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Report No: PAD2650

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US$200 MILLION

TO THE

ARAB REPUBLIC OF EGYPT

FOR THE

CATALYZING ENTREPRENEURSHIP FOR JOB CREATION PROJECT

March 27, 2019

Finance, Competitiveness, and Innovation Global Practice
Middle East and North Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective March 7, 2019)

Currency Unit =	Egyptian Pound (EGP)
US$1=	EGP 17.52
EGP 1 =	US$0.06

FISCAL YEAR
July 1 – June 30

ABBREVIATIONS AND ACRONYMS

AFD	*Agence Française de Développement* (French Development Agency)
CAPMAS	Central Agency of Public Mobilization and Statistics
CAO	Central Audit Organization
CBE	Central Bank of Egypt
CPF	Country Partnership Framework
DA	Designated Account
DD	Deferred Drawdown
DFID	U.K. Department for International Development
DLI	Disbursement-Linked Indicator
EBRD	European Bank for Reconstruction and Development
EEP	Egypt Entrepreneurship Program
ESMF	Environmental and Social Management Framework
ESMS	Environmental and Social Management System
FAP	Fintech Acceleration Program
FM	Financial Management
FRA	Financial Regulatory Authority
GBV	Gender-Based Violence
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
GoE	Government of Egypt
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
HQ	Headquarters
IA	Internal Audit
IAD	Internal Audit Department
IBRD	International Bank for Reconstruction and Development
IC	Investment Committee
ICT	Information and Communication Technology
IFC	International Finance Corporation
IFR	Interim Financial Report
ILO	International Labour Organization

IMF	International Monetary Fund
IoT	Internet of Things
IPF	Investment Project Financing
ITIDA	Information Technology Industry Development Agency
ITS	Investment Ticket Size
MCIT	Ministry of Communication and Information Technology
MENA BWN	Middle East and North Africa Business Women Network
MFC	Microfinance Company
MFD	Maximizing Finance for Development
MFI	Microfinance Institution
MIIC	Ministry of Investment and International Cooperation
MIS	Management Information System
MSEs	Micro and Small Enterprises
MSMEs	Micro, Small, and Medium Enterprises
MSMEDA	Micro Small and Medium Enterprises Development Agency
M&E	Monitoring and Evaluation
NBFI	Non-Banking Financial Institutions
NGO	Nongovernmental Organization
PDO	Project Development Objective
PFI	Participating Financial Institution
POM	Project Operations Manual
PPSD	Project Procurement Strategy for Development
RCI	Risk Capital Intermediary
RO	Regional Office
SCD	Systematic Country Diagnostic
SFD	Social Fund for Development
SMEs	Small and Medium Enterprises
TIEC	Technology Innovation and Entrepreneurship Centre
TEA	The Entrepreneurship Accelerator
TOR	Terms of Reference
UNDP	United Nations Development Programme
VAT	Value Added Tax
VC	Venture Capital

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DATASHEET

BASIC INFORMATION

Country(ies)	Project Name
Egypt, Arab Republic of	Catalyzing Entrepreneurship for Job Creation

Project ID	Financing Instrument	Environmental Assessment Category
P162835	Investment Project Financing	F-Financial Intermediary Assessment

Financing & Implementation Modalities

[ ] Multiphase Programmatic Approach (MPA)	[ ] Contingent Emergency Response Component (CERC)
[ ] Series of Projects (SOP)	[ ] Fragile State(s)
[ ] Disbursement-linked Indicators (DLIs)	[ ] Small State(s)
[✓] Financial Intermediaries (FI)	[ ] Fragile within a non-fragile Country
[ ] Project-Based Guarantee	[ ] Conflict
[ ] Deferred Drawdown	[ ] Responding to Natural or Man-made Disaster
[ ] Alternate Procurement Arrangements (APA)	

Expected Approval Date	Expected Closing Date
17-Apr-2019	30-Jun-2025

Bank/IFC Collaboration	Joint Level
Yes	Complementary or Interdependent project requiring active coordination

Proposed Development Objective(s)

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

Components

Component Name	Cost (US$, millions)
I - Financial Support to MSMEs	146.00
II - Risk Capital for Innovative Startups and High Growth SMEs	50.00
III - Business and Capacity Development	3.50

Organizations

Borrower:	Arab Republic of Egypt
Implementing Agency:	Micro, Small, Medium Enterprise Development Agency - MSMEDA

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

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

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	200.00

Expected Disbursements (in US$, Millions)

WB Fiscal Year	2019	2020	2021	2022	2023	2024	2025
Annual	1.00	30.00	45.00	45.00	35.00	25.00	19.00
Cumulative	1.00	31.00	76.00	121.00	156.00	181.00	200.00

INSTITUTIONAL DATA

Practice Area (Lead)	**Contributing Practice Areas**
Finance, Competitiveness and Innovation	Poverty and Equity, Social Protection & Labor, Social, Urban, Rural and Resilience Global Practice

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?	
a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF	Yes
b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment	Yes
c. Include Indicators in results framework to monitor outcomes from actions identified in (b)	Yes

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Rating
1. Political and Governance	Moderate
2. Macroeconomic	High
3. Sector Strategies and Policies	High
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	
10. Overall	High

COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

[ ] Yes [√] No

Does the project require any waivers of Bank policies?

[ ] Yes [√] No

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01	✓	
Performance Standards for Private Sector Activities OP/BP 4.03		✓
Natural Habitats OP/BP 4.04		✓
Forests OP/BP 4.36		✓
Pest Management OP 4.09		✓
Physical Cultural Resources OP/BP 4.11		✓
Indigenous Peoples OP/BP 4.10		✓
Involuntary Resettlement OP/BP 4.12		✓
Safety of Dams OP/BP 4.37		✓
Projects on International Waterways OP/BP 7.50		✓
Projects in Disputed Areas OP/BP 7.60		✓

Legal Covenants

Sections and Description

Schedule 2, Section I.B.1 of the Loan Agreement: the Borrower shall through MSMEDA, prepare and adopt, no later than (1) one month after the Effective Date, a Project Operations Manual in form and substance satisfactory to the Bank.

Conditions

Type	Description
Effectiveness	Article V, 5.02 of the Loan Agreement: The Subsidiary Loan Agreement has been executed on behalf of the Borrower and MSMEDA.

Type	Description
Effectiveness	Article V, 5.03 of the Loan Agreement: The Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and MSMEDA and is legally binding upon the Borrower and MSMEDA in accordance with its terms.

Type	Description
Disbursement	Schedule 2, Section III.B.1 of the Loan Agreement: No withdrawals shall be made, except that withdrawals up to an aggregate amount not to exceed US7.5 million may be made for payments made on or after 12 months prior to the Signature Date for Eligible Expenditures; or under Category (2), until the Investment Committee has been established, with composition and mandate, in accordance with Section I.A.3 to Schedule 2 of this Agreement.

I. STRATEGIC CONTEXT

A. Country Context

1. **Egypt's economic reform program is showing early signs of success, as economic growth rebounds, inflation falls, and fiscal consolidation efforts remain on track to bring public debt back to sustainable levels.** The Government of Egypt (GoE) has implemented major reforms, such as the move to a flexible exchange rate in November 2016, to bring about macroeconomic stability, improve the climate for the private sector and to enhance competitiveness. Real gross domestic product (GDP) grew at 5.3 percent in FY18, compared to 4.2 percent in FY17, and inflation reached 16 percent in September 2018, down from a high of 33 percent in July 2017. The last three years of government expenditure reforms (to curb significant fiscal outlays for energy subsidies and the wage bill) and revenue measures (the introduction of value added tax (VAT) extended to the services sector) pave the way for a sustained macroeconomic adjustment and downward debt trajectory. Government debt has come down to just below 99 percent of GDP at end-FY18. The external accounts[1] are improving, supported by the liberalized exchange rate, a narrowing current account deficit,[2] and a surge in capital inflows in the form of sovereign bond issuances and loans from international financial institutions. Net international reserves reached a record high of US$44.5 billion at end-September 2018 (8.5 months of FY19 merchandise imports). However, the recent turmoil in emerging markets and a spike in global oil prices are exerting pressure on Egypt's external and fiscal accounts for the medium term. These reforms have been widely endorsed, including by the World Bank's programmatic Development Policy Financing and the three-year Extended Fund Facility of the International Monetary Fund (IMF). Egypt's sovereign credit outlook has thus been upgraded to 'positive' by rating agencies S&P, Moody's, and Fitch.

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

3. **To ensure that the economic reforms have a positive impact on citizens, Egypt needs the private sector to create new jobs, particularly in the formal labor market, notably for women and youth.** While recent data show some downward movements in the unemployment rate (from a high of 13.4 percent in FY14 to 10.9 percent in FY18), this improvement partially reflected a decline in labor force participation rather than actual job creation, as the unemployed (mostly youth) exited the labor force or started their own businesses informally. At the same time, youth and female unemployment remain high at 34.3 percent and 24.3 percent.[3] Private investment is historically low in Egypt compared to other countries in

[1] Balance of Payments Current Account.
[2] Measurement of a country's trade in which the value of its imports exceeds the value of its exports. It represents a country's foreign transactions and, like the capital account, is a component of a country's balance of payments.
[3] World Bank Open Data (modeled ILO estimates, 2018).

the region, and globally compared to countries at similar levels of development. The private sector investment, as a share of GDP, constituted only 11.4 percent over 2000–2016, which is approximately seven percent lower than in other emerging economies, and the recent uptick in investment since 2016 has been driven by public investments. Furthermore, jobs have been increasingly informal: between 1998 and 2018, informal private sector employment increased from 31 percent to 76 percent of the total.

4. **Private sector-led job creation is the pathway for economic inclusion and a new social contract.** Economic exclusion has led to high youth and female unemployment with many without formal jobs. Youth and female unemployment in Egypt remain as the highest rates of unemployment in the country (around 30 percent and 22 percent, respectively, compared to an overall unemployment rate of 10 percent). Between 1998 and 2018, informal private sector employment increased from 31 percent to 76 percent. Stagnation of the private sector is also evident from the low level of firm entry density and firm turnover rates. Private sector investment, as a share of GDP, constituted only 11.4 percent over 2000–2016, which is approximately 7 percent lower than in other emerging economies. While Egypt's private sector share of jobs is 78 percent, 76 percent are informal, low-quality, low-productivity, and low-pay jobs.

5. **Micro, small, and medium enterprise (MSME) segments represent a significant unserved market.** With 6.4 million enterprises (formal and informal sectors), Egypt has by far the largest MSMEs market in the Middle East and North Africa region. These firms are also the main source of private sector jobs: they represent 97 percent of all formal sector enterprises and contribute about 33 percent of Egypt's GDP and 38 percent of total employment.[4] That said, they face significant constraints and obstacles, resulting in a financing gap estimated at US$15.2 billion, most markedly in the small and informal segments (US$12.5 billion), and inhibiting the development of the sector and its potential to create private sector jobs.

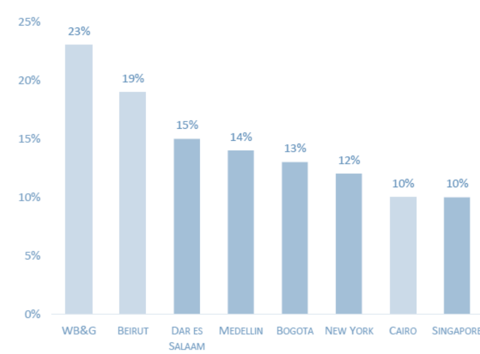
6. **There are several constraints to private sector growth: finance and land access, competitiveness, and a level playing field.** Access to finance was cited as a top business constraint by 13 percent of firms in the Enterprise Survey of 2016, up from 10 percent in 2013. Finance, particularly for MSMEs and start-ups, is predominantly debt financing with channels through the banking and non-banking sectors—with a majority of bank financing. To be fully effective, financing for entrepreneurs requires various mechanisms to open up and effective provision of equity finance through capital markets, venture capital (VC), and private equity. While the problem of limited access to finance for entrepreneurs is widespread, it is more acute for female and youth-led enterprises, who also face more challenges in accessing business development services. The World Bank FINDEX 2017 survey finds that only 27 percent of females age 15 years and above had an account with a financial institution, compared to 57 percent of males. In addition, only 14 percent of Egyptians age 15 to 24 years had an account with a financial institution in 2017, compared to an average of 34 percent in the Middle East and North Africa region. The main constraints women and youth face are restrictive collateral requirements and inadequate loan sizes and terms.[5] In addition, women and youth tend to lack awareness and understanding of available financing mechanisms. In the case of start-ups, entrepreneurs identify lack of investors and shortage of

[4] SMEs for Job Creation in the Arab World. Sahar Nasr and Douglas Pearce. World Bank, 2012.
[5] Based on a survey conducted by the Middle East and North Africa Business Women Network (MENA BWN), approximately 60 percent of Egyptian women business owners rated high interest rates as the major constraint in obtaining a loan; 40 percent identified collateral requirements as an issue; 42 percent reported that approved loan amounts were not adequate; and 38 percent reported that repayment terms were too short.

funding at all stages of the start-up financing life cycle as one of the main constraints.[6] In the case of women and youth entrepreneurs, this is aggravated by two factors: (a) women and youth have lower access to networks of investors compared to men, and (b) investors perceive women and youth-led enterprises as riskier than other investments, and young entrepreneurs are perceived as high risk due to lack of business experience. In terms of access to land, which is essential to run and manage a business, more than 90 percent of land is owned by the Government; furthermore, land registration processes have not been modernized. The share of firms reporting access to land as a major constraint increased from 11 percent in 2013 to 16 percent in 2016.[7]

B. Sectoral and Institutional Context

Figure 1. Women Participation Per Ecosystem



Source: Cairo Ecosystem Analysis.

7. **To respond to the multiple challenges for private sector development described, the GoE has launched a set of legislative and institutional reforms that foster an improved environment for the business sector, especially for smaller enterprises.**[8] Recognizing that job creation is likely to come from new firms and the growth of smaller enterprises, given that 38 percent of total employment is attributed to private firms,[9] the Government has taken measures to improve the enabling environment for the growth and development of the private sector. Measures include (a) creating a formal registry for movable assets to be used as collateral, to overcome constraints especially for smaller enterprises, and for women and youth entrepreneurs who do not own/cannot own land or have access to traditional collateral; (b) amending the companies' law to allow single person companies to be formally incorporated and to strengthen protection for minority shareholders; (c) issuing a new Investment Law to encourage new inward investments; (d) introducing a new Bankruptcy Law which de-criminalizes bankruptcy, simplifies the procedures, and minimizes the need for companies or individuals to resort to the courts; and (e) the establishment of a one-stop shop and online services to start a business, offering dedicated services for women entrepreneurs.

8. **The Government reform program prioritizes creating jobs for the youth.** To address the need of creating jobs, the Government is embarking on a program that aims to create about 900,000 jobs annually for the unemployed and underemployed, with a total of 3.6 million jobs throughout the four-year program, to help reduce the unemployment rate to 8.4 percent compared to 10.6[10] percent in Q1 of 2018 (implying a total of 3.2 million unemployed persons currently). The Government aims to do so through different measures including focusing on MSMEs, introducing legislative and organizational reforms that encourage self-employment and entrepreneurship, and boosting the integration of the informal sector

[6] World Bank. 2017. *Women Entrepreneurship in Egypt: High Growth Potential Start-Up Report*.
[7] Enterprise Survey Data, 2013 and 2016.
[8] World Bank. 2017. *Women Entrepreneurship in Egypt: High Growth Potential Start-Up Report*.
[9] Egyptian Labor Market Report. 2014. *More Jobs, Better Jobs: A Priority for Egypt*.
[10] Central Agency of Public Mobilization and Statistics (CAPMAS) figure.

with the formal system—reducing informality—in addition to establishing centers for entrepreneurship, technical education, and vocational training programs. The program also highlights inclusion and development of lagging regions by focusing on Upper Egypt governorates which have poorer economic and social indicators relative to other areas.

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

10. **Even with reforms in both the demand side and the supply side of the labor market, jobs are not being created fast enough to absorb the unemployed population in Egypt, in particular women and youth.** In addition, the quality of jobs continues to be low as proven by a widespread level of informality across income groups. Nearly 50 percent of the middle class are employed in the informal sector (Figure 2). While supply-side challenges are dominant in some geographic regions, mainly in Upper Egypt, where low skills are a constraint to employment, it is demand-side problems that dominate in most governorates. They arise from low job creation or a shortage of formal employment opportunities outside the public sector. As shown in Figure 3, the governorates marked above the line indicate that there are relatively more qualified and skilled people in employment, pointing to demand-side constraints as the barrier to formality, while the governorates marked below are those that are relatively more constrained by an underqualified or low-educated workforce. There is also a gender dimension to accessing quality jobs. The task content of private sector jobs in the labor market is skewed toward manual and physical work, and this has been increasing over time; as a result, the average job is not conducive to female labor force participation and employment. New jobs in new markets are also required to generate additional employment options for women (see table 1). According to a recent World Bank study on women economic empowerment in Egypt, if female employment rates were to match male employment rates, Egypt's GDP would increase by 34 percent.[11]

Table 1. Women's Economic Participation in Egypt, 2017 (%)

	Firm Size			Egypt	MENA	LMI
	Small	Medium	Large			
Firms with Female Participation in Ownership	14.1	24.2	26.7	17.8	23.3	33.6
Firms with Female Top Manager	5.1	5.0	2.4	4.9	5.4	19.3
Female Permanent Full-time Workers	12.0	16.2	15.0	13.4	17.6	30.0
Female Permanent Full-time Production Workers*	7.0	13.4	14.1	9.5	13.5	25.4
Female Permanent Full-time Non-production Workers*	4.7	14.6	22.4	9.5	17.6	29.2

Source: WBG (2017). Enterprise Surveys. Egypt 2016 Country Profile

[11] World Bank. 2018. *Women Economic Empowerment Study.*

Figure 2. Informal vs Formal Sector Jobs

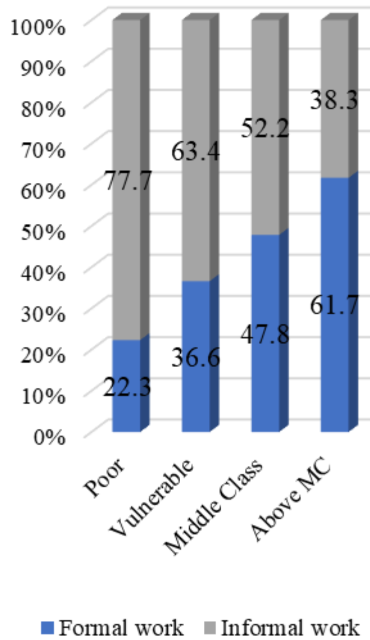
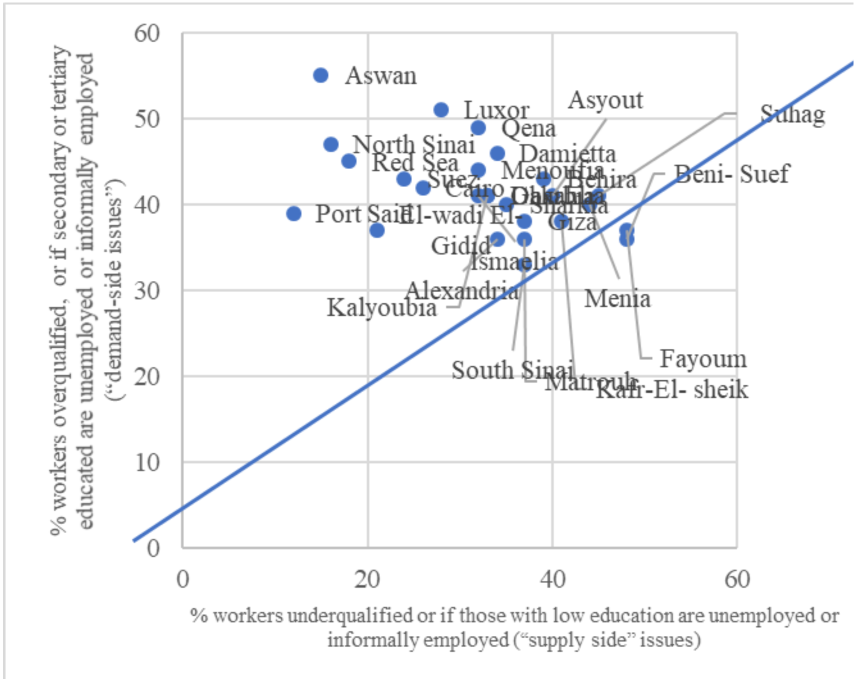


Figure 3. Demand-side vs Supply-side Constraints to Job Creation



Source: Labor Force Survey.

11. **In competitive economies, young firms are the engine of job creation.** There is a large and growing literature linking employment growth to firm dynamics. According to a new report by the World Bank Group, 'High Growth Firms: Fact, Fiction and Policy Options for Emerging Economies', high-growth firms account for approximately 3–20 percent of the manufacturing and service industries and their contribution is more than 50 percent of new jobs and sales in in these sectors. The report also concludes that high-growth firms are younger than the average firm.[12] Studies typically find that younger and smaller firms have higher employment growth rates than older and larger firms and show that most of the growth of younger and smaller firms is organic, while for larger and older firms, employment growth mostly comes through acquisitions. Around 60 percent of firms with less than 20 employees are found to be credit constrained, in comparison to large firms. Accordingly, it is imperative to improve start-up access to credit, as well as competitive regulatory services.[13] The majority of Egypt's small, young firms have very little access to capital, credit, and other infrastructure, which severely limits their growth and job creation potential. Therefore, there is room for improving existing small and medium enterprise (SME) support programs in Egypt by targeting the subset of young firms among SMEs.[14] The American University in Cairo,

[12] https://www.worldbank.org/en/news/feature/2018/11/16/high-growth-firms-facts-fiction-and-policy-options-for-emerging-economies.
[13] Egyptian Labor Market Report. 2014. *More Jobs, Better Jobs: A Priority for Egypt*.
[14] In preparation for this project, several assessments were conducted such as the Cairo Ecosystem Analysis and the High-Growth Potential Startups Survey, confirming the arguments stated.

for example, has established a Venture Lab that encourages start-up companies to develop their projects and present them to investors and industry leaders, helping to commercialize technologies and innovations.

12. **In that context, entrepreneurs play an important role by forming small businesses that represent a way of life, providing employment at the base of the pyramid and contributing to the alleviation of poverty.** As mentioned in paragraph 5, entrepreneurs face multiple challenges, one of them being limited access to finance. Access to microfinance credit is growing quickly but has not reached its full potential. The microfinance active portfolio increased from EGP 4.5 billion and 1.8 million active borrowers as of December 2016 to EGP 9.7 billion and 2.57 million active borrowers as of June 2018 (215 percent and 150 percent increase, respectively) and to EGP 10.6 billion and 2.6 million active borrowers as of September 2018.[15] Recent market assessments suggest the potential market for microcredit to be 10 million microentrepreneurs; thus, the market is only reaching 27 percent of its potential.[16] In Egypt, men are 12 percentage points more likely than women to have an account, so the gender gap is significant. Moreover, while there are many microfinance institutions (MFIs) in Egypt, there are many geographical areas where demand is unmet. Most of the distribution channels of the large nongovernmental organizations (NGOs) are in Delta governorates and a few are in Upper Egypt while frontier governorates (Red Sea, Sinai, and the New Valley) are lagging, with active borrowers less than three percent of the total microfinance customers and low penetration rates.

13. **To foster a stronger private sector response to improve the business environment, the Government has offered several entrepreneurship support programs, as well as launched various initiatives to build entrepreneurial skills—particularly given the needs of women and youth.** Among the different programs and initiatives, the latest was Egypt Ventures,[17] which was established to develop the Egyptian entrepreneurial ecosystem, increase deal-flow from start-ups to scaleups, as well as support the development of new and existing accelerators and VC firms. The Government also launched the Fekretak Sherketak (your idea, your company) initiative which provides financial and technical support to entrepreneurs across Egypt.[18] In Egypt, over a third of entrepreneurs remain driven by necessity, which means that they have started a business due to the absence of other work alternatives—higher than the global average of 23.2 percent.[19] In terms of age distribution, there is a noticeable increase in the percentage of youth that decide to open their own business, especially those in the age range 18–24 years. This growth in youth entrepreneurship could also be attributed to the higher rate of necessity entrepreneurs driven by the unemployment rate.[20] In terms of gender, one in four entrepreneurs is a woman, and one in six established business owners is a woman. The trend has been in decline; in 2015, 25 percent of early-stage entrepreneurs were women compared to 32 percent in 2010.[21] Furthermore,

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[15] MSMEDA Database.
[16] According to the Microfinance Assessment conducted as part of the preparation of this project.
[17] Egypt Ventures is an investment firm seeded by the Ministry of Investment and International Cooperation (MIIC) with a mandate of supporting and investing in start-ups from a diverse range of sectors across Egypt.
[18] 'Fekretak Sherketak' is an innovative initiative to encourage start-ups and promote the entrepreneurial ecosystem in Egypt; it promotes the launch of the Egypt Entrepreneurship Program (EEP) in partnership with Hermes Financial Group and the United Nations Development Programme (UNDP). EEP is a comprehensive platform designed to catalyze the entire entrepreneurial ecosystem in Egypt.
[19] Global Entrepreneurship Monitor (GEM) Report 2016–2017.
[20] Ibid.
[21] GEM Egypt National Report 2015–16.

women-led businesses have a lower probability of continuation compared to men-led businesses, although women entrepreneurs tend to make higher returns than their male counterparts.[22]

14. **There has been an innovation focus to the Government's entrepreneurship activities.** Efforts have been made by the Ministry of Communication and Information Technology (MCIT) in the entrepreneurship space as well, specifically through the Information Technology Industry Development Agency (ITIDA). ITIDA is a public-private partnership between the MCIT and the private sector, dedicated to developing information technology in Egypt and providing capacity-building activities. The MCIT also promotes the Technology Innovation and Entrepreneurship Center (TIEC), which aims to promote innovation and entrepreneurship in information and communication technology (ICT). Several programs were launched under the TIEC: (a) the Startup Support Program,[23] (b) the Entrepreneurship Accelerator[24] (TEA), and (c) the Egypt Internet of Things (IoT) League.[25] As part of the GoE's efforts to support innovative young entrepreneurs and provide them with tools to develop their potentials and enhancing their chances of competing in the global markets, the MCIT and MIIC signed a cooperation protocol aimed at creating a supportive environment for entrepreneurship, developing innovative young people's capabilities, attracting international investments in ICTs, stimulating investment for start-ups, and promoting technological innovations that help integrate and empower people with disabilities.

15. **In parallel to the Government efforts, private sector and development partners have made significant investments in Egypt to build a dynamic ecosystem to encourage high-growth firm development in an ecosystem that is still under development.[26]** Several private sector stakeholders and development partners (including Endeavor, Rise Up, Flat6Labs, the European Union, the United Kingdom, and the United States) have invested in creating a pipeline of start-ups in the ideation and early stages of development. These initiatives resulted in the establishment of the TIEC; the first private start-up accelerator Flat6Labs in 2011; and the launch of The Greek Campus, which has become the de facto hub for entrepreneurship and innovation activities in Cairo. Rise Up[27] was founded in 2013, attracting key stakeholders of the entrepreneurial ecosystem including local, regional, and global entrepreneurs; angel investors; venture capitalists; entrepreneurship advocates; and support organizations to an annual global entrepreneurship summit that had the snowball effect of triggering similar events in other governorates, including Alexandria and Asyut. Other initiatives include the Se'eedy start-up which aims at familiarizing people in Upper Egypt on the entrepreneurial ecosystem as well as spreading knowledge about the new financial products from which they can benefit, where it explicitly targets new entrepreneurs and start-ups in Upper Egypt where attendees exceeded 300 participants. However, there is still a gap in supporting early-stage start-ups as they move to the next level, resulting in start-ups losing their growth momentum and getting locked-in at relatively low revenue levels. As a result, a large proportion of start-ups and young

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[22] WOMENA founder Elissa Freiha interview, 2016.

[23] The program was established to provide support for ICT-based start-ups where it provides one-on-one customized support covering a broad range of topics, services, and resources.

[24] The program was designed to help young professionals and entrepreneurs turn their ideas into strong business plans. The accelerator is the catalyst that enables entrepreneurs to advance their business to the next level. TEA runs thrice a year, each round for 12 weeks in TIEC premises at Smart Village, Alexandria University, Mansoura University, and Assiut University.

[25] A nationwide acceleration program for start-ups that have innovative ideas in the area and related fields. Egypt IoT League is co-organized by Intel Corporation and the TIEC in partnership with other corporate, academic, and government partners/sponsors.

[26] World Bank. 2018. *The Search for Unicorns*.

[27] The Middle East and North Africa region's largest innovation and entrepreneurship summit, taking place in the heart of Downtown Cairo annually.

companies do not manage to reach a more developed stage and exit the market quickly**.** According to the 2016–17 GEM Report, the rate of discontinued start-ups and businesses in Egypt is around 7.3 percent, compared to a global rate of 3.0 percent. One of the top three reasons for business discontinuation in Egypt was problems getting financing (11.7 percent of cases).

16. **While the overall start-up ecosystem in Egypt has been gaining momentum recently with a few success stories, some track record, and limited investments, there is still a shortage of high-quality vehicles to support entrepreneurs at different phases of the lifecycle.** Like many developing countries, Egypt lacks the risk capital and often the know-how to effectively support early-stage entrepreneurs. A few incubators and accelerators have been created in the past years; a recent example of accelerators includes the International Finance Corporation (IFC)/United Kingdom Foreign Commonwealth Office 'Start Egypt' initiative to support the ecosystem up till the acceleration phase. Moreover, regulatory constraints limit the flexibility of start-ups (for example, use of stock options and bankruptcy laws) and increase transaction costs (for example, foreign registration).

17. **In terms of complementary areas for support to entrepreneurs, such as business development services, these are not yet yielding the expected impact (especially in the case of women and youth) and would benefit from a more structured and systematic approach.** Although there are various NGOs providing mainstream business development services, the geographical reach, depth of services, and quality of interventions are reported to be low.[28] These factors, together with lack of convenient scheduling options and affordability of services cause women's take-up of mainstream business development programs to be very low in Egypt. Women entrepreneurs in International Labour Organization (ILO) focus groups confirm that they are not aware of such services and only 8.5 percent have ever attended a training program for women. Only five percent have received business counselling or mentoring targeting women entrepreneurs. According to the ILO's Women Entrepreneurs Survey results, 56 percent of respondents obtain most of their information on business-related matters from family, friends, and neighbors. Similarly, young entrepreneurs also have difficulty getting information on business development, marketing, sales, management, and operations, all vital for their businesses to survive and grow.[29] Further initiatives to improve the coordination and quality of available services would contribute to strengthen the capacity of entrepreneurs.

C. Relevance to Higher Level Objectives

Relationship to the Country Partnership Framework

18. **The operation contributes to implementation of the World Bank's Strategy for Middle East and North Africa.** It directly supports strategic pillars related to renewing the social contract pillar and supporting economic recovery, and it is aligned with the World Bank's twin goals of ending extreme poverty and boosting shared prosperity in a sustainable manner. The project contributes to an inclusive growth strategy, by improving opportunities for private sector job creation, promoting the digital transformation through supporting start-ups and innovative SMEs; and empowering female and youth entrepreneurs through increased access to financial

[28] The Women Entrepreneurship Development Assessment.
[29] Brookings. 2016. "Educated but Unemployed. The Challenge Faced by Egypt's Youth."

and non-financial services.The proposed operation is also fully aligned with the IFC's regional priorities, which include SMEs, as well as gender and youth employability, with the objective of supporting the region's private sector, thereby helping create jobs and drive sustainable growth. The project aims to support the entrepreneurial ecosystem to ensure there is a pipeline of investment-ready start-ups for IFC where the project creates a demonstration effect and paves the road for IFC investments.

19. **The operation is aligned with the Systematic Country Diagnostic (SCD) (Report No. 99722) and the Country Partnership Framework (CPF) for Egypt for 2015–2019**. (Report No. 94554) discussed by the Board of Executive Directors on December 17, 2015. Focus Area 2 of the CPF is to improve opportunities for private sector job creation, and Objective 2.5 of the CPF is "enhanced access to finance for MSMEs." The proposed operation also addresses the gender gap and jobs cross-cutting themes of the CPF. This has also been confirmed in the on-going Performance and Learning Review.

20. **The project has a strong focus on leveraging private-sector finance to implement the Maximizing Finance for Development (MFD) approach**. The project aims at enabling private sector solutions by addressing key bottlenecks, such as insufficient funding and lack of adequate non-financial services for targeted beneficiaries. The project introduces private sector solutions by: i) partnering with private sector financial intermediaries to channel public funding under commercial terms; and ii) mobilizing additional private capital through co-investments in privately managed risk capital intermediaries under Component II. Leveraging private sector solutions contributes to the objective of the project of fostering job creation and creating economic opportunities by maximizing availability of funds and increasing the project's outreach. The commercial nature of the funding and the inclusion of non-financial services to support the capacity of beneficiaries contributes to the project sustainability.

Relationship to World Bank Group Activities

21. **This operation is part of a multisectoral engagement to support second generation of reforms focusing on changing the social contract in Egypt.** This approach aims to support inclusive economic growth through private sector-led job creation, investments in human capital, improved governance, transparency, and service delivery while taking advantage of advances in the digital economy. As part of this comprehensive agenda, this Investment Project Financing (IPF) seeks to support inclusive growth through enabling private sector-led growth and job creation. Other World Bank-financed activities include the US$1 billion Development Policy Financing for Private Sector Development for Inclusive Growth (Report No PGD64),[30]which continues to support the policy and institutional reforms for the private sector to develop. Additionally, the World Bank's financial support is complemented by technical assistance to the General Authority for Free Zones and Investment and the Industrial Development Authority to help implement reforms to reduce the time and costs of starting a business and getting an industrial license (through the Equal Access and Simplified Environment for Investment Project- Report No. PAD 1330).[31] Also, this project builds upon the ongoing Promoting Innovation for Inclusive Financial Access Project (US$300 million/Report No. PAD 374), which is implemented by the MSMEDA (formerly the Social Fund for Development) and supported the creation of a line of credit to finance micro and small enterprises

[30] The project was approved by the World Bank Group's Board of Executive Directors on December 4, 2018.
[31] The project is a recipient-executed trust fund grant to FRA financed by the Middle East and North Africa Transition Fund.

(MSEs) through eligible financial institutions and the promotion of innovative financing mechanisms through VC support.

22. **The proposed project design has built on other analytical and technical assistance projects that have helped strengthen the market failure assessment and to better target interventions.** The preparation of this proposed project has been supported by funding from the U.K. Strategic Partnership for Egypt's Inclusive Growth Trust Fund, to undertake comprehensive assessments of the nonfinancial specific barriers, especially those facing female- and youth-led MSMEs in Egypt. The project is also complemented by the Financial Inclusion Global Initiative,[32] which aims at assisting the Egyptian authorities with the implementation of policy, regulatory, and financial infrastructure reforms to enhance digital financial inclusion. Finally, technical assistance is provided to the Credit Guarantee Company to help it develop guarantee products to cover financing from banking and non-banking financial institutions (NBFIs) and to mitigate the risks taken by private financial intermediaries, especially on 'frontier' markets, and to lower the financing costs for beneficiaries.[33] In that context, potential participating financial institutions (PFIs) involved and potential beneficiaries of the proposed project can tap such guarantee products. Beyond ongoing complementing projects, the team plans to raise additional funding to implement an impact evaluation study (currently being designed through the U.K. SPEIG Trust Fund) which will allow to assess the impact of the project's interventions to inform future projects both in Egypt and the Middle East and North Africa region.

23. **IFC is also leading parallel activities that enhance the project's potential impact by (a) providing complementary funding and (b) strengthening the entrepreneurship ecosystem by addressing the nonfinancial barriers to the growth of start-ups and SMEs.** The proposed operation will capitalize on a series of IFC-led investments that have boosted the prospects for the future growth of the entrepreneurship ecosystem, particularly for women and youth. These include US$10 million in Algebra Ventures and US$1.2 million in Flat6Labs Cairo. Additionally, IFC is developing a Fintech Acceleration Program (FAP), which will support the development of entrepreneurs active in digital financial services and promote overall financial inclusion in Egypt. The program is envisaged to develop a stronger pipeline of new fintech start-ups that can potentially benefit from equity financing through the proposed operation, especially since it is estimated that the biggest growth avenue for SMEs in the Middle East and North Africa going forward is in the fintech industry**,** where Egypt, Saudi Arabia, the United Arab Emirates, and Jordan are home to 75 percent of the the Middle East and North Africa region's start-ups and SMEs.[34]

24. **IFC also recently launched the 'Women Banking Champions' Initiative to provide banks with investment and advisory services to build profitable business lines targeting women and women-led businesses**. Labelled the 'Startup Egypt' initiative, the project is a US$2.16 million capacity-building and development program for entrepreneurs that is fully funded by the U.K. Government. Also, the IFC Financial Institutions Group Advisory team currently has three active advisory engagements in Egypt, working with MFIs, which portfolio serves over 50 percent of female borrowers. These engagements focus on building and/or upgrading MFIs' operations in the areas of strategy, product development with a special focus on the digital element, and risk and credit management. These efforts will complement the

[32] Funded by the Bill and Melinda Gates Foundation.
[33] These products include (a) partial credit guarantee for loans granted to women entrepreneurs and (b) partial credit guarantee for loans granted to young entrepreneurs. The project is funded by FIRST Initiative.
[34] Financial Inclusion of Small and Medium-Sized Enterprises in the Middle East and Central Asia, International Monetary Fund, 2019.

proposed operation by creating a pipeline of investment-ready businesses and start-ups that can eventually benefit from the available financing provided by the proposed project.

II. PROJECT DESCRIPTION

A. Project Development Objective

Project Statement

25. The Project Development Objective (PDO) is to foster job creation and improve other economic opportunities for targeted beneficiaries.

PDO Level Indicators

26. **Progress toward the PDO will be measured by key result indicators that reflect the overall results areas of the program as follows:**

- Improving Economic opportunities:
    - Number of entrepreneurs receiving financing through the project
- Creating Jobs
    - Number of jobs created through the project[35]

27. In addition, the project will track an extensive set of intermediate indicators as outlined in the Results Framework.

B. Project Components

Component 1: Financial Support to MSMEs (US$146 million)

28. **This component entails the provision of Financial Intermediary Loans ("FI Loans") to Participating Financial Intermediaries ("PFIs")** for the purpose of on-lending as Sub-Loans to Eligible Micro, Small and Medium Enterprises ("Eligible MSMEs") to carry out job creating Sub-projects in the territory of the Borrower.

29. **The objective of this component is to address access to finance gaps among MSMEs in Egypt and encourage greater private sector participation in the MSME market through a robust market demonstration effect.** This component will provide debt financing for entrepreneurs through financial intermediaries. The component has specific targets for the share of financing for women- and youth-led MSMEs. In addition, indicators on numbers of first-time borrowers, and beneficiaries in lagging regions will be monitored by the Implementing Entity and reported to the World Bank semi-annually. While

[35] A methodology to measure job creation will be agreed with the implementing entity within six months of project implementation to ensure it matches World Bank quality standards of calculating jobs.

reducing informality is not an explicit objective of the project, by providing access to finance to MSMEs, especially those in the segments mentioned above (that is, women,[36] youth, first-time borrowers, and so on), and through demand-side strengthening under Component 3, the project will address informality indirectly by (a) providing access to finance to microfinance NGOs (regulated by the FRA) that tend to also serve informal clients and by (b) building capacity and increasing business skills in those entrepreneurs. The project seeks an impact on reducing informality in the medium term by bringing informal entrepreneurs to the financial market and increasing their capacity to run businesses.

30. **Promoting NBFIs will unlock a significant potential for additional financing for MSMEs.[37]** A majority of MSMEs feel more financially constrained since the revolution (the share of MSME loans to total loans decreased from five percent to three percent between 2010 and 2013) and only five percent of small firms have access to formal financial credit.[38] The microfinance market is currently reaching only 25 percent of its overall market potential.[39] With banks constituting 95 percent of the system's assets, Egypt's financial sector is mainly bank based. As deposit-taking institutions, banks are risk averse by nature and remain inclined to finance large companies and the State budget deficit. In this context, supporting financing through NBFIs is essential for financial deepening and access, fostering market competition, and leveling the playing field. Well-developed NBFIs can serve as an important source of finance for the real sector. NBFIs in Egypt are under developed and face various obstacles impeding effective intermediation—only 2.5 percent of MSMEs tap NBFIs. Several reforms have been conducted in that space, and although progress has been achieved, challenges remain.

31. **Debt financing will flow from the project implementing agency to PFIs who will on-lend the money on commercial terms to end borrower MSMEs.** PFIs will include mostly NBFIs in the form of microfinance companies (MFCs) and factoring and leasing companies; banks will be eligible to participate but will not be the focus of the project and thus it is expected that they will channel a smaller portion of the funds. The component supports MSMEDA in providing tailored financing solutions for different financing needs and market segments of a variety of MSMEs. Overall, by using a range of intermediaries to channel the project funds, the operation expects to maximize the impact and outreach to high-growth, job-creating firms and the targeted population.

- The financing needs of micro entrepreneurs will be supported through debt on lending through MFIs and MFCs. The Egyptian microfinance sector supports small, often informal, enterprises with credit products to facilitate productive investment and working capital on an unsecured basis, typically for a period of 12 months. MFIs finance productive investments of up to EGP 100,000, with most clients operating across commercial, agricultural, craft, and service sectors. Microfinance, both in Egypt and in markets globally, is an important driver

[36] Under component 3 of the project, non-financial support will be provided to potential beneficiaries, including women. These activities will be designed to address women specific needs of hard and soft skills identified by the different assessments conducted during project preparation (see box 1 as an example) as well as recent studies such as the Egypt Women Economic Empowerment Study.
[37] According to the World Bank Group, an NBFI is a financial institution that does not have a banking license and does not accept deposits from public. This includes leasing, factoring, microfinance providers (MFPs), credit unions, and so on.
[38] Per 2017 Investment Climate Assessment Data.
[39] According to a 2017 World Bank market assessment.

of female economic empowerment. Approximately two-thirds of microfinance clients are women.[40]

- MFCs, for profit entities regulated by the FRA, have grown quickly since 2013 with four new players entering the market becoming an increasingly important player in allowing the sector to meet its growth potential. The 13 NGO-MFIs that fall under Tier A (gross loan portfolio > EGP 4 billion) make up approximately 44 percent of the Egyptian market and increasingly have long-term financing needs. While larger institutions have active refinancing lines with banks, these are short term in nature and require high levels of cash collateral in an overdraft facility structure. Egypt is currently not attracting funds from international investors specialized in microfinance in part due to risk appetite and currency controls. Through market demonstration this component can support the development and eventual attraction of additional international investors to the Egyptian microcredit sector.

- The financing needs of SMEs will also be addressed through debt financing to leasing and factoring institutions. Leasing contribution to GDP is remarkably low (below 0.50 percent,) compared to other developing countries (1.6 percent in Tunisia). Long-term financing can support the sector's expansion and productivity. These companies serve as an alternative to bank loan financing for the acquisition of productive assets. By selling accounts receivables at a discount, factoring allows SMEs to meet immediate cash needs and participate in value chain finance that requires longer repayment terms. Leasing companies provide medium- and long-term (one–five years) financing for acquisition of productive assets. Leasing companies serve companies typically underserved by the banking sector or those that may not even qualify for bank financing due to the bank's significant collateral requirements.

- Although the proposed project has a special focus on NBFIs, a financing window will still be available for encouraging bank downscaling for MSME lending. Today, certain commercial banks are providing microloans for productive purposes led by state-owned banks (Banque du Caire and Banque Misr). This window will support the diversification of financial products in the Egyptian banking sector and incentivize banks to participate more fully in MSME financing, targeting those MSMEs with the highest potential for job creation. The banking sector can play an important role in expanding access to finance outcomes for SMEs given its geographic reach, funding base, and historical position in financing Egypt's development needs.

32. **All PFIs will be appraised against standard World Bank Policy for Investment Financing Projects criteria in addition to MSMEDA's Credit Policy and scoring criteria** that might include acceptable loan collection levels, staff capacity for loan selection and managerial autonomy, the ability to mobilize funds, demonstrated managerial autonomy and a commercial orientation, and portfolio risk management policies. Also, as per Bank's Policy for Investment Financing Projects, pricing to the PFIs will incorporate

[40] Access to financial services improves a woman's ability to climb out of poverty, reduces her dependence on the informal sector, and improves the ability to engage in measurable and productive economic activities. For a synthesis of the empirical evidence related to microfinance and economic empowerment, see: Cull, Ehrbeck, and Holle. 2014. "Financial Inclusion and Development: Recent Impact Evidence." Consultative Group to Assist the Poor.

cost of funding and financial and operational risk (including credit risk, liquidity mismatch, and sector and macro-financial risks).

33. **This component aims to support job creation and scale outreach to MSMEs by prioritizing PFIs** that (a) have not previously accessed commercial funding; (b) have more limited access to finance due to having a higher operational risk profile than the median market average but tend to be closer to female and youth beneficiaries such as Tier B and C NGO MFIs; and (c) those serving lagging regions such as Upper Egypt, Sinai, and underserved governorates which have poorer economic and social indicators relative to other areas.

34. **The component has a focus on NBFIs to complement existing banking sector initiatives, promote financial sector diversification, and maximize the additionality of the resources.** The project will include a less prominent portion of resources to on-lending through commercial banks. The operation, through demonstration effect, expects that Tier C NGO-MFIs will be in a better position to access commercial funding after the operation. In the case of the objective related to job creation, especially in the cases in which the financing is channeled through more traditional financial institutions such as banks, MSMEDA will incentivize PFIs to serve job creating businesses, as referenced above, and will monitor the percentages of loans awarded to those categories of clients by the various PFIs.

35. **To be eligible for the facility, PFIs must meet national registration, regulatory, and performance norms (as established by the FRA and Central Bank of Egypt [CBE] and outlined in annex 1).** This includes meeting published prudential ratios as set out by the CBE and FRA (capital adequacy, liquidity, nonperforming loans and provision ratios, positive financial return); sound credit portfolio quality systems (including loan classification and provisioning) in addition to an emphasis on internal controls; and an adequate monitoring information system to comply with reporting requirements. Eligibility criteria will also focus on the ability of PFIs to finance entrepreneurs with projects and companies containing strong potential for job generation.

36. **Financing will be demand driven in line with due diligence standards required to address market failures and encourage long-term participation of private actors to the SME market through a market demonstration effect.** In accordance with World Bank operational guidelines, pricing to the PFIs and final borrowers will be competitive according to market conditions and, at a minimum, will incorporate the financial costs of mobilizing resources, the administrative costs of monitoring the loan and collecting repayments, and the risks inherent in lending to the market (including credit risk, liquidity mismatch, and sector-related risks). PFIs will competitively determine rates to enterprises, following standard pricing practices and within ranges that will be outlined in the Project Operation Manual (POM) for this component. Each PFI will follow its own applicable credit risk appraisal and approval management procedures as per the World Bank Policy for Investment Financing Projects.

Component 2: Risk Capital for Innovative Startups and High Growth SMEs (US$50.0 million)

37. This component entails the provision of Equity and Quasi Equity Investments to Eligible Risk Capital Intermediaries that target innovative startups and high growth SMEs ("Eligible RCIs") in the territory of the Borrower; and associated Management Costs.

38. **The entrepreneurship and early-stage investment ecosystem in Egypt is nascent,** and as such, it faces a significant gap in start-up financing, as well as weaknesses in its ability to support entrepreneurs to create and develop viable high-growth potential businesses. The current investment funds under the MIIC, which include Bedaya and Egypt Ventures, focus on more mature SMEs that have a sustainable revenue stream. This component will provide equity financing targeting companies that are at the earlier (start-up) stage, effectively building a potential pipeline for other funds and investors.

39. **The objective of this activity is to increase the supply of seed, early-stage, and venture capital going to innovative start-ups and young SMEs with high potential for growth and job creation.** Equity and quasi-equity (venture debt, mezzanine) funding to beneficiaries under this component will be provided indirectly through equity and quasi-equity investment in privately managed risk capital intermediaries (RCIs) that target innovative high-growth potential start-ups and SMEs. Eligible RCIs may include angel funds, accelerators, VC funds, and investment companies who will be selected based on a call for proposals, in which international players are encouraged to apply. The call for proposal will have a transparent and competitive selection process and evaluation criteria acceptable to the World Bank that includes, but is not limited to, experience and track record of the fund manager, capacity of investment team, and investment strategy.[41] Fund applicants will also be required to raise at least 50 percent from other investors. This follows a similar World Bank project in Morocco which managed to successfully leverage close to 50 percent of the investment amount from other investors and is in line with the Maximizing Finance for Development (MFD) approach.

40. **The proposed project emphasizes private sector management, to leverage the technical capacity and know-how of private funds.** To crowd-in private investors and assure investors and fund managers of the credibility and transparency of the project, selection of RCIs will be done through an Investment Committee (IC) composed primarily of independent experts from the private sector that meet the eligibility criteria described in annex 1 of this document and in the POM. The Government will not be involved in the management or selection of funds, and MSMEDA, as project manager, will solely execute investments and exits decided upon by the IC and will in no way influence or modify selections made by the IC. Clear and transparent governance structure and accountability measures are specified in the POM, specifically with regard to the eligibility criteria for the IC, the review, due diligence, and selection process of IC members (subject to the World Bank's no-objection). Similarly, RCIs' governance and investment selection process and independence from interference by vested interests will be part of the evaluation criteria and selection requirement. These measures embody the principles of responsible governance, equity, and transparency by ensuring the independence of the selection process from the application or review process, eliminating the risk of capture by select groups and thorough filtering, and accountability measures of the investment decision-making bodies.

41. **Under this component, MSMEDA will co-finance investments through eligible RCIs, whose mandate will be to invest in start-ups and high-growth SMEs.** This responds to the fact that MSMEDA's comparative advantage is not identifying investable start-ups. As proven in other projects, it is best practice to leverage the technical capacity and know-how of private funds and minimize political interference in investment decisions.

[41] See more details on RCIs' selection criteria in the annex.

42. RCI investments will be balanced among eligible start-ups and SMEs categorized as seed/angel (average investment ticket size [ITS] of US$700,000), early stage (average ITS of approximately US$1.5 million), and early growth (average ITS of approximately US$3 million). Investments in the start-ups and SMEs may be in the form of equity or quasi-equity instruments such as convertible notes and other forms of concessional debt that partner investors or intermediaries judge as necessary for a company to succeed.

43. The selection criteria for all investments by RCIs is detailed in the POM.

44. **Approximately US$90 million in equity investment is expected to be leveraged from private investors.** As per the investment strategy, MSMEDA will invest a maximum of 49 percent in any given fund to remain a minority shareholder. It is important to note that according to Egyptian regulations, public investments are subject to review by the Central Audit Organization (CAO) when they exceed 25 percent of the total amount invested in a fund. It is for this reason that MSMEDA aims to have a ceiling of 20 percent for MSMEDA's share in funds. The final parameter of MSMEDA 's participation will need to be tested to determine whether any adjustments need to be made based on market demand. The requirement of having at least 50 percent of funds leverage from private investors will be maintained regardless of MSMEDA's share in funds. Investments should be sector agnostic, and no more than 40 percent of the overall portfolio should be concentrated in funds serving one sector. In addition, there will be a maximum exposure per company of 10 percent in the case of seed/angel funds and early-stage funds and 15 percent for early-growth funds. Annex 1 provides an indicative investment plan over the six years of the project lifetime that may be subject to change depending on market needs, as long as the PDO is met and the minimum leverage is achieved (see table 2). Changes to the investment strategy will require no-objection of the World Bank.

Table 2. Indicative Investment Strategy for Investment in RCIs

Stage	Seed & Angel ($100k - $700k)	Early Stage (US$700k-US$1.5million)	Early Growth (US$1.5million - $3 million	Total
MSMEDA Allocation	US$10 million	US$15million	US$ 25million	US$50 million
Management fees=2.5%	US$0.25 million	US$0.375million	US$ 0.625million	US$1.25 million
Total available for Investment	US$9.8 million	US$14.6 million	US$24.4 million	US$48.75 million
Players	Accelerators / Incubators + Seed Funds	Accelerators / Incubators + Early stage Funds / networks	Early stage and VC Funds	
Size of Opportunity	Fund Size US$2 million-US$10 million	Fund Size US$10 million – US$15 million	Fund Size US$15 million +	
Investment concentration *	No more than 20% of the total fund allocation.	No more than 20% of the total fund allocation.	No more than 20% of the total fund allocation.	
Number of companies (approximation)	50-60 companies	30-40 companies	90-100 companies	180 - 200 Companies
Targeted number of funds	7-9	7-9	6-7	
Private leverage (approximation)	US$2M per fund (total US$14M)	US$5 million per fund (total US$35)	US$6 million per fund (total US$36M)	US$90 million
Total Allocation	US$24million	US$50 million	US$65 million	US$138.75 million

Note: * The Government aims to have a ceiling of 20 percent for MSMEDA's share in funds. This parameter will be tested to determine whether any adjustments need to be made based on market demand.

Component 3: Business and Capacity Development (US$3.5 million)

45. **This component entails the provision of training, mentoring, coaching and business development services to Eligible MSMEs, PFIs and Eligible RCIs for Part 1 and 2 of the Project**; provision of technical assistance to enhance MSMEDA's usage of digital solutions, including for a digital matching platform aimed at connecting entrepreneurs with potential investors; and the developing of a robust monitoring framework, including for job creation under the Project. In addition, the project will support Project management activities, monitoring and evaluation and strengthening the capacity of MSMEDA, to coordinate and execute project activities, through the provision of technical assistance, training, preparation of relevant reports, Operating Costs and required goods for the purpose.

46. **In addition to lack of finance, entrepreneurs in general, and more specifically women- and youth-led MSMEs face several nonfinancial challenges,** including a lack of business skills, limited access

to markets, and limited access to tailored business development support such as information services, training, networking, and mentorship. Component 3 completes the project design by ensuring that the demand side for the financial products (debt and equity) is also addressed. Global experience shows that access to business development services, mentoring, and business skills are critical for entrepreneurial success. This component will support MSMEDA to ensure that such services are provided where needed and enable them to coordinate with partners (private sector, donors, international organizations, NGOs, and so on) to provide complementary assistance. There are several ongoing initiatives in this space that the project aims to leverage to maximize the impact of resources under Component 3. Besides the activities funded under the component as outlined below, the component will support the authorities to mobilize additional funding and foster partnerships to provide the needed nonfinancial support. The design of these activities is based on two assessments, one of which is finalized (outcomes outlined in box 1) and the other is currently ongoing, that seek to identify gaps in hard and soft skills of entrepreneurs. The assessments emphasize identification of common constraints as well as specific needs of women and youth entrepreneurs to ensure tailored solutions.[42] Feedback on the business development activities should be obtained from beneficiaries on a regular basis and will be used to iteratively improve the activities over the project period.

47. **This component will cover nonfinancial support to ensure that there is capacity built within the implementing agency, particularly to manage Component 2.** It will also be part of the component's resources to finance specific support to beneficiaries to ensure an adequate deal flow for the equity component and relevant business development services to the beneficiaries of the debt component, as well as to establish partnerships that foster participation and coordination of other relevant stakeholders in this space. In terms of business development services support to beneficiaries provided both directly through the project and through partnerships, this component will aim to bring out good business ideas through competitions and rigorous acceleration programs and help mitigate the elevated risk of failure, typically experienced by start-ups due to lack of experience in management, marketing, and navigating through legal requirements. To this end, the component will also work on improving the quality of mentors and mentorship services in general, as well as providing hard and soft skills training necessary for entrepreneurs to succeed. This component will include activities to attract potential entrepreneurs, such as training and business plan competitions.

48. **The component will also support MSMEDA in using digital solutions,** such as a match-matching platform to track new ideas, connect entrepreneurs with available financial opportunities (investors or loan providers), business development services (provided by the Government, private sector, or development partners), mentors and coaches, and other entrepreneurs for peer learning and tracking job opportunities. The digital platform would provide a gateway to not only financial services provided under this project but also links to other actors in the ecosystem who are providing support to entrepreneurs.

49. **Funds under this activity will also cover any additional project-related management costs over the project life, especially as it relates to developing a monitoring and evaluation (M&E) framework.** These costs include management and consultancy fees and operations and administrative costs for the

[42] Most of the angel, accelerator, VC, and SME fund management teams applying will be considered as SMEs. Accordingly, technical assistance to the teams will be complementing the supply of risk capital and early-stage financing to ensure that these fund managers have the adequate competencies and skill-sets to operate investment vehicles and support the entrepreneurial ecosystem.

management and monitoring of the project activities to ensure smooth and high-quality implementation. This can include training and capacity-building activities for staff; marketing; conducting of ecosystem assessments and analysis; M&E; safeguards monitoring and review; legal; and accounting, auditing, and FM. This component will finance the monitoring of the PDO-level indicators, particularly on job creation. The high-level monitoring indicator of job creation will require annual surveys of end beneficiaries and will be financed through this component.

50. **In addition to the abovementioned activities, parallel funding in the form of Trust Funds will be sought to fund an impact evaluation that will assess the impact of financing under Components 1 and 2, and potentially the impact of complementary nonfinancial services, on outcomes such as job creation and firm's performance.** This impact evaluation would be funded outside of the project and as such complementary trust-funded resources would need to be raised.

Box 1: Egypt: Women & Youth Entrepreneurship Skills Gap Assessment

To address shortcomings in the existing ecosystem, the World Bank lead an "Entrepreneurship Hard Skills Gap Assessment" as part of the project preparation. A comprehensive gap assessment of entrepreneurship hard-skills amongst Egyptian Youth and Women Entrepreneurs was conducted and recommendations for interventions that the World Bank could support were provided accordingly.
In light of this, findings of the assessment show that challenges Faced by Entrepreneurs are threefold:

- **Education** where (i) there is lower access to education in rural areas, especially to females where there is limited mobility of women far from their place of residence; and (ii) there are no entrepreneurship programs/courses in public universities
- Geographical Setting. Most of the entrepreneurship support is Cairo-focused, with an exception to Upper Egypt which has more support compared to other lagging areas such as the border regions, Delta and Sinai.
- **Formal/Informal Networks**. SME owners have most access through business associations, ME owners' resort to informal networks of people with similar projects in their community. Startup owners are the most privileged group in terms of access to knowledge and business resources where they make the most use of networking events.

Also, the common hard-skills gap identified with respect to the different stages of a business included:

- **Starting the Business:** (i) Feasibility Studies preparation and Business Modelling; (ii) Bureaucracy constraints in Registration & Licensing; and (iii) Taxation
- **Financing**: (i) financial literacy; (ii) access to finance; and (iii) Accounting & Bookkeeping
- **Launching:** (i) Access to Markets; (ii) Market studies; and (iii) market planning
- **Management:** (i) Internal Governance; and (ii) Human Resources Management

Along those lines, recommendations included:

- **Capacity building of service providers and promoting the coordination between them**
- **Establishment of incubators cluster**
- **Development of a strategy for the monitoring & evaluation of programs**
- **Raising awareness regarding existing programs**
- **Engaging with the private sector**
- **Extending programs to unserved geographical areas**
- **Raising awareness and bottom up pipelines building**
- **Combatting the Mobility challenge through providing online training**
- **Developing a platform for exports targeting SMEs**
- **Integrating women and youth-owned enterprises in large supply chains**
- **Developing customized-fee-based services for SMEs**
- **Establishing Youth and Women entrepreneurs support platforms that can address questions**

C. Retroactive Financing

51. **Retroactive financing from the loan amount will be allowed up to an aggregate amount not to exceed US$7.5 million or equivalent,** for payments made 12 months prior to the date of the signing of the Loan Agreement, for eligible expenditures related to contracts signed between MSMEDA and various participating financial intermediaries.

D. Project Beneficiaries

Beneficiaries of Financing Activities

- **Firms:** MSMEs include sole proprietorship companies among others and innovative start-ups and SMEs

- **Individuals:** Entrepreneurs (they can be formal, sole proprietors, home-based businesses)

Beneficiaries of Job Creation

- **Egyptian labor force,** as the primary direct beneficiaries of job creation

52. **Definitions**

- **MSME.** The project will rely on the definition provided by Law 141 of 2004, where a small enterprise is an enterprise practicing an economic activity with paid-up capital up to EGP 1 million with a maximum of 50 permanent employees, and a micro enterprise is any company that is practicing an economic activity with paid-up capital below EGP 0.5 million.[43]

- **Economic opportunities.** Improved economic opportunities, according to the PDO, includes access to the following: (a) debt and/or equity finance; (b) business development services; (c) skills enhancement trainings (hard and soft skills); and (d) deal flow activities (mentorship, boot camps, workshops, networks, investment readiness trainings, and so on).

- **Youth.** Male or female individuals between 21 and 34 years old.[44]

- **Innovative start-ups.** Innovative in this context is applied to mean new or improved products; new or improved processes and/or business models; goods and/or services that are new to Egypt or to other markets, as per the Oslo definition of innovation.[45] An eligible

[43] This definition is liable to change when a unified definition is adopted by the Government after the national strategy and MSME law is completed and effectively implemented.
[44] Following the definition of youth by CAPMAS.
[45] The Oslo Manual for measuring innovation defines four types of innovation—(a) Product innovation: A good or service that is new or significantly improved including improvements in technical specifications, components and materials, software in the product, user friendliness, or other functional characteristics; (b) Process innovation: A new or significantly improved production or delivery method including significant changes in techniques, equipment, and/or software; (c) Marketing innovation: A new marketing method involving significant changes in product design or packaging, product placement, product

start-up for this component means an officially registered enterprise that has been in operation for five years or less.

- **First-time borrower.** A beneficiary who previously has not received a loan from any of the financial intermediaries present in the Egyptian market. Verification of this criteria will come through I-score checks that would be provided by intermediaries involved.

- **Lagging regions.** Upper Egypt, Sinai, and underserved governorates which have poorer economic and social indicators relative to other areas.

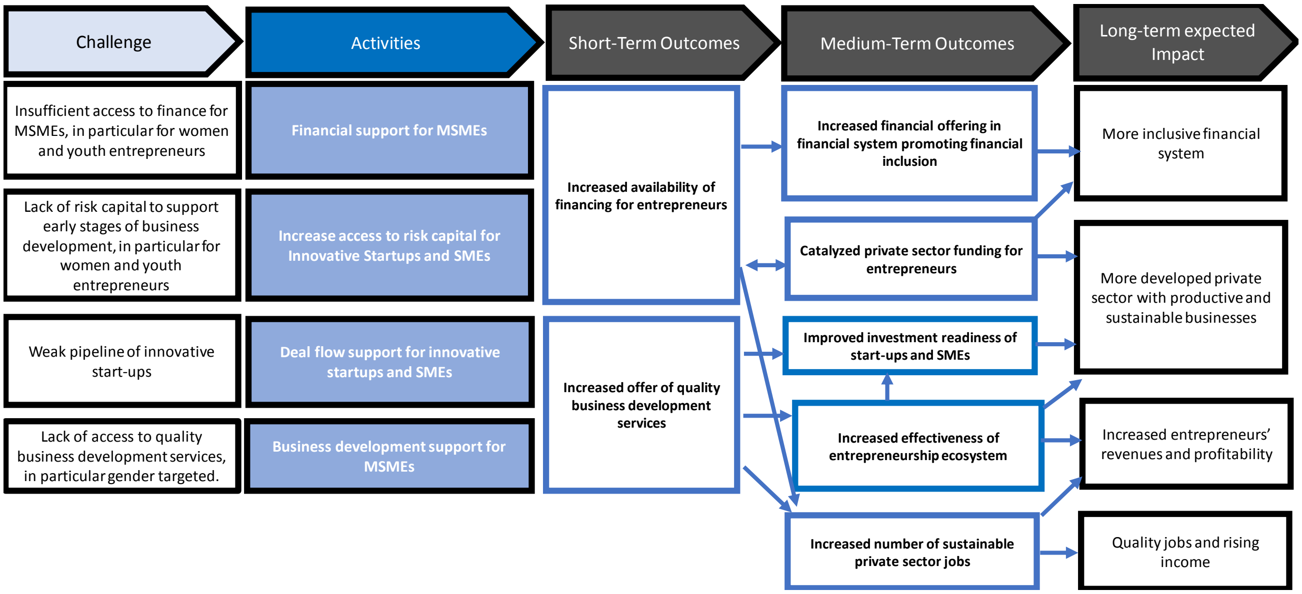
E. Results Chain

53. **The project displays an innovative approach applying flexible and diverse financial instruments to meet the demands and needs of targeted beneficiaries across all socioeconomic groups** (self-sustaining enterprises in lower-income areas, women and youth in traditional businesses, and entrepreneurs applying innovative ideas to start-ups). This approach seeks to ensure an impact on job creation and a focus on additionality, by encouraging the market to extend financing to new customers (that is first-time borrowers) and new product segments (that is, private equity funds and leasing for SMEs). In terms of the impact on job creation, the project expects to support both creation of self-employment (mostly in the micro segment) and employment. (See Annex 2 for a detailed version of the project's theory of change.)

54. **The project has a strong focus on leveraging private sector finance**, in line with the World Bank Group priorities, as the project mobilizes commercial finance in the form of co-investments for Component 2 and relies on channeling project funds for Component 1 mainly through private sector financial intermediaries.

promotion, or pricing; and (d) Organizational innovation: A new organizational method in business practices, workplace organization, or external relations.

Figure 4. Theory of Change[46]



F. Rationale for Bank Involvement and Role of Partners

55. **As mentioned in earlier sections, this operation is aligned with World Bank Group strategies for Egypt and the region. The rationale for Bank involvement is that the private sector currently does not sufficiently meet the demand for financial and non-financial services for MSMEs.** According to the World Bank Independent Evaluation Group 2014 Report on the Big Business of Small Enterprises, MSME interventions should focus on addressing market failures and leaving a sustainable supply of services (financial, nonfinancial, and business development services) through establishing well-functioning markets and institutions. The proposed project therefore seeks to address these failures by channeling financing through private sector NBFIs and commercial banks at market rates, as well as co-investing with private equity/VC funds besides providing business development services. Over time, it is expected that this approach will not only build capacity not only within the private sector to sustainably meet the financial and nonfinancial service needs of women- and youth-led MSMEs but also among beneficiaries. The World Bank will work with both public and private sector stakeholders to deliver the project, bringing its technical expertise and experience from delivering similar projects in the Middle East and North Africa region, in addition to financial resources. Through this transfer of knowledge, the World Bank will further contribute to addressing the constraints and market failures affecting MSMEs in Egypt.

56. **The proposed project is also complementary to initiatives and activities undertaken by development partners,** including the European Bank for Reconstruction and Development (EBRD), ILO, UNDP, UK Department for International Development (DFID), *Agence Française de Développement* (French Development Agency, AFD), and others. There are several activities currently in place that have strong potential for creating synergies with the project. The greatest potential for collaboration lies in

[46] "More inclusive financial system" indicates SME and household access to the formal financial system (FINDEX and enterprise survey data, Organisation for Economic Co-operation and Development data exercises, and so on).

ongoing deal flow support activities and existing digital platforms, since other donors have gained a track record of successful interventions and have allocated greater amounts of funds toward these areas. One example of these activities is EBRD's launch of the Egypt Women in Business Program ('Egypt WiB') that is implemented in collaboration with Egyptian banks. The objective is to promote women's entrepreneurship through the provision of advisory services and training, mentoring, and networking opportunities to women who have an established business that has been in operation for at least two years. EBRD is also conducting several activities focused on working with incubators and accelerators to develop a strong pipeline of investable start-ups. Similarly, the AFD is supporting the newly created Egypt SME Development Authority with a US$50 million credit line targeting women-owned SMEs, as well as with technical assistance to strengthen the Gender Unit within the Authority. In addition, UNDP's 'Aspire Women Social Innovation Hub' seeks to foster innovation and entrepreneurship among young women, by providing capacity building for aspiring women technology entrepreneurs. Moreover, the ILO's Women Entrepreneurship Development program focuses on enhancing youth entrepreneurship through the 'Making Microfinance Work for Youth' initiative, as well as planned programs for financial literacy, social and green entrepreneurship, and inclusive value chains. Finally, funded by DFID and the Islamic Development Bank and working in Jordan, Egypt, and Palestine, the Arab Women's Enterprise Fund seeks to improve gender awareness and sensitivity across target companies' human resources policies, increase employment and retention of women in the labor force, and raise awareness and uptake of standards and certification of products made by women working at home. The World Bank Group project team is engaging with these development partners to ensure coordination between the proposed project and the abovementioned initiatives.

G. Lessons Learned and Reflected in the Project Design

57. **The project design reflects lessons learned from several other projects implemented in the past by the World Bank Group.** These projects include Egypt Enhancing Access to Finance for Micro and Small Enterprises Project (US$300 million/P116011 - Report No. 51529- closed in December 2015); Egypt Promoting Innovation for Inclusive Financial Access Project (US$300 million/P146244 - Report No. PAD374 - ongoing); the Morocco Financing Innovative Startups and Small and Medium Enterprises Project (US$50 million/P150928 - Report No. PAD1362 - ongoing); the Jordan Innovative Startups Fund Project (US$50 million/P161905 - Report No. PAD2308 - ongoing); the Lebanon Supporting Innovation in SMEs Project (US$30 million/P127306 - Report No. 72377 - ongoing); and the Women Entrepreneurship Development Project in Ethiopia (US$50 million/P122764- Report No. 67680 - ongoing). Specific lessons learned include the following:

(a) Comprehensive programs that include training, financing, and ongoing coaching and mentoring are more effective in addressing the multiple barriers facing entrepreneurs than projects that include financing alone.

(b) The success of projects including an equity investment component depends heavily on developing a strong deal flow and ensuring enough capital is available to meet the market needs.

(c) Debt and equity financing should be provided on a commercial basis to limit market distortions and ensure the sustainability of PFIs.

(d) Low capacity of investment fund managers can have a negative impact on the outcomes of a project. This risk can be mitigated by incorporating activities that include capacity building for the implementing agency and the beneficiaries.

(e) Financing facilities should have eligibility criteria and results metrics clearly defined as part of the program design. These criteria and metrics should prioritize additionality and incentivize behavior changes at the PFIs' level.

(f) Where possible, it is advisable to combine core financing activities with impact assessment exercises under the project. Impact assessments will provide quantitative and qualitative data on usage of financing and impact of the project on sales and employment outcomes.

III. IMPLEMENTATION ARRANGEMENTS

A. Institutional and Implementation Arrangements

58. **The MIIC** will sign the Loan Agreement and receive the World Bank loan on behalf of the GoE, who will be responsible for repayment of the loan to the World Bank.

59. **The World Bank** will sign a Project Agreement with MSMEDA as the entity responsible for implementing the project in accordance with the Loan Agreement and POM.

60. **The MIIC** will sign a Subsidiary Loan Agreement with MSMEDA as the implementing agency.

61. **MSMEDA will be responsible for project management and implementation, as well as reporting back to MIIC and the World Bank** as further described in the POM**.** All expenses for the operation's project management will be funded under Component 3. The project team at MSMEDA will be responsible for the following: (a) overall project management; (b) coordination; (c) procurement and implementation support; (d) financial management (FM); (e) ensuring of gender focus in implementation; and (f) M&E of outcomes and results, which includes developing an M&E methodology and implementation plan; collecting baseline data, as determined by the project's Results Framework, and developing a beneficiary feedback mechanism to collect feedback from project beneficiaries on a biannual basis.

62. **For Component 2, MSMEDA will be legally responsible for establishing the IC and its Board will be responsible for ensuring implementation in line with the requirements of the World Bank as indicated in the POM, including ensuring that the IC acts according to the project objectives.** The Board will also be responsible for oversight and ensuring of proper management of the project, as well as for appointment of MSMEDA's key personnel.

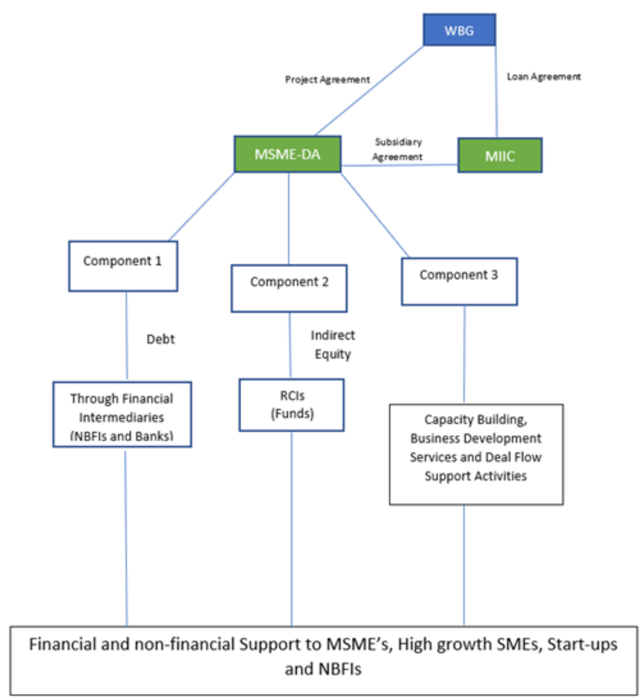
63. **MSMEDA will put in place the necessary controls to ensure that the implementation of the project is subject to strict independent private sector-led oversight and a transparent and professional investment strategy.** These include the establishment of an independent IC comprised mostly by private sector experts who will decide on the selection of investments, and the eligible RCIs for investments as further detailed in the POM. The IC will consist of seven members, of which four (at a minimum) would be from the private sector and the other members from the public sector. Members are to be designated by the Executive Director of MSMEDA. The members of the IC will be selected based on criteria indicated

in the POM, which includes that members are qualified professionals with experience in VC/investment and entrepreneurial ecosystem. The selection should also have no-objection from the World Bank. Any charter, memorandum of understanding, or legal documentation required by the Board to designate authority to the IC to make the investment decisions should have no-objection of the World Bank before the World Bank grants the no-objection on the establishment of the IC.

Exit Strategy

64. **The World Bank loan repayment is not dependent on the returns and closure of the funds in which the project will invest.** The Government is liable to repay the World Bank loan in accordance with the terms in the Loan Agreement. At the project midterm review, the World Bank and MSMEDA will review the performance of the component in terms of its sustainability and of meeting the project objective and, in consultation with stakeholders from the Government and the private sector, decide on appropriate measures to take.

Figure 5. Implementation Arrangement and Flow of Funds



B. Results Monitoring and Evaluation Arrangements

65. **Evaluation of project results will be in accordance with the project Results Framework and the POM.** MSMEDA will be responsible for implementing the M&E framework outlined in this project document and developing a system to monitor project progress and results. Relevant activities will include (a) development of an M&E methodology and implementation plan; (b) compilation of baseline data, as determined by the project Results Framework and the M&E methodology developed; and (c) introduction of a beneficiary feedback mechanism to collect feedback from project beneficiaries on a regular basis. MSMEDA will also be responsible for preparing semiannual project monitoring reports to be submitted to

the World Bank. The project monitoring reports will contain, at a minimum, summary data on overall performance against project targets, implementation challenges experienced, and feedback received from project beneficiaries. As mentioned earlier, a methodology for monitoring job creation (a PDO-level indicator) will be agreed upon between the implementing agency and the World Bank within the first six months of project implementation.

66. **PFIs (including banks) will also be required to monitor results related to project beneficiaries and submit M&E reports to MSMEDA.** PFIs will be required to include, in their funding applications, the mechanisms that will be used to monitor results related to the project funds and to submit M&E reports to MSMEDA on a semiannual basis. MSMEDA will be responsible for consolidating the M&E reports received from financial intermediaries as part of its reporting to the World Bank. [47]

67. **The project will support MSMEDA to develop and implement the M&E framework** and to build the capacity of staff within the project team to undertake the activities related to the M&E of project results. This will include support for setting up an M&E system, as well as relevant staff training on M&E.

C. Sustainability

68. **Sustainability is enforced through the project design, notably through creating a sustainable and dedicated financing platform that prompts financial institutions and capital risk intermediaries to deepen outreach to entrepreneurs**. The program design explicitly prioritizes participation of the private sector and includes elements of financial leverage across financing instruments. With regard to debt financing the project prioritizes purely private sector management and evaluation of credit decisions. With regard to equity investment, the program design prioritizes private sector driven investment decisions and co-investments with other private sector investors. In addition to financing, the project also ensures that beneficiaries have access to business development services, including training, mentorship, networking, and business advisory services, all of which contribute to strengthening their ability to access finance as well as to sustain the growth of their businesses. All these factors contribute to an important demonstration effect on the ability of the Egyptian financial sector to sustainably serve entrepreneurs.

IV. PROJECT APPRAISAL SUMMARY

A. Technical, Economic and Financial Analysis (if applicable)

Technical Review of Implementation Arrangements

69. The World Bank project team assessed MSMEDA’s track record with respect to the agency’s current mandate/portfolio, operational and fiduciary capacity, and legal mandate to implement the project components. MSMEDA has been the implementing entity for several World Bank operations, and World Bank teams have undertaken due diligence exercises for similar operations that it implements; thus, the World Bank has found its capacity to implement the project satisfactory.

[47] This includes MFIs, MFCs, factoring and leasing companies, and private equity/VC/accelerators.

Technical Review of the Project Components

70. The technical review conducted during project preparation found the project to be technically sound and adequately designed to significantly increase the economic opportunities for entrepreneurs. A summary of the main findings of the technical review of the project components is provided in this section:

71. **Component 1: Financial Support to MSMEs.** This component aims to provide debt finance to MSMEs that are operating traditional income-generating businesses. The project will channel funding mostly through private NBFIs, including MFIs, MFCs, factoring and leasing companies, and banks. Research indicates that MFIs are playing an increasingly important role in financing MSMEs, plugging the financing gap left by commercial banks that typically target larger, more formal enterprises. In addition, the microfinance market assessment conducted during project preparation concluded that MFIs in Egypt are playing a significant role in providing financial services to informal microenterprises and underserved women outside of urban areas. However, they face, significant shortages in terms of access to commercial funding and require programs to further encourage innovation and professionalization. The project therefore seeks to take advantage of and strengthen the capacity of MFIs to serve disadvantaged groups, such as women and youth-led MSMEs and first-time borrowers, by channeling financing through Egypt's extensive MFI network.

72. **Leasing in Egypt is an important source of medium- and long-term financing** for segments which typically are underserved by the banking sector or may not qualify for bank financing due to excessive collateral requirements, including MSMEs. This builds on studies suggesting that leasing finance can be an important source of productive finance for MSMEs, when bank loans and microfinance are not appropriate to meet capital investment needs and when lack of collateral is a constraint. Leasing companies provide medium-term financing (one–five years) and are thus important sources of investment and growth for SMEs. The project will therefore channel financing to leasing companies to make leasing finance available for MSMEs.

73. **In addition, this component will be complemented by business development support activities under Component 3 to ensure that MSMEs are provided with the support needed.** World Bank research indicates that in addition to lack of finance, women entrepreneurs often lack the education and skills, networks, and confidence to create and grow successful businesses. Additionally, recent evidence from World Bank and other development partner interventions has shown that providing soft skills training, particularly to women and youth, has significantly positive impacts on their business performance. The proposed activities, which focus on providing hard and soft skills and access to mentorship and networks, build on these findings.

74. **Component 2: Risk Capital for Innovative Startups and High Growth SMEs.** This component aims to strengthen the entrepreneurship ecosystem in Egypt by making risk capital available for start-ups and high-growth SMEs, as well as implementing deal flow support activities, including acceleration services, training, mentoring, and other capacity-building activities to develop a strong deal flow of investment viable businesses under Component 3.

75. **The approach of this component is technically sound as it provides investments in private equity/VC funds and accelerators** (seed, early-stage, and early-growth VC)**.** This approach will facilitate to: (a) bridge the gap and ensure that investees graduating from seed/VC/accelerators are considered as

pipeline for bigger VC/SME funds; (b) ensure a steady supply of risk capital in the market, particularly for companies in the early/seed and early-growth/venture stage; (c) create a demonstration effect that will encourage entrepreneurs to come forward with new and innovative business ideas; and (d) encourage the entry of new private equity/VC funds and accelerators into the ecosystem. The proposed project will also crowd-in private investment in the early-stage category of firms by providing a risk-sharing mechanism that would allow private investors to leverage their capital and increase their investments in this asset class.

Economic Analysis

76. **The project is expected to contribute to generating significant benefits for the Egyptian economy.** Research has shown that entrepreneurship can contribute to economic growth through expanding employment opportunities, increasing productivity and innovation, and improving economic and social livelihoods.[48] In particular, the economic gender gap currently results in a potential GDP loss of 29 percent[49] while increasing female employment to the same level as male employment could raise GDP by 34 percent.[50] Likewise, increasing youth employment through entrepreneurship would also yield positive economic returns for the Egyptian economy. The proposed project will also contribute to generating positive fiscal returns through increased tax and government revenues received from registering and growing businesses and by leveraging private sector financing, thereby reducing the fiscal burden associated with government-funded SME finance programs.

77. **The project will contribute to generating these economic benefits, by expanding the amount and type of financial and nonfinancial services available to start-ups and MSMEs.** Access to suitable finance at each stage of the business development cycle remains a critical constraint for MSMEs in Egypt, limiting their expansion and sustainability. Similarly, limited business development supported services tailored to female and youth entrepreneurs constrains the growth of these businesses. Studies have found that increasing access to finance for MSME can result in growth in sales and profits by over 10 percent and can contribute to job creation.[51] By making both financial and nonfinancial support available to this underserved group of entrepreneurs, the project will contribute directly to the sustainable creation and growth of women- and youth-led MSMEs.

Financial Analysis

78. **Overall, the project is financially sustainable and will provide a positive net return to the Government.** While the project expects to achieve positive net returns, these returns are not guaranteed, and the purpose of the investment is to meet the PDO and contribute to achieving impactful

[48] Nasr, S., and A. Rostom. 2013. "SME Contributions to Employment, Job Creation, and Growth in the Arab World." World Bank Policy Research Working Paper, WPS6682.
[49] International Monetary Fund based on estimates by Cuberes and Teignier (2014). Available at https://www.imf.org/external/pubs/ft/sdn/2015/sdn1502.pdf.
[50] Aguirre, DeAnne, Leila Hoteit, Christine Rupp, and Karim Sabbagh. 2012. "Empowering the Third Billion. Women and the World of Work in 2012." Booz and Company. Available at https://www.strategyand.pwc.com/media/file/Strategyand_Empowering-the-Third-Billion_Full-Report.pdf
[51] Impact evaluation studies conducted in Latin America found that in Mexico, financing, training, and mentoring programs for MSMEs led to a 14 percent increase in value added and 10 percent increase in employment, while in Chile, financing programs contributed to 7 percent increase in employment and 40 percent increase in business sales.

socioeconomic returns in the country. The team conducted financial projections and analysis of the project, considering the project design and plausible assumptions of investment returns that may be achieved under the debt and equity components. The analysis indicates that the project will generate an overall positive net return enough to cover the costs of managing the project, as well as to sustain the management of the investments after the project closes. The net proceeds from both the debt and equity financing windows are expected to sustain the management of the investments but will not be linked to the repayment of the project loan.

B. Fiduciary

(i) Financial Management

79. **The project design suggests two main lines of financing to promote entrepreneurship and economic empowerment as follows:** (a) debt financing to banks and leasing and factoring companies as well as MFCs and MFIs and (b) equity investment in VC funds and investment companies. Each line will have its own financing modality and operational procedures. The FM assessment conducted by the World Bank concluded that MSMEDA FM arrangements are considered acceptable for implementing the project, including the accounting system, accounting policies and procedures, budgeting system, reporting, staffing, internal controls, internal auditing, and external auditing. MSMEDA will benefit from its previous experiences with World Bank projects.

80. **The World Bank and MSMEDA (formerly the Social Fund for Development [SFD]) cooperated over the last 10 years in several operations** which amounted to more than US$1 billion such as, most recently, the Enhancing Access to Finance Project, the Labor-Intensive Emergency Project, and the Promoting Innovation for Inclusive Financial Access Project. Throughout the preparation and implementation of these operations, the World Bank worked closely with the MSMEDA team to improve MSMEDA’s internal control procedures including updating the FM Manual and the Internal Audit risk-based approach. A detailed discussion of the FM arrangements is included under Annex 3 - Implementation Arrangements, and based on that, the associated governance and fiduciary considerations and their level of readiness, the FM risk is assessed as Moderate.

(ii) Procurement

81. **MSMEDA, through the Project Implementing Unit, will hold the overall responsibility for procurement** and will act as the World Bank's counterpart for all procurement aspects of the project. MSMEDA will be responsible for implementation of the project in accordance with the ‘World Bank Procurement Regulations for Borrowers under IPF’, dated July 1, 2016, revised November 2017 and August 2018 (Procurement Regulations for IPF). The Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, dated October 15, 2006, and revised in January 2011 and as of July 2016, shall apply to the project as well.

82. **The implementation agency has previous experience in implementing World Bank projects,** and an assessment of the capacity of the SFD (currently MSMEDA) to implement similar projects was carried

out by the World Bank in October 2009.[52] The assessment reviewed its organizational structure and functions, experience, staff skills, quality, and adequacy in supporting of operations and control systems, which concluded that the SFD has the capacity to implement such a project. Moreover, the ongoing projects have also demonstrated the SFD's capacity. The World Bank team conducted a fiduciary assessment and concluded that MSMEDA's capacity remains acceptable to the World Bank's fiduciary standards.

C. Safeguards

(i) Environmental Safeguards

83. **This project is classified as Category FI (Financial Intermediary) according to OP 4.01 on Environmental Assessment.** This project will support the following interventions: (a) start-ups and high-growth potential SMEs, for example, renewable energy, pharmaceuticals, agri-business; (b) interventions in the services, trade, or technology spheres; and (c) leasing activities, in which the project will focus mostly on financing vehicles, machinery, medical equipment, and equipment for production lines. The environmental impacts of these interventions are expected to be limited, site-specific, and reversible.

84. **To ensure that the project's interventions are compliant with the relevant requirements of the national policies and legislations as well as the World Bank's relevant operational policies and procedures** and to ensure that any potential negative environmental or social impact would be properly mitigated, an Environmental and Social Management Framework (ESMF) was prepared and consulted on by the borrower. The document was also reviewed and cleared by the World Bank. The ESMF includes an assessment of the institutional capacity of MSMEDA. Using the existing Environmental and Social Management System (ESMS), the ESMF details the procedures for screening, assessing, managing, and monitoring the environmental and social risks and impacts of subprojects. The ESMF provides an overall framework for the operation and includes a screening process to exclude any subprojects that might cause significant environmental impacts that is, Category A. The ESMF—including the consultation report—was disclosed in the country and on the World Bank's external website on November 20th, 2018. Hard copies of the ESMF and subsequent Environmental Assessment studies were made available to project-affected persons in MSMEDA, its branches, and MFIs' offices.

85. **The Environment Department of MSMEDA will be responsible for implementing the ESMF.** As part of the former SFD, the Environment Department has years of experience in implementing and monitoring World Bank-funded projects including financial intermediaries. A robust environmental safeguards management system with well-established procedures is in place and will be used for subprojects' screening, categorization, monitoring, and reporting. MSMEDA's safeguards institutional arrangements include a central Environment Department with qualified environmental and social safeguards specialists and trained Environmental Focal Points in 33 SFD branches at governorate/local level. The project will benefit from the existing modern and efficient management information system (MIS) which has been put in place for online reporting on the compliance with environmental safeguards measures at the governorate/local level. As the MIS was mainly used for monitoring infrastructure type subprojects, this system should be upgraded to include reporting on the compliance of MSEs that will be

[52] Since then, MSMEDA (SFD back then) has been the implementing entity for several World Bank Group projects, which resulted in enhancing its capacity based on regular contact with World Bank Group experts and exposure to good practices.

supported under this project. The capacity of the Environment Department and the Environmental Focal Points should be further enhanced under the project in terms of monitoring and reporting on MSMEs.

86. **Regarding the climate change risks screening, these risks on the project sustainability are considered Low.** The main vulnerabilities to climate change in Egypt are related to rise of the Mediterranean Sea level leading to inundation of coastal areas in and around the Nile Delta, change of precipitation patterns leading to heavy rains causing urban flooding (along coastal areas) and flash floods (in Upper Egypt and Sinai), rise in average temperature, and more frequent heat waves and dust storms. In the short term, extreme heat waves, strong dust storms, and urban floods could reduce the availability of some of the services or economic activities including those to be supported under the project.

87. **Climate Co-Benefits** - **Climate change threatens inclusive growth for women and youth in Egypt.** The low-income and marginalized groups are characterized by vulnerable women and youth populations that lack the resources to adapt to climate-induced shocks (floods, drought, heatwaves). Heavy rains often result in flash floods such as the one on January 18, 2010 that affected over 3500 people and claimed 12 lives, while a similar flood in 1994 affected over 160,000 people. Flash floods wash away property, claim lives and displace people. Future projections indicate a reduction in rainfall and runoff in the coastal and central part of the country which can lead to substantial reduction in agricultural productivity, which is an important livelihood that both women and youth are involved in. Poor and vulnerable households in the country, therefore, suffer the highest economic losses from extreme weather. Historically, Egypt is highly exposed to natural disaster risk. Over the next century, as temperatures increase (+2-6^{o}C) and sea levels rise (+0.25-2.5m), the frequency and intensity of such extreme weather is expected to grow. By 2100, annual damages from sea level rise could range from $2.1 billion/year to $14.8 billion/year in coastal communities as up to 50% of the Nile River Delta becomes inundated. New social protection and disaster risk reduction mechanisms are needed to shield women and youth who are the most vulnerable to these disruptive impacts.

88. **The efforts made by through this project to improve the lives of vulnerable women and youth include the need to adopt climate adaptation strategies as they will undoubtably face climate impacts in the future.** Component 1, in itself, can contribute to build resilience to climate shocks like floods and droughts through financing adaptation strategies before shocks occur and prevent women and youth from falling into poverty (or deeper poverty), after the shocks occur. Climate risk preparedness (given the vulnerabilities described above) are included in response to climate-related shocks by including efficient targeting mechanisms to identify ex-ante those most vulnerable to natural hazards and climate change related risks; as well as protecting against climate-related shocks. Financial inclusion services like those included in this project, also increase climate resilience through adaptation activities whereby women and youth have financial resources to improve storm water management around their homes to prevent flooding, pay for heatwave adaptation improvements like additional ventilation and converting roofs to be flatter to reduce the surface area for heat absorption and transfer to their homes. The financial support through this project also provides support during droughts and allows for the purchasing of food for the women and youth if crops fail. These adaptation activities are critical for the targeted beneficiaries (women and youth) who are often at the highest risk to the effects of climate change. These measures prevent them from falling deeper into poverty, reduce their overall exposure to risk, and contribute to long-term adaptation to climate change.

89. **By assisting women and youth who are considered the most vulnerable communities, the project increases the nation's resilience to climate-induced extreme weather** because they are the most vulnerable and least equipped to handle the impacts of climate change. For instance, lower food security and poor access to education from economic hardship and drought in this case.

90. **Given that Component 2 will support creation and growth of new innovative startups and SMEs through investments in risk capital intermediaries that target startups and young SMEs, making sure that the investments will not face/be affected by critical climate induced impacts would be integral**. The project will include climate impacts and forecasting their impacts into the screening and decision-making process for the types of SMEs chosen to ensure more sustainable investments are made.

(ii) Social Safeguards

91. **The project is categorized as Category FI (Financial Intermediary) under the World Bank's OP 4.01 on Environmental Assessment.** World Bank funds will be invested through financial intermediaries, particularly in Component 1 (Financial Support to MSMEs) and Component 2 (Risk Capital for Innovative Startups and High Growth SMEs). Financial intermediaries will provide debt financing to MSMEs with a focus on end beneficiaries that can generate jobs (aiming at specific targets for the share of financing for women- and youth-led MSMEs and first-time borrowers) but will not target specific sectors. Component 2 will channel equity and quasi-equity investments in new or existing private RCIs. To ensure that any adverse social and environmental risks stemming from project activities are properly identified and mitigated, the implementing agency, MSMEDA, prepared an ESMF (see the Environmental Safeguards section) which was consulted on by the Government and reviewed and cleared by the World Bank team.

92. **Project-financed activities are not expected to involve any works that would require land acquisition.** No indigenous people are likely to be present in, or have collective attachment to, areas where the project activities are located. A resettlement policy or an indigenous people's framework are therefore not required. The ESMF outlines a list of ineligible sub-activities for financing, a screening mechanism, and the necessary mitigation and monitoring measures that will be included in the POM and subsequently undertaken to handle potential social and environmental risks. MSMEDA will be responsible for screening investments in MSMEs and start-ups in accordance with the ESMF. The screening will ensure that funded activities will not involve land acquisition or involuntary resettlement or affect indigenous people. Screening will further ensure that activities that might involve elevated labor influx and related gender-based violence (GBV) risks are excluded. GBV risks are to be assessed leveraging the World Bank Guidelines on GBV Risk Assessment, Prevention, and Response. The ESMF outlines a framework, including adopting codes of conduct and providing training on these for MSMEDA staff and every financial intermediary, to ensure a safe workplace and skills development environment (particularly in business development services anticipated in Component 3) that ensures fair and respectful treatment for all, with particular sensitivity to protecting women staff and MSME entrepreneurs from various forms of GBV.

93. MSMEDA's Environmental Unit will be responsible for implementing the ESMF and will retain trained Social Focal Points to ensure monitoring of social issues. Communication campaigns for the project will be designed with gender- and family-sensitive considerations to promote participation and engagement of women and youth MSMEs.

(iii) Citizen Engagement

94. **The project components, particularly business development services interventions, will build on the ongoing needs assessments for evaluating gaps in hard and soft entrepreneurial skills, thereby contributing to a citizen-oriented design.** The assessments conducted under parallel trust funds emphasize identification of common constraints as well as specific needs of women and youth entrepreneurs to ensure tailored solutions in project design. Feedback on the business development activities will be obtained from beneficiaries on a regular basis and will be used to iteratively improve the activities over the project period. These efforts will be complemented by a catch-all grievance redress mechanism (GRM) at MSMEDA, for which a protocol will be set out in the POM, and which should lay out clear procedures and resources—leveraging the World Bank Guidelines on GBV Risk Assessment, Prevention, and Response—in case complaints related to GBV emerge. The PFIs are to follow a similar framework under the Environment and Social Management Plan. Following the ESMF, each financial intermediary will also be required to ensure the development of GRMs at the subproject level. Coordination between GRMs at MSMEDA and those at the various financial intermediary levels will be outlined in the POM. Each GRM will emphasize a feedback mechanism that is widely advertised and accessible to project beneficiaries, underlining issues such as access to funds, fair and respectful treatment, issues around inclusion (for example, elite capture and exclusion of targeted or vulnerable groups), and management of funds. Various feedback channels will be leveraged to improve accessibility of the system, MSMEDA MIS, social media, and other ICT-enabled mechanisms as applicable.

(iv) Grievance Redress Mechanisms

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

V. KEY RISKS

96. **The overall project risk is considered High.** This rating is considered because of the project's innovative approach and the complexity of the several financial instruments involved and technical design of the project. The project's key risks and the sustainability of results and risk mitigation measures are described below.

(a) **Macroeconomic risk is rated High.** Despite the economic reforms adopted by the Government, there remains the risk of slow implementation of the reforms, which would undermine fiscal sustainability and private investment. Managing macroeconomic risks will be supported by World Bank Group policy dialogue across all sectors as well as through budget support operations which aim to accelerate reforms that can help reduce overall macroeconomic risk.

(b) **Sector Strategies and Policies is rated High.** A lot has been done in the MSME and start-up space; however, the sector can benefit further from a stronger legal and regulatory framework given the lack of a unified definition, a law, and a national strategy for SMEs and start-ups as well as regulations related to smart finance such as VC, private equity, and crowd funding. A Non-Banking Financial Institutions National Strategy is currently under development and expected to be launched soon. The team, through the M&E mechanism embedded in the project, will identify potential gaps and barriers in the segments served by the market. This will allow the World Bank Group to collect several lessons learned and identify aspects that could be suggested for improvement to the Government during the duration of the project. In addition, through complementary projects currently being implemented by the World Bank (see section on Relationship to World Bank Group Activities), the World Bank seeks to address some of the existing legal and regulatory barriers.

(c) **Technical Design of Project is rated Substantial.** Although the project's design has taken stock of lessons learned from similar operations, it shifts away from doing business as usual and puts emphasis on innovative ways that aim at facilitating private sector participation and risk sharing. As clarified in earlier sections, funding provided is at commercial market rates, and each PFI will be carefully selected based on rigorous eligibility criteria, detailed in the POM, and it will follow its own applicable credit risk appraisal. Another mitigation measure is the governance of the IC, where decision making is private sector driven, and the World Bank will grant no-objection on the selection of IC members. Also, the project seeks to mitigate risks by including activities related to capacity building and demand sustainability under Component 3. As such, the project incorporates building the capacity of MSMEDA in areas such as their VC unit and M&E. Including non-financial support activities that are complementary to financial services is key to secure a pipeline of investments. Thus, in addition to the amount of resources allocated for non-financial support activities under the project, the World Bank will work together with the Government to raise complementary funding from other donors.

(d) **Institutional Capacity for Implementation and Sustainability is rated Substantial.** The proposed implementing entity, MSMEDA, has prior experience executing projects financed by the World Bank, in particular those related to debt financing. The PIU will be responsible for implementation of project activities and will ensure staff involved hold the required capacity to implement Components 1 and 2. All terms, criteria, and guidelines for project implementation will be stipulated in the POM. MSMEDA will be offered focused capacity-building trainings and awareness sessions with respect to the World Bank guidelines and procedures in FM, procurement, safeguards, and M&E. The risk of the project funds being captured by particular groups will be mitigated by (a) the competitive selection process of financial intermediaries; (b) the governance structure of the IC, where its composition has a majority of independent private sector members and MSMEDA has no role in endorsing, approving, influencing, or modifying any investment selections made by the IC; (c) the World Bank to provide no-objection on the selection of IC members; (d) transparency with respect to the resource allocation decisions; and (e) a GRM for beneficiaries and potential beneficiaries to express their concerns and have these dealt with by MSMEDA. These measures will be monitored by the World Bank during supervision. Another implementation risk under Component 2 is the existing legal provision that mandates public investments to be subject to review by the CAO when they exceed 25 percent of the total amount invested in a fund. This could represent a disincentive for the private sector to co-invest with MSMEDA and potentially constrain the number of funds that receive investments, the amount of private capital leveraged, and possibly the number of beneficiaries reached. As a mitigation measure the project plans to maintain a flexible investment strategy that can be adjusted to respond to market demands in terms of variables such as allocation per market segment, MSMEDA's co-investment share, etc.

VI. RESULTS FRAMEWORK AND MONITORING

Results Framework
COUNTRY: Egypt, Arab Republic of
Catalyzing Entrepreneurship for Job Creation

Project Development Objectives(s)

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

Project Development Objective Indicators

Indicator Name	DLI	Baseline	Intermediate Targets						End Target
			1	2	3	4	5	6	
Catalyzing Entrepreneurship									
Number of entrepreneurs receiving financing through the project (Number)		0.00	11,000.00	30,000.00	48,000.00	67,000.00	75,000.00	85,200.00	85,200.00
Of which total women (Percentage)		0.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00
Of which women aged over 35 (Percentage)		0.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00
Of which youth (aged 21-35) (Percentage)		0.00	10.00	15.00	20.00	25.00	30.00	30.00	30.00
Of which receive equity financing (Number)		0.00	15.00	55.00	95.00	135.00	175.00	190.00	190.00

Indicator Name	DLI	Baseline	Intermediate Targets						End Target
			1	2	3	4	5	6	
Of which: receive debt financing (Number)		0.00	10,985.00	29,945.00	47,905.00	66,865.00	74,825.00	85,010.00	85,010.00
Creating Jobs									
Number of jobs created through the project (Number)		0.00	10,000.00	30,000.00	55,000.00	70,000.00	85,000.00	100,000.00	100,000.00
Of which women (Percentage)		0.00	30.00	30.00	30.00	30.00	30.00	30.00	30.00

Intermediate Results Indicators by Components

Indicator Name	DLI	Baseline	Intermediate Targets						End Target
			1	2	3	4	5	6	
Component I, II and III									
Risk capital intermediaries receiving equity financing (Number)		0.00	1.00	3.00	5.00	7.00	9.00	10.00	10.00
of which: seed/acceleration stage (Number)		0.00	0.00	1.00	2.00	3.00	4.00	4.00	4.00
of which: SME/Venture capital stage (Number)		0.00	1.00	2.00	3.00	4.00	5.00	6.00	6.00
Financial intermediaries receiving debt financing through the project		0.00	5.00	10.00	20.00	25.00	30.00	30.00	30.00

Indicator Name	DLI	Baseline	Intermediate Targets						End Target
			1	2	3	4	5	6	
(Number)									
Volume of risk capital mobilized by private sector entities for innovative startups and high-growth SMES (Amount(USD))		0.00	5,000,000.00	10,000,000.00	20,000,000.00	35,000,000.00	50,000,000.00	89,000,000.00	89,000,000.00
Percent of Beneficiaries satisfied with project interventions (Citizen Engagement Indicator) (Percentage)		0.00	70.00	70.00	70.00	70.00	70.00	70.00	70.00

Monitoring & Evaluation Plan: PDO Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Number of entrepreneurs receiving financing through the project	This indicator will measure the total number of beneficiaries receiving debt and equity financing through the project.	semi-Annual	Project reporting	PIU database	PIU
Of which total women	Number of women entrepreneurs that receive financing through the project	semi-annual	project monitoring	project monitoring	PIU

Of which women aged over 35	Numer of women above 35 years old who receive financing through the project	semi-annual	PIU	project monitoring	PIU
Of which youth (aged 21-35)	entrepreneurs under 35 years old that receive financing through the project	semi-annual	PIU	project monitoring	PIU
Of which receive equity financing	Number of innovative and high growth startups that receive equity and quasi equity through the project	semi-annual	PIU	project monitoring	PIU
Of which: receive debt financing	Number of beneficiaries receiving debt financing through the project	semi-annual	PIU	project monitoring	PIU
Number of jobs created through the project	Number of jobs created by entrepreneurs receiving financing through the project	annual	project reporting	Methodology will be agreed with PIU within 6 months of project implementation	PIU
Of which women	Percentage of women employed as a result of a job created by entrepreneurs receiving financing through the project	annual	PIU	MSMEDA methodology	PIU

Monitoring & Evaluation Plan: Intermediate Results Indicators					
Indicator Name	**Definition/Description**	**Frequency**	**Datasource**	**Methodology for Data Collection**	**Responsibility for Data Collection**
Risk capital intermediaries receiving equity financing	This indicator measures the total number of financial intermediaries that receive financing through the project (funds that receive follow-on financing through the project should only be counted once))	semi-annual	PIU	project reporting	PIU
of which: seed/acceleration stage	total number of financial intermediaries that receive financing through the project at the seed or acceleration stage	semi-annual	PIU	project monitoring	PIU
of which: SME/Venture capital stage	total number of financial intermediaries that receive financing through the project at the VC stage	semi-annual	PIU	project monitoring	PIU
Financial intermediaries receiving debt financing through the project	Total number of Financial Intermediaries that receive debt financing through the Project for on-lending to microenterprises and SMEs.	semi-annual	project reporting	project reporting	PIU
Volume of risk capital mobilized by private sector entities for innovative startups and high-growth SMES	The indicator tracks the amount of direct financing (in the form of equity) mobilized by private entities, using private funding, to finance	semi-annual	project reporting from Funds portfolio investments/ shareholder		Fund manager/PIU

	investments within an IBRD/IDA operation or investments		agreements		
Percent of Beneficiaries satisfied with project interventions (Citizen Engagement Indicator)	The percentage of entrepreneurs that are satisfied with the financial services provided through the project	semi-annual	project reporting	project reporting	PIU

ANNEX 1: DETAILED PROJECT DESCRIPTION

COUNTRY: Egypt, Arab Republic of
Catalyzing Entrepreneurship for Job Creation

Component 1: Financial Support to MSMEs (US$146 million)

1. **The objective of this component is to promote access to finance among MSMEs in Egypt with a focus on firms that can generate jobs and that are finance constrained.** The component also encourages private sector financing of the MSME segment through market demonstration on a sustainable basis. There will be specific targets for the share of financing for women and youth-led MSMEs. In addition, indicators on numbers of first-time borrowers, and beneficiaries in lagging regions will be monitored by the Implementing Entity and reported to the World Bank semi-annually. This component involves US$146 million in financing to prompt effective financial intermediation via three broad product categories: (a) short-term debt instrument for the microfinance sector; (b) medium-term debt instruments for leasing and factoring companies; and (c) debt instruments to banks to encourage downscaling and leveraging bank branch networks.

2. **Microfinance is an important avenue for entrepreneurs to expand small businesses and in doing so build up productive assets, reduce vulnerability, and generate employment opportunities.**[53] Direct beneficiaries of the component will be entrepreneurs inclusive of MSMEs. Indirect beneficiaries include financial intermediaries who will build institutional capacity in serving MSMEs. Current assessments suggest that microfinance in Egypt is reaching 25 percent of its total potential (supply of 2.1 million active borrowers versus a maximum potential of 6 to 10 million microentrepreneurs). There has been significant growth in microfinance in recent years particularly of for-profit microfinance companies (recently tripled in number from three to seven).

3. **Growth in the private microfinance market has been significant since 2015 with four new players entering the market.** The 13 NGOs-MFIs that fall under Tier A (Gross Loan Portfolio > EGP 50 million) make up at least 90 percent of the Egyptian market and increasingly have long-term financing needs. While larger institutions have active refinancing lines with banks, they are short term in nature and require high levels of cash collateral in an overdraft facility structure. Egypt is currently not attracting funds from international investors specialized in microfinance in part due to risk appetite and currency controls.

4. **Leasing solutions in Egypt represent less than 0.5 percent of GDP.** The leasing industry was established in Egypt in 1995 (Law 95), with further amendments occurring in late 2003. Leasing contribution to GDP is remarkably low (below 0.5 percent) compared to other developing countries (1.6 percent in Tunisia). Although leasing has existed in Egypt for many years, its development is still nascent. Although there are over 260 financial leasing companies registered in Egypt, only a few are active. Most

[53] For a synthesis of the empirical evidence related to microfinance and financial inclusion, see: Demirguc-Kunt, Asli, Leora Klapper, and Dorothe Singer. 2017. “Financial Inclusion and Inclusive Growth: A Review of Recent Empirical Evidence (English).” Policy Research working paper WPS 8040. Washington, DC: World Bank Group.

of the leasing companies in Egypt are controlled by banks or bank affiliates. Currently, over 70 percent of the leasing portfolio in Egypt is concentrated in real estate leasing to big developers as opposed to financing and catering for MSMEs including women to provide such segments with a means to finance capital assets, an alternative to modernize their equipment and expand their businesses with the objective increase production, improve profitability, and create jobs. Through its eligibility criteria and overall design, the project will encourage the leasing sector to finance MSMEs rather than real estate.

5. Overall, by using a range of intermediaries to channel the project funds, the operation expects to maximize the impact and outreach to high-growth, job-creating firms and the target population.

6. **Emphasis in this component is on creating additionality in the market through** (a) PFIs that have not previously accessed commercial funding; (b) prioritizing of institutions such as Tier B and C NGO-MFIs that have a higher operational risk profile than the median market average and tend to be closer to female and youth beneficiaries; and (c) first-time borrowers. Financing will be channeled through MFIs and factoring and leasing companies crossing different size and regulatory categories and in doing so will cover a diverse geographic base within Egypt. The component aims to meet the financing needs for a variety of enterprises across its life cycle through offering short-term debt through the microfinance and banking sector (via downscaling) in addition to medium-term finance for large SMEs through the leasing and factoring market.

7. **Funding under this component will be sector agnostic.** PFIs will be selected on their capacity to finance targeted beneficiaries in Egypt and financial health/regulatory compliance, in line with the operational criteria. To create markets, operational emphasis will be placed on providing financing to institutions with a higher risk profile than the median market averages (particularly Tier B and C NGO-MFIs). The use of commercial institutions is prioritized in the project's implementation arrangements and credit allocation will be done based on credit and operational risk with no reference to subsidy.

8. **In terms of the expected return of this component,** accounting for loan structure (IBRD to GoE), project team administrative costs, credit, sectoral, currency, and macro-financial risks (including non-performing loans), and the interest rate structure in the Egyptian market, the component is expected to yield a positive return between five percent and seven percent[54] during the project's lifetime. This estimate may change according to market demand.

Implementation Roles

9. **The financing facility will be managed through MSMEDA in accordance with the Loan Agreement and the POM.** MSMEDA will enter into a financing agreement with the PFIs who will on-lend to qualified financial intermediaries spanning microfinance associations, MFCs, and leasing companies. During project implementation, MSMEDA will maintain an implementing unit with procedures, responsibilities, and qualified personnel capable of implementing all aspects of the component in a satisfactory manner. Core responsibilities include (a) preparation and dissemination of information about the financing programs; (b) program implementation including enforcing the terms and conditions of finance and eligibility criteria for PFIs; (c) management of the M&E database tracking flow of funds and

[54] This means principle disbursed plus income interest minus non-performing loans and administrative fees.

transactions completed including financing volumes, in accordance with the results framework; and (d) timely submission of interim financial statements and annual audit statements.

10. Loan terms and conditions between MSMEDA and the PFIs are as follows:

- The PFIs must be in compliance with the fiduciary and safeguards requirements listed in the POM.
- The PFIs must start and remain in compliance with eligibility criteria as stated during the expression of interest process.
- For the duration of the project implementation period, the PFIs will submit an audit report annually in accordance with the national standards as set by relevant financial sector regulators.
- The PFIs must submit relevant reports including the semiannual, unaudited interim financial reports (IFRs) certified by its management.
- The PFIs will be subject to monitoring of the PDO and intermediate results indicators in the relevant section of the results framework and monitoring and the additional indicators in the POM.
- The PFIs will be responsible for verifying that sub-beneficiaries comply with applicable Egyptian environmental legislation and regulations and the World Bank policies on environmental assessment, natural habitats, forest, physical cultural resources, pest management, and indigenous peoples.
- The PFIs will provide MSMEDA with a set of documentation for all sub-finance to enable it to maintain all project records and make them available for ex post review by the World Bank or external auditors as necessary.
- The PFIs and borrowers will be required to provide reasonable information during the life of the project (and for a certain period after the project) as requested by the World Bank and the Ministry of Finance.

11. Under the debt window, the first loan of each type of PFI (that is, MFIs, NGOs, banks, leasing and factoring companies) and all loans from PFIs that have previously not received funding from MSMEDA through the World Bank will require prior review by the World Bank. Once the World Bank completes the review, it provides no-objection. If the World Bank has any issues or notes any deficiencies, the implementing agency will be informed, in writing, about details of the World Bank's assessment and any remedial actions required. If any remedial actions are required, MSMEDA shall inform the PFI on how to address the noted issues or deficiencies. Once the issues have been adequately addressed, the World Bank may ask for the second review. The POM will specify the processes to be followed in evaluating and approving the applications, monitoring mechanisms on active loans, and reporting and further disbursing to the intermediaries. The PFIS will have the full responsibility to ensure that the sub-loan and lending

terms are in compliance with the eligibility requirements and all other requirements imposed by the POM and the applicable credit policies. All sub-loans issued by PFIs can be subject to ex post review as decided by MSMEDA and/or the World Bank for verification of compliance.

Eligibility Criteria

12. To participate in the financial intermediation under the project, banks, MFIs, and factoring and leasing companies must be in good standing with respective regulatory authorities, either the CBE (banks) or the FRA (MFIs, factoring and leasing companies). This implies national prudential norms;[55] standard financial soundness indicators; adherence to non-prudential requirements including proper registration, governance, and 'fit and proper' characteristics; and adherence to reporting standards, including reporting to relevant credit information systems.

13. In line with the objective of the operation, PFIs will need to demonstrate their ability to finance productive MSMEs capable of generating jobs and additionality criteria in terms of prioritizing women, youth, and governorates in lagging regions such as Upper Egypt, Sinai, and underserved governorates which have poorer economic and social indicators relative to other areas. Participating financial institutions will also need to demonstrate appropriate implementation capacity and sectoral experience in both equity and debt investments for the MSME sector, such as acceptable loan collection levels,[56] staff capacity for loan selection and managerial autonomy, the ability to mobilize funds, demonstrated managerial autonomy and a commercial orientation, and portfolio risk management policies. They should also be appraised against standard Bank Policy for Investment Financing Projects criteria in addition to MSMEDA's Credit Policy and scoring criteria that might include acceptable loan collection levels, staff capacity for loan selection and managerial autonomy, the ability to mobilize funds, demonstrated managerial autonomy and a commercial orientation, and portfolio risk management policies. Operational and financial eligibility criteria for PFIs will be discussed in detail in the POM for the operation and subject to annual review by the project team, it will also be subject to change if any changes in the credit policy approved by the MSMEDA Board if needed.

Pricing

14. **PFIs will provide debt at commercial rates to ensure there are no market distortions and that investment decisions are made according to financial sustainability in line with the eligibility criteria described in the POM.** In accordance with the Bank Policy for Investment Financing Projects, pricing to the PFIs will incorporate cost of funding and financial and operational risk (including credit risk, liquidity mismatch, sector, and macro-financial risks). MFIs and factoring and leasing companies will have the liberty and autonomy to assess the business cases and creditworthiness of the potential debtor/lessee. Each PFI will follow its own applicable credit risk appraisal and approval management procedures.

15. The capital base and existing leverage ratios of PFIs should be assessed to determine the amount of funding to lend to each institution. Interest rate windows will be outlined in the POM of the operation and subject to annual review of the PMU, based upon MSMEDA's Assets and Liabilities Committee pricing decisions, in line with reference rates and investment strategy. Pricing will be in line with commercial

[55] Capital adequacy ratio, non-performing loans, loan loss provision, liquidity ratio, and so on.
[56] The international standard is to measure portfolio quality by portfolio at risk for 30, 60, or 90 days.

standards for comparable financing facilities with final interest rate between MSMEDA and PFIs subject to standards market negotiations; it will be decided by MSMEDA Assets and Liabilities Committee according to institutional and market conditions. The soundness of the leasing and microfinance portfolio, the risk appetite of the leasing and microfinance companies, and credit risk profile of beneficiaries should be considered while attributing on lending rate.

Box 1.1. Prudential Requirements for the Egyptian Microfinance Sector

(a) Capital adequacy - compliance with FRA regulations with a minimum capital of 15 percent calculated as the ratio of total capital to total assets.

(b) Adequate liquidity - compliance with FRA regulations (that is, liquid assets to total deposits at 30 percent), well managed or no maturity gaps.

(c) Adequate profitability - positive profitability and stable earnings trend, well-managed cost structure.

(d) Adequate credit portfolio structure and portfolio quality - well-defined lending policies and procedures, acceptable credit portfolio structure, regular loan classification and provisioning, low concentration, lending to

connected parties within prudential limits, low-level of nonperforming loans (that is, a nonperforming loan ratio as percentage of total assets not exceeding five percent), and effective collection practices.

(e) Adequate internal controls, overseen by an Audit Committee - independent internal control function with defined procedures, annual internal control plans, regular reviews by the Audit Committee, and follow-up on issues raised in internal controls reports.

(f) Adequate accounting, bookkeeping, and management information system, with adequate internal controls.

Component 2: Risk Capital for Innovative Startups and High Growth SMEs (US$50 million)

16. **MSMEDA, over a period of six[57] years will make equity and/or quasi-equity capital investments (such as mezzanine, debt, and convertibles notes) through RCIs**. These RCIs will provide financing to eligible start-ups and early-stage high-growth SMEs. To ensure the development of a quality pipeline, RCIs' linkages to entrepreneurship intermediaries or framework of collaboration, and/or own action plan for pre and post investment support will be evaluated at the moment of investment selection.

17. **Eligible expenditures under this subcomponent include** equity and quasi-equity investments in risk capital intermediaries (accelerators, Angel funds, VC funds, and other SME funds), and fund management fees.[58]

18. **RCI investments will be balanced among eligible start-ups and SMEs categorized as seed/angel (average ITS of US$700,000), early stage (average ITS of approximately US$1.5 million), and early growth (average ITS of approximately US$3 million).** Investments in the start-ups and SMEs may be in the form of equity or quasi-equity instruments such as convertible notes and other forms of concessional

[57] Five years is the typical investment period followed by venture capital funds (the project life of 6 years was established to consider the time it will take to select the RCIs).
[58] Standard management fee that will form part of the capital investment covers standard fund operational costs including deal-sourcing, due diligence, investment management, marketing, and networking.

debt that partner investors or intermediaries judge as necessary for a company to succeed.

19. Table 1.1 provides high-level indicative guidelines for MSMEDA. This investment strategy is subject to adjustment and re-allocation to meet the market demand. As part of the investment strategy, MSMEDA will invest a maximum of 49 percent in any given fund to remain a minority shareholder. It is important to note that according to Egyptian regulations, public investments are subject to review by the CAO when they exceed 25 percent of the total amount invested in a fund. It is for this reason that MSMEDA aims to have a ceiling of 20 percent for MSMEDA's share in funds. The final parameter of MSMEDA participation will need to be tested to determine whether any adjustments need to be made based on market demand. The requirement of having at least 50 percent of funds leverage from private investors will be maintained regardless of MSMEDA's share in funds.

20. **MSMEDA will maintain a minority share and will not be involved in an RCI investment committee or play a role in the selection of investments**. Investments should be sector agnostic and no more than 40 percent of the overall portfolio should be concentrated in funds serving one sector. In addition, there will be a maximum exposure per company of 10 percent in the case of seed/angel funds and early-stage funds and 15 percent for early-growth funds. Modification to these parameters may be made as needed to meet market demand so long as the project development objective is met. Changes to the investment strategy will require no-objection of the World Bank.

Table 1.1. Broad Indicative Investment Strategy for Investment in RCIs

Stage	Seed & Angel ($100k - $700k)	Early Stage (US$700k- US$1.5million)	Early Growth (US$1.5million - $3 million	Total
MSMEDA Allocation	US$10 million	US$15million	US$ 25million	US$50 million
Management fees=2.5%	US$0.25 million	US$0.375million	US$ 0.625million	US$1.25 million
Total available for Investment	US$9.8 million	US$14.6 million	US$24.4 million	US$48.75 million
Players	Accelerators / Incubators + Seed Funds	Accelerators / Incubators + Early stage Funds / networks	Early stage and VC Funds	
Size of Opportunity	Fund Size US$2 million- US$10 million	Fund Size US$10 million – US$15 million	Fund Size US$15 million +	
Investment concentration *	No more than 20% of the total fund allocation.	No more than 20% of the total fund allocation.	No more than 20% of the total fund allocation.	
Number of companies (approximation)	50-60 companies	30-40 companies	90-100 companies	180 - 200 Companies
Targeted number of funds	7-9	7-9	6-7	
Private leverage (approximation)	US$2M per fund (total US$14M)	US$5 million per fund (total US$35)	US$6 million per fund (total US$36M)	US$90 million
Total Allocation	US$24million	US$50 million	US$65 million	US$138.75 million

Note: * The Government aims to have a ceiling of 20 percent for MSMEDA's share in funds. This parameter will be tested to determine whether any adjustments need to be made based on market demand.

Eligible Startups and High Growth SMEs

21. **To be eligible for an investment from the eligible RCIs, an SME must have presence in Egypt with the locus of its operations conducted in Egypt, even if their product target market is external.** This includes companies with foreign shareholders but who include Egyptians and/or legal residents. Eligible SMEs may not be engaged in any of the activities or sectors included in the negative expenditures list described in the project ESMF and POM.

Additional Guidelines for Investment in RCIs

(a) Funding allocation into the various funds can take place during first close but should be prorated based on total fund raise. Advances are possible to help kick-start operations.

(b) At least 40 percent of the selected investments will need to go to RCIs that have the necessary experienced teams but are newly established in Egypt.

(c) Selected RCIs will be required to have/raise capital from other private investors at a minimum of 50 percent for all investment funds).

(d) Funds must have a training element in their mandate that addresses both start-ups and RCI staff capacity. They will also be required, if appropriate, to develop a network of mentors and advisors that their investments can benefit from. Angel funds and accelerators should have a network of mentors and angel investors with experience in successful start-up creation in Egypt and the region. Specifically, angel funds through their network will (i) identify and gather successful entrepreneurs and experienced individuals, with real experience that have the potential to be mentors and angel investors; and (ii) match mentors and start-ups (participating in the acceleration programs) and manage their relationship for a productive support and outcome.

Exit

22. **MSMEDA retains the right to exit where it has fully committed its financial resources and it considers that the development objective has been attained.** A typical fund has a specific time span of about 10 years + 2 + 1 (based on agreement from its Board of Directors), at which point all assets would be exited or liquidated and money returned to all fund investors (Limited Partners). MSMEDA may either roll back the funds into the program or place them elsewhere based on an agreement with the borrower. MSMEDA may also exit earlier if a fund changes its investment parameters, deviating from the development object and parameters set by the project. Should this happen MSMEDA can sell its shares and re-allocate the funds to other funds or activities under the project. Exit from a fund investment usually takes one of the following forms: (a) sale of shares to the fund manager; (b) sale to one or more of the other fund Limited Partners; or (c) a strategic sale to another outside investor. The selected fund manager(s) will provide details on terms for exit or disposal of shares for shareholders as well as treatment of assets if the fund is liquidated. MSMEDA can use various financing tools (subordinated debt, mezzanine, or senior debt options) to give it flexibility when exiting from the investments. The financing tools and exit terms will be decided at the time of investment negotiations.

23. **The World Bank loan repayment is not dependent on the returns and closure of the equity investments under Component 2.** MSMEDA is a long-standing institution (previously the SFD), operating for several years, with experience in making investments in funds on behalf of the Government. The Board has agreed to sustain operating the Investment Unit at MSMEDA including all management costs that will be needed to follow up on the investments until all the funds are exited or liquidated. This has been reflected in the Loan Agreement.

Selection of RCI (also see Additional Guidelines for Investments in RCI above)

24. **MSMEDA will initiate an international expression of interest requesting RCIs (fund managers (GPs), accelerators, and angel fund managers) to submit fund proposals.** All RCIs must be 100 percent private sector managed, have a physical operational presence in Egypt, and maintain a valid investment license whether locally or internationally domiciled. An RCI must meet the financial requirements to conduct and manage investments as well as M&E acceptable to the World Bank which is specified in the POM. An RCI cannot be under litigation or be on the list of banned companies in Egypt or by the World

Bank; similarly, key personnel (owner, manager or Chief Executive Officer, Chief Financing Officer) must not have any criminal record and not be under any blacklist used by the borrower or the World Bank. The tender process will also clearly outline selection criteria and weights assigned to each criterion.

25. **Eligibility criteria.** To be eligible for consideration, RCIs that meet the conditions listed above must exhibit (a) the capacity to properly evaluate investment opportunities in SMEs; and (b) capacity to offer mentoring and other support that innovative young SMEs typically need and a potential pipeline of other investors that will contribute to their fund. The detailed selection criteria for which weights will be assigned are included in the POM: evaluation of track record including annual audited financial statements[59] (the audit report must be void of any adverse or disclaimer opinions in the last three years, if available); structure; quality of the management/team; Key Man risk;[60] level of diversity in the management team and the investment committee; investment strategy; focus/sector/market; sustainability; budgets; viability; fund economics (that is, management fees, hurdle rates,[61] carry, and so on); fund size and Life; governance structure based on industry best practice with proper independence of the investment committee from the Board, and development impact.

26. **The winning bid(s) will be selected through a ranking assessing the technical quality of the bids.** The bids will be evaluated by the IC at MSMEDA. The highest ranked proposal would then be invited to negotiate the Term Sheet (Administration Agreement) and once the fund manager succeeds in raising the full capital, the Shareholder Agreement that sets the terms of the fund, type, size, investment strategy, valuation methods, hurdle rate, management fees and incentives, legal structure, dividend payments, and fund life and capitalization. The Shareholder Agreement will outline specifically the key operational aspects of the fund and define the role of the manager versus the other investing partners; the governance structure; the management fees structure; return distribution; reporting, fiduciary, and safeguards requirements/performance evaluation; and so on. The Shareholder Agreement will be informed by best practices. It is acknowledged that the final agreements may deviate from the standard template based on the final terms negotiated between MSMEDA, fund managers, and co-investors. If two years after the loan effectiveness the fund manager is not selected, then the funds will be reallocated to other eligible project activities upon the request of MSMEDA.

Investment Committee

27. **The selection of investments in RCIs will be the sole responsibility of the MSMEDA IC.** The IC will be composed of seven members, at least four of which must be independent experts from the private sector that meet the eligibility criteria described below. The purpose of the IC is to formulate the investment strategy and evaluate, approve, and review all capital deployments by MSMEDA under this component. The MSMEDA Board may not approve an investment that has not been selected by the IC. IC decision will not require endorsement or no-objection from the Board or MSMEDA in any decisions related to investment selections. The IC will also oversee all divestments from funds. MSMEDA as project manager

[59] For very small entities and those with less than one-year business life, they will be required to provide simple reviewed financial statements until such a time when they are required to have audited financial statements.
[60] The threat posed to a fund from over-reliance on the skills of one or a few individuals, thereby jeopardizing the entire operation if they leave.
[61] Hurdle rate is the minimum rate of return on investments required by the RCI (that is, the funds). The riskier the investment the higher the hurdle rate.

will solely execute investments and exits decided upon by the IC and will in no way influence or modify selections made by the IC.

28. **The MSMEDA Board must ensure that the appropriate qualified IC members and selection process are put in place.** The MSMEDA Investment Unit manager will propose IC members to the Executive Director, who will appoint the IC in accordance to criteria in the POM and on a no-objection from the World Bank. The IC is to be composed of three representatives from the public sector and four private sector individuals. The private sector individuals will be acting in their personal capacities and will be high-status individuals from Egypt and the Middle East and North Africa region, the diaspora, and international experts. The members need to have direct and relevant business experience. The composition of the IC is intended to reassure investor partners of the serious intent behind their decisions, no political interest capture, and good governance of MSMEDA equity investment program. The World Bank will give its no-objection of the IC structure, its composition, and the selection and decision-making process in terms of it meeting the established criteria indicated in the POM. The selection of IC members will be subject to the World Bank's no-objection.

29. **IC members will sign a letter of agreement with the terms of appointment, causes for termination of membership, and roles and responsibilities.** If a member is judged by MSMEDA's management team to have acted with a conflict of interest with regard to an investment, his/her membership in the IC will be immediately terminated. The partner investor will be disqualified from the funding program and all requisite legal measures will be taken to have the funds returned to MSMEDA.

30. **To be eligible as a member of the IC, an individual must**

(a) Possess experience in VC/investment;

(b) Possess experience in the entrepreneurial ecosystem—either as an investor or as an entrepreneur;

(c) Have no conflict of interest; and

(d) Possess strong analytical and operational experience.

31. **Tasks and obligations of the IC include the following:**

(a) Providing formal approval of investments

(b) Understanding the component investment goals and objectives

(c) Adopting, reviewing, and revising the investment policies and guidelines

(d) Establishing a strategic framework within the overall strategy for capital deployments

(e) Authorizing all capital deployment activities within the set guidelines and framework

(f) Monitoring and reviewing performance of investments including taking necessary corrective actions as needed

(g) Approving all exits

(h) Performing the following administrative tasks:

  (i) Review and approve annual budget that is to be shared and approved by the Board

  (ii) Monitor capital deployment and investment annual budget

Component 3: Business and Capacity Development

32. **Component 3 completes the project design by ensuring that the demand side for the financial products (debt and equity) is also addressed.** Global experience shows that access to business development services, mentoring, and coaching are critical for entrepreneurial success. This component will facilitate MSMEDA to ensure such services are provided where needed and enable them to work with others to provide complementary assistance. The component will support the authorities to mobilize additional funding and foster partnerships to provide the needed nonfinancial support. There are several activities in place funded by other donors, such as EBRD, the IFC, and private sector players such as Flat6Labs, Endeavor, and Rise UP. The project will aim to leverage these and other existing initiatives to complement the resources allocated for deal flow and business development activities under the component. This project's activities will be complementary to IFC-led operations such as Start Egypt and FAP. In addition to lack of finance, entrepreneurs in general, and more specifically women- and youth-led MSMEs, face several nonfinancial challenges, including a lack of skills, limited access to markets, and limited access to tailored business development support such as information services, training, networking, and mentorship. The design of these activities is based on two assessments, one of which is finalized the other is still ongoing; they seek to identify gaps in hard and soft skills of entrepreneurs. The assessments put emphasis on identifying common constraints as well as identifying specific needs of women and youth entrepreneurs to ensure tailored solutions.[62] Feedback on the business development activities will be obtained from beneficiaries on a regular basis and will be used to iteratively improve the activities over the project period.

33. **The component will address different stages of the pipeline in the ecosystem to provide a flow of ready-to-invest quality start-ups.** At the pre-acceleration stage, the proposed activities will aim at supporting talent and skills, building ecosystem connections, raising awareness to attract talent, and supporting the conception/ideation stage. These include (a) boot camps support for technical skills, which are especially critical for women in need of freelance/work-from-home opportunities; (b) organizing of meetups, business competitions, and hackathons across the country, especially in second-tier cities like Mansoura and cities in lagging regions like Assiut where connections to the main hubs in Cairo and Alexandria are needed; and (c) additional awareness raising support as well as basic pre-acceleration

[62] Most of the angel, accelerator, VC, and SME fund management teams applying will be considered as SMEs, accordingly; technical assistance to the teams will be complementing the supply of risk capital and early-stage financing to ensure that these fund managers have the adequate competencies and skill-sets to operate investment vehicles and support the entrepreneurial ecosystem.

programs that are needed to allow more advanced start-ups in the main hubs to access talent across the country. Such programs will offer specialized workshops and training to develop entrepreneurs' business acumen, leadership and innovation skills.

34. At the acceleration stage, Component 2 will provide specific support to enhance the deal flow generation activities for the equity component of the program. These include (a) supporting accelerator programs to improve the quality of their offering by tapping into regional and global mentorship and investor networks; (b) stimulating business development services in partnership with other development partners; and (c) facilitating connections with industry/corporate champions to absorb start-up innovation. These activities, which are geared toward enhancing the support infrastructure to entrepreneurs should be implemented in parallel with the proposed pre-acceleration activities outlined above. These activities will support increasing the quality of investable start-ups, and to guarantee the potential pipeline across all stages of investment.

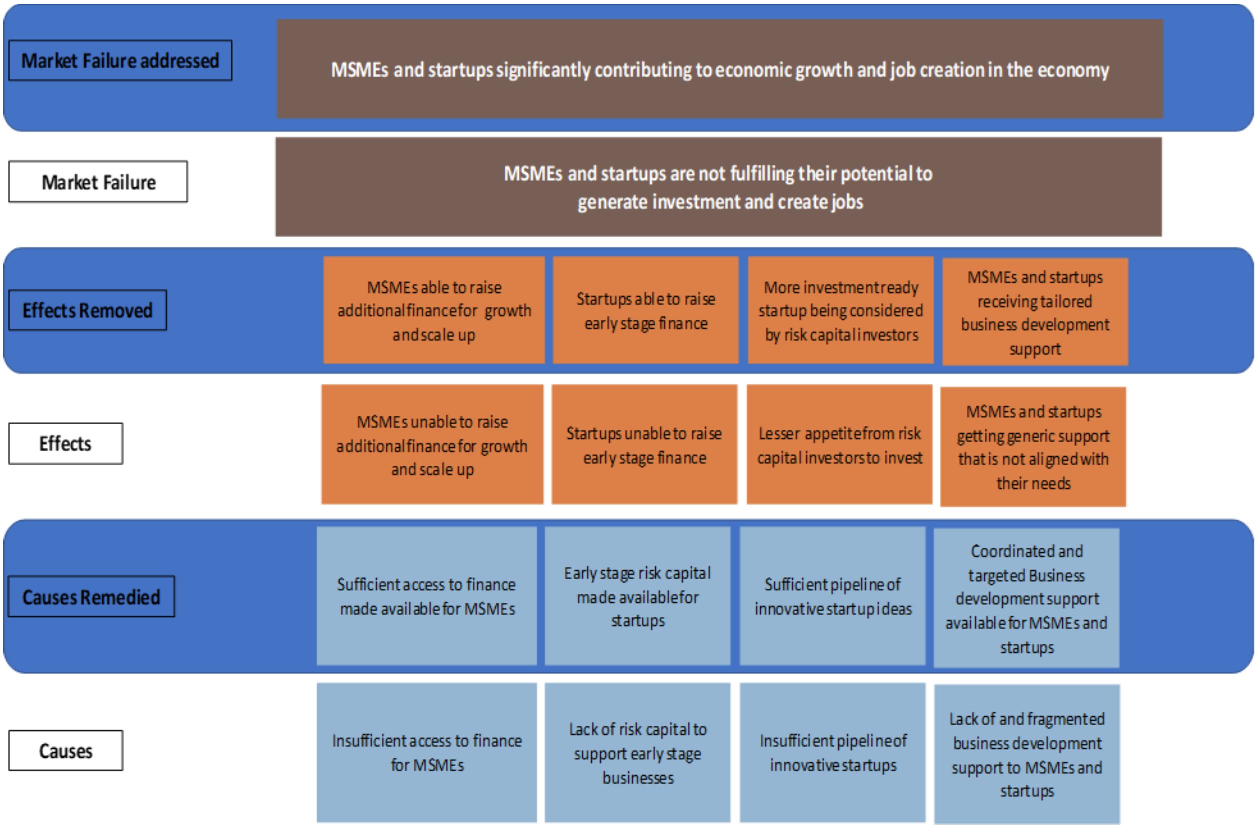
35. **This component will cover all nonfinancial support** to ensure that there is capacity built within the implementing agency, particularly to manage Component 2, and to be able to apply the ESMF for the program. It will also allocate part of the component's resources to finance specific support to beneficiaries to ensure an adequate deal flow for the equity component and relevant business development services to the beneficiaries of the debt component.

36. **The component will support MSMEDA in taking advantage of digital solutions, such as digital match-matching platforms that would connect entrepreneurs with financial opportunities (investors or loan providers), business development services, mentors and coaches, and other entrepreneurs for peer learning.** Such a digital platform would provide a gateway to not only financial services provided under this project but also links to others in the ecosystem who are providing support to entrepreneurs.

37. **Funds under this activity will also cover any additional project-related management costs over the project life, especially as it relates to developing an M&E framework, but also to ensure that the project remains in compliance with all World Bank requirements.** These costs include management and consultancy fees and operations and administrative costs for the management and monitoring of the project activities, to ensure smooth quality implementation. This can include training and capacity-building activities for staff; marketing; conducting of ecosystem assessments and analysis; M&E; safeguards monitoring and review; legal; and accounting, auditing, and financial management. This component will finance the monitoring of the PDO-level indicators, particularly on job creation. The high-level monitoring indicator of job creation will require annual surveys of end beneficiaries, which will be financed through this component.

38. **In addition, an impact evaluation will be undertaken to assess the impact of financing under Components 1 and 2 on outcomes, especially job creation.** This impact evaluation will be funded outside of the project through complementary trust-funded activity.

ANNEX 2: THEORY OF CHANGE



ANNEX 3: IMPLEMENTATION ARRANGEMENTS

Project Institutional and Implementation Arrangements

1. MSMEDA, the implementing entity, will have overall project reporting, monitoring, and fiduciary responsibilities as well as the implementation of all the components of the project. All expenses for the capacity needed to manage the operation will be funded under Component 3. MSMEDA will be responsible for (a) overall project management; (b) coordination; (c) M&E of outcomes and results; (d) procurement and implementation support[63] ; and (e) FM.

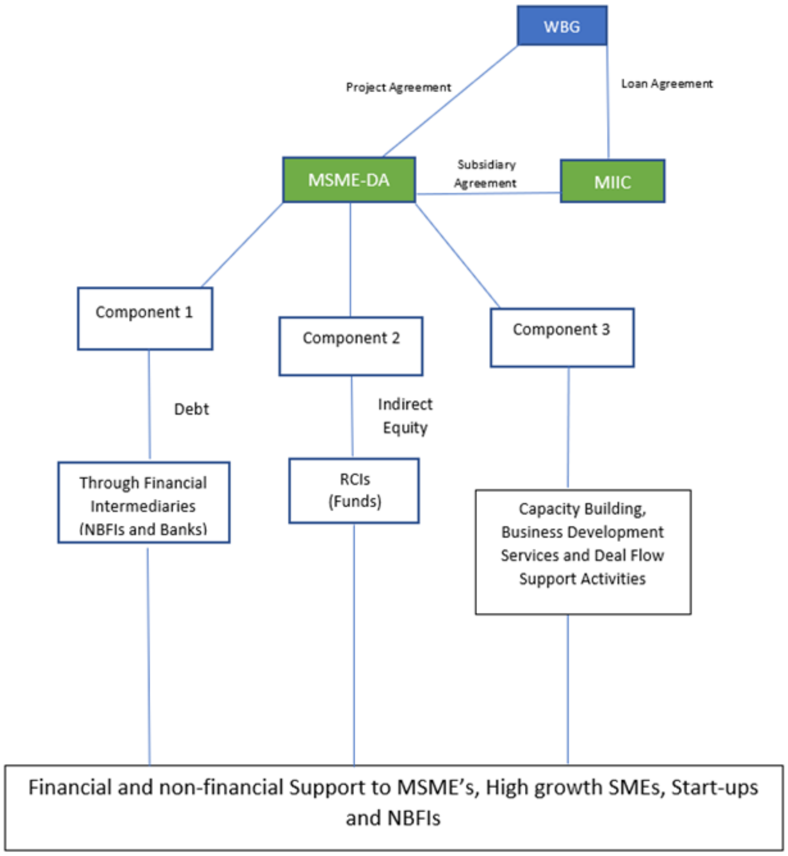
2. MIIC, on behalf of the Republic of Egypt, will act as the borrower for the loan, and will sign the Financing Agreement with the World Bank while MSMEDA, the implementing entity, will sign the Project Agreement.

3. MSMEDA will be responsible for the selection of PFIs (Component 1), investment strategy to guide equity decisions made (Component 2), and investment supervision as outlined by the POM. This includes periodic reporting to the World Bank. MSMEDA will support MFD and the Bank Policy for Investment Financing Projects in that the approach is 100 percent commercial with investment decisions being made according to financial sustainability and in line with pricing that reflects the costs of funding and associated market financial risks. Specific pricing windows will be outlined in the POM and updated on an annual basis.

4. **To channel the funds to end beneficiaries, MSMEDA will use three mechanisms.** (a) debt financing through PFIs (MFIs, MFCs, and factoring and leasing companies); (b) debt financing through banks; and (c) equity investments indirectly in funds and/or accelerator—figure 3.1.

[63] Among the project team staff, a senior procurement specialist will be hired under the project to provide technical support in developing the Terms of Reference (TORs) for conflict of interest.

Figure 3.1. Implementation Arrangements



Financial Management

Roles and Responsibilities

5. MSMEDA will be responsible for maintaining the project's FM arrangements including providing oversight of subprojects' implementation and monitoring PFIs'/ RCIs' compliance with the POM, including financial and internal control procedures. MSMEDA 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 PFIs/RCIs. MSMEDA will contract with an independent external auditor based on TORs acceptable to the World Bank, to carryout quarterly reviews and annual audits of the project's financial statements.

6. **MSMEDA Internal Audit (IA).** According to the existing IA risk-based strategy, the Internal Audit Department (IAD) will be responsible for evaluating all PFIs/RCIs involved in the implementation of the subprojects under this project. Under the umbrella of the envisaged project, the IA will be responsible for auditing particular new activities. Hence, the IAD will update its strategy including their process of assessing the capacity of intermediaries to implement subprojects. Also, this will require assigning resources for capacity building activities of the internal auditors. Subsequent to the IA's assessment and

approval, MSMEDA 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. The IAD has representatives stationed in its regional offices (ROs) who will be responsible for carrying out the detailed assessments.

7. MSMEDA will benefit from its experience with World Bank projects and most recently, the Enhancing Access to Finance Project, the Labor-Intensive Emergency Project, and the Innovation for Inclusive Financial Access for which, throughout their preparation, the World Bank worked closely with MSMEDA team to improve MSMEDA's internal control procedures including updating the FM Manual and the IA risk-based approach strategy

8. **Given the introduction of new financing mechanisms (leasing, risk capital financing, and venture capital),** the POM clarifies the relations/responsibilities of the different layers of implementation. It will also clarify the funds flow procedures through new parties to be involved.

9. **MSMEDA's IAD** will play a major role in assessing the capacity of decentralized implementing agencies before advancing the project funds.

10. **MSMEDA has an acceptable automated accounting system which is Oracle-based**. MSMEDA will create a new unique code for this project and this action is expected to be concluded within one month from project effectiveness.

11. MSMEDA will contract with an independent external auditor based on TOR acceptable to the World Bank, for carrying out quarterly review and annual audits of the project's financial statements which will include an extended scope to audit the implementation of subprojects and their compliance with the agreed-upon FM system and internal control procedures.

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

13. MSMEDA, after signature of the on-lending Financial Agreement, will make funds available to the selected PFIs/RCIs, who in turn will channel the funds to eligible beneficiaries. The PFIs/RCIs, whose selection will be based, among others, on the ability of their respective financial management system to meet the World Bank requirements on FM, will be responsible for all financial transactions, accounting, and reporting related to the funds they will receive from MSMEDA for on-lending purposes. The on-lending Financial Agreements will specify their roles in the FM of the project, including budgeting, cash forecasts, account reconciliation, request for funds, and periodic reporting.

14. To ensure that funds are readily available for the project implementation, a Designated Account (DA) in U.S. dollars will be opened at an acceptable bank and will be operated by MSMEDA. Each of the PFIs/RCIs will open a separate subaccount to deposit in and pay from the funds received from MSMEDA

under the project. Deposits from the World Bank to MSMEDA's DA will be made upon MSMEDA submitting withdrawal applications supported by its IFRs reflecting a six-month cash forecast. MSMEDA will then make funds available, based on needs, to the PFIs/ RCIs and banks.

15. MSMEDA 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 MSMEDA. MSMEDA will also ensure that the overall project's financial statements, including the DA statement, are audited annually by an external independent auditor, acceptable to the World Bank, in accordance with Egyptian Standards on Auditing. MSMEDA will submit the audit report to the World Bank no later than six months following the closing of MSMEDA fiscal year subject to audit. The audit's TOR will be prepared and submitted for the World Bank's no-objection. The cost of the audit will be the responsibility of MSMEDA. The MSMEDA-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. If requested, the MSMEDA auditor should be allowed access to the intermediaries' books and records related to the project. In addition, the MSMEDA audit report (entity) reflecting MSMEDA financial statements and operating results will be remitted to the World Bank as reasonably requested by the World Bank and deemed necessary. Also, the external auditor will be responsible for reviewing the quarterly IFRs. Table 3.1 summarizes the financial reporting arrangements required under the project.

Table 3.1. Financial Reporting Arrangements

Report	Due Date	Responsibility	Sent To	Language	Scope
IFRs	45 days from end of quarter	External auditor	World Bank	Arabic/English	Review
Annual project financial statements	6 months from end of the fiscal year	External auditor	World Bank	Arabic/English	Audit
Annual entity financial statements (MSMEDA)	6 months from end of the fiscal year	External auditor	World Bank	Arabic/English	Audit

Staffing

16. MSMEDA Finance Departments' 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 MSMEDA's ROs. MSMEDA has prior experience with World Bank-financed projects and achieved satisfactory FM performance and has received unqualified audit reports in the past.[64]

Accounting, Recording, and Reporting

17. MSMEDA will record all project-related transactions using accrual basis and will maintain their accounting records. Original supporting documents for subprojects will be kept at the intermediary level.

[64] Please refer to figure 3.1 for the MSMEDA Finance Department organizational structure.

18. The MSMEDA bookkeeping is automated through the Oracle accounting system, which is centralized in MSMEDA's main office. The ROs have the ability to access the MSMEDA MIS for recording and reporting activities. The MSMEDA accounting system is considered acceptable and MSMEDA staff members are familiar with World Bank requirements, having been engaged previously with several World Bank-financed projects. While the system was found to be generally acceptable by the World Bank, MSMEDA'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. MSMEDA's accounting system can generate quarterly IFRs and annual project financial statements which are required under the Loan Agreement.

19. Contracts will be kept at MSMEDA Headquarters (HQ) while subprojects supporting documents will be kept at the intermediary level which will also be required to scan supporting documents and send it to MSMEDA's ROs as part of the disbursement process. The financing agreement with the intermediary will state that MSMEDA IAD and the independent external auditor will be granted access to examine the project original documents supporting actual disbursements.

20. MSMEDA 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.

21. **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 World Bank), a segregated U.S. dollar DA will be opened and managed by MSMEDA for the sole purpose of managing the project's funds. The project's design allows MSMEDA 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 (that is, IFR-based disbursement). Advances will be the main disbursement method. Other disbursement methods such as Reimbursement, Direct Payment, and Special Commitments will be available.

22. **For Component 1 (Financial Support to MSMEs).** Under this component, MSMEDA will select and sign lending agreements with PFIs, including banks and NBFIs (MFIs, leasing, factoring, or NGOs). Decision making and involvement in review and selection of banks or NBFIs will be the responsibility of MSMEDA staff with the relevant expertise and skill set. Each PFI is responsible for opening DAs for the sole purpose of implementing activities under the project umbrella. The MSMEDA IAD will be responsible for ensuring the readiness of intermediaries ahead of transferring the first tranche and ensure that pending noted observations in previous IA reports are resolved before transferring the final tranche. The selection criteria and other operational details will be laid out in the POM.

23. For Component 2 (Risk Capital for Innovative Startups and High Growth SMEs) under this component, the IC will select the RCIs that it will invest in their shares through capital increase. The review, selection, and decision making on the equity investments in start-ups and SMEs will then be the sole responsibility of the selected RCIs in accordance with their own procedures and investment strategies.

24. A monthly bank reconciliation of the DA will be prepared by MSMEDA Financial Internal Control Department and will be prepared by the financial officer and reviewed by the senior manager, Internal Control Department.

25. MSMEDA IA 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, MSMEDA reviews the documentation to decide on the amount of funds needed to be transferred to the intermediary. In case of failure to comply with MSMEDA communicated procedures and/or absence of reliable information from the intermediary, disbursement will be suspended until compliance with requirements is met.

26. The project disbursement plan and the budgetary process, which is conducted by MSMEDA Finance Department, is based on the signed contracts with the intermediaries, and accordingly, the project disbursements forecast registered on the system will be updated periodically and will be used to reflect the variances upon IFR 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 the World Bank's prior review, List of Payments against contracts not subject to the World Bank's prior review.

27. The borrower is responsible for bearing all risks associated with foreign exchange fluctuations when making transfers from the DA which is denominated in U.S. dollars to the subaccounts denominated in Egyptian pounds. At the end of the project, any unused balance in Egyptian pounds should be converted to U.S. dollars and refunded to the World Bank.

28. **Report-based disbursement.** Under the report-based disbursement method, a forecast of expenditures will be agreed between MSMEDA and the World Bank, covering up to two calendar quarters. Thereafter, aggregate disbursement requests not exceeding this forecast amount are transferred by the World Bank into the DA upon demand by MSMEDA. Disbursements would be made against withdrawal applications supported by IFRs. The DA would be used in accordance with the World Bank's operational policies. MSMEDA will be responsible for administration of the DA and all disbursement-related transactions.

29. **Internal audit arrangements - MSMEDA IAD.** MSMEDA's IAD includes over 21 internal auditors at the HQ and governorate levels or ROs. The IAD—with its current capacity—is responsible for conducting audit fieldwork and related reporting for all MSMEDA projects all over Egypt.

30. The MSMEDA IAD has established a risk-based audit strategy which was reviewed, and found acceptable, by the World Bank. The audit strategy covers the IA and the independent external auditor's 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 IA representative stationed in the MSMEDA RO. Upon the IA clearance, the agreement will be signed accordingly, and the IA will update its annual audit plan to include the approved intermediary in their work program.

31. The IA audit plan is prepared annually and revised quarterly. The planned periodicity of the IA visits and the associated magnitude of supervision are based on the results of the fieldwork of the internal auditor and the noted observations on the intermediary performance. The IA plan establishes proper

segregation of duties between the teams responsible for capacity assessment of the intermediary and those responsible for follow-up on implementation activities.

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

33. The MSMEDA IAD and the project's external auditor will be granted access to examine the original supporting documentation. Meanwhile, the intermediary will send monthly reports to the MSMEDA RO. According to the existing MSMEDA IA strategy and program, regular field visits will be conducted by the IAD's representatives stationed in MSMEDA's RO through the entire project life. The IA staff will be responsible for documenting the outcome of the visits by preparing and submitting the IA reports for each visit to the IA head. Also, for NGOs, the latest two audited financial statements will be obtained to ensure that an acceptable audit report was issued on the intermediary financial statements. At present, a limited grievance system is in place. The system is not web based and does not allow anonymous reporting of complaints. Rejected applicants can file a complaint to the head of the MSMEDA RO, who investigates the complaint with the relevant department representative in the RO based on which a formal justification for rejection must be provided and in case of not reaching a resolution, the matter is escalated to MSMEDA HQ. Alternatively, the complaint form can be obtained from the MSMEDA website.

34. The website provides comprehensive information about MSMEDA and its role, how to obtain several services under different programs offered by MSMEDA, MSMEDA development partners, and the HQ and RO contact information.

35. **External audit arrangements.** MSMEDA is subject to annual external audits by the CAO as well as an independent external audit firm, currently Shawki Mazzars. In addition, MSMEDA will contract with an independent external auditor based on TOR acceptable to the World Bank, to carry out an external audit of the project's financial statements. MSMEDA's entity and project audit reports will be submitted to the World Bank within six months from the end of each calendar year.

36. MSMEDA 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 World Bank.

37. **Supervision plan.** After effectiveness, the World Bank FM specialist will participate in World Bank supervision missions. The World Bank supervision will follow a risk-based approach. At least two supervision missions will be carried out annually in addition to follow-up visits as deemed necessary. The review and audit reports of the interim and annual financial statements, respectively, in addition to Management Letter, will be reviewed on a regular basis by the World Bank FM specialist and the results or any issues will be followed up during supervision missions. Also, during the World Bank's supervision missions, the project's FM and disbursement arrangements will be reviewed to ensure compliance with the World Bank's requirements and to develop the FM rating for the Implementation Status and Results Report.

Risk Assessment and Mitigating Measures

Risk	Risk Rating	Mitigating Measures	Residual Risk Rating
Inherent Risk			
Country Level MSMEDA systems and procedures will be used to implement the project. However, certain divergences between MSMEDA procedures and the World Bank requirements were observed.	High	MSMEDA has previously introduced changes to its procedures under the project. These changes do relate to the disbursement, reporting, and auditing arrangements. MSMEDA will amend current procedures and processes to confirm with the World Bank requirements as needed.	Moderate
Entity Level The value of the loan represents a large increase in the current MSMEDA portfolio. The implementation of the project will require additional resources and a strategy for MSMEDA on how to manage this increase in lending.	High	MSMEDA systems and existing departments will be implementing the project. MSMEDA committed to put in place adequate capacity and resources for the implementation of the project to ensure the achievement of its objectives. The overall control environment at MSMEDA is adequate. However, initially support by the World Bank team will be provided to build capacity and knowledge about World Bank guidelines and procedures and this will be followed-up by regular supervision missions.	Substantial
Overall Inherent risk	**High**		**Moderate**
Control Risk			
Accounting Accounting policies and procedures are already in place. However, arrangements have been recommended during preparation of the project to reflect the project accounts, controls, documentation, and budgetary cycles.	Substantial	MSMEDA Finance Department will open an account in its ledger to reflect the project. The policies and procedures to reflect the procedures that will be followed during the implementation of the project have been documented in a project manual. These procedures have harmonized the ones used presently by MSMEDA with the World Bank fiduciary requirements.	Moderate
Internal control The existing internal controls at MSMEDA are will need to be updated to meet the new project's needs. Such updates should relate to the disbursements procedures and	High	MSMEDA procedures have been amended to capture the FM arrangement and disbursement requirements of the project.	Moderate

Risk	Risk Rating	Mitigating Measures	Residual Risk Rating
reporting requirements under the project.			
Funds Flow Lengthy channels of Funds from the World Bank through MSMEDA and intermediary before arriving to ultimate beneficiaries.	Substantial	The project design allows MSMEDA to request advances to the DA up to six months of its estimated disbursement plan as presented in the IFRs. Also, the intermediaries will be able to request funds, in advance, based on cash forecasts and expected commitments toward new loans. Each intermediary will need to open a bank subaccount to be used solely for the project.	Moderate
Financial Reporting The project reports will need to reflect the project finances including intermediaries' financial status. MSMEDA FM system will need to be configured to become able to compile the project financial data and issue the project reports quarterly.	High	MSMEDA will certify the FM systems of the new intermediaries before channeling any funds to them. This process will include assessment of the reporting systems of the intermediaries. The format and content of the project reports has been agreed upon with MSMEDA. Copies of these reports will be attached to the service-level agreement, thus unifying the reporting by the intermediaries and facilitating the task of data compilation by MSMEDA.	Substantial
Coordination within MSMEDA To deal with the project size and the important increase in the volume of transactions/activities, there is a need for adjustment in the structure to meet the needs of the growing business demands with objective to avoid delays due to capacity and due to obstacles, that may be faced during implementation	Substantial	An oversight team to be appointed as overall coordinator to ensure proper implementation and compliance with legal agreements, proper reporting, assist to resolve issues, inform management to act on identified issues, follow on the implementation of the World Bank recommendation and the internal and external auditors' recommendations.	Moderate
Auditing The audit will be conducted in accordance with Egyptian Standards on Auditing. The auditors' TOR will be prepared by MSMEDA and cleared by the World Bank before the engagement of the auditor. The intermediaries will have to issue audit reports reflecting the financial status of the funds they received accompanied with an auditor opinion.	High	The task team will ensure that TORs are acceptable to the World Bank. Audit reports will be reviewed upon reception and discussed with MSMEDA and if necessarily with the auditor. The MSMEDA auditor will have to build on the various audit reports received from the intermediaries and if needed, the auditor should have the authority to visit the intermediaries' sites to go	Substantial

Risk	Risk Rating	Mitigating Measures	Residual Risk Rating
		through the documents related to the project.	
Overall Control risk	**High**		**Moderate**

Procurement

38. **Procurement Regulations for IPF Borrowers, dated July 2016, revised November 2017 and August 2018, will apply to the project activities.** In particular, the selection of the project team staff, capacity building and training, safeguards mentoring, M&E, audit services, and office equipment and furniture (Component 3). The Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, dated October 15, 2006, and revised in January 2011 and as of July 1, 2016, shall apply to the project as well.

39. **The remaining activities, which fall under Components 1 and 2 will be providing financial resources through financial intermediaries to private borrowers.** Goods, works, non-consulting services, and consulting services will be procured in accordance to 'commercial practices' as described in section 6.46 of the Procurement Regulations. The commercial practices refer to the use of well-established procurement arrangements used by the private sector (normally entities not subject to the borrower's Public Procurement Law), for the procurement of goods, works, or non-consulting services. The following World Bank Core Procurement Principles are the standard for determining the acceptability of commercial practices: value for money, economy, integrity, fit for purpose, efficiency, transparency, and fairness.

40. **Given that most of the project activities will be financing start-ups and SMEs in different sectors, on a demand-driven nature through financial intermediaries, the Procurement Regulations do not apply for Components 1 and 2.** However, the acquisition of goods or works or services (consulting services and non-consulting services) should be in accordance with private sector procurement methods or commercial practices which are acceptable to the World Bank.

41. **The overall procurement risk rating is Moderate.** The overall procurement implementation risk of this project, considering the limited procurement activities, is Moderate. The following measures are proposed to mitigate procurement-related risks: (a) utilizing a Procurement Plan as a monitoring tool for processing timely activities; (b) preparing a procurement section in the POM to integrate procurement processing; (c) using well-established procurement arrangements used by the private sector (normally entities not subject to the borrower's public procurement law), for the procurement of goods, works, or non-consulting services; (d) reviewing all TORs to be technically by the World Bank; (e) systematizing record keeping and initiating electronic archiving of procurement processing; (f) enhancing capacity for appropriate support (staff, training, tools); and (g) preparing in advance the TORs for the required consulting services.

42. **Proposed procurement methods and arrangements** will be envisaged as follows:

(a) **Goods and non-consulting services.** The project is expected to procure some office equipment and furniture (Component 3) in addition to hardware and software; request for quotations and direct selection maybe used.

(b) **Consulting services.** The project is expected to hire consultants for capacity building. The following methods could be used: (i) Quality- and Cost-Based Selection, (ii) Selection under a Fixed Budget (FBS), (iii) Least Cost-based Selection, (iv) Selection Based on the Consultants' Qualification, (v) Direct Selection, and (vi) Selection of Individual Consultants. This will be confirmed in line with the Project Procurement Strategy for Development (PPSD) final recommendations.

43. **Prior review thresholds.** The World Bank prior review thresholds for Moderate risk rating projects shall apply to the project.

44. **The borrower developed a PPSD** to address how procurement activities will support the development objectives of the project and deliver the best value for money under a risk-based approach; and provide adequate justification for the selection methods in the Procurement Plan. The initial outcome of the PPSD recommended the use of commercial practice arrangements under Components 1 and 2; this has been completed and validated in the final version.

45. **The Procurement Plan for the life of the project will be developed by MSMEDA through the Systematic Tracking of Exchanges in Procurement.** It will define the market approach options, the selection methods, and contractual arrangements and determine the World Bank's prior/post reviews. The initial Procurement Plan will be attached to the Legal Agreement. Packages shall be determined to process activities efficiently.

46. **Frequency of post procurement review.** The frequency of post procurement review is foreseen to be once a year. In post procurement review, a minimum sample of 10 percent of contracts or at least one contract eligible for post review shall be covered

Environmental and Social (including safeguards)

47. **The project ESMF assesses the institutional capacity of the borrower and provides an overall framework for project operations to ensure that any potential negative environmental and social impacts are properly mitigated.** This framework includes an ESMS to identify, assess, manage, and monitor the environmental and social risks and impacts of subprojects. The ESMS builds on the existing ESMS in MSMEDA, and proper arrangements should be put in place in all subsequent underlying financial intermediaries.

48. **According to the ESMF,** while the program subprojects are likely to lead to positive ES impacts, some minor negative environmental impacts may occur. With regard to social impacts, project-financed activities are not expected to involve any works that would require land acquisition. No indigenous people are likely to be present in, or have collective attachment to, areas where the project activities are located. A resettlement policy or an indigenous people's frameworks are therefore not required.

49. **MSMEDA will establish a GRM that will be adequately publicized and widely accessible.** MSMEDA will be required to ensure the development of GRMs at the subproject level to process beneficiary feedback, information requests, and complaints. For successful safeguards implementation, MSMEDA will need to ensure adequate procedures, staffing, training, and capacity building for safeguards management and monitoring. GRM procedures should include a clear protocol and accountability mechanism—leveraging the World Bank Guidelines on GBV Risk Assessment, Prevention, and Response—to handle GBV-related complaints in a survivor-centric and sensitive manner in case complaints related to GBV emerge. MSMEDA will also leverage its outreach and communication mechanisms to create awareness around GBV issues and work with community/NGO counterparts to establish safe spaces and channels through which such issues can be discussed and escalated as applicable.

Monitoring and Evaluation

50. **MSMEDA will have primary responsibility for the overall M&E of project results, in accordance with the project Results Framework and the POM.** MSMEDA will be responsible for developing a strong M&E framework and system to monitor project progress and results. Relevant activities will include (a) development of an M&E methodology and implementation plan and (b) compilation of baseline data, as determined by the project Results Framework and the M&E methodology developed. MSMEDA will also be responsible for preparing semiannual and annual project monitoring reports to be submitted to the World Bank Group. The project monitoring reports will contain, at a minimum, summary data on overall performance against project targets, implementation challenges experienced, and feedback received from project beneficiaries.

51. **PFIs[65] will also be required to monitor results related to project beneficiaries and submit M&E reports to MSMEDA.** PFIs will be required to include, in their funding applications, the mechanisms that will be used to monitor results related to the project funds and to submit M&E reports to MSMEDA on a semiannual basis. MSMEDA will be responsible for consolidating the M&E reports received from PFIs as part of its reporting to the World Bank Group.

52. **The project will provide capacity-building support to MSMEDA to develop and implement the M&E framework.** The World Bank Group will provide resources to build the capacity of staff within the project team to undertake the activities related to the M&E of project results. This will include support for setting up an M&E system, as well as staff training on M&E with a specific focus on women and youth.

[65] This includes MFIs, MFCs, and leasing companies and private equity/VC/accelerators.

ANNEX 4: COMPLIANCE REVIEW FOR FINANCIAL INTERMEDIARY FINANCING

1. Since this project includes a line of credit, it requires a Compliance Review for Financial Intermediary Financing according to the Bank Policy for Investment Financing Projects. This review ensures that the project does not contradict the World Bank Group's ongoing financial sector policy dialogue with national authorities and does not promote unsustainable practices. These often include working with unsound financial institutions, unsustainably priced loans to sub-borrowers, poor client selection, or ineffective loan contract enforcement. This review does not include the RCIs, even though they represent a form of financial intermediation, because their risk and pricing mechanisms do not follow standard lending or guarantee practices.[66]

2. **Summary.** The project design complies with the requirements of the World Bank's Policy for Investment Financing Projects. Given the complexity, the choice of inexperienced potential PFIs, the inclusion of relatively underdeveloped leasing and factoring segments, and the broad geographic coverage, this is a high-risk operation from the Financial Intermediary Financing compliance perspective. However, the focus on Tier C NGO-MFIs offers a better channel to reach marginalized groups that are the target of this operation.

3. The PDO is "to foster job creation and improve other economic opportunities for targeted beneficiaries" Components 1 and 2 provide access to a range of tailored financial services to support targeted entrepreneurs and create jobs. Component 1 is entitled Financial Support to MSMEs (with an investment of US$146 million). There will be specific targets for the share of financing for women and youth-led MSMEs for effective financial intermediation via two windows: (a) debt instrument through PFIs (banks and NBFIs), with a special focus on NBFIs—microfinance institutions and factoring and leasing companies, to sustainably provide financing to entrepreneurs; and (b) direct equity investments in microfinance and leasing companies. The second component is entitled 'Risk Capital for Innovative Startups and High Growth SMEs' (representing an investment of US$50 million). This component will offer a range of equity and quasi-equity investments (such as mezzanine, debt, and convertibles notes) to be made in angel funds, seed/accelerator funds, SME and VC funds, and other qualified investment companies. These RCIs will provide financing to eligible start-ups and early-stage high-growth SMEs through different financial instruments including equity and quasi-equity instruments.

4. **Macroeconomic stability.** Lines of credit do not work well when there is a high level of uncertainty, created in part by macroeconomic problems (such as high inflation and uncertainty on government fiscal and monetary policies) and a history of favoritism and corruption that leads to large unproductive investment projects that might drive macroeconomic stress. Egypt's macroeconomic framework and current situation are favorable to effective lines of credit. Real GDP was forecast to grow by five percent in FY18 and to increase gradually to 5.8 percent by FY20. Growth is expected to be driven by resilient private consumption and investment, in addition to a gradual pickup in exports (notably from tourism and gas). The budget deficit is expected to narrow to 9.8 percent of GDP in FY18. This is slightly higher than initially budgeted, due to larger interest payments, higher international oil prices, and larger-

[66] The PAD does demonstrate the risk mitigation mechanisms in place in annex 1, selection, and additional guidelines, so clearly those risks have been considered.

than-budgeted exchange rates. The fiscal consolidation program is expected to rely on revenue mobilization, in particular the increase in VAT receipts, in addition to energy subsidy reforms. The current account deficit is expected to narrow to 4.9 percent of GDP in FY18, from 6.6 percent of GDP in FY17 (World Bank assessment, April 2018).

Financial Sector Performance

5. **Apex arrangements.** The role of the apex is especially important in this project due to the PFI targeting approach, which introduces high risks. The PAD states that the strategy is to create additionality in the market through an investment strategy focused on: (a) PFIs that have not previously accessed commercial funding; (b) prioritizing institutions such as Tier C NGO MFIs that have a higher operational risk profile than the median market average, and tend to be closer to female and youth beneficiaries; and (c) first-time borrowers such as microfinance, factoring and leasing companies. Financing will be channeled through MFIs, factoring and leasing companies crossing different size and regulatory categories and in doing so will cover a diverse geographic base within Egypt. This combination of using unproven MFIs, working in relatively new sectors (leasing, factoring), and providing broad geographical coverage will require strong apex and PFI participants. MSMEDA due diligence has been and found to comply with the policy’s requirements. MSMEDA will maintain an implementing unit capable of monitoring the portfolios of the PFIs using project funds.

6. **Retail arrangements.** For selection of participating financial institutions under Component 1, microfinance institutions must meet all national registration, regulatory, and performance norms (as established by FRA), which are listed in the PAD. These cover standard financial sector indicators—capital adequacy (a minimum capital of 15 percent calculated as the ratio of total capital to total assets), adequate liquidity (liquid assets to total deposits at 30 percent), and well managed or no maturity gaps. The MFI’s profitability should be demonstrated through a stable earnings trend and a well-managed cost structure. Other definitions and regulatory requirements have been set for credit portfolio quality systems (including loan classification and provisioning and a nonperforming loan ratio as percentage of total assets not exceeding five percent), adequate internal controls, with an Audit Committee and independent internal controls, and an adequate management information system.

7. **Flow of funds by institution, pricing, and risk taking along the entire flow of funds.** PFIs will provide debt and equity financing at commercial rates to ensure there are no market distortions and that investment decisions are made according to financial sustainability in line with the eligibility criteria described above. In accordance with World Bank Operational Policies, pricing to the PFIs will incorporate financial and operational risk and costs (including credit risk, liquidity mismatch, sector and macro-financial risks, and operational costs). MFIs and factoring and leasing companies will have the liberty and autonomy to assess the business cases and creditworthiness of the potential debtor/lessee. Each PFI will follow its own applicable credit risk appraisal and approval management procedures. The pricing is expected to be in a commercial range, so that the project-supported institutions and their portfolios do not cause financial sector distortions. Credit risk will be assumed by the PFI and adequate loan loss reserves should be held in case of defaults on loans. The POM includes the means of determining if a PFI interest rate charged on a loan to an end borrower meets the commercial interest rate range at a point in time during the life of the project.

8. **On-lending risk management.** The team has assured that there is no foreign exchange risk. Given recent security and natural disaster risks, there should be some agreement before project launch about how force majeure risk will be absorbed by the project or the Government. Clear credit risk coverage (for potential non-payment by sub-borrowers) should be in the final PAD and the POM (for adjustment with World Bank no-objection over time to adjust to changing national and local conditions).

Monitoring and Evaluation and Indicators

9. Participating financial intermediaries (including banks) will also be required to monitor results related to project beneficiaries and submit M&E reports to MSMEDA. PFIs will be required to include, in their funding applications, the mechanisms that will be used to monitor results related to the project funds; and to submit M&E reports to MSMEDA on a semiannual basis. MSMEDA will be responsible for consolidating the M&E reports received from financial intermediaries as part of its reporting to the World Bank.

ANNEX 5: IMPLEMENTATION SUPPORT PLAN

Strategy and Approach for Implementation Support

1. The implementation support strategy for this intervention will comprise regular dialogue with MSMEDA, as well as other stakeholders, semiannual joint review of program implementation, and regular oversight of project fiduciary and safeguards activities, as well as monitoring of risks outlined in sections above. Regular dialogue and implementation support will facilitate early identification of potential problems and obstacles and will enable timely provision of technical advice and support to address any obstacles. Joint reviews will take place twice a year, aimed at reviewing the progress and achievement of agreed results. As part of these reviews, lessons learned from the implementation progress will be drawn to make adjustments (if needed) to the program.

2. Regarding the supervision of fiduciary and safeguards aspects of the operation, the World Bank will conduct FM and procurement supervision at appropriate intervals, as well as social and environmental safeguards supervision. As members of the task team, accredited FM, procurement, social and environmental specialists will participate regularly in project supervision. Additionally, the World Bank's team will continue to work with funds under MSMEDA to further improve its financial and budget management capacity and performance, as well as building any capacities needed to perform duties related to procurement, and implementation of the ESMF. During implementation, the World Bank will supervise the FM arrangements of the project through a review of budgeting and financial reports, disbursement management, and financial flows, as applicable, in addition to the supervision of procurement arrangements, as well as ensuring that social and environmental safeguards are in place.

3. As mentioned earlier, given that most of the project activities will be financing start-ups and MSMEs in different sectors, on a demand-driven nature through financial intermediaries, the Procurement Regulations do not apply for Components 1 and 2. However, the acquisition of goods or works or services (consulting services and non-consulting services) should be in accordance with private sector procurement methods or commercial practices which are acceptable to the World Bank.

4. On risks and mitigation measures, the team will ensure that during implementation support and supervision missions risks and mitigation measures will be re-assessed on a regular basis to ensure smooth implementation and taking any corrective action whenever needed.

Implementation Support Plan and Resource Requirements

Time	Focus	Skills Needed	Resource Estimate	Partner Role
First twelve months	Effective Project Implementation and Sustainability of Impact	See Below	US $130,000	
12-48 months	Effective Project Implementation and Sustainability of Impact	See Below	US $160,000	

Other

Skills Mix Required

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Micro Finance	9	3	
Small Enterprise Finance	9	3	
Private Sector Investments	9	3	
Entrepreneurship and Startups	9	3	
Gender	6	2	
Environmental Safeguards	6	2	
Social Safeguards	6	2	
Financial Management	6	2	

Partners

Name	Institution/Country	Role
Promoting Women and Youth Entrepreneurship in Egypt	UK SPIEG	Providing support to the design and implementation of the technical assistance program with a first round of funding of US$300,000