1. Key development issues and value added of World Bank Group Support

Project Development Impact The proposed operation will foster a more prudent legal, institutional and regulatory framework to lend to micro enterprises in Egypt, through supporting reforms that are transformational in terms of improving the frameworks governing the microfinance sector. The project will provide necessary support to EFSA on the issuance, enforcement and implementation of the Micro Finance Law and its Executive Regulations based on international best practice, which would help ensure an adequate regulatory framework and help prepare the sector for expansion and further outreach to underserved communities across Egypt. As EFSA is not yet institutionally prepared for implementation of the Microfinance Law, technical assistance will also be provided to ensure effective implementation and enforcement of the law through establishing and providing capacity building and training to the Micro Finance Unit’s staff to enable them to ensure compliance of the Law. This project will also be assisting EFSA in providing support and capacity building to NGO interested in transforming into microfinance companies under the new law, which requires, among other things, legal and accounting adjustments, in addition to building consensus and synergy among the various market players on the best approach to help the sector expand and grow. Consumer protection will ensure better and fairer access to information and accountability to financial clients, especially the marginalized and small clients, who are not connected, nor privileged, and lack financial knowledge and expertise.

Overall, strengthening the regulatory and institutional framework for the microfinance sector will promote its expansion and its growth in a sustainable way. There will be substantial benefits for clients, providers, and states to regulate and oversee all similar financial activities under a consistent rather than fragmented set of rules. For example, top-performing microcredit NGOs should typically be able to transform, as they grow and need to raise more capital. The new regulations will have a positive impact on the soundness of MFIs, and their ability to diversify and deepen their funding sources and on-lend to micro enterprises. This will also increase the numbers of MFIs and their clients, which will contribute in alleviating poverty and inequality, as there expansion will allow for more outreach in the underserved Governorates, reaching out to the marginalized segments of the society, especially women and youth who suffer from the highest rates of unemployment.
Value Added of Bank’s Support. The World Bank Group will bring forward its cross country experience and regional knowledge, as well as international best practices. There has been extensive work done in the area of MSME development, ranging from IBRD policy lending, to advisory services and technical assistance under the World Bank-IFC MENA Regional MSME Facility, as well as the work done by the IFC technical support across a number of key priority areas to this project. IFC extensive experience in supporting reform initiatives and their links to a wide network of international practitioners are key in supporting EFSA as part of the collaboration on this initiative.

A major value added of this project is that it will complement the lines of credit for microfinance, and help in leveraging parallel financing from other development partners, especially from the GCC countries that provided significant financial support to Egypt during the transition period. The technical assistance that will be provided through this project tapping on the bank’s international experience, bringing lessons learnt, would ensure effective implementation, which would lead to positive impact on the ground in attaining an inclusive system.

2. Proposed Objective

The project development objective (PDO) would be to strengthen the regulatory and institutional framework of the microfinance sector in Egypt to promote inclusive finance.

3. Preliminary description

The proposed project comprises of three main components: (i) developing the legal and regulatory framework for financial inclusion; (ii) establishing and operationalizing the microfinance unit; and (iii) promoting accountability, governance and consumer protection. The total cost of the project is US$ 4.5 million.

Component I: Developing the regulatory framework for financial inclusion (US$ 1.8 million). This component will support the establishment of a regulatory framework that is conducive to growth and stability of the microfinance sector. Critical to the success of the new Micro Finance Law are the Executive Regulations that are robust and comprehensive and provide clear guidelines for NGO-MFIs, finance companies, and other market players to easily comply with the new supervisory framework. The new regulations will adopt tight prudential requirements with a focus on fit and proper requirements, strong governance rules, transparency, disclosure, consumer protection, and internal and external controls.

The NGO Microfinance Oversight Board which will be established as stipulated by Law, will play the role of a “sounding board” to support the effective supervision and regulation of NGO-MFIs through coordination and cooperation between EFSA (responsible of supervising the microfinance companies) to make sure the same rules and requirements are applied on both microfinance companies and NGO MFIs, thus creating a level playing field for all service providers in the market. This would also allow microfinance companies to engage in other non-banking financial services in accordance with the EFSA Law No. 10 of 2009 after getting EFSA’s approval. This would not only be encouraging for the microfinance companies who will be able to engage in other financial services besides microcredit, but can also be an incentive to NGO-MFIs to transform to microfinance companies.

Specifically, this component will support EFSA through four main sub-components:
(i) developing and finalizing the Executive Regulations, stipulating the instructions needed to enforce and implement the law; (ii) drafting and finalizing the Directives of the NGO Microfinance Oversight Board1, (iii) developing the needed rules and standards to be enforced on NGO-MFIs in accordance with the Micro Finance Law; and (iv) Advisory services to strengthen the regulatory framework for non-bank financial institutions (NBFIs), aiming at enhancing financial inclusion. This would include addressing the regulatory challenges faced by EFSA to play an active role in financial inclusion, notably the securities markets, micro insurance, and leasing. This would promote a more diversified financial system, enhancing competition and better quality services to the clients.

**Component II: Establishing and operationalizing the Microfinance Unit at EFSA (US$ 1.7 million).** The objective of this component is to ensure that the microfinance unit adopts international best practices and develops the capacity necessary to implement the law and associated Executive Regulations effectively as to support the growth of the overall microfinance sector in Egypt. It will support EFSA through the provision of technical assistance and advisory services in establishing and equipping the Micro Finance Unit, which would be responsible for operationalizing the Executive Regulations and policy, enforcing rules, ensuring compliance, and supervising MFIs. This will help EFSA to establish appropriate on-site and off-site monitoring systems and procedures, advice on enforcement mechanisms and training on the operationalization of the Micro Finance Law and its Executive Regulations. The IT system will also allow the compilation of sectoral data to monitor macro prudential indicators, which would allow adequate and timely monitoring of the performance and soundness of microfinance sector and NBFIs. The system will also help in identifying financial inclusion barriers created by some financial institutions (such as minimum balance amounts for opening a bank account).

This component comprises of three sub-components: (i) support the establishment of the Micro Finance Unit that is specialized and responsible for licensing, monitoring; collection, oversight, inspection and audit, financial reporting, and consumer protection, and complaints, through the provision of the required advisory services and consultancy, bringing in international best practices (drafting of terms of reference (TORs), and defining their roles, responsibilities, mandate and accountabilities); (ii) capacity building and training of relevant staff, to be equipped to undertake key operational procedures and strategic functions within the unit. This include conducting study tours to countries that have well developed systems for microfinance regulations and supervision and on the job training; (iii) strengthen the institutional infrastructure, with the required equipment and IT, both software and hardware—which would ultimately enhance the information dissemination mechanisms internally and externally aiming at improving the governance structure and transparency. These three sub-components will ensure the sustainability of the Micro Finance Unit through the provision of the required skills and capacity for effective implementation of the regulatory and legal reforms.

**Component III: Promoting accountability, governance and consumer protection (US$ 1 million).** This component will support EFSA in enhancing accountability and governance, as well as developing a robust consumer protection capacity within the industry, which will center on fair treatment (ethical staff behavior, sale of appropriate products and acceptable marketing, reasonable collection), transparency (minimum standards for client communication, disclosure of

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1 The Oversight Board comprises representatives from the Ministry of Social Solidarity NGOs, EFSA, CBE, SFD, academia, financial services companies, and media.
relevant product terms and conditions), and effective recourse (single point of contact for complaints; right to withdraw brand of negligent partner financial institutions). Consumer protection would address all issues related to financial inclusion.

This component comprises three sub-components: (i) enhancing consumer protection and financial literacy, through training workshops, publishing materials, social media and public awareness campaigns; (ii) conducting study tours and on the job training in countries which have well developed systems for financial consumer protection; and (iii) building the capacity of the Microfinance NGOs Oversight Board. Within this component particular attention will be placed on comprehensive transparency and disclosure requirements and further business conduct rules.

**Gender mainstreaming.** An overarching goal of the project is to promote gender-inclusive development of the Egyptian microfinance sector. *Under component I,* a gender specialist will form part of the team drafting the Executive Regulations to help ensure gender mainstreaming. For example, the published supervisory guidelines would be cognizant of the need to track and promote female microfinance clients. Similarly, NGOs specializing in female economic participation and entrepreneurship will form part of the Microfinance NGOs Oversight Board. This will help ensure the concerns and priorities of women are taken into account during the drafting of the Executive Regulations and during the implementation of the Micro Finance Law. This is particularly critical given the ongoing political and economic volatility in Egypt and the recent prioritization of citizenship feedback in Egyptian public policy.

*Under component II,* capacity building workshops on gender-inclusive financial inclusion and microfinance development will be delivered to EFSA staff, with particular reference to the role of regulatory agencies in the promotion of gender-inclusive development. This is a frontier area of financial sector development (particularly for the MENA region) and one that Egypt can take a leadership role in. Similarly, study tours to countries that have effectively promoted gender inclusive microfinance sectors will be organized under this component.

*Under component III,* consumer protection initiatives that specifically target women will be developed and implemented. These programs (centering on fair treatment, timely information, and effective recourse) will be structured and delivered in a manner in which women can successfully access and benefit from services provided. These programs will take into account socio-economic and cultural barriers (for example women ownership of assets) that cause women to be treated differently than men by financial institutions and regulators. Program modules will include topics on transparency (key terms, relevant charges), fees and charges, debt collection, consumer awareness, and sales and marketing practices. They will focus on using delivery channels tailored the needs of female clients.

Overall, enhancing financial consumer protection mechanism will ensure that female clients’ rights are protected and that discriminatory practices are eliminated. Furthermore, through promoting a supportive regulatory and institutional framework the project will facilitate women’s access to finance and encourage them to access the formal financial sector. Gender disaggregated data will be prioritized and tracked throughout project implementation, specifically the percentage of women beneficiaries, and the number of consumer protection initiatives targeted specifically to women.

4. **Safeguard policies that might apply**
The proposed project is classified as a Category C, as it is likely to have minimal or no adverse environmental impacts. No environmental safeguards instruments other than the Integrated Safeguards Data Sheet (ISDS) need to be prepared for this project.

5. Tentative financing

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<td><strong>Total</strong></td>
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6. Contact point

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