<td>Financial Leasing</td>
</tr>
</tbody>
</table>
I. Strategic Context

A. Country Context

1. One and a half years after the revolution of January 25, 2011, Egypt is undergoing major political, economic and social transformation. In the wake of massive demonstrations, President Morsi was removed and a new political transition period begun. The political roadmap is progressing with the amendments to the 2012 Constitution approved in a referendum held on January 14–15, 2014, which saw a 38.6 percent turnout and a 98.1 percent approval rate. The presidential election is scheduled to take place by mid-April 2014 to be followed by Parliamentary elections.

2. The Egyptian economy continues to be adversely affected by the ongoing political unrest and violence. The first quarter of 2014 has seen dismal growth of one percent, compared to the feeble growth rate of 2.1 percent in 2013. The sluggish growth reflects poor performance by manufacturing and construction sectors, in addition to contraction in the petroleum and tourism sectors. On the demand side, real investment continued to shrink in real terms due to high uncertainty. However, the remainder of 2014 may witness an improvement in economic activities, thanks to accommodative government policies, including a notable stimulus backed partially by the Gulf aid packages. Gulf States—Saudi Arabia, United Arab Emirates and Kuwait, pledged some US$16.9 billion in financial aid to Egypt since July 2013, of which around US$12 billion has already been received.

3. The overall instability has adversely affected investments and the private sector. Domestic investment fell to 14.5 percent of Gross Domestic Product (GDP) in 2013. Foreign direct investments (FDI) have fallen to 1.1 percent of GDP in 2013. The sluggish growth, high government borrowing needs, and drop in national investments had a negative effect on the creation and growth of micro and small enterprises (MSEs). These factors have contributed to an increase in unemployment and poverty rates. Unemployment increased from 8.9 percent in December 2010 to 13.4 percent in September 2013. It is particularly high among women at 25 percent and youth at 42 percent. The poverty rate also increased to 26.3 percent in 2013, up from 25 percent in 2011 and 21.6 percent in 2009.

4. The interim government’s attempts to stimulate demand, in the presence of supply bottlenecks, an accommodating monetary policy, and a relatively depreciated exchange rate, have led to a rise in inflation. Headline urban inflation soared to a three-year high of 12.9 percent in November 2013 and averaged around 11 percent in the first half of 2014. Food inflation was even higher, averaging 15 percent during the same period.

5. Egypt’s fiscal situation has been deteriorating sharply since 2010 due to weak real growth, adoption of populist measures, and the lack of corrective actions. The overall budget deficit reached 13.7 percent of GDP in 2013, up from 11 percent a year earlier. However, fiscal aggregates are likely to improve in 2014, mainly due to the exceptional Gulf aid packages, and the one-off transfer of government deposit worth LE 30 billion from the Central Bank of Egypt (CBE) to the Treasury. Actual figures for the first half of 2014 indicate a lower overall deficit of 4.4 percent of the year’s projected GDP.

6. The widening deficit has also led to the crowding out of private sector credit. Banks opted for purchasing less risky, high-yield Government bonds and Treasury bills that represent 41 percent of the banking system assets, accounting for 58 percent of GDP, leaving little loanable funds available. Claims on the government-to-total domestic credit have increased to 60 percent, while claims on the private sector credit dropped to 37 percent in June 2013, as opposed to 54
percent and 42 percent in June 2012, respectively (Figure 1). The higher cost of funding recorded since January 2011 led to a higher required rate of return required by private equity and venture capital companies, which has further limited access to finance available to smaller enterprises.

7. Starting 2014, with the exceptional financing from the Gulf trickling in, reserves increased to above US$17 billion at the end of January 2014 (equivalent to about 2.5 months of 2014 projected merchandise imports). In tandem, the exchange rate has appreciated moderately (about 2 percent since end-June 2013) and stabilized at LE6.96 per US dollar. However a parallel market premium—that had emerged by end-2012 due to foreign exchange rationing—is still persistent. The relative improvement in Egypt’s external conditions prompted rating agencies to upgrade Egypt’s sovereign rating and outlook. In November 2013, Standard and Poor’s raised Egypt’s long- and short-term foreign and local currency sovereign credit rating to ‘B-/B’, with a ‘stable’ outlook. Fitch also upgraded Egypt’s outlook to ‘stable’ in January 2014.

8. Besides the anemic macroeconomic environment, governance and transparency remain pressing issues. Egypt’s rank is low, and deteriorating, in almost all governance indicators. According to the World Bank Worldwide Governance Indicators, government effectiveness, regulatory quality, and rule of law rankings have all declined in the past two years, and have remained below the 50th percentile compared to other countries.¹ Weak governance, privileged lending, lack of a level playing field, and unequal access to markets, contributed to limited economic opportunities and jobs, as well as an underdeveloped private sector. Strengthening governance will be crucial to support the transition, enhancing credibility of public institutions. Giving equal access to markets is essential for restoring citizens’ confidence and is a prerequisite for generating equal opportunities and creating productive jobs. In that context, the Government announced in July 2013 that the development of micro, small and medium enterprises (MSMEs) is a key pillar in its program to enhance job creation, with a focus on youth. Another important pillar is empowering and restructuring the Social Fund for Development (SFD) to improve its effectiveness as a national apex organization.²

B. Sectoral and Institutional Context

9. An inclusive financial system can play a pivotal role in job creation, poverty reduction and overall sustainable economic growth. Smaller enterprises are important contributors to total employment, job creation, and overall economic development. In Egypt, according to empirical evidence, small and young enterprises are the main creators of new job opportunities. MSEs, which account for more than

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² Apex is a primary organization for channeling development funds or managing development programs.
98 percent of enterprises, generate more than 85 percent of employment in non-agriculture private sectors, and 40 percent of total employment. Entrepreneurship and new business formation is a linchpin to the process of innovation and creative destruction. Young enterprises are five times more likely to be ‘gazelles’ and are estimated to be 3.5 times more likely to grow (measured by employment) than other enterprises (Figure 2). Yet, Egypt has a very low business entry rate.

10. Although sectoral analysis shows that there is no liquidity crisis in the banking sector, MSEs have limited access to finance. Financial intermediation has been low, as evident in the loans-to-deposit ratio that declined from 50 percent in 2011 to reach 46 percent in January 2014. Moreover, there is lack of term funding, which especially hampers sectors that are the main creators of jobs, such as manufacturing. This is compounded by the increase in the banking sector’s risk aversion, as evidenced in the decline of private sector credit-to-GDP from 36.1 percent in June 2009 to 27.5 percent in January 2014.

11. MSEs suffer disproportionately from low financial intermediation, and are offered limited financial products. A recent Investment Climate Rapid Assessment Survey (2012) reveals that only 11.1 percent of micro enterprises and 17.4 percent of small enterprises have bank loans, as opposed to 38.2 percent of large enterprises (Figure 3). Of these surveyed firms, more than 70 percent raise concerns regarding the surge in the cost of finance post revolution. As a result, they often resort to alternative sources of finance, relying on personal savings (79 percent) or inheritance (15 percent) to raise capital, while only four percent access the formal market (Figure 4).

12. Only 2.5 percent of MSEs tap on non-bank financial institutions (NBFIs). MSEs face problems obtaining finance from other capital market vehicles. Venture capital and angel investors have a limited, yet growing presence in the Egyptian market. Their operations are not easily tracked in terms of magnitude, due to lack of a comprehensive regulatory and reporting framework governing their operations. Financial leasing and factoring are underdeveloped and provide limited services to MSEs.

13. Access to financial services amongst micro businesses and households in Egypt is also very low. Evidence demonstrates that microfinance is critical for low-income households to smooth consumption, manage risks, invest productively, and respond to financial shocks. Although Egypt boasts the largest microfinance market in the Arab world in terms of client outreach, with approximately 1.1 million borrowers and 263 million loans outstanding, the sector is only

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8 percent of total possible market size. In recent years microfinance institutions (MFIs) have had difficulty weathering the ongoing economic and political transition in the country. However, there have been recent improvements with an increase in the number of microfinance borrowers from 991,610 in 2011 to 1.1 million in 2013.

14. On the supply side, banks are reluctant to lend to MSEs, especially young and new ones, due to the perceived associated risk. Furthermore, banks continue to lend based on collateral as opposed to cash-flow, narrowing the opportunities for MSEs that often do not have sufficient collateral. The value of collateral needed for a loan compared to the total loan size is 88 percent for small enterprises, which significantly hampers their ability to have access to bank loans. Effectively, banks in Egypt are serving large, well-established enterprises.

15. Another challenge that prevents entrepreneurs from tapping on financial markets is the limited access to Sharia-compliant financial products. The 2012 enterprises survey showed that 28 percent of those who did not apply for a loan, despite their need, did not want to deal with interest rates. According to the recently launched World Bank database on financial inclusion (Global Findex, 2012), among the respondents who cited religious reasons for not holding accounts with formal financial institutions, 60 percent were female, and 90.8 percent were from low and middle-income quintiles. Nevertheless, Islamic financial services offered remain modest with limited options. Murabaha dominates Islamic financial instruments, accounting for almost 85 percent of Islamic banks’ financing. Although there are three Islamic banks, and eleven conventional banks with dedicated Islamic windows, Islamic banking assets account for only 6.6 percent of the system’s assets as of January 2014.5

16. Disparities in Egypt also exist in access to finance both between and within regions. Upper Egypt is the lowest region in terms of distribution of financing, within which there are large disparities among Governorates. For example, Giza has the highest share of enterprises with access to credit (11.8 percent), while the other Governorates’ shares do not exceed three percent (Figure 5). Regarding the urban metro regions, the share of enterprises with access to loans in Cairo is almost double that of Alexandria, which has the second highest access in the country, while the percentage in the other Governorates does not exceed 1.5 percent. There is an urgent need to reach out to these underserved districts and poor villages.

17. Gender disparities are also prevalent, with women entrepreneurs facing more challenges in accessing finance than men. Traditions, in some cases, give women little control over their own assets. In many cases women are unable to use assets as collateral, being under the guardianship of a male member of the family. In addition, banks impose higher collateral requirements for women, as they are perceived as more risky, particularly due to the traditions that place them as the key family members responsible for taking care of the household, leaving them with little time for work. Moreover, cultural barriers and norms limit women’s mobility, constraining their

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4 Data from: Microfinance Information Exchange (MIX).
5 Islamic banks operating in Egypt are Faisal Islamic Bank of Egypt, Al Baraka Bank Egypt, and Abu Dhabi Islamic Bank.
entrepreneurship opportunities. Enhancing women’s access to finance and providing them with an equal opportunity is critical as funds should be allocated to their most productive uses with no discrimination by gender.

18. On the demand side, the weak financial intermediation of MSEs is attributed to various institutional factors. One of the main challenges is enterprises’ lack of transparency, their inability to hold regular bookkeeping records, and their inadequate capacity to issue audited financial statements. Financial institutions are unwilling to lend to enterprises that do not have audited financial statements or concrete well-prepared business plans. This problem is directly related to the lack of awareness of MSEs on the importance of having proper documentation and business planning in order to ensure the success of their projects. MSEs usually complete business planning processes by themselves and do not use the services of professional service providers (audit firms and business consultants). There is often lack of physical access in poor villages, as it is not cost-effective for financial institutions to establish branches in areas where the client base is small.

19. In response to these challenges, efforts have been made to improve the enabling environment for financial intermediation and to strengthen the financial infrastructure. The first private credit bureau was established, significantly improving the information on clients’ credit worthiness. The payments system was modernized, in terms of operations, policies, and regulations, creating a more supportive institutional framework. Moreover, the Central Bank of Egypt (CBE) issued the Code of Corporate Governance, enhancing transparency and governance of the banking sector. All this has contributed to attaining a more enabling business environment, making it more conducive to MSE lending.

20. Key regulators and market players have recently been investing at the strategic and operational levels to enhance access and usage of financial services for underserved segments of society. The Egyptian Financial Supervisory Authority (EFSA) prepared the Microfinance Law, which was approved by the Cabinet on February 20, 2014, in order to address key regulatory gaps, including allowing commercial companies to engage in microfinance and opening a window for non-governmental organizations (NGO) to establish and own shares in microfinance companies. This will increase the ability of MFIs to operate sustainably through greater leverage and diversification of funding base through both debt and equity, as well as an improved framework for risk management, including corporate governance, internal controls and consumer protection. Moreover, the CBE is developing a financial inclusion strategy, which includes streamlining operations for MSE lending, and strengthening credit guarantee schemes.

21. The SFD, under its new management, has gone through major restructuring and modernization, improving its performance and governance structure. The Egypt Post, under its new leadership, has reinvigorated its commitment to be the “bank for the poor” by providing savings services, payments and insurance, as well as expanding linkages with MFIs to provide credit and other financial services at its more than 3,000 branches across the country. Additionally, non-traditional actors have begun providing financial services to low-income segments. For example, Vodafone, after years of working with regulators to fulfill licensing requirements, has begun offering a mobile wallet product that allows for money transfers and payment services. Other mobile network operators are likely to follow.

22. With this momentum of reforms, with the objective of attaining a more inclusive financial system, the proposed operation comes at an opportune time. The dire political and economic situation in Egypt calls for innovative approaches to incentivize economic growth and job creation. One important solution is unleashing the potential of MSEs, especially fast-growing
ones, which empirical evidence has shown to be the most significant employment generators. This entails improving their access to finance through leveraging financial access and innovation.

23. In that context, the World Bank Group was asked by Egyptian public authorities to support the sector through this operation, focusing on addressing access to finance, a key challenge hindering job creation, enterprise growth, and economic growth in the Egyptian economy. This would be complemented by parallel financing from the Arab Fund for Economic and Social Development (AFESD) from its MSME Special Account and the United Arab Emirates’ Khalifa Fund for Development. This is an opportunity for the World Bank Group to step in and support Egypt during critical times of transition, when citizens are demanding decent jobs, a level playing-field, social justice, and equal access to markets. This operation will ultimately contribute to ending extreme poverty and promoting shared economic prosperity—the strategic goals of the World Bank Group.

C. Higher Level Objectives to which the Project Contributes

24. The proposed operation will support overall economic growth, poverty reduction, and financial stability. The operation advances financial inclusion amongst low-income communities in underserved areas across the country. It will unlock the market for lending to MSEs, and improve the access of job-creating enterprises to liquidity and much needed funding at fair, market-driven costs. Through improving access to finance, this project will contribute to creating sustainable and productive private sector jobs and expand economic opportunities, as evident from the previous line of credit under the ongoing Egypt Enhancing Access to Finance for MSEs Project6. In addition, it will ensure more inclusive economic growth, through unleashing opportunities for underserved segments of society, including youth, women and underprivileged entrepreneurs in marginalized areas, who are seeking their rightful share of financial services.

25. The provision of special financial and non-financial products for women will contribute to their economic empowerment, and will in turn increase their contributions to the economy at large. The provision of Islamic financial products will allow for more active participation of women in the financial markets, especially in rural areas. Enhancing women’s participation in entrepreneurship activities, and giving them access to markets, especially financial markets, is essential, as it leads to a rise in the number of economically active members in the society. Empirical evidence has shown that economic empowerment of women generates benefits to the whole family, and improves the standard of living of their children, and families. Furthermore, research shows that women-owned MSEs are more inclusive, whereby increasing the number of women entrepreneurs can lead to a rise in the percentage of women in the workforce.

26. In addition to creating new job opportunities, this project will, in the short-run, ensure the survival of existing enterprises. It will provide liquidity to creditworthy MSEs that are facing liquidity constraints because of the market conditions associated with the current political and economic situation. As a result, enterprises’ balance sheets will be strengthened, and they will be able to increase capital investment, and manage liquidity better. This would have an important impact on maintaining employment and MSE viability, while ensuring sufficiently high portfolio quality, at critical times of transition, when political upheavals are temporarily adversely affecting enterprises activity. Hence, the project will play an important role in risk management and survival of some enterprises.

6 Report No. 51529-EG/P116011
27. In the medium-term, this operation will strengthen governance, transparency, accountability, and promote formalization. It will encourage enterprises to maintain regular accounting books and issue audited financial statements to facilitate their access to finance through the formal financial system. The eligibility criteria for banks, NGOs-MFIs, and financial leasing companies, as well as those set for enterprises, will incentivize effective financial management. This will strengthen the country’s systems of internal controls, management information, auditing, and transparency in the use of public funds. Working closely with SFD during preparation and supervision, along with the provision of technical assistance and capacity building, will contribute to further strengthening its governance structure and enhancing its transparency. Hence, the operation will contribute to the overall efforts of formalizing the informal segment of the private sector that is dominated by MSEs.

28. The project will also have a long-term impact in changing behavior patterns through developing a more prudent institutional and regulatory framework to lend to MSEs. This will be accomplished by: (i) enhancing the financial system’s capacity to evaluate the effectiveness of its MSE support; (ii) improving incentives for banks to expand into MSE lending; (iii) leveraging additional funds from banks matching the SFD loan; (iv) incentivizing and supporting the design of innovative financial products (venture capital and financial leasing for MSEs), and the provision of Islamic Sharia-compliant products; (v) broadening outreach to the remote, rural and underprivileged areas to meet citizens’ needs and to establish income-generating projects with the objective of achieving sustainable and balanced development; (vi) supporting legislative and regulatory reforms to improve the frameworks governing the microfinance sector; and (vii) strengthening the governance and accountability of the apex institution in Egypt. Overall, enhancing the outreach of innovative financial services will directly reflect on the wellbeing of the most vulnerable and underprivileged segments of society.

**Link with Interim Strategy Note**

29. The proposed operation is closely aligned with the 2012 Interim Strategy Note (ISN) for Egypt (2012-2014), discussed by the World Bank’s Board of Executive Directors in June 2012, which entails a different way of doing business. The ISN envisions attaining a level playing field and supporting MSE development, by setting improved access to finance for MSEs as a priority, which the proposed operation aims to achieve through interventions in poor villages and marginalized Governorates, while focusing on women and youth. The project addresses the three pillars of the ISN, namely:

- **(i) Improving economic management** through strengthening governance, enhancing transparency and accountability of public entities, private companies, and financial institutions who will be engaged in project activities.

- **(ii) Creating jobs and unleashing entrepreneurial potential** by enhancing access to finance so that the private sector can function efficiently, fostering economic opportunity, innovation and entrepreneurship with the objective of achieving sustainable private sector-led growth. **(iii) Fostering inclusion** and ensuring broader financial access for disadvantaged segments of the population—women and youth, as well as lagging geographical regions, through various means, including innovative financial mechanisms and tools.

30. The Project’s objective is also aligned with the World Bank Group’s regional framework and strategy for MENA, which has evolved to respond to the events of the Arab Spring and focuses engagement on inclusion, job creation and sustainable private sector-led growth. The operation will contribute to helping Egypt meet the World Bank Group strategic goals of ending

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extreme poverty and boosting shared prosperity. Extending finance to MSEs is a key tool to combat poverty for microenterprises and poor households, as well as improving the standards of living of their families. Improving financial intermediation for small enterprises will create jobs, boost entrepreneurship opportunities, and reduce inequality, ultimately leading to inclusive economic growth, and shared prosperity.

II. PROJECT DEVELOPMENT OBJECTIVE

A. Project Development Objective

32. The project development objective (PDO) is to expand access to finance for micro and small enterprises in the Arab Republic of Egypt, using innovative financing mechanisms, with a special focus on youth and women, as well as underserved regions.

B. Project Beneficiaries

33. Project beneficiaries will be: (i) microenterprises, defined as enterprises with paid-in capital of less than LE 50,000 and up to five workers; and (ii) small enterprises, defined as enterprises with paid-in capital of between LE 50,001 and LE 1 million, and up to 50 workers.

34. Specifically, the project will target enterprises that have higher potential for creating jobs, focusing on underserved segments, and marginalized groups. The project will target enterprises that will create the most jobs, not only by size but also by age, where priority target is young enterprises that have high potential for growth. The project will also target sectors that provide higher employment opportunities, such as manufacturing and industry.

35. Underdeveloped regions and poor villages suffering from high levels of poverty and unemployment will be given a priority. Underserved segments of society and low-income financially excluded segments, particularly women and youth, would also be targeted under the operation. The project will also cater to existing MSEs to support their market survival at critical times of transition and uncertainty in order to maintain their employability. Target beneficiaries of the proposed operation were identified based on surveys, sectoral assessments, empirical evidence, and impact evaluations of previous lines of credit, including the one for Egypt.

C. PDO Level Results Indicators

36. Progress towards achieving the project’s objectives will be measured by a series of quantitative and qualitative indicators at the PDO and at the intermediate level (Annex 1). Key results and indicators at the PDO level, are: (i) number of direct project beneficiaries, of which female (percentage); (ii) outstanding MSE portfolio of participating financial institutions (PFIs); (iii) number of innovative financial products offered to MSEs; (iv) percentage of youth-owned businesses served by the line of credit; (v) percentage of women-owned businesses served by the line of credit.

III. PROJECT DESCRIPTION

37. The project consists of a line of credit of US$300 million that will be channeled through the SFD—the apex institution, which is mandated to lead and coordinate the MSE development sector in Egypt. SFD would then on-lend to financial institutions that would ultimately reach the end beneficiaries, namely MSEs. A range of innovative mechanisms will be tapped on to enhance access to finance. At the borrower level, this will take the form of new financial products for MSEs (financial leasing, factoring, venture capital); specific designs that would mitigate the hurdles faced by certain excluded market segments (specifically, women, youth); new delivery channels that would expand outreach in underserved villages (post offices); and addressing unmet demands (Islamic finance). At the institutional level, innovations will be
centered on new partnerships between banks, NGOs-MFIs and the Egypt Post to broaden the array of commercial providers in the market. 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.

A. Project Components

38. The project comprises of one component—a line of credit to SFD to finance MSEs, provided through eligible PFIs. The SFD will be responsible for communicating the features of the loan to the financial institution, appraising, negotiating, overseeing implementation of contracts with banks, and monitoring the quality of the portfolio. PFIs will provide credit, equity participation, and/or convertible debt to MSEs according to the nature of the PFI.

39. Eligibility and appraisal. Eligibility criteria and the appraisal of funding proposals from PFIs will form the basis for SFD to decide on which institutions to lend to (Annex VI). Proposals from banks will be assessed by SFD based on an assessment of the quality of financial performance and management strength of the bank, the bank’s strategy and plans for MSE portfolio growth, and the quality of the proposal, including, the ‘additionality’ it entails in financing MSEs—for example, introducing new products, reaching particularly underserved regions, and developing innovative delivery channels and financing mechanisms.

40. Terms and conditions of lending to participating financial institutions. PFIs that are appraised and found satisfactory will then benefit from the line of credit. To promote good practices and ensure compliance with the project’s safeguards and fiduciary framework, as well as its overall objectives, the funding will be associated with clear terms and conditions, including commitment to, and time-bound actions towards, improving the quality and access to MSE lending. Such requirements are expected to serve as a demonstration for the broader financial sector to enhance its engagement with MSEs.

41. Financing Mechanisms: The design of the project is innovative on various fronts. The operation will promote venture capital, factoring and financial leasing, which were not previously offered to MSEs. It will also introduce new financing tools for MSEs, such as mezzanine financing and convertible debt. The project introduces Islamic products, namely, Musharaka and Murabha for MSEs, and mainstreams other risk-sharing non-bank financial services, such as Ijarah—leasing, and, micro Takaful—insurance.8 The project will also introduce a beneficiary feedback mechanism to ensure that the project, its communication and its implementation are relevant to beneficiaries. It can also act as a safeguard mechanism for early spotting of operational issues, mostly in remote areas where communication is difficult.

42. The disbursement and allocation of funds among the various mechanisms will be demand-driven, based on market needs, and will depend on the performance of the various financial intermediaries. US$100 million under the operation will be earmarked to NBFIs—financial leasing, factoring, venture capital, and microfinance institutions, in order to promote the expansion of new financial products. Financing mechanisms and tools covered under this project would be as follows:

(i) Line of credit through banks. Funds from the line of credit will be channeled through

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8 Islamic finance, sometimes called Sharia-compliant finance, differs from conventional finance in its adherence to certain fundamental economic principles agreed upon by Muslim jurists. A key principle is that money has no intrinsic worth and cannot by itself create value. In addition, Islamic finance requires that transaction risks be shared by all parties. Consequently, Sharia encourages wealth creation through trade and equity participation in business activities.
SFD to eligible participating banks that either have an active MSE portfolio or the willingness and capacity to develop one, or a large branch network in the different Governorates. The banks will then on-lend to MSEs. The participating banks could be incentivized through various mechanisms, such as training and capacity building to develop appropriate products and systems for the different market segments, with a focus on women and youth. Banks will also be encouraged to leverage matching funds, to promote more lending to MSEs, and to ensure sustainability of the operation. Eligibility criteria and the appraisal of funding proposals from banks will form the basis of selection.

(ii) Line of credit for NGOs-MFIs. Funds will be channeled as loans through SFD to eligible participating NGOs-MFIs willing to innovate through new product development for micro enterprises and expand into underserved areas. Based on the eligibility criteria identified, funding will be focused on high performing, high potential NGOs-MFIs that have a clear strategy for reaching marginalized groups, through new financial products. The NGOs-MFIs will be incentivized with technical assistance that will focus on innovative design and delivery mechanisms with the goal of reaching a greater number of low-income beneficiaries in underserved regions.

(iii) Line of credit through financial leasing companies. SFD will channel the funds to financial leasing companies that will cater to MSEs. This would benefit younger and smaller enterprises, especially those in the startup phase, as this will help finance capital expenditure freeing up cash necessary to financing working capital needs. It will also support startup MSEs that do not have a lengthy credit history, or a sufficient asset-base to use as collateral.

(iv) Equity investments via venture capital companies (VCCs). There are two models to channel funds to the target MSEs. In the first model, funds will be channeled as loans through the SFD to eligible VCCs that will use the funds to invest in different target companies. To ensure the vested interest of VCCs in the success of target companies, VCCs will match the funds obtained from the SFD and invest in these companies. Investing in target companies could take the form of traditional equity participation, and/or new financing tools such as mezzanine finance, convertible debt, and Islamic products (Musharaka, Mudarba, and Murabaha) according to the assessment and needs of the target companies. The second model entails equity participation between the SFD and the VCCs in the targeted firms. Funds will be channeled by the SFD and the eligible VCCs to the targeted young firms. The SFD is entitled to adopt direct equity participation or create any other vehicle or mechanism as a hub for investing the funds in target companies alongside VCCs.9

(v) Factoring. In the current economic situation, factoring can play a vital role in financing the working capital of existing enterprises, to support their survival in the market and help them retain their employment. Factoring is crucial especially for MSEs that strive for cash to finance their ongoing operations. Receivables collection cycle in the current economic situation might extend to more than a year, while MSEs are in need for cash to finance their operations. Hence, a certain portion of the loan will be directed to factoring to finance receivables, and to maintain sufficient working capital for enterprises to survive.

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9 There are several options for exit, which were discussed with SFD and the potential venture capital companies. For example the company could be listed on Nilex (the stock market for SMEs which we have supported under the previous Financial Sector Reform DPL. Another option would be for the venture capital company to buyout SFD’s share. A third exit option is SFD to sell its shares.
43. **Cross-Cutting Themes**: The project also has three cross-cutting themes: (i) increasing the outreach of Islamic finance; (ii) using new institutions to deliver finance (such as the Post Office); and (iii) pursuing increased lending to women and youth.

(i) **Islamic finance.** Sharia-compliant financing will be integrated into the financing mechanisms provided under the project. SFD will provide funding to banks, NGOs-MFIs, and financial leasing to offer Islamic financial products. The overarching target will be to unveil economic capabilities, reduce vulnerability of poor entrepreneurs to shocks, as well as satisfy the unmet demand for Islamic financial services, particularly in Upper Egypt where there is high demand for Sharia-compliant services.

(ii) **New outreach venues.** There will be particular focus on rural areas to ensure adequate coverage and provision of services in Upper Egypt and Delta, which has huge entrepreneurial potential yet is still lacking in terms of access to finance. A Memorandum of Understanding (MoU) between SFD and Egypt Post was signed on July 31, 2013 according to which participating NGOs-MFIs will tap on the huge branch network of the Egypt Post, to increase outreach to poor and more remote villages. The designated financial intermediary (NGO-MFI), as well as MSEs, will open accounts in the post office for funds transfer under the project. This innovative initiative supports the usage of the Egypt Post branches for the disbursement and collection of loans to and from micro enterprises to facilitate and avail easy accessibility to the end borrowers. The NGOs-MFIs will open savings accounts for micro and small borrowers who do not already have accounts, enhancing access and exposure to broader financial services and markets (see Box 1).

(iii) **Gender mainstreaming and youth targeting.** In order to achieve inclusive growth, it is important to target women-owned enterprises through developing new gender-based products and special windows for women, especially in marginalized Governorates where there are more social and cultural barriers. In terms of NGOs-MFIs, the project will capitalize on group lending to reduce barriers to entry and risks of potential women clients. Not only will group-lending programs enable women to partake in borrowing, but they will also incentivize lending, as borrowers will exhibit more caution and be restrained to group liability pressures. Additionally, such a mechanism can raise the number of beneficiaries being served.

44. The project will offer special financial products for women that address cultural barriers. The MSME TA Facility will assist banks in forming innovative branding strategies to make financing more accessible to women. As a result, this project can expand upon the already existing menu of women-oriented financial products offered by NGOs-MFIs from the ongoing *Egypt Enhancing Access to Finance for MSEs Project*, such as Beshayar Al Kaheir, Shekra Crowd MSE Fund and Taree’ El Tammeya that were designed by the Alexandria Business Association (ABA). With the assistance of the MSME Facility, banks will train a cadre of women financial officers to reach out to women clients across all Governorates.

45. The project also targets youth through two main components namely, venture capital and micro finance. Financing through venture capital will be directed to start-up MSEs with innovative ideas that are usually carried out by young entrepreneurs. The VCC will also provide mentoring and training for young entrepreneurs in business plan writing, marketing and sales, finance and accounting, among other areas, which will assist young entrepreneurs in setting up and sustaining their businesses. On the other hand, a portion of the microfinance lending will be

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10 A partnership has already been formed, and an MoU signed, between Egypt Post and the Alexandria Businessmen Association (ABA), one of the largest and best performing NGO-MFI, which is currently operational in five fast office branches in three Governorates (Kafr El-Sheikh, Al Baheira and Menoufia where there are no bank branches).
Box 1: Egypt MSME TA Facility and Linkages to Project

The joint IFC-World Bank MENA Regional MSME Facility is currently actively operating in Egypt. The Egypt MSME TA Facility was set-up in August 2012, with the main objective of improving the business environment for MSME finance, building the capacity of financial institutions for sustainable financing, and supporting MSME business development services in Egypt. This TA Facility's closing date is January 2017, which gives the team ample time to deliver the key activities requested by the authorities.

**Pillar One—improving the enabling environment.** Main activities include: (i) support to CBE in the development of a credit guarantee facility for MSME financing; (ii) supporting EFSA in setting up the regulatory framework for microfinance, and the drafting of the Microfinance Law; (iii) assisting the authorities in the establishment of a secured lending framework to help SMEs pledge their movable assets as collateral; (iv) capacity building of SFD, through supporting the establishment of new units namely, M&E, Innovation, and Gender Units, as well as providing technical assistance in preparing manuals and public awareness publications; and (v) capacity building of the Egypt Post in areas of product development, MFI partnership risk management and Islamic financial services.

**Pillar Two—advisory services and capacity building of financial institutions.** Main achievements include sharing of knowledge and best practices via workshops, seminars and training events, including: (i) providing advisory services and training, in partnership with the Egyptian Banking Institute (EBI), and in MSME banking through the capacity building of their MSME departments. This included hands-on assistance in areas such as the design of new financial products, strengthening corporate governance, and improving credit information systems; (ii) in partnership with the Islamic Financial Services Board (IFSB) and the Ministry of Investment, held a Regional Islamic Finance Forum aimed at the sharing of knowledge, expertise and best practices in the field of Islamic finance; (iii) training workshops for NGO-MFIs jointly with the Egyptian Microfinance Network, focusing on governance and financial management; and (iv) sharing expertise in the development of new financial products, such as venture capital at a high level event, in partnership with University of California at Berkeley and the American University of Cairo.

**Pillar Three—supporting and training MSMEs.** The facility worked on broadening the range of business development services to facilitate linkages with investors, new markets and technologies as well as scaling up incubator operations to reach a larger number of entrepreneurs. Much focus was given to partnerships between investors, MSMEs, and educational entities. Moreover, training workshops for women entrepreneurs were held in Alexandria and underserved Governorates to educate them on project planning, feasibility studies, as well as build their capacities as entrepreneurs. With the assistance of the Bank, SFD has prepared an extensive manual for women, which covers all aspects of starting and managing a business. Potential female-run start-ups were also provided with non-financial support including business plan preparation, business skills development, physical hosting, and, linking the start-ups with mentors and forging partner-owned SMEs.

directed to help recent graduates to establish their micro enterprises. This will create job opportunities for youth who suffer from the highest levels of unemployment.
46. **Stakeholder’s Consultation:** Increasing voice, participation, and accountability is a critical priority in the MENA region. Citizen engagement will ensure transparent and effective processes for greater citizen voice and participation in the preparation, implementation, monitoring and evaluation (M&E) of the operation; with the objective of improving accountability and thereby increasing the development impact of the project for all citizens. The aim is to maximize client impact and results by incorporating citizens’ voices into the operation. Throughout the project preparation phase, SFD discussed with stakeholders—banks (state-owned and private), NGOs-MFIs, VCCs and financial leasing companies, as well as other potential financial institutions — the design and details of the proposed project. The consultations with numerous stakeholders will continue throughout project implementation to ensure their buy-in and ownership. For example, SFD organized a roundtable discussion on October 29, 2013, to discuss financial inclusion in Egypt, and build a greater understanding among key stakeholders supporting the MSME sector.11

47. **Beneficiary feedback mechanisms.** In order to ensure the strong impact of the operation on the ground, beneficiary feedback mechanisms will be integrated in the project (see Annex VIII for full description). Feedback loops will be integrated throughout the project cycle by developing customized, sustainable, context-specific feedback mechanisms. Directly collecting feedback from beneficiaries during their access to financing will guarantee that their experience is monitored; that they do not face discrimination and that any issue is spotted early and addressed before it becomes a problem. Using beneficiaries’ feedback before, during, and after beneficiaries apply for financing, enables the project to monitor whether beneficiaries are receiving timely and appropriate information, adequate service, that they are not subjected to improper behaviors or corruption practices, and that PFIs do not create unnecessary hurdles or discrimination. Mainstreaming citizens and effective beneficiary feedback mechanisms will ensure a transparent financing process, with every potential beneficiary provided with adequate and timely information which will contribute to a more level playing field and providing equal opportunity.

B. **Project Cost and Financing**

48. The proposed project is an Investment Project Financing (IPF) of US$300 million provided on loan terms. The Variable-Spread Loan has a final maturity of 28.5 years, including a grace period of seven years with repayment linked to commitment. After deducting the front-end fees (US$750,000), the project cost and financing is US$299.25 million. The SFD will carry the foreign exchange risk.

IV. **IMPLEMENTATION**

A. **Institutional and Implementation Arrangements**

49. The SFD as the implementing entity for the project is mandated by Law 141 of 2004, as well as the Prime Ministerial Decree No. 318 of 2013, to lead and coordinate the MSE development sector in Egypt. As per Project Agreement, the SFD will maintain the Project Implementation Unit (PIU) with adequate staff, resources, and terms of reference in order to manage, monitor, and evaluate the proposed project. The SFD already has a successful track record in implementing Bank-financed operations, consistent with the Bank’s policies and procedures. This has been evident in the recent smooth execution of the ongoing Egypt

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11 Stakeholders who participated, include CBE, EBI, the Egypt Post, the National Telecommunications Regulatory Authority (NTRA), Ministry of Social Solidarity, the Federation of Insurance, Egyptian Banks’ Network, Dakahlia Businessmen Association (DBACD), ABA, LEAD Foundation, Tadamun, the Egypt Microfinance Network, Aga Khan Foundation, USAID, Canada’s Department of Foreign Affairs, Trade, and Development (DFATD), as well as private and state-owned banks.
The World Bank-financed Egypt Enhancing Access to Finance for Micro and Small Enterprises Project that was approved by the Board on March 9, 2010, is the first project in the MENA Region that addresses the development of the MSE sector. The project aimed at improving enterprise access to finance, with the objective of creating employment opportunities. The project has made significant progress in meeting its developmental objective of contributing to a sustainable improvement in inclusive access to finance for MSEs on a commercial basis, since its first disbursement in April 2011.

The project has been widely recognized for its gender mainstreaming feature and its strong impact on women’s economic empowerment, as evident in the increase in the number of female-owned MSEs from 4,573 to 24,556 from June 2012 to January 2014 (representing 25 percent of financed projects). The project was selected by the International Women’s Business Leaders Council to showcase the importance of the economic empowerment of women. Time Warner prepared a video used for websites, blogs, and tweets on women and access to finance. The project has also been selected as part of the Think Equal Campaign, and a movie showing the World Bank-financed project’s impact on the life of women was broadcasted during the 2012 IMF-World Bank Annual Meetings. It has also been awarded a SMART Economics First Prize for contributing to the Gender and Development, Women in Business Special Competition, entitled “Banking on Women—How Credit Lines Can Target Women Most Efficiently”.

Youth, a severely underserved segment suffering from disproportionately high unemployment rates, have been effectively targeted under the project. More than 41,000 youth-owned micro entrepreneurs represent 60 percent of total microfinance lending during January 2011–January 2014. Furthermore, the line of credit has played a key role in promoting startups, which represent 39 percent of funded projects under the small enterprise financing component. The project also had impressive outreach in the marginalized areas, where 40 percent of the value of disbursed micro loans and 30 percent of small loans were allocated to underserved Governorates, such as Marsa Matrouh, Kafr El-Sheikh, Menoufiya, and Beheria, as well as marginalized Governorates in Upper Egypt including Menia, Sohag, Fayoum and Beni Sueif with a focus on the poorest villages. All this contributed to attaining a more inclusive system, and shared economic prosperity.

Enhancing Access to Finance for MSEs Project (Box 2). The satisfactory implementation of the ongoing project demonstrates SFD’s capacity to implement the proposed operation.

50. The SFD benefited throughout the preparation and implementation of previous Bank-financed operations in improving its internal control procedures, including updating the Financial Management (FM) Manual and the Internal Audit (IA) risk-based approach strategy. SFD has also improved significantly its procurement procedures, evident in the procurement practices of the project beneficiaries that are in line with the best practices suggested by the Bank. An Operational Manual (OM) for the ongoing project prepared in line with Bank guidelines and procedures has been useful in laying the groundwork for the proposed operation. An updated OM which reflects the new project design has been found acceptable to the Bank.

51. It is worth noting that SFD, post-revolution, has undergone major institutional and governance-related reforms. Under the leadership of the new management that took office in
October 2011, a modernization process has started. The SFD Board composition has significantly changed from having five ministers, to inclusion of representatives from the private sector, financial sector, think tanks, civil society, and youth groups. New and experienced staff was recruited and new units were established (Governance, Gender, and M&E). Governance and transparency have been significantly improved—SFD is currently posting its financial statements on their web page and enhancing the accountability of public entities. As such, SFD has evolved to become a prominent and credible developmental finance institution with a competent Board, strong management capacity, market knowledge and a good governance structure, tremendous experience in project implementation, and hence is well equipped to implement this proposed operation.

52. The project is consistent with international good practice for wholesale MSE lending facilities, and is in compliance with the Bank policies and standards for lines of credit. The proposed line of credit would be on-lent on market terms, without creating market distortion. SFD’s on-lending rate is similar to or more expensive than the cost of alternative sources of funds for NGOs and banks. SFD sets on-lending rates to cover cost of funds, operating costs, and currency risk, and also to be competitive with market rates and ideally to ensure a real positive interest rate. The SFD would charge an interest rate on loans to cover SFD repayment to the Bank, its operational expenditures, and foreign exchange risk. The loan interest rates charged to banks and NGOs will be based on the costs of SFD funding and its credit rating of the banks and NGOs. At a minimum, these rates will be positive in real terms and provide reasonable rates of return to SFD and cover the currency risk on the Bank loan.

B. Results Monitoring and Evaluation

53. A robust system to monitor and evaluate progress is crucial to the project success, and will be implemented based on the agreed results framework, monitoring arrangements and indicators. A strong M&E framework to track inputs, outputs, and outcomes in a systematic and timely fashion has been discussed, and agreed on with SFD. The data will be generated as an integral part of the day-to-day business of the PFIs and NGOs-MFIs, as well as from an impact evaluation with a tailor-made baseline and follow-up surveys to assess impact on the ground and delivery (job creation, poverty reduction, gender mainstreaming). M&E will be based on clearly identified benchmarks and output indicators that feed into the project indicators. In addition, a beneficiary feedback mechanism has been integrated in the project.

C. Sustainability

54. Project sustainability will be facilitated by the Government’s strong commitment to increase access to finance for MSEs and financial institutions’ increasing focus on the MSE segment. Furthermore, the line of credit will focus on the financial institutions meeting the relevant eligibility criteria as defined by scale, portfolio quality, institutional capacity and a medium to long-term strategy which includes focusing on MSE lending. This approach will promote strong finance providers capable of operating efficiently on a large scale, widen the range of financial products offered, and would also encourage other providers to improve their capacity. The project will contribute to extreme poverty alleviation through extending micro lending especially to marginalized groups such as women and underserved regions. The project will also contribute to job creation through financing young enterprises that have high growth potential.
V. **KEY RISKS AND MITIGATION MEASURES**

A. **Risk Ratings Summary Table**

<table>
<thead>
<tr>
<th>Risk Category</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project Stakeholder Risks</td>
<td>M</td>
</tr>
<tr>
<td>Implementing Agency (IA) Risks</td>
<td></td>
</tr>
<tr>
<td>- Capacity</td>
<td>M</td>
</tr>
<tr>
<td>- Governance</td>
<td>M</td>
</tr>
<tr>
<td>Project Risks</td>
<td></td>
</tr>
<tr>
<td>- Design</td>
<td>M</td>
</tr>
<tr>
<td>- Social and Environmental</td>
<td>L</td>
</tr>
<tr>
<td>- Program and Donor</td>
<td>L</td>
</tr>
<tr>
<td>- Delivery Monitoring and Sustainability</td>
<td>M</td>
</tr>
<tr>
<td><strong>Overall Implementation Risk</strong></td>
<td><strong>M</strong></td>
</tr>
</tbody>
</table>

B. **Overall Risk Rating Explanation**

55. The Project’s risks and all specific measures identified to reduce them were carefully assessed during preparation and appraisal. The overall project risk has been rated as moderate because of the strong record of the executing agency to implement related projects using Bank guidelines and the tested project design given the successful first operation. The high potential impact and continued demand for MSE finance justify the project and its interventions.

56. Project stakeholder risks include the delay or reversal of policy commitment to enhancing access of MSEs to finance due to changes in management. Given repeated policy actions by the Egyptian authorities this risk is considered low. The overall economic and political environment is uncertain, and thus can negatively affect the entrepreneurs’ appetite and make financial institutions reluctant to finance the private sector. Economic projections determine that liquidity support provided through this project will be in high demand and will provide significant value added to MSEs. Project risks associated with project design include the risk that the PFIs may not adequately absorb the financing from the line of credit. These risks, however, are mitigated by strong coordination between the Bank and the executing agency as well as key partners and counterparts. Similarly, complementary non-financial assistance via the MSME TA facility can help address market bottlenecks or capacity issues amongst project partners and participants. Please see Annex IV for a full list of risks and mitigation measures.

VI. **APPRaisal SUMMARY**

A. **Economic and Financial Analyses**

57. MSEs are a major source of employment and income for significant proportions of the labor force. A major advantage of the MSME sector is its employment potential at low capital cost. Furthermore, the labor intensity of this sector is much higher than that of the large enterprises. MSEs are a linchpin in promoting inclusive growth, improving the welfare of the poor and women. The project is also expected to provide timely and essential working capital financing for MSEs amidst political and economic turmoil. This financing will positively contribute to the survival of the existing MSEs and will help many of them to sustain their

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12 The sub-projects that can be funded by the project are unidentified in the current stage. Therefore, it is not possible to conduct a traditional economic and financial analysis and estimations of the ERR and ENPV. Similar bank projects in others regions (Turkey and Vietnam) faced the same constraints.
businesses if not to grow. This operation is also expected to make an essential contribution to the financial system in Egypt by introducing and mainstreaming new financial vehicles to the market such as venture capital, factoring and financial leasing. Introducing these products to a wider range of the market will help to mainstream these vehicles and will positively contribute to the creation of the appropriate ecosystem needed for a healthy and competitive private sector. The project is expected to benefit over 100,000 individuals over five years, of which more than 35,000 would be women. The line of credit is expected to finance more than 125,000 microfinance enterprises in different sectors and regions, and close to 5,000 small enterprises. The operation will contribute to sustainable job creation in these segments, in addition to maintaining the current level of employment in these times of dire economic conditions.

58. This operation is timely as the current political and economic instability is discouraging private sector financial institutions from extending credit to MSEs. Public finance is a viable option to incentivize this sector and provide it with necessary liquidity to be sustainable. Furthermore, the budget deficit is constraining the government from adequately stimulating MSEs, hence this operation is vital to the sustainability of this sector without adding short term burdens on government financing.

59. This operation adds value on several fronts. First, it provides liquidity to a significant sector of the economy that is deprived of adequate financing. Second, the Bank is advocating innovative financing mechanisms hence giving the opportunity to the evolution of innovative financing tools in the Egyptian market. Encouraging the SFD to work with venture capital companies and providing the former with proper technical assistance is an opportune chance that should be capitalized on to enhance access to finance to innovative start-ups. Third, this operation provides a variety of financing mechanisms such as factoring, leasing and Islamic finance that will cater different segments of the economy.

B. Technical Analysis

60. SFD will on-lend to financial institutions that will then lend to the end beneficiaries in the case of banks, NGOs-MFIs, and leasing companies, or provide equity financing/convertible debt in the case of venture capital companies. Lending will only take place if the potential bank, NGOs-MFIs, VCC, or financial leasing company meets specific eligibility criteria that are acceptable to the World Bank and that were designed and agreed upon with the authorities. The operation will contribute to improving financial intermediation, enhancing access to finance for different segments of the society. The main clients will be the unbanked, young entrepreneurs with innovative ideas, yet lacking funding to venture into businesses, enterprises that do not have a lengthy credit history or a sufficient asset-base to use as collateral, as well as women entrepreneurs especially in marginalized Governorates where there are more social and cultural barriers. The project will also incentivize these PFIs to expand product offerings and modalities to MSEs beyond traditional lending; including, *inter alia,* equity financing, convertible debt, new Islamic finance products, more gender targeting, supply chain financing, and cluster development. Subject to adherence to eligibility criteria, the banks and NGOs-MFIs proposals would be evaluated in light of the additionality they entail in financing MSEs—for example in introducing new products, reaching particularly underserved regions or new MSEs, innovative use of delivery channels, and any actions for improving their MSE business.

C. Financial Management and Disbursement Arrangements

61. The Financial Management assessment concluded that SFD financial management arrangements are considered acceptable for the purpose of implementing the project, including the accounting system, accounting policies and procedures, budgeting system, reporting, staffing,
internal controls, internal auditing and external auditing. SFD will benefit from its experience with other World Bank-financed projects, and most recently the ongoing Egypt Enhancing Access to Finance for MSEs Project and the Emergency Labor Intensive Investment Project, for which the Bank worked closely with SFD throughout preparation to improve the SFD’s internal control procedures including updating the FM Manual and the IA risk-based approach. A detailed discussion of the FM arrangements is included under Annex II, Implementation Arrangements.

D. Procurement

62. This is an on-lending operation, where the 100 percent of loan proceeds is channeled through the SFD and is on-lent to PFIs. The PFIs will then extend the funds to the beneficiary MSEs in the form of credit and/or equity, according to the nature of the PFI, through different means, to use for a number of loan types including working capital and investment loans. It is very difficult, and nearly impossible, to determine the final MSE beneficiaries at this stage since they have yet to be selected by PFIs. However, the project shows that SFD is exercising its due diligence at various stages of the process to ensure viability of the selected MSEs, as well as adopting principles of economy, efficiency and transparency to assess the creditworthiness and eligibility of the MSEs applying for loans under the operation. The SFD will also ensure that this project is carried out in accordance with the provisions of the Bank’s Anti-Corruption Guidelines.13

63. Sub-loans to MSEs will be used to either increase their working capital or for procurement of goods or limited works. Goods and non-consulting services financed for these subprojects may be procured under contracts awarded pursuant to paragraph 3.13 of the Procurement Guidelines14 (Procurement in Loans to Financial Intermediary Institutions and Entities). The OM describes the basic guiding procurement principles, the established acceptable methods allowing shopping and/or direct contracting to be followed, procedures, and commercial practices. Based on its design, the Project will only provide loans to the beneficiary MSEs and no PIU-related procurement pertaining to goods or hiring of staff is envisaged under this Project, therefore, capacity assessment for the implementing agency to carry out procurement was not required. Furthermore, a procurement plan will not be needed given the nature and design of the Project.

E. Social (including safeguards)

64. The social impacts of the proposed project would primarily be positive. The targeted beneficiaries will be MSEs. Investment in these enterprises is expected to lead to the creation of job opportunities for local population, and eventually would help increase local people’s income, diversify livelihoods, and contribute to poverty reduction. In particular, the project will give priority to women and young entrepreneurs. Adequate measures will be taken to avoid and/or mitigate potential negative social impacts related to unequal opportunities of women and poor in access to finance. Specifically, the OM includes the principles, criteria, procedures, and process of sub-project screening, as well as a grievance redress mechanism. The OM also includes a mechanism to ensure that: (i) women and men have equal opportunities in access to finance; and (ii) the labor health and safety issues concerned would be adequately addressed. Social safeguards policies are not triggered. Any subproject which might involve land acquisition or involuntary resettlement impacts will not be eligible for financing by this project. Therefore this

13 “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants” dated October 15, 2006 and revised in January 2011.
project will not trigger the Bank policy on Involuntary Resettlement (OP 4.12). In addition, the project will not finance any subprojects which affect any indigenous people’s communities or groups.

F. Environment (including safeguards)

65. The project is classified as Category FI (Financial Intermediation). An Environmental and Social Management Framework (ESMF) for the project has been reviewed and cleared by the Bank. It was subsequently disclosed and posted on the website of the SFD and the InfoShop on December 17, 2013. The Arabic translation of the Executive Summary of the Bank has also been disclosed. As the sub-loans to MSEs are small to medium scale, it is expected that environmental risks, particularly the risk of using the loan for an activity detrimental to the environment, will not be significant or large-scale. No impact is considered irreversible (see Annex III for details on implementation arrangements).

66. The ESMF has essentially utilized the 2009 Environmental Management Plan (EMP) prepared and adopted by the SFD for the Egypt Enhancing Access to Finance for MSEs Project. It has included a full assessment of the institutional capacity of the SFD, as well as the assessment of the legal framework to ensure that the project follows the World Bank’s environmental and social safeguards policies, as well as the relevant national environmental legislation. The EMP that was prepared in 2009 has been re-disclosed alongside the ESMF in order to provide a complete overview of the environmental and social measures identified for both projects.
## ANNEX I
### RESULTS FRAMEWORK AND MONITORING
#### EGYPT: PROMOTING INNOVATION FOR INCLUSIVE FINANCIAL ACCESS PROJECT

**PROJECT DEVELOPMENT OBJECTIVE (PDO):** To expand access to finance for MSEs in the Arab Republic of Egypt, using innovative financing mechanisms, with a special focus on youth and women, as well as underserved regions.

<table>
<thead>
<tr>
<th>PDO Level Results Indicators</th>
<th>Core</th>
<th>Unit of Measure</th>
<th>Baseline</th>
<th>Cumulative Target Values</th>
<th>Frequency</th>
<th>Data Source/Methodology</th>
<th>Responsibility for Data Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct project beneficiaries, of which female (percentage)</td>
<td>✔️</td>
<td>Number</td>
<td>0</td>
<td>21,833 (25%) 43,766 (26%) 72,733 (29%) 101,733 (34%) 103,900 (37%)</td>
<td>Annual</td>
<td>SFD</td>
<td>SFD</td>
</tr>
<tr>
<td>Outstanding MSE portfolio of participating Financial Institutions</td>
<td>✔️</td>
<td>LE Million</td>
<td>1,886</td>
<td>5,356 7,535 9,953 12,499 15,929</td>
<td>Annual</td>
<td>Participating Financial Institutions</td>
<td>SFD</td>
</tr>
<tr>
<td>Number of innovative financial products offered to MSE</td>
<td></td>
<td>Number</td>
<td>0</td>
<td>1 2 2 2 3</td>
<td>Annual</td>
<td>Participating Financial Institutions</td>
<td>SFD</td>
</tr>
<tr>
<td>Youth* -owned businesses served by the line of credit</td>
<td></td>
<td>Percent</td>
<td>0</td>
<td>40 40 40 40 40</td>
<td>Annual</td>
<td>Participating Financial Institutions</td>
<td>SFD</td>
</tr>
<tr>
<td>Women-owned businesses served by the line of credit</td>
<td>✔️</td>
<td>Percent</td>
<td>0</td>
<td>25 26 29 34 37</td>
<td>Annual</td>
<td>Annual Reports</td>
<td>Participating Banks/SFD</td>
</tr>
</tbody>
</table>

### INTERMEDIATE RESULTS

<table>
<thead>
<tr>
<th>PDO Level Results Indicators</th>
<th>Core</th>
<th>Unit of Measure</th>
<th>Baseline</th>
<th>Cumulative Target Values</th>
<th>Frequency</th>
<th>Data Source/Methodology</th>
<th>Responsibility for Data Collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume of small financing from the line of credit to participating financial institutions</td>
<td>✔️</td>
<td>LE Million</td>
<td>0</td>
<td>250 530 820 1,120 1,470</td>
<td>Monthly</td>
<td>SFD Direct Reports</td>
<td>SFD</td>
</tr>
<tr>
<td>Volume of micro financing from the line of credit to participating financial institutions</td>
<td></td>
<td>LE Million</td>
<td>105</td>
<td>210 350 490 630</td>
<td>Annual</td>
<td>Participating Financial Institutions</td>
<td>SFD</td>
</tr>
<tr>
<td>Number of participating financial leasing companies</td>
<td></td>
<td>Number</td>
<td>0</td>
<td>1 2 3 3 3</td>
<td>Annual</td>
<td>SFD Direct Reports</td>
<td>SFD</td>
</tr>
<tr>
<td>Number of venture capital companies and angel investors engaged</td>
<td></td>
<td>Number</td>
<td>0</td>
<td>0 0 1 1 1</td>
<td>Annual</td>
<td>SFD Direct Reports</td>
<td>SFD</td>
</tr>
<tr>
<td>Number of women served through the line of credit</td>
<td>✔️</td>
<td>Number</td>
<td>0</td>
<td>5,500 11,500 21,500 35,500 38,500</td>
<td>Monthly</td>
<td>SFD Direct Reports</td>
<td>SFD</td>
</tr>
<tr>
<td>Person days (defined as 20 in a month) of employment created</td>
<td></td>
<td>Thousand</td>
<td>0</td>
<td>3,972 8,088 13,176 18,312 23,688</td>
<td>Annual</td>
<td>World Bank</td>
<td>World Bank</td>
</tr>
<tr>
<td>Number of microfinance enterprise clients</td>
<td>✔️</td>
<td>Number</td>
<td>21,000</td>
<td>42,000 70,000 98,000 126,000</td>
<td>Annual</td>
<td>Annual Reports</td>
<td>SFD</td>
</tr>
<tr>
<td>Portfolio at risk for participating lenders, 90 days</td>
<td>✔️</td>
<td>Percent</td>
<td>0</td>
<td>&lt;5 &lt;5 &lt;5 &lt;5 &lt;5</td>
<td>Quarterly</td>
<td>Quarterly Reports</td>
<td>SFD</td>
</tr>
<tr>
<td>Number of small enterprise clients</td>
<td></td>
<td>Number</td>
<td>833</td>
<td>1,766 2,733 3,733 4,900</td>
<td>Annual</td>
<td>SFD Direct Reports</td>
<td>SFD</td>
</tr>
</tbody>
</table>

*For the purpose of this project, youth will be defined as those below the age of 35
ANNEX II

DETAILED PROJECT DESCRIPTION
EGYPT: PROMOTING INNOVATION FOR INCLUSIVE FINANCIAL ACCESS PROJECT

1. The proposed operation is an investment project in the amount of US$300 million. The Bank loan will be channeled through the SFD - the implementing entity - which is the apex institution mandated to lead and coordinate the MSE development sector in Egypt. SFD would then on-lend to financial institutions that would ultimately reach the end MSE beneficiaries through lines of credit, equity investment, and/or convertible debt according to the nature of the PFI. SFD will be responsible for communicating the features of the loan to the financial intermediaries and negotiating loan contracts.

2. The operation will enhance the role of financial institutions in spurring economic growth through financing and developing the MSE sector in Egypt. Also, through contributing to an improvement in access to finance for MSEs, this project will ultimately expand economic opportunities and job creation. In doing so, the operation will also demonstrate how improved financial intermediation for MSEs can lead to sustainable private sector job creation, development of entrepreneurship capacities and contribute to overall economic growth and poverty reduction. Furthermore, it will ensure more inclusive economic growth for a significant segment of youth, women and underprivileged Egyptian entrepreneurs in marginalized areas.

3. A range of innovative mechanisms will be tapped on to enhance and expand access to finance for MSEs in Egypt with a special focus on youth and women, as well as underserved regions. At the borrower level, this will take the form of new financial products for MSEs (financial leasing, venture capital); specific designs that would mitigate the hurdles faced by certain excluded market segments (i.e. women, youth); new delivery channels that would expand outreach to underserved villages (post offices); and addressing unmet demands (Islamic finance).

   At the institutional level, innovations will be centered on new partnerships between banks, MFIs, financial leasing companies, venture capital companies, and the Post to broaden the array of commercial providers in the market. The disbursement and allocation of funds among the various financing mechanisms will be demand-driven, based on market needs, and will also depend on the performance of the various financial institutions, taking into account lessons learned from previous operations. 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.

4. The project will address challenges of geographical outreach and of demand for Islamic financial products, particularly in Upper Egypt where there is the highest demand for Sharia-compliant services, as well as the highest poverty rates. Pursuing this for the current operation, SFD will provide funding to banks, NGOs-MFIs, and financial leasing companies (such as Banque Misr, Upper Egypt Leasing Company) that possess a particularly good track record operating in Upper Egypt, to diversify the menu of financial instruments provided to MSEs through offering Islamic financial products (Mudarba, Musharka, Ijarah, and Takaful). This will enhance financial intermediation and unlock new opportunities for growth for those who specifically seek this mode of financing, particularly for women, who achieved collection rates up to 95 percent for Islamic microfinance loans offered in Upper Egypt.15

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15 Abu Dhabi Islamic Bank (ADIB) is one of the potential partners in implementing the Islamic finance component.
5. There is demand for Sharia-compliant products—equity-based financial instruments such as Mudarba and Musharaka—to promote entrepreneurship, share risks, and foster financial intermediation. Both instruments differ in structure from conventional collateral based financing. These instruments engage the financial institution and entrepreneurs in a partnering relationship with intense monitoring from both parties of the business activity and performance. This in turn minimizes moral hazard and maximizes the realized profits leading to stable growth for MSEs. These instruments currently account for around eight percent of Islamic financial assets, driven by the intense risk aversion of Islamic financial institutions, as well as lack of MSEs capacity to implement such instruments.

6. The project will encourage Islamic banks to adopt more of those risk sharing instruments that were proven to support entrepreneurs and support MSE’s growth particularly during the startup phase. The project will also promote the deepening of MSEs access to Islamic financial products through mainstreaming other risk-sharing non-bank financial services such as Ijarah—leasing, as well as, micro Takaful—insurance. The provision of Ijarah instruments will reduce investment costs for MSEs and strengthen their competitiveness especially during their infancy stage. Moreover, micro Takaful will help entrepreneurs hedge against unanticipated shocks.[16]

7. The project will include a strong gender mainstreaming feature through the provision of special financial and non-financial products for women, which will contribute to their economic empowerment, and in turn increase the total number of participants contributing to the economy at large. According to the recently launched World Bank database on financial inclusion (Global Findex, 2012), of those respondents who cited religious reasons for not holding accounts with formal financial institutions, 60 percent were female, and 90.8 percent were from low and middle-income quintiles (Figure A2.1). [17] Cross-country experience confirms that successful models of Islamic microfinance in Bangladesh and Indonesia are usually associated with Sharia-compliant savings accounts that help mobilize deposits and instill a culture of savings as well as contribute to economic development. This project, through the involvement of Post Offices, and banks that offer Islamic financial services will enhance the outreach to remote areas inhibited by the unprivileged segments that are seeking access to Sharia-compliant services but cannot necessarily get it.

8. To ensure the strong impact of the project, the operation will be complemented with technical assistance under the joint World Bank-IFC MENA MSME Facility. Technical assistance and advisory services will be provided under the facility to improve the business environment for MSE lending, build the capacity of financial institutions, as well as MSEs, and to support business development services in Egypt. This package of assistance will help unlock the market for lending to MSEs and improve the access of job-creating enterprises to liquidity and much needed funding.

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[16] A potential PFI that will engage in this operation is the Upper Egypt Leasing Company which enjoys a long track record of operating in Upper Egypt and currently holds a volume of LE 50 million (US$7 million) in Ijarah leases in this region, and ensures the possibility of leveraging more than LE 150 million (US$21 million) to face the growing demand for Ijarah in the most underserved region in Egypt.

ANNEX III
IMPLEMENTATION ARRANGEMENTS
EGYPT: PROMOTING INNOVATION FOR INCLUSIVE FINANCIAL ACCESS PROJECT

I. IMPLEMENTING AGENCY

1. The Ministry of Planning and International Cooperation, representing the Government of Egypt, has designated the SFD as the implementing entity for the project, which will be responsible for coordinating and managing the overall operation. SFD is the apex institution mandated by Law 141 of 2004, as well as Prime Ministerial Decree 318 of 2013, to lead and coordinate the MSE development sector in Egypt. SFD already has a successful track record in implementing Bank-financed operations, consistent with the Bank’s policies and procedures. This has been evident in the recent smooth execution of the Egypt Enhancing Access to Finance for Micro and Small Enterprises Project. The satisfactory implementation of the ongoing project demonstrates SFD’s capacity to implement the proposed operation. The SFD benefited throughout the preparation and implementation of previous Bank-financed operations in improving its internal control procedures including updating the Financial Management (FM) Manual and the Internal Audit risk-based approach strategy. On procurement, it also gained experience, evident in the procurement practices of the project beneficiaries that are in line with operational practices mandated by the Bank. An Operational Manual (OM) for the ongoing project prepared in line with Bank guidelines and procedures has been useful in laying the groundwork for the proposed operation.

2. It is worth noting that SFD, post-revolution, has undergone major institutional and governance-related reforms. Under the leadership of the new management that took office in October 2011, a modernization process has started. The SFD Board composition has significantly changed from having five Ministers, to now include representatives from the private sector, financial sector, think tanks, civil society, and youth groups. New and experienced staff were recruited and new units were established (Governance, Gender, and M&E). Governance and transparency have been improving. SFD is currently posting its financial statements on their web page, enhancing the accountability of public entities. As such, SFD has evolved to become a prominent and credible developmental finance institution with a competent Board, strong management capacity, market knowledge and a good governance structure, tremendous experience in project implementation, and hence is well equipped to implement this proposed operation.

3. An updated OM acceptable to the Bank has been prepared by SFD. The OM includes, among other things, the agreed FM and disbursement arrangements; procurement arrangements; Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, dated October 15, 2006 and revised in January 2011; and a detailed framework for the continuous measurement and monitoring of outcomes, a key element in ensuring effective implementation. It also includes the eligibility criteria for financial institutions that could access the funds. The eligibility criteria ensure that financially sound institutions are selected. Also, it ensures proper governance, monitoring and reporting standards for these institutions.

4. The SFD established a Project Implementation Unit (PIU), whose capacity continues to be strengthened under the MSME TA Facility. SFD will be responsible for ensuring compliance of project activities to the fiduciary and safeguards arrangements for the project. Funds will be
channeled through SFD, which will then on-lend to eligible financial institutions that would ultimately reach the end beneficiaries, namely MSEs, as well as young firms. Given its financial capacity and track record, SFD is well placed and has the capacity to implement the project and ensure compliance during implementation. Arrangements are put in place to ensure adequate project implementation support, covering fiduciary and safeguards aspects, with semi-annual implementation missions. The implementation support team has capitalized on expertise from the Bank, as well as, external experts, where necessary. Meetings with other concerned stakeholders engaged in MSE finance, including donor agencies, will be undertaken during implementation support missions.

5. The implementation support team will also carry out a continuous assessment of the SFD’s capacity for safeguards implementation and monitoring as per the ESMF.

6. The project is consistent with international good practice for wholesale MSE lending facilities and standards for lines of credit. The proposed line of credit would be on-lent on market terms, without creating market distortion. SFD’s on-lending rate is similar to or more expensive than the cost of alternative sources of funds for NGOs and banks. SFD sets on-lending rates to cover cost of funds, operating costs, and currency risk, and also to be competitive with market rates and ideally to ensure a real positive interest rate. Interest rates are due to be revised accordingly by SFD.

7. SFD loans would charge an interest rate to cover SFD repayment to the Bank, its operational expenditures, and foreign exchange risk. The loan interest rates charged to banks and NGOs will be based on the costs of SFD funding and its credit rating of the banks and NGOs. At a minimum, these rates will be positive in real terms and provide reasonable rates of return to SFD and cover the currency risk on the Bank loan.

8. Since the sub-loans could not be specified prior to appraisal, an ESMF, as opposed to an EMP, has been prepared in consultation with the stakeholders through the SFD. The ESMF comprised a description of the institutional and legal framework, potential positive and negative impacts of the project, the safeguard screening procedures to review sub-loans, and the public consultation/participation procedures taken to integrate the views of the stakeholders in the document. The ESMF is prepared as an environmental and social manual, which has been included in the OM. Hence all the project sub-loans will be screened by SFD for any potential negative environmental impacts following the environmental guidelines. The project will be implemented in accordance with the ESMF, and as such will comply with the Bank’s safeguards policies, in addition to the applicable Egyptian laws and regulations. The legal basis for the EIA system in Egypt is established in the Environment Protection Law No. 4 of 1994, which was amended by Law No. 9 of 2009.

9. As part of project preparation and to prepare for early project start-up, detailed eligibility criteria for financial institutions have been developed and agreed upon with the Bank (see Annex VI).

II. PROCUREMENT ARRANGEMENTS

A. General

1. Procurement under the proposed line of credit, which represents 100 percent of the loan proceeds, will be carried out in accordance with Paragraph 3.13 (Procurement in Loans to Financial Intermediary Institutions and Entities) of the World Bank’s “Guidelines: Procurement
of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers”, dated January 2011, and the provisions stipulated in the Loan Agreement. The procurement arrangements are described below.

2. Credit line would be provided to the Financial Intermediaries (FIs) through SFD (Small Enterprise Development Organization (SEDO) and Microfinance Departments) for on-lending to MSEs (micro and small enterprises including self-employed individuals) as sub-loans on commercial lending terms. The sub-loans will range from LE 100 to LE 50,000 in case of microfinance and from LE 50,001 to LE 2,000,000 in case of small finance for either working capital and/or investment. The identity of the MSEs will not be known until the project’s implementation is underway and such loans are actually granted by the FIs. MSEs, once granted a loan, will be able to use the funds for the acquisition of goods or small works, and in many instances, for incremental operating costs. These costs will be related to the day to day running of an MSE business including costs in respect to transport, utilities, stationary, rental equipment, registration fees and contract wages.

3. Consistent with Paragraph 3.13 of the Bank’s Procurement Guidelines, procurement in loans to financial intermediary institutions and entities would be undertaken by the respective MSEs in accordance with private sector procurement methods or commercial practices which are acceptable to the Bank.

4. The sub-loan beneficiaries’ private sector or commercial practices should give strong consideration to the use of International Competitive Bidding (ICB) for the purchases of large single items or in cases where large quantities of like goods can be grouped together for bulk purchasing. They shall also meet the following general principles contained in the Credit Line and Operational Manuals for Micro and Small Finance: (i) they shall not grant preference to contractors of the beneficiary’s group of shareholders; and (ii) they shall result in fair competition to bidders; economy (lowest cost); efficiency (satisfactory quality); and transparency.

B. Assessment of the Agency’s Capacity to Implement Procurement

5. Since SEDO and the Microfinance Departments of the SFD would only be responsible for the overall management and supervision of the project, but not for undertaking procurement with project funds, there is no need in assessing the Implementing Agency’s capacity to implement procurement, although an assessment of the capacity of the SFD to implement the project was carried out by the World Bank in October 2009. The assessment reviewed its organizational structure and functions, past experience, staff skills, quality and adequacy in supporting of operations and control systems which concluded that SFD has the capacity to implement such a project. Moreover, the ongoing project has also demonstrated the SFD’s capacity.

6. The principles of economy, efficiency and transparency to assess the creditworthiness and eligibility of the MSEs would apply for sub-loans under this operation. A negative list will be prepared and agreed upon with the Bank to ensure proper use of the sub-loans.

C. Procurement Plan

7. Because it is not possible to determine at the appraisal stage neither the beneficiary MSEs nor their procurement requirements, it is not feasible for the SFD to develop a Procurement Plan which provides the basis for the procurement methods that would be allowed under the MSEs private sector or commercial practices. Instead, an overall implementation plan including number
of FIs, number of target MSEs and loans to be disbursed would be prepared by SFD pertinent
departments for results monitoring.

III. FINANCIAL MANAGEMENT ARRANGEMENTS:

A. Roles and Responsibilities

8. The SFD: The SFD will be responsible for maintaining the project’s FM arrangements
including providing oversight of sub-projects implementation and monitoring the Intermediaries’
compliance with the Operations Manual, including financial and internal control procedures. The
SFD will be responsible for budgeting, recording and reporting financial activities under the
umbrella of the project, requesting transfer of funds from the World Bank and transferring funds
to the Intermediaries. The SFD will contract an independent external auditor based on terms of
reference (TORs) acceptable to the Bank, for the purpose of carrying out annual audits of the
Project’s Financial Statements.

9. The SFD Internal Audit (IA): As per the existing IA risk-based strategy, the IA
department will be responsible for evaluating all intermediaries involved in the implementation
of the sub-projects under this project. The IA department has representatives stationed in its
Regional Offices (ROs) who will be responsible for carrying out the detailed assessments. The
Bank reviewed the IA strategy, including the process of assessing the capacity of intermediaries
to implement sub-projects and found the IA strategy and the IA capacity assessment process to
be acceptable. Subsequent to the IA’s assessment and approval, the SFD would sign a financing
agreement with the selected intermediary. The IA, through conducting field visits, will follow up
on the project implementation throughout the project’s life.

10. The SFD will benefit from its experience with World Bank-financed projects, in
particular, the ongoing Egypt Enhancing Access to Finance for MSEs Project and the Labor
Intensive Emergency Project. The Bank worked closely with the SFD team to improve the SFD’s
internal control procedures, including updating the FM Manual and the Internal Audit risk-based
approach strategy throughout the preparation of the abovementioned projects.

11. Given the introduction of new financing mechanisms (leasing, factoring and venture
capital), the Operations Manual will be revised to clarify the relations/responsibilities of the
different layers of implementation. It will also clarify the flow-of-funds procedures through new
parties to be involved such as the Post.

12. The SFD’s Internal Audit Department (IAD) will play a major role in assessing the
capacity of decentralized implementing agencies before advancing the project funds.

13. The SFD has an acceptable automated accounting system which is Oracle based. The
SFD will create a new unique code for this project within one month from project effectiveness.

14. The SFD will contract an independent external auditor based on TOR acceptable to the
Bank, for the purpose of carrying out annual audits of the Project’s Financial Statements, which
will include an extended scope to audit the implementation of sub-projects and their compliance
with the agreed upon FM system and internal control procedures.

15. SFD, throughout the project, will be responsible for managing the project funds and all
related financial transactions. The SFD accounting and financial department will be following on
the project finances including the project accounting functions, flow of funds, reporting and cash
management. On the other hand, the IAD will be an integral part of the project control
environment with a mandate to assess PFIs FM systems and perform regular visits and controls over these institutions as per the current practices.

16. The SFD, after signature of the on-lending financial agreement, will make funds available to the selected MFI s, NGOs and banks who in turn will lend the funds to eligible beneficiaries. The MFI s, banks and NGOs, whose selection will be based, inter alia, on the ability of their respective Financial Management System (FMS) to meet the Bank requirements on financial management, will be responsible for all financial transactions, accounting and reporting related to the funds they will receive from the SFD for on-lending purposes. The on-lending financial agreements will specify their roles in the FM of the project, including budgeting, cash forecasts, account’s reconciliation, request for funds and periodic reporting.

17. To ensure that funds are readily available for the project implementation, a Designated Account (DA) in US dollars will be opened at an acceptable bank and will be operated by SFD. Each of the MFI s, NGOs and banks will open a separate sub-account to deposit in and pay from the funds received from the SFD under the project. Deposits from the Bank to SFD’s Designated Account will be made upon SFD submitting withdrawal applications supported by its interim financial reports (IFRs) reflecting a six month cash forecasts. The SFD will then make funds available, based on needs, to the MFI s, NGOs and banks.

18. SFD will ensure that all intermediaries are maintaining records and accounts adequate to reflect their operations and financial conditions and such accounts are being subject to annual audits by external auditors acceptable to the SFD. SFD will also ensure that overall Project’s financial statements, including the DA statements, are audited annually by an external independent auditor, acceptable to the Bank, in accordance with international Standards on Auditing. SFD will submit the audit report to the Bank no later than six months following the closing of the SFD fiscal year subject to audit. The audit’s terms of reference will be prepared and submitted for the Bank’s no objection. The cost of the audit will be the responsibility of SFD. The SFD-appointed auditor will undertake a review of the intermediaries audit reports to form an opinion on and to certify the financial statements of the project activities as a whole. If requested, SFD auditor should be allowed access to the Intermediaries books and records related to the project. In addition, the SFD audit report reflecting the SFD financial statements and operating results will be remitted to the Bank as reasonably requested by the Bank and deemed necessary. Also, the external auditor will be responsible for reviewing the quarterly IFRs. The table below summarizes the financial reporting arrangements required under the project.

<table>
<thead>
<tr>
<th>Report</th>
<th>Due Date</th>
<th>Responsibility</th>
<th>Sent to:</th>
<th>Language</th>
<th>Scope</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interim financial Reports</td>
<td>45 days from end of quarter</td>
<td>External Auditor</td>
<td>Bank</td>
<td>Arabic/English</td>
<td>Review</td>
</tr>
<tr>
<td>Annual Project financial statements</td>
<td>6 months from end of the fiscal year</td>
<td>External Auditor</td>
<td>Bank</td>
<td>Arabic/English</td>
<td>Audit</td>
</tr>
<tr>
<td>Annual Entity financial Statements (SFD)</td>
<td>6 months from end of the fiscal year</td>
<td>External Auditor</td>
<td>Bank</td>
<td>Arabic/English</td>
<td>Audit</td>
</tr>
</tbody>
</table>
B. Staffing

19. The SFD Finance Department’s structure is considered to be adequate in number, capacity and previous experience in conducting project financial transactions. The staff capacity is considered to be adequate to carry out the additional workload of the Project. There are 100 employees in the Finance and Admin Group both at the main office and the SFD’s Regional offices (ROs). SFD has prior experience with Bank-financed projects and achieved satisfactory FM performance and have received unqualified audit reports in the past.

C. Accounting, Recording and Reporting

20. The SFD will record all project-related transactions using accrual basis and will maintain their accounting records. Original supporting documents for sub-projects will be kept at the intermediary level.

21. The SFD bookkeeping is automated through the Oracle accounting system, which is centralized in the SFD’s Main Office. The ROs have the ability to access the SFD MIS for the purposes of recording and reporting activities. The SFD accounting system is considered acceptable and SFD staff members are familiar with the World Bank requirements, having been engaged previously with several Bank-financed projects. While the system was found to be generally acceptable by the Bank, the SFD’s IT team will establish a separate module/code in the Oracle system for the sole purpose of recording and reporting on all project-related transactions. The SFD’s accounting system is capable of generating quarterly IFRs and annual Project Financial Statements which are required under the Loan Agreement.

22. Contracts will be kept at the SFD Headquarters (HQ) while sub-projects supporting documents will be kept at the intermediary level which will also be required to scan supporting documents and send it to the SFD’s ROs as part of the disbursement process. The financing agreement with the intermediary will state that the SFD IA department and the independent external auditor will be granted access to examine the project’s original documents supporting actual disbursements.

23. The SFD will keep track of the amounts actually disbursed and not only the amounts transferred to the intermediary. The amounts actually disbursed to the ultimate beneficiary should represent the basis for documentation of expenditures and requesting future advances.

24. Flow of Funds and Internal Control. To facilitate the flow of funds (provided the advancing of loan proceeds to a DA is permitted by the Bank), a segregated US dollar DA will be opened and managed by the SFD for the sole purpose of managing the project’s funds. The project’s design allows SFD to request advances to the DA for an amount equal to two quarters (six months) of the Project’s cash forecast as presented in the quarterly unaudited IFRs (i.e., IFR based disbursement). Advances will be the main disbursement method. Other disbursement methods such as reimbursement, direct payment and special commitments will be available.

25. A monthly bank reconciliation of the DA will be prepared by the SFD Financial Internal Control Department and will be prepared by Financial Officer and reviewed by the Internal Control Department Senior Manager.

26. Intermediaries Disbursements. Once an intermediary system is certified by the SFD Internal Audit to handle its financial transactions, disbursements may begin based on a withdrawal request. The Intermediary shall open a Project Sub Account in a local commercial

18 Please refer to Figure 1 for the SFD Finance Department organizational structure
bank. The certified intermediary will then submit the withdrawal request for an advance, specifying the amount of funds needed for the first four months, accompanied by a cash-flow forecast based on the budgeted lending. The SFD should communicate the format of the withdrawal request, cash-flow forecast and formats of all reports to the intermediaries. Subsequent withdrawal requests should be submitted quarterly to the SFD accompanied by financial and activity progress reports plus supportive documentation for incurred expenses. Also, the intermediary shall submit quarterly the reconciliation of the Project Sub Account accompanied by a copy of the bank’s statement.

27. The SFD Internal Audit staff will undertake visits to the intermediaries, as needed, to review the accounting documentation and records to ensure compliance with the Project Agreement. Upon receipt of the withdrawal request and any of the reports mentioned above from the intermediary, the SFD reviews the documentation to decide on the amount of funds needed to be transferred to the intermediary. In case of failure to comply with the SFD communicated procedures and/or absence of reliable information from the intermediary, disbursement will be suspended until compliance with requirements is met.

28. The project disbursement plan and the budgetary process, which is conducted by SFD finance department, is based on the signed contracts with the intermediaries. Accordingly, the project disbursements forecast registered on SFD’s internal FM tracking system will be updated periodically and will be used to reflect the variances upon IFRs submission. It is necessary that variance analysis be prepared with each IFR submission explaining variances that exceed 15 percent between actual and planned figures of the previous six months/quarter. Also, the IFR package will include DA Reconciliation Statement, Sources and Uses of Funds by Component and by Category, List of Payments against contracts subject to Bank’s prior review, List of Payments against contracts not subject to Bank’s prior review.

29. The Borrower is responsible to bear all risks associated with foreign exchange fluctuations when making transfers from the DA which is denominated in US dollars to the sub-accounts denominated in Egyptian Pounds. At the completion of the Project, any unused balance in Egyptian Pounds should be converted to US dollars and refunded to the World Bank.

30. Report-Based Disbursement. Under report-based disbursement method, a forecast of expenditures will be agreed between the SFD and the Bank, covering up to two calendar quarters. Thereafter, aggregate disbursement requests not exceeding this forecast amount are transferred by the Bank into the DA upon demand by the SFD. Disbursements would be made against Withdrawal Applications supported by IFRs. The DA would be used in accordance with the Bank’s operational policies. The SFD will be responsible for administration of the DA and all disbursement transactions.

31. Internal Audit Arrangements. The SFD’s Internal Audit Department includes over 40 internal auditors at the HQ and governorate levels or regional offices. The Internal Audit Department –with its current capacity – is responsible for conducting audit field work and related reporting for all SFD projects all over Egypt.

32. The SFD Internal Audit Department (IAD) has established a risk-based audit strategy which was reviewed, and found acceptable, by the Bank. The audit strategy covers the IAD and the independent external auditor involvement in evaluating the funds recipient and follow up on activities being implemented. It was agreed with the Head of the IAD that a capacity assessment of each intermediary would be carried out before signing the financing agreement by the IAD representative stationed in the SFD RO. Upon the IAD clearance, the agreement will be signed.
accordingly and the IAD will update its annual audit plan to include the approved intermediary
in their work program.

33. The IAD audit plan is prepared annually and revised on quarterly basis. The planned
periodicity of the IAD visits and the associated magnitude of supervision are based on the results
of the field work of the Internal Auditor and the noted observations on the intermediary
performance. The IA plan establishes proper distribution of duties, between the teams
responsible for capacity assessment of intermediary and those responsible for follow up on
implementation activities.

34. Following the transfer of the first tranche, the IAD representative from HQ visits the
intermediary to ensure that all of the financial arrangements stipulated in the financing
agreement are followed. Any noted observations are reported in the IAD report and followed up
on by the IAD until resolution. The final tranche is not transferred to the intermediary until all
IAD-noted observations are resolved.

35. The SFD Internal Audit and the project External Auditor will be granted access to
examine the original supporting documentation. Meanwhile, the intermediary will send monthly
reports to the SFD regional office. As per the existing SFD IA strategy and Program, the IAD
will conduct regular field visits by the IAD’s representatives stationed in the SFD’s RO through
the entire project life. The IAD staff will be responsible for documenting the outcome of the
visits by preparing and submitting to the IAD Head, the internal audit reports for each visit. Also,
for NGOs, the latest two audited financial statements will be obtained to ensure that an
acceptable audit report was issued on the intermediary’s financial statements.

36. **External Audit Arrangements.** The SFD is subject to annual external audits by (1) the
Central Auditing Organization (CAO) as well as (2) independent external audit firm, currently
KPMG. In addition, the SFD will contract an independent external auditor based on Terms of
Reference (TOR) acceptable to the Bank, for the purpose of carrying out an external audit of the
Project’s Financial Statements. The SFD’s Entity and Project audit reports will be submitted to
the Bank within six months from the end of each calendar year.

37. The SFD will hire the project’s external auditor within three months after project
effectiveness. The external auditor will conduct quarterly reviews on the project IFRs before
submission to the Bank.
Figure A3.1: SFD Finance Department Organizational Structure
### Project Stakeholder Risks

<table>
<thead>
<tr>
<th>Stakeholder Risk</th>
<th>Rating</th>
<th>Risk Management</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stakeholder: <em>SFD</em> - Principal risks come from a delay or reversal of policy commitment to enhance access of MSEs to finance due to turnover of leadership</td>
<td>Moderate</td>
<td>Enhancing access of MSEs to finance has been an important component of the Government's agenda and SFD has been designated by the Prime Minister to lead the National Strategy for Small and Micro Enterprises in Egypt. The Bank has an extended and sustained program with SFD and found it a reliable and competent counterpart from a technical and implementation standpoint as evident in the ongoing <em>Egypt Enhancing Access to Finance for MSEs</em>. Moreover, MSE development has remained a priority. Taking this into account, it’s not anticipated that the government would reverse its support for the objectives and activities proposed above for the project.</td>
</tr>
<tr>
<td>Stakeholder: <em>Donors</em> - There is a large number of donors and development agencies that are working on financial inclusion in Egypt which could result in a lack of coordination</td>
<td></td>
<td>The World Bank will work closely with all stakeholders including the financial intermediaries—banks, NGOs-MFIs, financial leasing companies, venture capital companies, angel investors and MSMEs, as well as the Egyptian authorities, SFD and other donors and development agencies to ensure effective coordination, synergies and a consistent message.</td>
</tr>
</tbody>
</table>

### Implementing Agency Risks (including fiduciary)

<table>
<thead>
<tr>
<th>Capacity</th>
<th>Rating</th>
<th>Risk Management</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Description:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SFD will be the key implementing agency for the project. The risk could be inadequate capacity of SFD to</td>
<td>Moderate</td>
<td>This risk will be mitigated by SFD’s ability to reallocate the bank line of credit to components that demonstrates the greatest demand for funding and which has the best performance in terms of outreach and repayment. In addition, the potential risk will be mitigated through the Project Implementing Unit (PIU) established at the SFD whose capacities are being supported in parallel under the MSME TA Facility. There will be also regular</td>
</tr>
</tbody>
</table>
disburse the new funds on timely basis.

Institutional capacity of banks and MFIs: There is a risk that banks and leasing companies lack the capacity to serve MSMEs adequately. Some MFIs do not have the proper tools and capacity to serve MSMEs in a cost effective and financially sustainable manner.

Monitoring and evaluating by the Bank team and each contract will need the Bank’s No Objection before it signed. Moreover, SFD has a sustained and high quality track record of project design and implementation with the World Bank as evident in the on-going Egypt Enhancing Access to Finance for MSMEs.

The institutional capacity and deep understanding of the dynamics of the MSE finance market of banks, leasing companies and venture capital, angel investors to serve MSMEs or MFIs will be part of their selection criteria, and will be given a high weight. Criteria will include proper institutional structures (eg. SME lending unit, scoring models, etc.), outreach (branch network, etc.) as well as an existing track record of serving MSMEs. The TA window of the regional MSME Facility will support further improvements in financial institution capacity and products for MSME Finance.

On the early stage-financing component, during the proposed project’s preparation phase, the team: (i) ensured the design of governance and management arrangements; and (ii) provided capacity building of SFD to identify management investments, exit strategies, etc.

<table>
<thead>
<tr>
<th>Resp: Bank/SFD</th>
<th>Stage: Prep.</th>
<th>Recurrent</th>
<th>Due Date: Dec.8, 2013</th>
<th>Frequency</th>
<th>Status: Completed</th>
</tr>
</thead>
</table>

Governance Rating Moderate

Description: SFD operates under a mandate established under law. There are no significant governance risks associated with the key implementing partner

Risk Management: Close attention will was paid to key governance factors in consultation with SFD throughout project implementation. These consultations ensured governance mechanisms including operational transparency was well established.

<table>
<thead>
<tr>
<th>Resp: Bank</th>
<th>Stage: Prep.</th>
<th>Recurrent</th>
<th>Due Date: Dec.8, 2013</th>
<th>Frequency:</th>
<th>Status: Completed</th>
</tr>
</thead>
</table>

Project Risks Design Rating Moderate

Description: Slow disbursement. Moreover, the MFIs, banks, venture capital companies may not be able to absorb the additional

Risk Management: This potential risk will be mitigated by capacity building of SFD, NGOs, venture capital companies and banks under the MSME TA Facility, and balancing between concentration risks and allocating a high percentage of funds to the fastest disbursing lines and intermediaries. In addition, SFD has substantial unmet demand for funds reflected in its fast disbursement of the ongoing *Egypt Enhancing Access to Finance for Micro and Small*
Declining portfolio quality from increased loans to new borrowers and new geographic areas

**Enterprises Project.** Moreover, banks and NGOs already have microfinance capacity and track record of disbursement.

The SFD will be allowed to reallocate the Bank-financed line of credit for MSE lending to whichever of the product components that demonstrates the greatest demand for funding and which has the best performance in terms of outreach (volume, geographic coverage, and gender) and repayment.

This potential risk can be mitigated through reliable accurate and timely information provided by the private credit bureau, and the close monitoring and adjustment of SFD disbursement, banks, venture capital companies and MFIs based on performance. In addition, training to staff of PFIs to improve their capacity to serve MSEs will occur under the MSME TA facility.

<table>
<thead>
<tr>
<th>Resp: Bank/SFD</th>
<th>Stage: Both</th>
<th>Recurrent:</th>
<th>Due Date:</th>
<th>Frequency: Ongoing</th>
<th>Status: In progress</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rating</td>
<td>Low</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Risk Management:**

An Environmental and Social Management Framework (ESMF) has identified and mitigated potential social and environmental impacts in compliance with World Bank safeguards policies and Egypt’s applicable laws and regulations.

This project will not involve population relocation, involuntary land acquisition and any negative impacts on livelihoods for financing by banks, venture capital companies and micro-finance institutions. In addition, this project will not include construction resulting in restriction to access of legally designated parks and protected areas.

|----------------|-------------|------------|-----------------------|------------|----------------|
**Government entities.**

Project implementation. No additional risk mitigation requirements anticipated.

<table>
<thead>
<tr>
<th>Resp:</th>
<th>Stage:</th>
<th>Recurrent</th>
<th>Due Date:</th>
<th>Frequency:</th>
<th>Status:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank</td>
<td>Both</td>
<td></td>
<td></td>
<td>Ongoing</td>
<td>In progress</td>
</tr>
</tbody>
</table>

**Delivery Monitoring and Sustainability**

**Description:**

There is a risk that the credit line will not necessarily sustain improvements in access to finance given lingering deficiencies in credit information and the collateral regime.

**Risk Management:**

SFD will focus on the best performing financial intermediaries as defined by scale, portfolio quality, institutional capacity and a medium to long-term strategy. This approach will promote strong finance providers capable of operating efficiently on a large scale, and widen the range of loan products offered and would also encourage other providers to improve their capacity.

<table>
<thead>
<tr>
<th>Resp:</th>
<th>Stage:</th>
<th>Recurrent</th>
<th>Due Date:</th>
<th>Frequency:</th>
<th>Status:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank/SFD</td>
<td>Both</td>
<td></td>
<td></td>
<td>Ongoing</td>
<td>In progress</td>
</tr>
</tbody>
</table>

**Rating:** Moderate

**Overall Risk**

**Implementation Risk Rating:** Moderate

**Comments:**

The Project’s risks and all specific measures identified to reduce them were carefully assessed during preparation and appraisal. The overall project risk has been rated as moderate because of the strong record of the executing agency to implement related projects using Bank guidelines and the tested design of the project due to the successful first operation. The high potential impact and continued demand for MSE finance justify the project and its interventions.

The Government of Egypt has set MSE development as a priority in its reform agenda. SFD, the implementing agency, has been designated by the Prime Minister to lead the National Strategy for Small and Micro Enterprises in Egypt. Furthermore, the Bank has an extended and sustained program with SFD and found it a reliable and competent counterpart from a technical and implementation standpoint, as evident in the ongoing Egypt Enhancing Access to Finance for MSEs. Moreover, the project is implemented in parallel with activities being financed by the complementary MENA MSME TA Facility, which includes capacity building of SFD and the banks, all of which has already started, showing readiness to implement.
ANNEX V
IMPLEMENTATION SUPPORT PLAN
EGYPT: PROMOTING INNOVATION FOR INCLUSIVE FINANCIAL ACCESS PROJECT

1. The World Bank will support the implementation of the project and provide the technical advice necessary to facilitate the achievement of the PDO.

2. The World Bank’s FM team will support SFD to enhance their knowledge on FM Bank procedures and guidelines by providing workshops on FM and disbursement.

3. There will be a subsidiary agreement signed between the Borrower and SFD whereby the Borrower makes the funds of the loan available to SFD for implementation of the project.

4. Throughout the project duration the World Bank team will closely monitor the project on semi-annual implementation support missions. During the implementation support missions, the World Bank will ensure that the financial arrangements agreed on are respected and will assess if any additional training or support is needed. The World Bank team will review and clear the audit TOR, review the audit reports and IFRs received and provide its feedback on a timely manner. The project team will also be responsible for reviewing all potential contracts with participating banks and providing the Bank’s No Objection prior to signing.

5. The Bank’s implementation support will follow a risk based approach. At least two missions will be carried out annually in addition to follow up visits as deemed necessary. The audit reports and the interim and annual financial statements respectively, in addition to management letter, will be reviewed on a regular basis by the Bank FM specialist and the results or any issues will be followed up during implementation support missions. Also, during the Bank's implementation support missions, the Project's financial management and disbursement arrangements will be reviewed to ensure compliance with the Bank's requirements and to assess the financial management performance for the Implementation Status and Results Report (ISR).

6. The World Bank will work towards building the SFD’s capacity on environmental and social risk management and ensure that the Environmental and Social Management Framework abides by the World Bank policies and is included in the Operations Manual.

<table>
<thead>
<tr>
<th>Time</th>
<th>Focus</th>
<th>Skills Needed</th>
<th>Resource Estimate</th>
<th>Partner Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>First twelve months</td>
<td>Effective project implementation and sustainability of impact.</td>
<td>See below</td>
<td>US $ 80,000</td>
<td></td>
</tr>
<tr>
<td>12-48 months</td>
<td>Effective project implementation and sustainability of impact.</td>
<td>See below</td>
<td>US $ 80,000</td>
<td></td>
</tr>
</tbody>
</table>

Skills Mix Required

<table>
<thead>
<tr>
<th>Skills Needed</th>
<th>Number of Staff Weeks</th>
<th>Number of Trips (per year)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microfinance</td>
<td>6</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Islamic Finance</td>
<td>6</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>---------------------------------</td>
<td>---</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>Small enterprise finance</td>
<td>6</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Venture capital, factoring, and leasing</td>
<td>6</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Gender</td>
<td>6</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Beneficiary feedback and Citizen’s Engagement</td>
<td>6</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Environmental Safeguards</td>
<td>6</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Social Safeguards</td>
<td>6</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Financial management</td>
<td>6</td>
<td>2</td>
<td></td>
</tr>
</tbody>
</table>

**Partners**

<table>
<thead>
<tr>
<th>Name</th>
<th>Institution/Country</th>
<th>Role</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arab Fund for Economic and Social Development (AFESD)</td>
<td>AFESD</td>
<td>Parallel financing in the amount of US $ 50 million.</td>
</tr>
</tbody>
</table>
A. Eligibility Criteria for NGO and MFIs engaged in Retail Lending to MSMEs

i. Loans up to LE 5 million

For any Egyptian NGO and MFI to benefit from SFD Loans under this project, it has to fulfill the following criteria:

- Validity of its official registration, and availability of a documented charter and bylaws endorsed by the Department of Social Solidarity.
- Inclusion of ‘microfinance’ in the services/activities identified in the NGO’s charter
- If they were involved in micro lending in the past, PAR>30 days over the last year of operation has not passed the five percent limit.
- Charging high enough interest rate which allows them to pay the cost of fund and to cover their operational and financial expenses over time.
- Have a letter from MoSS stating that the ministry has no objection that the NGO takes a loan from SFD.
- Having at least two years of externally audited financial statements.
- Have a minimum B in a GIRAFE rating done by SFD staff (Tier 1 or 2), or the potential to achieve this rating within 2 years based on high ratings on systems, risk management and governance (Tier 3).
- Has good potential to grow including market potential.

ii. Loans from LE 5 million to LE 25 million

In addition to Eligibility Criteria above (A.i) NGO-MFIs have to fulfill the following criteria:

- Either specializing in Microcredit or Microcredit composes at least 75 percent of its activities
- PAR> 30 days not more than three percent.
- Has an updated business plan for at least the coming three years.
- Has a minimum A in GIRAFE rating done by SFD staff. Has been operationally sustainable for at least the last three years and financially sustainable for at least the last year of its operations.
- Must submit audited reports from a CPA firm prior to receiving the loan.
- Report to a credit information system.

iii. Loans from above LE 25 million

In addition to Eligibility Criteria under A.i and A.ii, NGOs have to fulfill the following criteria:

- Are funded under an SFD-supported bank wholesale initiative.
**Terms and Conditions of Participation Agreement (between SFD and the NGO-MFIs)**

1. The SFD will provide funds for intermediary NGO-MFIs with a particular focus on women and youth. The funds will be used to finance both existing micro-enterprises and borrowers as well as to reach out to new underserved populations through innovative financial products designed to address key access hurdles.

2. NGO-MFIs will provide SFD with monthly reports (financial and technical) with information on portfolio outreach and performance. The SFD (or a representative entity) additionally has the right to review all the financial documents related to the project including the budgets, profits, losses and cash flows, to verify this information.

3. The SFD will undertake regular audits of the project disbursements to the NGO-MFIs, approximately three times during the contract duration - the first after the contract signature and receiving the first loan tranche, the second mid-way through the project and the third before disbursing the last loan tranche.

4. For micro enterprises, there should be a maximum sub-loan size of LE 10,000.

**B. Eligibility Criteria for Banks**

i. **Direct Retail**

The broad selection criteria that must be met by a potential partner bank include the following:

- **General**
  - Be in substantial compliance with all the prudential and regulatory requirements of CBE, acceptable to the Bank;
  - Be registered/licensed in Egypt to undertake banking operations;
  - Have an appropriate governance structure with independence and capacity to provide adequate supervision to management and control over the bank’s lending decisions to shareholders;
  - Have financial reports for the past two years, audited by a reputable auditing firm that is acceptable to the Bank, in accordance with Egyptian auditing standards;
  - Agree to establish a separate MSE finance department or a separate cost center, with the necessary staff, physical and other resources, to manage and implement lending operations under this project;
  - Experience and track record of financing MSEs;
  - The loan portfolio in the MSE segment has sufficient quality (i.e. Non-Performing Loans (NPLs) and provisioning, actual vs. planned loans, loan average, ratio of arrears, customer segment);
  - Large outreach capacity through its branch network;
  - Adoption of the MSE strategy of CBE.

- **Financial**
  - Be in compliance with CBE regulations, including:
  - Have and maintain an IAS calculated risk weighted capital adequacy ratio of not less than eight percent;
  - Be fully compliant with loan loss provisioning requirements according to the CBE prudential regulations;
  - Be in full compliance with CBE’s statutory reserve requirements;
  - Limit exposure to a single, related or connected borrower to a percentage of the PFI’s total capital, as defined by the CBE and in line with international best practices.
- Have a positive net income for the current and previous fiscal years, as reflected in the audited financial statements.

**Terms and Conditions of Participation Agreement (between SFD and the banks)**

1. The SFD will provide funds for banks committed to lending directly to the MSE sector, with a particular focus on women and youth. The funds will be used to finance both existing MSEs and borrowers as well as to reach out to new underserved populations through innovative financial products designed to address key access hurdles.
2. The banks will provide SFD with monthly reports (financial and technical) with information on portfolio outreach and performance. The SFD (or a representative entity) additionally has the right to review all the financial documents related to the project including the budgets, profits, losses and cash flows, to verify this information.
3. SFD will monitor the performance of the banks to ensure continued eligibility throughout the project implementation.
4. Interest rates from SFD to partner banks will be set in accordance with market principles to ensure profitability of partner banks.
5. Sub-loans to MSEs will be made in LE, except in circumstances where foreign currency loans are demanded.
6. Sub-loans to MSEs will be evaluated using the banks existing technology
7. For micro enterprises, maximum sub-loan size of LE 10,000
8. For small enterprises maximum sub-loan size of LE 2 million, except as the Bank may otherwise agree.
9. Partner bank will be responsible for ensuring that MSE sub-borrowers comply with applicable World Bank procurement rules; applicable Egyptian environmental legislation/regulations, as well as the Bank policy on environmental assessment and the SFD EMP.
10. In the event a partner bank is unable to repay the subsidiary loans, the MSE borrowers will repay their sub-loans directly to SFD.

**ii. Wholesale to MFIs**

In addition to the criteria listed under B.i., participating banks must demonstrate a:

- Willingness to match funds provided by the SFD and pool in a separate dedicated account from which the bank will provide lines of credit to eligible MFIs.
- Commitment to developing competitive products for MFIs (i.e. local currency lines of credit) in the market that will ensure maximum uptake of this additional source of financing.

**Terms and Conditions of Participation Agreement (between SFD and the banks)**

1. The SFD will provide funds for banks committed to fund MFIs to expand their existing operations. The funds will be used to finance both existing MSEs and borrowers as well as to reach out to new underserved populations through innovative financial products designed to address key access hurdles.
2. The banks will provide SFD with monthly reports (financial and technical) with information on the lines of credit extended to MFIs (no. of MFIs, volume, terms) as well as basic outreach and performance data on the MFIs themselves. The SFD (or a representative entity)
additionally has the right to review all the financial documents related to the project including the budgets, profits, losses and cash flows, to verify this information.

3. Interest rates from SFD to partner banks will be set in accordance with market principles to ensure profitability of partner banks.

4. The partner bank will establish credit committees to approve lines of credit under this program.

Terms and Conditions of Participation Agreement (between the banks and MFIs)

1. Subsidiary financing will be in the form of lines of credit denominated in LE.

2. The partner bank will charge interest rates adequate to cover its cost of borrowing from SFD plus a reasonable risk-adjusted spread and profit margin.

3. The resulting interest rates from banks to MFIs should ensure adequate profit margins for both the bank and the MFIs.

4. Maximum on sub-loans for MFIs is LE 30,000.

C. Eligibility Criteria for Selection of Venture Capital Companies (by SFD)

This section covers the eligibility criteria for VCCs to benefit from SFD funding.

Requirements:

- Have a minimum capital/assets under management LE 5 million;
- Be a joint stock company incorporated according to Egyptian laws, while bylaws and statutes explicitly state investment in other companies;
- Have an appropriate governance structure with independence and capacity to provide adequate supervision to management and control over the VCC investment decisions to shareholders;
- Have financial reports for the past two years, audited by an EFSA listed auditing firm, that has not been sanctioned by the Auditors Oversight Board (established as per the Law No. 123/2008) during the past 12 months. In the case that the VCC is a newly established Egyptian subsidiary from an already established off shore VCC, financial reports of the off shore VCC should be submitted to the SFD;
- Be committed to invest – from the VCC own funds – an amount equivalent to the funding obtained from the SFD in the targeted investments;
- Agree to establish a separate MSE finance department or a separate cost center, with the necessary staff, physical and other resources, to manage and implement investment operations under this project. This is the in the event that the applying VCC is not specialized in MSEs;
- Agree on creating the appropriate provisions during the lifetime of the investment should it turn out to be not profitable to ensure repaying the SFD loan at its maturity;
- Submit its investment criteria, including diversification targets;
- Preferably have sufficient experience and track record in financing MSEs, in addition to track record of the management team to include:
  - Number of deals initiated and concluded;
  - Exits and accompanying details;
  - A minimum of 7 years of relevant work experience for senior management;
  - Preferably 4 completed deals in the past 24 months.
### Marking Scheme for VCCs

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Max. Degree/Mark</th>
<th>Value or Percent</th>
<th>Benchmark</th>
<th>Weighted Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital / Assets under Management</td>
<td>15%</td>
<td>LE 5 million</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Committed Participation Ratio</td>
<td>20%</td>
<td>A minimum of 1:1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of years of relevant work experience</td>
<td>10%</td>
<td>7 years</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Diversification Target:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1- Sector Concentration</td>
<td>10%</td>
<td>35% or less</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2- Single Company Concentration</td>
<td>10%</td>
<td>25% or less</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of Concluded Deals in the Past 24 Months</td>
<td>15%</td>
<td>4 deals or more</td>
<td>to get the full weight</td>
<td></td>
</tr>
<tr>
<td>Targeted Sectors</td>
<td>10%</td>
<td>High Job Creation</td>
<td>Industries among which:</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Agro-industry</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Export driven MSEs</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Woman inclusive MSEs</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>MSEs at an early stage of investment, particularly start-ups</td>
<td></td>
</tr>
<tr>
<td>Audited Financial Statements</td>
<td>10%</td>
<td>2 years audited</td>
<td>financial statements to get the full weight</td>
<td></td>
</tr>
</tbody>
</table>

**RATE** 100

### i. Terms and Conditions of Participation Agreements (between SFD and VCC)

The following terms and conditions will be reflected in the on-lending financial agreements to be entered into between SFD and the VCC:

- The VCC will enter into a technical cooperation agreement with SFD entailing all details pertinent to participation ratio, provisioning policies, maturity of investments, etc.
- The VCC is and will remain in compliance with applicable laws and regulations issued by the Egyptian authorities as well as in compliance with prudential eligibility criteria.
- Subsidiary loan and the subsequent investments in the MSEs will be denominated in LE, except under circumstances where foreign currency investments are demanded by MSEs.
- Maturity of subsidiary loan of up to 10 years, inclusive of a grace period of up to 5 years.
- The VCC will keep the investments in the MSE funded under the credit line separate and distinct from the rest of their investment portfolios.
- The VCC will set early warning indicators for any potential investing failures and will develop an action plan detailing policy for dealing with failures and outlining a clear exit strategy.
- MSE’s performance will be subject to evaluation by SFD.
- The funds available to the VCC will depend on the availability of funds to SFD from the Bank.
- Risk Management: An Environmental and Social Management Framework (ESMF) will identify, minimize, avoid, screen out, mitigate and monitor potential social and environmental impacts in compliance with World Bank safeguards policies and Egypt’s applicable laws and regulations.
- VCC will be responsible for environmental due diligence to mitigate negative environmental impacts.
- Remedies and penalties to be applied by SFD in the event that the VCC fails to comply with requirements.
- VCC will retain all documentation relating to investments, provide regular reports to SFD.

**ii. Terms and Conditions of Agreement between SFD and the Bank**

1. Initial and ongoing compliance with applicable laws and regulations issued by the Egyptian authorities, as well as compliance with the prudential eligibility criteria.

2. For the duration of the project implementation period, submission of an audit report, that is: (i) prepared in accordance with International Standards of Auditing and International Financial Reporting Standards; and (ii) has qualified audit opinion from a reputable international auditing firm, except as the Bank shall otherwise agree.

3. SFD will channel the funds under the operation to VCCs (selected according to eligibility criteria agreed with the Bank) using on-lending financial agreements. All critical conditions of these agreements are subject to prior review by the Bank.

4. For the duration of the project implementation period, SFD will maintain the MSE Business Unit, with appropriately qualified staff, led by a full-time manager, capable of satisfactorily implementing all aspects of the project.

5. SFD will monitor the performance of the project on a quarterly basis, using performance indicators agreed with the Bank and will provide the Bank with semi-annual progress reports, in a format agreed with the Bank.

6. SFD will also carefully monitor the performance of VCCs to ensure that the chosen investments are performing as planned and to monitor any deviations. Provisions will be built into the on-lending financial agreements to allow SFD to apply penalties, such as imposing a moratorium on processing new sub-loans (if investment provisions increased significantly for two consecutive quarters) until a remedial plan has been approved by SFD, or, in extremis, cancelling the line of credit to the VCC and demanding immediate full repayment of the outstanding balance.

7. SFD will undertake to maintain and oversee the services of the Project Implementation Consultant and not make any changes without the prior agreement of the Bank.

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19 It is worth noting that as per the Project Agreement, the SFD’s Operational Manual includes a negative list that coincides with that of the Bank which details the specific works that cannot be funded by the Bank’s line of credit. These works include goods used as inputs in the production of goods intended for a military or paramilitary purpose, alcoholic beverages, tobacco, radioactive and associated materials, and nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors.
8. SFD will assume overall responsibility to ensure the environmental soundness of the project. For that purpose, SFD will put in place policies, procedures and guidelines as well as organizational capacity as necessary to implement the framework at the VCC level.

D. Eligibility Criteria for Selection of Financial Leasing COMPANIES (by SFD)

i. Eligibility Criteria for Financial Leasing Companies. This section will cover the eligibility criteria for Financial Leasing Companies (FLC) to benefit from SFD Loans. The potentially eligible FLC could be either an already established company or an established subsidiary by the parent FLC. It is to be noted that “FLC” thereafter is in regard to either the subsidiary, or where appropriate the parent FLC.

a. General Requirements:
   - Be a registered and a licensed FLC by EFSA
   - Be in substantial compliance with all the prudential and regulatory requirements of EFSA;
   - FLC was not suspended nor sanctioned due to any violations by EFSA within the past 12 months;
   - Have an appropriate governance structure with independence and capacity to provide adequate supervision to management and control over the FLC leasing decisions to shareholders. Additionally the FLC should have set in place the policies and procedures regarding the shareholder and ownership structure to ensure that no conflict of interest cases arise;
   - Have financial reports for the past two years audited by an EFSA listed auditing firm, that has not been sanctioned by the Auditors Oversight Board (established as per the Law No. 123/2008) during the past 12 months. In case the subsidiary FLC has not been in operation for two years, the parent FLC’s financial reports are to be submitted instead;
   - In the event that the applying FLC is not specialized in MSMEs, the FLC must agree to establish a separate MSE finance department or a separate cost center, with the necessary staff, physical and other resources, to manage and implement lending operations under this project;
   - In case the applying FLC is a subsidiary it must:
     - Provide proof of commencing operations
     - Accounts to be separate from the parent FLC
   - Experience and track record of financing MSEs;
   - Have an adequate network across governorates.

b. Capital Requirements and Credit Policy:
   - Minimum capital requirement of LE 10 million;
   - Have a comprehensive credit policy and submit the FLC’s guidelines regarding the approach for dealing with:
     - Risk management in terms of portfolio risk management, and internal credit controls
     - Non-performing loans, loan-loss provisioning, delinquencies, defaults, write-offs, and repossessed assets
c. Performance & Diversification Requirements:
- Have a positive net income for the latest reporting period, as reflected in the audited financial statements and if the applying FLC is a non-profit generating subsidiary, the parent FLC should meet this requirement;
- Adopts sufficient portfolio diversification. No more than 35 percent allocation to any specific industry and no more than 20 percent allocation to any specific lessee including related parties;
- To be amongst the operating/active FLC’s as reported by EFSA

d. Governance and Organizational Structure Requirements:
- Submit a comprehensive governance report detailing the following areas:
  - BOD members not to be less than five in accordance to article 5.2.4 of the Code of Corporate Governance adopted by the Egyptian Institute of Directors (EIoD);
  - Composition of the BOD in terms of dependence and independence in accordance to article 5.2.4 of the Code of Corporate Governance adopted by the EIoD;
  - Relationship with shareholders & conflicts of interest in accordance to article 5.2.10 of the Code of Corporate Governance adopted by the EIoD;
  - Audit committee composition in accordance to section 5.5 of the Code of Corporate Governance adopted by the EIoD;

Terms and Conditions of Participation Agreements (between SFD and FLCs)
The following terms and conditions will be reflected in the on-lending financial agreements to be entered into between SFD and the FLCs:
- All on-lending financial agreements (above LE 10 million) will be subject to prior review by the Bank.
- The FLC will enter into a technical cooperation agreement with SFD.
- The FLC is and will remain in compliance with applicable laws and regulations issued by the Egyptian authorities as well as in compliance with prudential eligibility criteria.
- Subsidiary loan will be denominated in Egyptian Pounds, except under circumstances where foreign currency loans are demanded by MSEs.
- Interest rates from SFD to FLCs will be set in accordance with market principles to ensure profitability of FLCs.
- Maturity of subsidiary loan of up to 10 years, inclusive of a grace period of up to 5 years
- The FLC will keep MSE sub-loans funded under the credit line separate and distinct from the rest of their loan portfolios.
- The FLC will establish new MSE finance departments at headquarters and designated branches to manage the MSE sub-loans under this line.
- The FLC will establish credit committees to approve sub-loans under this program
- The FLC will ensure that NPLs under the line of credit do not exceed 3 percent.
- MSE lending performance will be subject to evaluation by SFD (using credit evaluation guidelines as agreed with the Bank) reflected in SFD’s OM.
- The funds available to FLCs will depend on the availability of funds to SFD from the Bank.
- Sub-loans to MSEs will be evaluated using the credit technology designed for the project
For small enterprises, minimum sub-loan size of LE 50000; maximum LE 2 Million, except as the Bank may otherwise agree and for micro enterprises, maximum sub-loan size of LE 10,000. Maximum maturity of sub-loan of up to 3 years.

- The FLC will charge interest rates adequate to cover its cost of borrowing from SFD plus a reasonable risk-adjusted spread and profit margin. The interest rate will be positive in real terms.
- FLC will be responsible for ensuring that MSE sub-borrowers comply with applicable World Bank procurement rules; applicable Egyptian environmental legislation/regulations, as well as the Bank safeguards policies and the SFD ESMF.
- FLCs will be responsible for carrying out the necessary environmental due diligence as well as mitigating any negative environmental impacts from implementation of the sub-projects.
- FLCs will retain all documentation relating to sub-loans, provide regular reports to SFD.
- In the event an FLC is unable to repay the subsidiary loans, the MSE borrowers will repay their sub-loans directly to SFD.

### Marking Scheme for FLCs

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Maximum Degree/Mark</th>
<th>Value or Percent</th>
<th>Benchmark</th>
<th>Weighted Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average 12 Months Collection Ratio</td>
<td>15%</td>
<td>90%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Provisions/Leased Fixed Assets Ratio</td>
<td>10%</td>
<td>0.5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity: Credit Facilities</td>
<td>10%</td>
<td>1.8%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average ROA</td>
<td>10%</td>
<td>1%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Average ROE</td>
<td>10%</td>
<td>15%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Average Number of Leasing Contracts (parent or subsidiary FLC)</td>
<td>10%</td>
<td>24</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sector Concentration</td>
<td>10%</td>
<td>35%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Single Borrower Concentration</td>
<td>10%</td>
<td>20%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Average Leased Asset Growth Ratio</td>
<td>10%</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Governance Structure in compliance with Code of Corporate Governance</td>
<td>5%</td>
<td>Section (i.d) covering governance requirements</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RATE</td>
<td>100</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Terms and Conditions of Agreement between SFD and the Bank**

- Initial and ongoing compliance with applicable laws and regulations issued by the Egyptian authorities, as well as compliance with the prudential eligibility criteria.

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20 It is worth noting that as per the Project Agreement, the SFD’s Operational Manual includes a negative list that coincides with that of the Bank which details the specific works that cannot be funded by the Bank’s line of credit. These works include goods used as inputs in the production of goods intended for a military or paramilitary purpose, alcoholic beverages, tobacco, radioactive and associated materials, and nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors.
For the duration of the project implementation period, submission of an audit report, that is: (i) prepared in accordance with International Standards of Auditing and International Financial Reporting Standards; and (ii) has qualified audit opinion from a reputable international auditing firm, except as the Bank shall otherwise agree.

SFD will on-lend the funds under the MSE Finance Project, Credit Line to FLC (selected according to eligibility criteria agreed with the Bank) using on-lending financial agreements. All critical conditions of these agreements are subject to prior review by the Bank.

For the duration of the project implementation period, SFD will maintain the MSE Business Unit, with appropriately qualified staff, led by a full-time manager, capable of satisfactorily implementing all aspects of the project.

SFD will monitor the performance of the project on a quarterly basis, using performance indicators agreed with the Bank and will provide the Bank with semi-annual progress reports, in a format agreed with the Bank.

SFD will also carefully monitor the performance of FLC to ensure that they do not have excessive NPLs. SFD will also ensure that the average size of MSE leasing portfolio of FLC is maintained within a certain limit (to be determined) except as otherwise agreed by the Bank. Provisions will be built into the on-lending financial agreements to allow SFD to apply penalties, such as imposing a moratorium on processing new sub-loans (if NPLs exceed 3 percent for more than two successive quarters) until a remedial plan has been approved by SFD, or, in extremis, cancelling the line of credit to the FLC and demanding immediate full repayment of the outstanding balance.

SFD will undertake to maintain and oversee the services of the Project Implementation Consultant and not make any changes without the prior agreement of the Bank.

SFD will assume overall responsibility to ensure the environmental soundness of the project. For that purpose, SFD will put in place policies, procedures and guidelines as well as organizational capacity as necessary to implement the framework at the bank level.
ANNEX VII
ACCESS TO FINANCE CHALLENGES IN EGYPT AND
THE LINK BETWEEN MSE DEVELOPMENT AND JOB CREATION
EGYPT: PROMOTING INNOVATION FOR INCLUSIVE FINANCIAL ACCESS PROJECT

1. MSEs are considered one of the important tools to inclusive growth, equity, employment generation, and poverty alleviation. The Egyptian Government has embarked on several initiatives in the last decade to incentivize this sector, enhance its productivity and competitiveness. Among these initiatives are “The strategy to enhance the competitiveness of small and medium enterprises in Egypt” adopted by the Ministry of Finance in year 2004, and “the national micro-financing strategy” adopted by the SFD in 2005. Despite these efforts, the MSE sector in Egypt still faces numerous challenges.

2. Empirical evidence shows that small and young enterprises are the main creators of new job opportunities in Egypt. MSEs account for more than 98 percent of enterprises. They generate more than 85 percent of employment in non-agriculture private sectors, and 40 percent of total employment. However, their growth is below potential. MSEs growth potential is limited in Egypt, where enterprises are clustered in micro and small size category, and fewer clustered in large enterprises. According to a forthcoming World Bank Study there is a missing middle signifying limited ability for enterprises to grow. One of the reasons behind enterprises’ inability to grow and lower productivity is attributed to inadequate financing.

3. Despite being the main employment generator in the Egyptian economy, MSEs contribute around one-fifth of GDP, according to some estimates. This share is considered modest compared to other countries, for example MSEs in Thailand where MSEs contribute 30 percent of GDP and Turkey where MSEs contribute 35 percent to GDP. MSMEs contribute very little to Egypt’s exports, according to some estimates they contribute less than 5 percent. In contrast with other countries, MSMEs contribution might reach 70 percent of exports (e.g. Taiwan, China and China). MSMEs growth in Egypt is also very modest averaging around 1.5 percent per annum. Despite the unexceptional performance of the MSEs sector in Egypt, comparisons with other countries reveals the potential of this sector to enhance inclusive growth, boost exports and improve productivity. To unleash the potentials of this sector, a proper ecosystem that encourage entrepreneurship and innovation should be adopted, enhancing access to finance, encouraging entry and exit, and encouraging creation and growth of start-ups and young enterprises.

21 Structural Transformation in the MENA Region.
4. Although Egypt boasts the largest microfinance market in the Arab world in terms of client outreach, with approximately 1.1 million borrowers and 263 million loans outstanding, the sector is reaching only 8 percent of total possible market size.\textsuperscript{23} MFIs have in recent years had difficulty weathering the ongoing economic and political transition in the country. This instability has exposed the operational weaknesses of MFIs and caused a deterioration of portfolio quality. However, there have been recent improvements with the increase in the number of microfinance borrowers from 991,610 in 2011 to 1.1 million in 2013. Aggregate industry data suggests that many MFIs, particularly in the Cairo area, are lending to the same group of clients. This multiple lending increases the risk of client over-indebtedness and suggests that consumer protection principles need to be strengthened in the industry. Client repayment rates, MFI institutional capacity, and managing stagnant growth and investment in the broader economy are serious ongoing challenges for the sector.

**Challenges in the Microfinance Sector**

5. A critical challenge for the Egyptian microfinance industry is how to expand product offerings and target market diversification to promote deeper financial inclusion for a broader section of the population. The country’s largest MFIs, including the Alexandria Businessmen Association (ABA), are amongst the most sophisticated in the region. These MFIs generally offer a suite of non-financial services to their clients, including financial literacy and business development services (BDS). For example, ABA has expanded from traditional group lending to individual lending, micro insurance, livestock leasing, and is in the process of developing Sharia-compliant products. Technical assistance is required for smaller MFIs to develop programs that diversify their products, improve operational efficiency and sustainability, and expand their geographic outreach. Frontier areas include developing venture capital schemes as clients are increasingly requiring long-term debt and equity for successful business growth.

6. Micro and small enterprises are clustered in low productivity sectors in Egypt. More than half of micro enterprises (56 percent) are small trade businesses (retailers) and workshops, while almost quarter of the small enterprises (23 percent) is in this sector. Manufacturing represents 37 percent of small enterprises, while 14 percent of micro ones. Majority of MSEs in Egypt are family businesses, they also strive on providing simple goods and services to households.\textsuperscript{24} Low access to finance and absence of the proper ecosystem is behind the concentration of these enterprises in low productivity sectors, and are hurdles that limit their growth and expansion into more productive sectors. Almost two third of employees in MSEs are related to the owner or the manager of the enterprise. MSEs are largely small retailers which sell food, clothes, furniture, and building materials. Also those in manufacturing provide food processing, wood and furniture, ceramics and some house utility services. Most of the MSEs provide their products and services to local markets, very few which expand to national markets.

7. Most of MSEs are semi-informal in Egypt, according to Ghanem. Formality is defined as having a business license, a commercial or industrial registry, tax card and a regular bookkeeping. Only 21 percent of MSEs comply with the four requirements, and on the other hand only 18 percent do not comply with any of the four. More than 60 percent of MSEs comply with some of the requirements. The majority of MSEs keeps regular books and claim to present them to the tax authority. This “grey zone” between formality and informality constitutes one of the obstacles to access to finance. The reason behind non-compliance of all the requirements includes the lack of incentive to comply as financing might not be accessible even with full

\textsuperscript{23} Data from: Microfinance Information Exchange (MIX): [www.themix.org/](http://www.themix.org/) and Sanabel – the MENA region’s microfinance network.

\textsuperscript{24} Ghanem, Hafez. The Role of Micro and Small Enterprises in Egypt’s Economic Transition. Global Economy and Development; Brooking Institute (January, 2013).
Box 3: Microfinance and Gender

Microfinance is considered a successful example of gender-inclusive development. Globally, 75 percent of more than 205 million customers served by MFIs are women, including 82 percent of the 137.5 million poorest clients (Microcredit Campaign Report 2012). Approximately 55 percent (605,000) of the 1.1 million microcredit borrowers in Egypt are women (Mix 2013). A large majority of the overall Egyptian female population, however, lacks access to the formal financial sector. Only 7 percent of women have an account at a formal financial institution while only 3 percent of women have taken a loan from a formal financial institution in the past year (Findex 2012).

Women are viewed as key beneficiaries for MFIs because they are often responsible for the well-being of the family, and thus seen as a conduit for conferring income and consumption, smoothing benefits to the greatest number of people. Microfinance also supports female economic empowerment because it creates opportunities for business expansion and productive investment at the household level, bypassing many socio-economic barriers that prevent women from participating in the local economy. Qualitative and quantitative studies (e.g. those from Women’s World Banking) have demonstrated the access to microfinance services empowers women through an increased likelihood to own assets (land, houses, etc.), greater control over household assets, and an ability to invest and grow in microbusinesses.

8. Access to technology is very limited in MSEs sector in Egypt. This is mainly due to lack of finance, since modern technologies are beyond the financial capabilities of MSEs, which in turn limit their ability to grow and be more productive. Innovation and productivity growth is unlikely to occur with obsolete technology. Over two third of MSEs reported to use traditional technology (68 percent in manufacturing and 71 percent in services sectors). More than half of MSEs reported that they cannot afford the adoption of modern technology. Enhancing access to finance to this sector will positively contribute to improving the technology utilized which will help in modernizing the sector.

9. The role of MSEs in the development process in Egypt is still limited to employment generation and poverty alleviation. The sector has a huge potential to contribute more in inclusive economic growth, productivity, equity and shared prosperity. Providing the appropriate ecosystem that would help this sector to grow is a linchpin to the process of development in Egypt. Enhancing access to finance to MSEs is one important step in this ecosystem, which will enable MSEs to grow, adopt modern technology, and integrate in the modernization process.

The provision of special financial and non-financial products for women will contribute to their economic empowerment, and will in turn increase their contributions to the economy at large. Enhancing the active participation of women in entrepreneurship activities and giving them access to markets, especially financial markets, is essential, as it leads to a rise in the number of economically active members in the society ultimately resulting in long-run economic prosperity and inclusive growth. Empirical evidence has shown that economic empowerment of women would generate benefits to the whole family, and improves the standard of living of their children. Furthermore, research shows that women-owned MSEs are more inclusive. Increasing the number of women entrepreneurs could lead to a rise in the percentage of women in the workforce. This is mainly due to women-owned enterprises hiring more women as opposed to
male-owned enterprises because of various factors including cultural traditions and work environment (Figure A7-3).

Women workers report that there is less potential for harassment in SMEs that are women-owned, as well as in large enterprises irrespective of the gender of ownership, as in the latter there are in general clear institutional set up, transparent HR rules, labor protection and human rights policies.

ANNEX VIII
CITIZEN ENGAGEMENT (CE) AND BENEFICIARY FEEDBACK
EGYPT: PROMOTING INNOVATION FOR INCLUSIVE FINANCIAL ACCESS PROJECT

A. Concept

1. In the context of this project, beneficiary feedback must be understood as beneficiary satisfaction feedback loop. Beneficiary satisfaction, while grossly neglected, is an important governance indicator as it directly measures the “bottom line” of any service delivery based activity: the end user appreciation of the service received.

2. While similar to the concept of customer satisfaction, the beneficiary satisfaction loop goes beyond the usual customer satisfaction survey and establishes a feedback loop between the customer and the PFI. It considers the customer as a beneficiary of the services the PFI provides and it considers that the customer has not only the possibility to raise his perception on the services he receives, but that he also has the right to get a feedback on the problems he raised.

3. Feedbacks received are used to ameliorate the service and rate the quality of service provided to the customer. For this exercise feedbacks from customers will be gathered through web surveys and focus groups. PFI and beneficiaries will be made aware that feedbacks will not be wasted and that they will be used in PFI performance rating.

4. Serious allegations of potentially criminal misconduct raised by beneficiaries will be handled by the SFD hotline. This hotline will be staffed by qualified professionals who will investigate and take the appropriate necessary actions in order to address all legitimate complaints received. All beneficiaries’ feedback received from web questionnaires and focus groups will be available on the SFD web site. Making feedback available on the web site creates a transparent and open space with clear rules that encourages a virtuous iterative cycle: citizens provide feedback, PFI are incentivized to address their feedback and to provide quality services to beneficiaries, and beneficiaries seeing a change in the received services from PFI stay engaged in providing feedback, all of this resulting in an incrementally more effective project.

B. Methodology

5. Beneficiaries’ feedback will be received: (i) using web based questionnaires that beneficiaries will fill at every meaningful step of their financing application: after their first information meeting, after applying for financing or after every meaningful interaction with the project; (ii) through access to a hotline where beneficiaries could complain on issues they face related to their financing application; (iii) using targeted focus group for investigating issues raised by one of the above methods.

6. Systematic feedback using traditional methods, ICT and mobile technologies will be received from three groups: (i) PFI dealing with the SFD for their financial application, (ii) beneficiaries participating to the financing application process (applicants); (iii) potential beneficiaries who should have access to information related to the financing application process but who have not applied (potential applicants).

I. **PFIs**—will rate their experience while applying to the SFD fund and the application turnaround time will be measured.

II. **Applicants**—for the normal application process the MSE will be in contact with the PFI at two important moments while an applicant requests information and when an applicant applies for the loan.
7. In parallel to data collected from applicants, an additional set of data will be collected from the PFI on the applicant’s demographic and on the ratio between applicants by demographic to total applicants receiving financing.

8. These two sets of data will be public and analyzed to ensure that there is neither bias nor issues in handling of the financing application process. Eventual potential problems could range from misunderstanding of provided information to corruption and discriminatory practices.

III. **Potential applicants**: Feedback from potential beneficiaries will assess their perception of the financing application process for ensuring that they have access to and understand the right information and that they are not subjected to hidden discriminatory measures. Feedback from them will be gathered using focus groups.

9. The questionnaire below attempts to be usable for any of these above steps.

C. **Questionnaire**

I. **Questionnaire for PFI**

1. Are you applying to the World Bank line of credit?
2. In which Governorate / Region are you operating?
3. Are you an:
   a) NGO/MFI
   b) A Bank
   c) A VC
   d) A leasing financial company
   e) Other, please precise

**Convenience and quality of the communication**

4. Was the information you received from the program understandable?
5. Where did you hear of the project for the first time:
   a) SFD?
   b) Radio/TV/newspaper?
   c) Financial intermediaries?
   d) Friends?
   e) Other?

**Customer Care**

6. Was SFD personal friendly?
7. Did you feel discriminated?
   a) If yes how?
8. Where you asked for informal payment?
   a) Yes
   b) No
   c) I don’t know
9. How would you rate interaction with the service from 1 (very bad) to 5 (extremely good)?

**Products, services, Pricing**

10. What was the credit rate proposed to you?
11. How do you compare the credit rate to competition
12. Do you think that the credit rate is fair?
   a) Yes
   b) No
   c) No opinion

13. Are you happy with the conditions of the loan (terms, repayments….)?
   a) Yes
   b) No
   c) No opinion

14. How do you compare loan conditions to competition?
   a) Better?
   b) Not better?
   c) Did not go to competition?
   d) No opinion?

15. Do you think that the loan conditions are fair?
   a) Yes
   b) No
   c) No opinion

16. Have you applied?
   a) Yes
   b) No
      i. If No, why?
      ii. Do you intend to apply?
         a) Yes
         b) No
         c) I don’t know

Open question
17. What do you think could be improved?
   a) Quality of the program communication material?
      i. Why?
   b) Customer care?
      i. Why?
   c) Loan credit rate?
      i. Why?
   d) Conditions of the loan?
      ii. Why?

18. Do you have a message for the program?

II. Questionnaire for MSEs
1. At Which financial intermediary’ organization are you applying?
2. Are you an:
   a) An existing Micro enterprise
b) An existing Small enterprise?
c) An existing start up?
d) A Micro- enterprise in creation
e) A Small enterprise in creation
f) A Start up in creation
g) Other:
3. How many people do you employ?
4. What is your sector of activity?
   a) Grocery shop
   b) Beauty shop
   c) Food processing,
   d) Restaurant,
   e) Hair dressing,
   f) Manufacturing,
   g) IT services
   h) Other?
5. Gender of the owner of the business entity
   a) Male
   b) Female
6. What is the age of the business entity owner

Convenience and quality of the communication
7. Was the information you received from the program understandable?
8. Where did you hear of the project for the first time:
   a) SFD?
   b) Radio/TV/newspaper?
   c) Financial intermediaries?
   d) Friends?
   e) Other?

Customer Care
9. Was the PFI personal friendly?
10. Did you feel discriminated?
    a) If yes how?
    b) No
    c) don’t know
11. Where you asked for informal payment?
    a) Yes
    b) No
    c) I don’t know
12. How would you rate interaction with the service from 1 (very bad) to 5 (extremely good)?

Products, services, Pricing
13. What was the credit rate proposed to you?
14. How do you compare the credit rate to competition
   a) Better
   b) Not better
   c) I did not go to competition
   d) No opinion

15. Do you think that the credit rate is fair?
   a) Yes
   b) No
   c) No opinion

16. Are you happy with the conditions of the loan (terms, repayments…)?
   a) Yes
   b) No
   c) No opinion

17. How do you compare loan conditions to competition?
   a) Better?
   b) Not better?
   c) Did not go to competition?
   d) No opinion?

18. Do you think that the loan conditions are fair?
   a) Yes
   b) No
   c) No opinion

19. Have you applied?
   a) Yes
   b) No
   i. If No why?
   ii. Do you intend to apply?
      a) Yes
      b) No
      c) I don’t know

Open question

20. What do you think could be improved?
   a) Quality of the program communication material?
      i. Why?
   b) Customer care?
      i. Why?
   c) Loan credit rate?
      i. Why?
   d) Conditions of the loan?
      i. Why?

21. Do you have a message for the program?

D. Proposed Action Plan
   • Finalize project CE action plan
E. **Expected Outcome**

22. Transparent financing process, with every potential beneficiary treated with fairness and having access to adequate and timely information. Incremental amelioration of PFI-provided services using beneficiaries’ feedback.

F. **Time Frame (five months to rolling out)**

- *First month*: discussion with stakeholders and finalization of the technological data collection design.
- *Following Next two months*: Finalization of the different survey and data collection tools.
- *Following Next one month*: Test
- *Following Next month*: Rolling out