



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 22-Sep-2021 | Report No: PIDA31963



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Egypt, Arab Republic of	P171311	Egypt Inclusive Growth For Sustainable Recovery (P171311)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
MIDDLE EAST AND NORTH AFRICA	26-Oct-2021	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Arab Republic of Egypt	Ministry of International Cooperation		

Proposed Development Objective(s)

To (a) enhance macro-fiscal sustainability, (b) enable private sector development, and (c) foster women's economic inclusion.

Financing (in US\$, Millions)

SUMMARY

Total Financing	360.00
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DETAILS

Total World Bank Group Financing	360.00
World Bank Lending	360.00

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

- In recent years Egypt has embarked on a reform program – supported by previous DPFs and IMF arrangements – that helped address a number of pressing macroeconomic challenges.** While these “first generation” reforms have



helped sustain the economy, further efforts are needed to accelerate economic growth, enhance inclusion and reduce poverty - with a critical role for the private sector.

2. **Private sector dynamism is dependent upon a realigned role of the state, especially to enable expanded access to competitive markets.** The exchange rate adjustment in 2016 helped improve the trade deficit, but export competitiveness remains weak and exports are well below those of comparator countries. The number and sectorial variety of exporting firms is critically low (only 9 percent of manufacturing firms export directly) with wide spatial disparities in the firms' engaged in exporting. There are a range of factors affecting the performance of the private sector, like trade barriers due to policy and facilitation weaknesses, and commercial justice limitations that increase investment risks and uncertainty, but a particular challenge concerns the large role played by state-owned and state-connected enterprises in the economy¹.

3. **To address the above challenges, this stand-alone DPF aims to foster inclusive growth at a time of COVID-related turbulence.** It provides timely support to a second generation of reforms, in line with the Government's program. The operation is timely, because the Government needed the last year to focus on relief and steps to recover from the pandemic, with the support of its development partners including the IMF (Rapid Finance Instrument and Stand By Arrangement programs), the World Bank, and the IFC via investment projects. Building on the Country Private Sector Diagnostic (CPSD) and selecting from strongly government-owned reform areas, the DPF promotes inclusive private sector growth and opening of space for the private sector to operate transparently and on a level playing field.

4. **In doing so it is also in line with the World Bank Group COVID-19 Crisis Response Approach Paper.** The operation includes measures to help the economy make an immediate response to the challenge of COVID-19, such as through reforms to support financial stability, and facilitate restructuring and/or business exit. It also takes important steps to shift the economy to a more fiscally sustainable and gender inclusive path and remove impediments to the private sector, while recognizing that the required changes are going to require on-going efforts.

Relationship to CPF

5. **The proposed program's focus is fully aligned with the World Bank Group's support under the Country Partnership Framework 2015-2019 (CPF) extended by the Performance and Learning Review until 2021, which prioritizes the twin goals of eliminating extreme poverty and boosting shared prosperity in a sustainable manner.** The reforms supported by this operation will contribute to achieving key goals identified in the CPF focus areas (improving governance and private sector job creation). These include supporting macroeconomic stability; improving the transparency and efficiency of public administration through strengthening citizens' ability to hold the state accountable through improved access to information and improving the business climate for private investors. Other investment projects under the Egypt CPF which target the social and economic inclusion agenda, social safety nets, basic services, social housing, financial inclusion, and agriculture play a complementary role to the proposed DPF's focus on transparency, fiscal resilience and private sector-led growth.

¹ Egypt CPSD, Creating Markets in Egypt, Realizing the Full Potential of a Productive Private Sector, August 2020.



C. Proposed Development Objective(s)

To (a) enhance macro-fiscal sustainability, (b) enable private sector development, and (c) foster women's economic inclusion.

Key Results

The following key results will be confirmed and finalized during preparation, and for now include: i) Increase in the percentage of SOEs under the MPBS whose boards are reconfigured in accordance with requirements in Law 185 of 2020 from zero to 75 percent; ii) Publication of two annual debt reports and two semi-annual debt bulletins; iii) Increase in percentage of green public investment projects out of total public investment projects from 14 percent in FY20/21 to 20 percent in FY22/23; iv) Publication of FRA Board decisions detailing the secondary regulations stipulated by the law; v) The insolvency law is consistent with the accepted international standard on creditor eligibility to file for both reorganization and liquidation (WB “Insolvency Creditor/Debtor Regimes”: ICR Principle C4.2); on creditors’ effective participation in insolvency proceedings and access to information (WB ICR Principle C7.1), and on availability and priority for post commencement finance (WB ICR Principle C9.2); vi) Reduction in cargo inspections at the Port of Alexandria by the Egyptian Customs Authority from 100 percent to 80 percent; vii) Increase in the amount invested by private sector in waste management from zero to US\$ 100 million; viii) Nationwide awareness of the regulatory changes to increase female labor force participation incentives; ix) Development and Implementation of GBV SOPs to implement the code of conduct based on global best practices and including grievance redress mechanism and evaluation mechanisms for reporting violations and Development and Implementation of GBV SOPs for One Stop Centers including clear referral path based on global best practices and including grievance redress mechanisms; x) Increase in the number of women benefiting from available NBF financing from 2.07 million to 2.2 million and Increase in the amount of loans available for women from EGP 11.8 billion to 12.5 billion.

D. Project Description

6. **The proposed DPF is a stand-alone single-tranche operation aimed at supporting GOE’s effort to (a) enhance macro-fiscal sustainability, (b) enable private sector development and (c) foster women's economic inclusion.** The proposed DPF will contribute to the following policy objectives through specific policy reform actions:

Under Pillar 1 – Enhancing Macro-Fiscal Sustainability: Strengthening debt and SOE management in addition to catalyzing adoption of green finance instruments for sovereign projects and eventually by financial sector regulators.

Under Pillar 2 – Enabling Private Sector Development: Strengthening financial inclusion; promoting digital financial services and enhancing the commercial justice and trade facilitation systems. This pillar also focuses on solid waste management as an example of a sector where the Government is taking important steps toward increasing private sector participation.

Under Pillar 3 – Fostering Women’s Economic Inclusion: Removing regulatory barriers hindering female labor participation; prevent and address Gender Based Violence and enhance access to finance for women.

E. Implementation

Institutional and Implementation Arrangements



7. **The MOIC continues to be the main coordinating agency for monitoring and evaluation among the ten other participating agencies.** The prior actions detailed in this operation are the prime responsibility of eleven agencies: MOIC, Ministry of Finance, Ministry of Public Business Sector, Ministry of Planning and Economic Development, Ministry of Justice, Ministry of Transport, Ministry of Environment, Ministry of Manpower, the Egyptian Customs Authority, the National Council for Women, and the Financial Regulatory Authority. The inter-ministerial Economic Cabinet will remain functional during the course of the DPF framework where the MOIC will be the coordinator with other ministries on monitoring of the results indicators, which are based on routinely published sector indicators, custom reports and/or surveys developed and agreed with the aforementioned agencies.

8. **The program outcomes will be monitored through the measurement of progress toward the achievement of results indicators included in the policy and results matrix.** This measurement seeks to assess progress toward the implementation of the policy and institutional measures supported by the DPF. MoIC has the responsibility of presenting the information related to the reform implementation and progress made toward results on time and in a format satisfactory to the World Bank.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

9. **The reform program supported by this operation, aiming at strengthening the foundations for inclusive growth for a sustainable recovery, is not expected to have adverse poverty and social effects, and would contribute to poverty reduction in Egypt in the medium to long term.** The policy measures supported under this DPF are expected to increase the macro-fiscal resilience of the economy, while enabling private sector growth and gender inclusion. As highlighted by the SCD for Egypt (under preparation), inclusive growth in the country is hampered by poor learning outcomes and low labor productivity. Together with constraints related to the business environment and growing informality, low labor productivity limits firms' potential to grow and wealth-generating structural transformation, while spatial inequalities persist. This includes youth, whose inactivity and long-term unemployment rates are increasing, and women, whose labor force participation has historically been low, as is access to high education. The proposed reforms are likely to address part of these constraints, resulting in a more dynamic, more sustainable and better distributed growth. More importantly, the proposed actions are not likely to have significant impoverishing effects.

Environmental, Forests, and Other Natural Resource Aspects

10. **Under Pillar two "Enabling Private Sector Development", there is an opportunity to promote green recovery and the green agenda under Prior Action 7. It is expected that the engagement of the private sector will improve the overall solid waste management.** The ratification of the Solid Waste Management Law has created a sufficient enabling environment to engage with the private sector in addressing a historically poorly managed sector. The current engagement of the World Bank with the Ministry of Environment in the Greater Cairo Air Pollution Management and Climate Change Project (P172548) will provide the necessary technical support for the enactment of the executive regulations of the new SWM Law which is crucial for the scaling up and sustainability of the SWM system. The Prior Action and the Government's medium-term reforms are considered to have significant environmental benefits.



G. Risks and Mitigation

11. **The overall risk rating of this operation is high.** The major risks to the operation's ability to achieve its development objective include: (a) macroeconomic challenges associated with uncertainty surrounding the recovery from the Covid-19 crisis, higher global volatility around emerging markets, high inflation, high interest rates, and the large public debt-to-GDP ratio; (b) challenging social conditions on the ground; (c) governance and institutional challenges that may impede the continued implementation of structural reforms; (d) the high degree of cross-sectoral coordination needed for implementation of private sector-led job creation; and (e) the potential spillover effects of regional and geopolitical challenges. These risks, if materialized, could affect the Government's ability to implement the reforms or make development outcomes less successful.

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APPROVAL

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Approved By

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