1. Operation Information

<table>
<thead>
<tr>
<th>Operation ID</th>
<th>Operation Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>P168630</td>
<td>Pvt Sector Dev for inclusive growth DPF</td>
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<table>
<thead>
<tr>
<th>Country</th>
<th>Practice Area (Lead)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Egypt, Arab Republic of</td>
<td>Finance, Competitiveness and Innovation</td>
</tr>
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<table>
<thead>
<tr>
<th>Non-Programmatic DPF</th>
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</tr>
</thead>
<tbody>
<tr>
<td>L/C/TF Number(s)</td>
<td>Closing Date (Original)</td>
</tr>
<tr>
<td>IBRD-89150</td>
<td>30-Jun-2020</td>
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| Bank Approval Date            | Closing Date (Actual)                       |
| 04-Dec-2018                   | 30-Jun-2020                                 |

<table>
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<tr>
<th>IBRD/IDA (USD)</th>
<th>Co-financing (USD)</th>
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<tr>
<td>Original Commitment</td>
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<td>Revised Commitment</td>
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<td>Actual</td>
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</tbody>
</table>

Prepared by

Ranga Rajan
Krishnamani

Reviewed by

Christopher David
Nelson

ICR Review Coordinator

Christopher David Nelson

Group

IEGSD

2. Program Objectives and Pillars/Policy Areas

a. Objectives

The Program Development Objective (PDO) of this Development Policy Financing (DPF) operation as stated in the Program Document (PD, page 4) is:
"Enabling financial inclusion, private sector development and strengthening fiscal management for inclusive growth in Egypt."

For the purpose of this evaluation, the individual objectives are identified as follows:

PDO 1. Enabling financial inclusion for inclusive growth.
PDO 2. Enabling private sector development for inclusive growth.

b. Pillars/Policy Areas

The PDOs were to be achieved under three pillars/policy areas (PD, page 4):

Pillar 1. Financial Inclusion and Access to Finance.
Pillar 2. Private Sector Development.

c. Comments on Program Cost, Financing and Dates

Financing. This operation was financed by an IBRD loan of US$1.0 billion. The operation design was changed during preparation from a US$1.0 billion one tranche operation to two-tranche operation of US$500.0 million each for stronger monitoring of the reform process. The first tranche was fully disbursed on completion and verification of prior actions. The second tranche was fully disbursed on completion and verification of specific policy-related second tranche release conditions (STRCs).

Dates. The Bank approved the operation on December 4, 2018. It became effective on February 18, 2019 and closed as scheduled on June 30, 2020.

Other changes. The following changes were made during implementation.

- During the release of STRC on May 2019, the Bank requested a waiver of two of the four STRCs after consulting with the Government. STRC 3 (adoption of the Executive Regulations Law) was replaced due to a change in market structure caused by the merger of the two largest ride-sharing companies in Egypt (Uber and Careem). This merger had an unexpected impact on the ride-sharing market in the whole region. The main concern was reducing competition, and the merger was subject to regulatory approval in Egypt. As this would have delayed this operation, STRC 3 was replaced by the enactment of legislation on regulating the use of noncash payments and promoting a digital economy.
- STRC 4 was amended as part of the waiver. During implementation, the Government made changes to the institutional arrangements to strengthen Egypt’s public debt management. Given this changes, the language of STRC was changed to reflect the new institutional set-up.
- A change in the structure of the Egyptian Cabinet took place in 2019 and as a result the main implementing entity and coordinating ministry - the Ministry of Investment and International Cooperation
was transformed into the Ministry of International Cooperation. The General Authority for Investment and Free Zones (GAFI) continued to operate as a separate entity. This change was important for the operation as the Ministry of Investment and GAFI was responsible for the implementation of: (a) improving the country's overall investment climate; (b) the reforms related to starting a business; and (c) setting up of investor service centers across governates (discussed in section three).

- In the wake of the COVID-19 pandemic, the Government enacted measures to mitigate the socioeconomic impact of the crisis. The ICR (paragraph 14) notes that the pandemic had limited impact on implementation of reforms.

### 3. Relevance of Design

#### a. Relevance of Objectives

**Country context.** Real Gross Domestic Product (GDP) in Egypt grew at 5.3% in 2018 as compared to 4.7% in 2017, following the the reforms implemented over the past three years to enhance macroeconomic stability. The reforms, included introducing Value-Added Taxes (VAT), phasing energy subsidies, containing civil servant’s wage bill and exchange rate reforms for fiscal consolidation and enacting new investment and industrial licensing laws for private sector development.

Despite these reforms, about a third (30%) of Egypt's population were classified as poor and there were spatial variations. Across the 27 governates of Egypt, poverty rates ranged from 7% in Port Said, 18% in Cairo, and as high as 66% in the Upper Egypt governates. Unemployment among the youth and females was high, with youth and female unemployment around 30% and 22% respectively, as compared to the overall unemployment rate of 10%. Private sector investment as a share of GDP was only 11.4% the 2010-2016 period, about 7% lower than in other emerging economies. While the private sector accounted for 78% of jobs, 76% of these jobs were informal jobs with low pay.

**Government strategy.** The PDO's were well-aligned with the Government program "*Egypt Takes Off*" endorsed by the Parliament in 2018. The program articulated the need for building a competitive and diversified knowledge-based economy and promoting financial inclusion. Two of the five key themes of this program were directly relevant to this operation; (i) Economic development and improving government performance; and (ii) Job creation. The PDOs were relevant to the Government's new National Structural Reform Program (NSRP) launched in April 2021, on . This program focused on sustainable inclusive growth. Specifically the key areas of the program included enhancing business environment, financial inclusion, access to finance, job creation and development of the private sector across all areas of focus (agriculture, communication and Information Technology (IT) and the manufacturing sector.

**Bank strategy.** The PDOs are well-aligned with the Bank Strategy. The PDOs were relevant to the thee pillars of the Bank's Systematic Country Diagnostic (SCD) "*Unlocking Egypt's Potential for Poverty Reduction and Inclusive Growth*" that was updated in 2022 namely, private sector-led job creation, spatial integration and inclusive growth. The PDOs were well-aligned with the Bank's Country Partnership Framework (CPF) for 2015-2019, extended to 2021. This CPF identified the need for improving opportunities for private sector job creation as a key priority area in Focus Area Two and outlined "enhanced access to finance" as a key objective (Objective 2.5). The cross- cutting objective of the CPF highlighted the need for addressing the gender gap.
**Previous Bank experience.** The Bank has a long history of engagement with Egypt including through the: (i) The Upper Egypt Local Development Program-for-Results (PforR); (ii) The Catalyzing Entrepreneurship for Job creation Investment Project Financing (IPF); and (iii) supporting the first wave of reforms enacted in Egypt before appraisal of this operation through the First, Second and Third Bank-financed Sustainable Energy and Competitiveness DPF series. The current DPF build on the previous DPF series and aimed to move the reform agenda forward. This operation added reforms in similar pillars from the previous operation (fiscal consolidation and private sector development) and introduced new reforms aimed at financial inclusion and improving access to firms for small and medium size enterprises (SMEs).

The Bank team at appraisal determined that the macroeconomic situation at appraisal was robust enough for supporting a DPF operation. When this operation was implemented, Egypt had a Extended Fund Facility (EFF) of US$12.0 billion with the IMF approved in November 2019. The prior actions of this operation were based on sound analytical underpinnings (discussed below).

**b. Relevance of Prior Actions**

**Rationale**

**Pillar 1. Financial Inclusion and Access to Finance.** Reforms in this pillar addressed the constraints faced by SMEs in accessing finance from the financial sector.

The Bank's Enterprise Survey (2016) identified access to finance as one of the top three investment climate constraints in Egypt. At appraisal, only 7% of the Egyptian firms had access to finance from the financial system, as compared to an average of 28% for countries in the Middle East and North Africa region. There were three prior actions (PAs) and one second tranche release condition (STRC) for this pillar.

**PA 1. Improving access to finance for subsistence entrepreneurs.** As a prior action, the Financial Regulatory Authority (FRA) - the authorized entity for supervising non-bank financial institutions - issued decisions allowing mobile payments for microfinance activities and electronic payments for microfinance institutions.

SMEs, especially women-led enterprises, faced challenges in accessing credit from the financial system due to the limited range of financial products. According the Bank's Financial Inclusion Index (FINDEX) 2017 survey, 27% of women of age fifteen and above had an account with a financial institution, as compared to 39% for men. Penetration of microfinance institutions was low in the frontier governates (Red Sea, Sinai and New valley), with active borrowers less than three percent of the total microfinance customers in these areas. This prior action was based on sound analytical underpinnings such as the Bank's Financial Stability Report (2017) and the IBRD Technical Assistance on "Inclusive Regulations for Microfinance" (P149677).

Increasing the geographical coverage of microfinance institutions to cover women-led enterprises and lagging regions could be expected to increase the financial inclusion of these groups. Therefore, the relevance of this prior action is satisfactory.

**PA 2. Electronic collateral registry for security interests in moveable property operationalization.** As a prior action, the Financial Regulatory Authority (FRA) - the designated entity responsible for regulating non-
bank financial markets - operationalized the electronic collateral registry for security interests in moveable property.

Banks in Egypt, for the most part, continued to lend based on immoveable collateral (such as property). This narrowed the base for micro, small and medium-sized enterprises (MSMEs), which were more likely to own moveable collateral (such as, inventories and receivables). The type and value of collateral needed to secure loans compared to the total loan size hampered the SMEs ability to access credit from the financial system. This prior action aimed to create a moveable collateral registry that would enable the financial institutions to lend against moveable collateral. The analytical underpinnings of this prior action based on the International Finance Corporation's technical assistance (TA) (Egyptian Secured Transactions and Collateral Registry P601560). This prior action addressed an important constraint facing SMEs. Therefore, this prior action is satisfactory.

PA 3. Encourage fairer and more efficient capital markets for broadening the investor base. As a prior action, the President amended the Capital markets law in 2018 to broaden access to finance to SMEs through efficient capital markets.

After 25 years of the enactment of the Capital markets law in 1992, securities firms faced multiple restrictions on selling investment fund products to investors. The role of Institutional investor's (such as, asset managers, insurance companies and pension funds) was limited to 35% of the trading activities. The bank's securities portfolio mainly consisted of government securities. Money laundering was emerging as a global concern, and the capital markets needed to adhere to stricter disclosure and Anti-Money Laundering (AML) requirements. The existing law needed amendments to reflect the new instruments introduced at the global level (such as Islamic finance/sukusks, contracts and derivates).

This prior action sought to ensure that the capital markets provided an array of investment and risk management products. Better functioning capital markets were likely to help in channeling Egyptian savings into private firms, thereby enabling private-sector led growth. The analytical underpinnings of this prior action were based on the work conducted by the IMF, the Bank's Financial Sector Assessment Report of 2017, and the Bank's analytical work of 2007 (Does the Egyptian financial sector contribute to growth and shared prosperity?). This prior action addressed an important constraint of limited financial products to private sector enterprises in Egypt from the financial sector. The relevance of this prior action is satisfactory.

STRC 1. Use of noncash payment to promote the digital economy and improve financial inclusion. This STRC required the Government to enact the Non Cash Payment Law, requiring the Government, public institutions and private companies to use digital solutions when channeling payments above certain thresholds.

In the absence of modern payment systems, Egypt remained a cash-based economy (with 98% of the payments in cash). This law specified the payments that could be made electronically: (i) taxes, custom duties, fines and fees to utility companies and other public entities; (ii) dues to suppliers, contractors and private service providers; (iii) dividend distribution; and (iv) proceeds of land and real estate transactions. The law also required the e-services to be priced the same as cash transactions. The analytical underpinnings of this SRTC came from the Bank's Financial Inclusion Global Initiative (IBRD P176443). This condition represented a critical step for addressing informality and enhancing digitization of the economy and was directly aligned with the operation's objective of financial inclusion. Therefore, this pillar is satisfactory.
Pillar No 2. Private sector development. Reforms in this pillar aimed to support development of new and unconnected firms and encourage the informal firms to formalize. There were five prior actions and two STRCs for this pillar.

PA 4. Strengthening corporate governance and minority shareholder protection. As a prior action, the Government issued a Ministerial Decree on February 8, 2018, amending the Executive Regulations of Companies to strengthen corporate governance and protect minority shareholders.

Egypt ranked low on the "Starting a Business" and "Protecting Minority Investors’ topics in the Bank's 2018 Doing Business Report. Although the Companies Law had been amended several times since its introduction in 1981, many of its provisions needed to be modernized for improving governance and protecting minority shareholders. The analytical underpinnings of this operation were sound and based on the Bank's 2018 Investment Climate Assessment. Improving corporate governance and providing stronger protection of minority interests was expected to encourage the activities of private equity and venture capital firms and facilitate access to finance for new MSMEs. This pillar was appropriate. Therefore, this prior action is satisfactory.

Improving the business environment.

STRC 2. The Government issued a ministerial decree aimed to reduce the number of steps required for establishing a company.

Despite the overall improvement of Egypt's ranking in the Bank's Doing Business Report of 2019, Egypt's specific rating on Starting a Business slightly declined from 103 in 2018 to 109 in 2019. It took on average eleven days to complete the six procedures required for establishing a company in Egypt (as compared to nine days on average for completing 4.9 procedures in the Organization of Economic Cooperation and Development (OECD) countries).

This STRC was a continuation of the "Enhancing the Business Environment" pillar of the previous DPF series. While the previous operation focused on simplifying the industrial licensing process, this operation aimed to reduce the number of steps and the average number of days for starting a business. The analytical underpinnings of this STRC were based on the Bank's Doing Business report. Reducing the number of days for starting a business would likely facilitate entry of private MSMEs. Therefore, this prior action is satisfactory.

STRC 3. The Government issued a Ministerial Decree establishing investor facilitation services in two governates in Upper Egypt.

Following the enactment of the Investment Law in 2017, the General Authority for Investment and Free Zones (GAFI) established five Investment Service Centers (ISCs) for facilitating entry of new firms in the main urban centers of Cairo, Alexandria, Ismailia, Asyut and Tenth of Ramadan city. However, frontier governates (with the exception of Asyut) remained poorly served. Firms in these governates often had to travel distances and spend additional time, money and efforts to conduct basic services related to their businesses.

This STRC was a continuation of the "Enhancing the Business Environment" pillar of the previous DPF, which sought to strengthen the offering of ISCs and monitoring the average number of firm registered at GAFI. This STRC focused on expanding ISCs in two underserved lagging regions of Egypt. The analytical base of this STRC was sound and based on the Bank's Equal Access and Simplified Environment for Investment project (P153487). This prior action sought to expand the reach of ISCs and was appropriate for for enhancing private sector participation in lagging regions. Therefore, the relevance of this STRC is satisfactory.
PA 5. **Strengthening the entrepreneurship ecosystem.** As a prior action, the Government issued a Ministerial Decree on October 18, 2018, for developing the "Fekretak, Sherketak" (Your Company, Your Idea) initiative, a program for promoting private sector entrepreneurship.

Start-ups and SMEs faced challenges relating to funding and business development support services. The legislative framework was not conducive for venture capital and private equity fund operations. According to the 2017 *Global Entrepreneurship Monitoring Report*, the capacity to produce and retain start-ups in Egypt was limited, mainly due to the weakness of the system to support business needs.

The Ministry of Investment and International Cooperation (MIIC) launched the *Fekretak Sherketak* initiative in September 2017 to encourage start-ups and promote entrepreneurial atmosphere in Egypt. This initiative was developed by private sector professionals and fund managers to provide seed financing and business support services to entrepreneurs. This prior action formally endorsed this initiative. This prior action addressed an important impediment facing potential start-ups and entrepreneurs. Therefore, this prior action is satisfactory.

PA 6. **Promoting and facilitating SMEs' participation in public procurement.** As a prior action, the Government enacted a new public procurement law for facilitating SMEs' participation in public procurement.

The Public Procurement Law that was used when this operation was prepared, suffered from deficiencies in critical areas. One of the deficiency of the law was that it excluded SMEs, which performed a large proportion of public procurement. As a result, the legal framework remained fragmented and only partially covered public procurement. This prior action aimed to correct this deficiency and mandated e-procurement and allocation of 20% of the public procurement budget for SMEs. The analytical underpinnings of this prior action were based on the Bank's completed TA for developing a new public procurement law and the Bank's ongoing TA in public procurement. This prior action was appropriate and would help in creating a level playing field for new entrants. Therefore, this prior action is satisfactory.

PA 7. **Streaming and simplifying the property registration process.** As a prior action, the Government submitted for adoption a new draft to the parliament and the President enacted a new law to govern and simplify the property registration process in the new urban communities.

Egypt has parallel property registration systems: The title registration system in rural and agricultural areas and the deed registration system in urban areas. Both the systems were outdated and ineffective. The registration systems resulted in long delays in registering property and lack of trust by individuals and businesses. The poor and the vulnerable were especially impacted by the uncertain property rights.

Reforms in this area aimed to simplify and provide a more transparent and reliable registration systems. The Bank's TA to Egypt's Ministry of Justice provided the analytical base for reforms in this area. The prior action was weak because there was a significant risk that the Parliament may not adopt the law. Therefore, the relevance is moderately satisfactory.

**Pillar No 3. Strengthened fiscal management.** The overarching objective of this pillar was to support fiscal consolidation. There were three pillars and one STRC in this area. Specifically the reforms aimed at ensuring that there was no crowding out of private investment due to government borrowing from the financial system.

PA 8. **Simplifying tax payments.** The Government issued a ministerial decree on May 22, 2018, mandating electronic filing of tax returns for entities with legal personalities.
At appraisal, taxpayers in Egypt for the most part filed their annual tax returns manually, which were filled in paper forms and submitted in person to the Egyptian Tax Authority (ETA). Electronic filing of taxes would benefit both the taxpayers and the tax administration. As the tax returns can be filed electronically, taxpayers can file taxes anywhere regardless of the ETA's working hours. Filing taxes electronically would save the costs of data entry and physical space to the tax administration. The analytical underpinnings of the prior action came from the Bank's Public Resource Management for Fiscal Consolidation (P163373), the Bank's Programmatic Governance TA (P162146) and the Bank's 2015 "Public Financial Management Strategy Report."

Given that this was an important step towards modernizing the tax administration and in line with the Government's objectives of promoting a digital economy, the relevance of this prior action is satisfactory.

**PA 9. Reduction of energy subsidies.** As a prior action, the Government issued a ministerial decree on June 4, 2018, on annual electricity adjustment and the Prime Minister issued decree on June 13, 2018 on fuel price adjustment for reducing energy subsidies and thereby creating fiscal space for human capital investment.

This prior action was a continuation of the gradual phasing of electricity tariffs in Egypt. The government's commitment to phasing out electricity subsidies was demonstrated by the fact that this tariff adjustment in 2018 was the fifth annual tariff adjustment for electricity and petroleum products in Egypt. The analytical underpinnings of this prior action were based on Egypt's the Energy Strategy for 2035, the Bank's Programmatic Support to energy sector (P156023) and the Bank's TA on capacity building ad strategic communication on reforms. This prior action aimed at fiscal consolidation was a continuation of phasing energy subsidies. This prior action is satisfactory.

**STRC 4. Medium Term Debt Management (MTDM) strategy.** The Government issued a ministerial decree for adopting and publishing a MTDS for Fiscal Year (FY) 2018/2019 to FY2020-2021. The latest strategy covering FY 2015/2016 to FY 2017 -2018 was published in 2015. The objective of this strategy was only partially realized as the macroeconomic environment proved challenging, due to a sharp increase in interest rate and large exchange rate depreciation. Unlike the previous strategy, the expanded strategy for 2018/2019 to 2020/2021 was to provide specific targets for interest rate, exchange rate and refinancing risks, provide guidance for domestic and external borrowings, include debt data of significant state-owned enterprises (SOEs), and the MTDS was to be publicly-disclosed on a regular basis.

The analytical basis of this STRC was based on the Bank's ongoing TA to Egypt's Ministry of Finance, and this reform was also supported by IMF. This STRC aimed at fiscal consolidation and was appropriate. The relevance of this prior action is satisfactory.

**PA 10. Formula-based allocation system for governates and districts.** As a prior action, the Government issued a joint ministerial decree on October 2021, 2018, specifying the process for adopting and applying a formula-based capital allocation system for governates and districts.

Although Egypt's 2014 constitution envisioned gradual administrative, financial and economic decentralization, sub-national local entities had limited powers and currently played a limited role in providing services. This limited role resulted from the substantial legal, fiscal, administrative and capacity constraints. These constraints included thee limited mandates of the sub-national entities for planning, executing and managing capital expenditure and infrastructure investments.

This prior action aimed to gradually move towards the constitutional requirements of decentralization in a phased manner. The analytical underpinnings of this prior action were based on the Bank's 2012 Public
Expenditure Review for Egypt and a World Bank working paper "Strengthening Fiscal Centralization and Intergovernmental Fiscal Systems in Egypt. Current Practices, International Experience and Options" (2012). This prior action was weak as the plans prepared by the sub-national entities might not be adopted by the national government. This prior action is moderately satisfactory.

The PDOs were relevant to the Government and Bank Strategy at the time of preparation and remained so beyond the operation's closing date. The prior actions of this operation were based on sound analytical underpinnings and complemented one another. Enhancing access to finance from the financial sector can be expected to enhance private sector participation in the economy. Likewise, improving fiscal management can increase market confidence and perceptions of fiscal sustainability, and this can aid in reducing crowding out of private sector investments.

The prior actions, were for the most part, appropriate along the results chain for realizing the intended objectives. Of the nine prior actions, seven were satisfactory and two were moderately satisfactory. The four STRCs were satisfactory. Assuming equal value to each prior action and STRCs, the relevance of design is rated as **satisfactory**.

**Rating**

Satisfactory

### 4. Relevance of Results Indicators

**Rationale**

**Pillar 1. Financial Inclusion and Access to Finance.** There were four results indicators (RIs).

**RI 1.** This indicator measured the number of microfinance beneficiaries using mobile payments (including the number of women-led enterprises and enterprises in lagging regions outside Cairo and Alexandria). This indicator was measurable. The number of beneficiaries was a direct measure of the pillar's achievement and fundamental to progress in extending financial access to a broader section of the population. Therefore, this indicator is satisfactory.

**RI 2.** This indicator measured the number of published collateral registrations used by MSMEs. This indicator could be verified and directly signals the legal strengthening for addressing a constraint faced by these sectors. Importantly, the indicator also aligned with the intention to shift banks and financial intermediaries towards broadening the expectations around collateral. Therefore, this indicator is satisfactory.

**RI 3.** This indicator measured the number of new coded investors. This indicator could be verified. Given that new financial products are required for the financial inclusion of MSMEs, this indicator directly measures the project's achievement. Therefore, this indicator is satisfactory.
RI 4. This indicator measured the number of digital transactions when the operation closed in June 2020. This indicator could be verified and directly measures the project’s achievement regarding promotion of a digital economy. Therefore, this indicator is satisfactory.

Pillar 2. Improving the business environment.

RI 5. This indicator measured the value of the extent of shareholder index in the Bank's Doing Business Report when the operation closed in June 2020. This indicator was verifiable and measures the project's achievement on enhancing private sector development. Therefore, this indicator is satisfactory.

RI 6. This indicator measured the number of days needed for starting a business in 2020. This indicator could be verified and appropriate for facilitating SMEs. Therefore, this indicator is satisfactory.

RI 7. This indicator measured the average number of firm registrations per month at the new Investment Service Centers (ISC) in two lagging regions in Upper Egypt. This indicator could be verified and was appropriate for the intended outcome of private sector development in lagging regions. Therefore, this indicator is satisfactory.

RI 8. The Fekretak Sherketak initiative was to support 1,000 start-ups by 2000, and the outcome indicator measured the non-government financing as percentage of total financing under this initiative when the operation closed. This indicator could be verified and directly measures the project's achievement. Therefore, this indicator is satisfactory.

RI 9. This indicator measured the number of SMEs participating in public contracts following the adoption of the new procurement law. This indicator could be verified. Therefore, the relevance of this indicator is satisfactory.

RI # 10. This indicator measured the number of companies filing annual tax returns electronically. This indicator was verifiable and was a direct outcome of the reforms. Therefore, this indicator is satisfactory.

Pillar 3. Strengthened fiscal management.

RI # 11. This indicator measured the number of companies filing annual tax returns electronically. This indicator was verifiable and was a direct outcome of the reforms. Therefore, this indicator is satisfactory.

RI # 12. This indicator measured the reduction in energy subsidies as a percentage of GDP. This indicator could be measured and could be directly traced to the reforms. Therefore, this indicator is satisfactory.

RI # 13. This indicator required the Government to publish an updated and expanded MTDM strategy for 2018/2019 to 2020/2021. This indicator was appropriate. Therefore, this indicator is satisfactory.

RI # 14. This indicator measured the number of governates and districts preparing their FY 2020/2021 capital investment plans in accordance with the formula-based systems. This indicator could be measured. Therefore, the relevance of this indicator is satisfactory.
Table. Results Indicators (RIs), the Prior Actions (PAs) and the Second Tranche Release Conditions (SRTC) they support. baseline, target values, actual change in RI relative to target and RI achievement rating.

<table>
<thead>
<tr>
<th>RI 1</th>
<th>Associated PAs</th>
<th>RI relevance</th>
<th>Baseline (including units and dates)</th>
<th>Target (including units and dates)</th>
<th>Actual value as of target date</th>
<th>Actual change in RI relative to targeted change</th>
<th>RI achievement rating</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>PDO 1. Enabling financial inclusion for inclusive growth</td>
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<tr>
<td>RI # 1. The number of Microfinance beneficiaries using mobile payments.</td>
<td>PA 1.</td>
<td>S.</td>
<td>Baseline (2018): 0</td>
<td>Target (June 2020): 600,000. (out of which 40% are women, and 20% outside Greater Cairo and Alexandria)</td>
<td>Actual (December 2020): 648,936. (out of which 59% are women, and 51% outside Greater Cairo and Alexandria)</td>
<td>Target exceeded.</td>
<td>S</td>
</tr>
<tr>
<td>Number of published collateral registration used by MSMEs.</td>
<td>PA 2.</td>
<td>S.</td>
<td>Baseline (2018): 0</td>
<td>Target (June 2020): 20,000 registrations.</td>
<td>Actual (December 2020): 41,633.</td>
<td>Target exceeded.</td>
<td>S</td>
</tr>
<tr>
<td>Number of digital transactions.</td>
<td>STRC 1.</td>
<td>S.</td>
<td>Baseline (2018): 58.9 million transactions.</td>
<td>Target (June 2020): 170 million transactions (2.9 times increase).</td>
<td>Actual (December 2020): 274.7 million transactions.</td>
<td>4.7 times increase relative to the target.</td>
<td>S</td>
</tr>
<tr>
<td>Non-Government financing as a percentage of total financing under Fekretak Sherketak Initiative.</td>
<td>PA 5.</td>
<td>S.</td>
<td>Baseline (2018): 0.</td>
<td>Target (June 2020): 50 percent increase.</td>
<td>Actual (June 2020): 81% increase.</td>
<td>Target exceeded.</td>
<td>S</td>
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</tbody>
</table>

**PDO 3. Strengthening fiscal management for inclusive growth.**

<p>| Number of companies filing annual income tax electronically. | PA 8. | S. | Baseline (2018): 0 companies. | Target (June 2020): 30,000 companies. | Actual (June 2020): 196,859 companies. | Target exceeded. | S |</p>
<table>
<thead>
<tr>
<th><strong>Reduction in energy subsidies as a percentage of GDP.</strong></th>
<th><strong>PA 9.</strong></th>
<th><strong>S.</strong></th>
<th><strong>Baseline (2018): 3.8% of GDP.</strong></th>
<th><strong>Target (June 2020): 2.5% of GDP.</strong></th>
<th><strong>Actual (June 2020): 1.9% of GDP.</strong></th>
<th><strong>Target exceeded.</strong></th>
<th><strong>S</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The Government publishes an updated and expanded Medium Term Debt Strategy.</strong></td>
<td><strong>STRC 4.</strong></td>
<td><strong>S.</strong></td>
<td><strong>Baseline (June 2018): No updated strategy.</strong></td>
<td><strong>Target (June 2020): publication of an updated strategy.</strong></td>
<td><strong>Actual (June 2020): The Government published an expanded medium term debt strategy which was adopted and published on the Ministry of Finance website on May 7, 2019.</strong></td>
<td><strong>Target realized.</strong></td>
<td><strong>S</strong></td>
</tr>
<tr>
<td><strong>The number of governates preparing their FY 2020/2021 capital investment plans in accordance with the formula-based system.</strong></td>
<td><strong>PA 12.</strong></td>
<td><strong>MS.</strong></td>
<td><strong>Baseline (2018): no formula-based system.</strong></td>
<td><strong>Target (June 2020): All 27 governates and 188 district prepared their 2020/2021 investments in accordance with the formula-based system.</strong></td>
<td><strong>Actual (June 2020): The formula-based system was applied by the 27 governates and 188 districts.</strong></td>
<td><strong>Target realized.</strong></td>
<td><strong>S</strong></td>
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</table>

**Rating**

**Satisfactory**

**5. Achievement of Objectives (Efficacy)**
OBJECTIVE 1
Objective
Enabling financial inclusion for inclusive growth. PA 1 -3: STRC 1: RIs 1- 4

Rationale
Theory of change. Reforms aimed at enabling mobile payments and electronic payments by microfinance operations (including for women-led enterprises and enterprises in lagging regions), electronic collateral registry for moveable property, increasing the range of financial products and digitalization of the economy were likely to expand financial inclusion. The intended outcomes were likely to contribute to inclusive growth.

Outcomes (ICR. pages 23 - 26).

648,936 microfinance beneficiaries were using mobile payments as of December 2020, exceeding the target of 600,000. 59% of the beneficiaries were women, exceeding the target of 40%. 51% of the beneficiaries were in the region outside Greater Cairo and Alexandria, exceeding the target of 20%. The increase in the number of e-payment beneficiaries was due to the large number of licenses issued by the Financial Regulatory Authority (FRA) to allow Non-Governmental Organization-Micro Finance Organizations to use e-payment through prepaid cards or point-of-sale machines.

The Egypt Collateral Registry (ECR) was officially launched in March 2018, with I-Score (Egypt's Private Credit Bureau) as registrar. The number of published collateral registrations used by micro, small and medium size enterprises (MSMEs), corporate, individual debtors and syndicated loans increased to 41,633 registrations by December 31, 2020 from a 0 baseline. This exceeded the specified target of 20,000 registrations.

Following the amendment of the Capital Market Law in 2018, the number of new coded investors increased from 9,300 at the baseline on December 31, 2018 to 29,888 new coded investors by December 2019. According to the data received from the FRA, the number of newly coded investors was 29,888 in 2019, 28,368 in 2020 and 11,877 investors from January until March 2021.

The number of cashless transactions increased from 58.9 million transactions on December 31, 2015, to 274.7 million by December 31, 2020 (representing a 4.6 times increase). This exceeded the specified target of 170 million transactions (representing a 2.9 times increase) by June 30, 2020. This outcome was realized with a delay of six months. Transactions using e-money increased eightfold from 11 million in 2015 to 84 million in 2020. Total card transactions (excluding cash withdrawals) increased from 33 million in 2015 to 179 million by 2020, demonstrating a significant increase in the use of digital transactions throughout the implementation of this operation.

Given that the targets were realized (although one with delays), efficacy of this objective is satisfactory.

Rating
Satisfactory

OBJECTIVE 2
Objective
Enabling private sector development for inclusive growth. PA 4-7: STRC 2 and 3: RI 4-10.

Rationale

**Theory of change.** Reforms aimed at reducing the number of procedures and the days required for establishing a company, improving title registrations, amending the law to strengthen corporate governance and protect minority shareholders, providing Investment Service Centers (ISCs) in frontier governates and providing financing and TA for entrepreneurs under the "Fekretak, Sherketak" initiative and facilitating MSMEs participation in public procurement were likely to contribute to private sector development in the economy and thereby aid in the PDO of inclusive growth in Egypt.

**Outcomes.** (ICR, pages 26 - 29).

The value of the extent of shareholder governance index using the Doing Business Methodology in December 2019 was 7 out of ten as targeted (as compared to 6.3 out of ten in Doing Business Report of 2018). The ICR (paragraph 59) notes that the Government took further steps in strengthening the protection of minority investors by requiring shareholder approval when listed companies issue new shares.

The number of days needed to start a business did not decrease to three days as targeted. The number of days required to start a business actually increased to twelve days as compared to 11 days in December 31, 2018. This outcome was therefore assessed as negligible and is illustrative of the marginal progress made in enabling the private sector.

27 firms were registered on average per month at the new Investor Service Centers (ISRs) in the lagging regions in Upper Egypt governates. This exceeded the target of 20 firm registrations on average but remains quite low in the context of stimulating firms to emerge in the sector.

Non-government financing as a percentage of total financing under the Fekretak Sherketak/Egypt Venture initiative increased to 81%, exceeding the target of 50%. The target was achieved in December 2019, and had been exceeded since then. In 2020, the initiative had 85,958 beneficiaries and 1,315 monitoring sessions for potential entrepreneurs. The ICR notes that the TA side of the program is still being implemented by the authorities.

There was a 12.5% increase in the number of SMEs that were awarded contracts under the new procurement law. This was well short of the target of a 20% increase.

As of April 2021, 20% of the new urban communities had offices that were implementing the procedures in the law regarding registrations by dispositions. This exceeded the target of 10%. However, the ICR notes that the Title Registration Bill has not yet been adopted and is still under discussion by the Parliament.

Of the five indicators for this PDO, three were realized, one was rated as modest and one negligible. Therefore, the overall rating is moderately satisfactory.

**Rating**

Moderately Satisfactory
OBJECTIVE 3

Objective
Strengthening fiscal management for inclusive growth.
PA 8-10: STRC 4: RIs 11-14.

Rationale
Theory of change. Reforms aimed at electronic filing of tax returns, electricity price adjustments for reducing energy subsidies, publishing and publicly disclosing an expanded updated medium term debt strategy and formula-based capital allocation system for sub-national entities (governates) were likely to aid in fiscal consolidation and reducing crowding out of the private sector from the financial sector due to government borrowing.

Outcomes (ICR, pages 29 - 30).

The number of companies filing annual tax returns electronically increased to 196,859 by December 31, 2019, exceeding the target of 30,000 by June 30, 2020. According to the Egyptian Tax Authority, 55,996 companies filed taxes electronically as of April 2019. This significantly increased to 196,859 as of December 31, 2020 (The ICR notes that this could be partly due the COVID-19 pandemic). 5,256,284 Value Added Tax (VAT) declarations were filed online from November 2018 to November 2020, with an average of 210,251 monthly VAT declarations. The ICR (paragraph 65) notes that the Ministry of Finance added a new provision starting from January 1, 2022, where receipts for payments made in cash will no longer be acceptable when applying for a VAT refund or deduction, making only electronic payments acceptable when applying for a VAT refund or deduction.

Energy subsidies as a percentage of GDP reduced from 3.8% in 2017/2018 to 1.9% of GDP by June 2020. This exceeded the target of 2.5% of GDP.

The Ministry of Finance published on its website an expanded and updated Medium Term Debt Strategy for 2018/2019 to 2020/2021 on May 7, 2019, as targeted. The strategy outlined key reform steps to prolong debt maturity, diversify sources of funding and widening the investor base. The ICR notes that a Bank's TA operation is ongoing to improve the efficiency of tax administration.

The 27 governates and 188 districts prepared FY 2020/2021 capital investment plans in accordance with the formula based system, although with a delay by January 2021. This formula was applied to the governates and districts with support from the Ministry of Planning and Economic Development and the Ministry of Local Development.

Given that the outcomes were realized, although one with delays, efficacy is satisfactory.

Rating
Satisfactory

Overall Achievement of Objectives (Efficacy)
Rationale

Efficacy of the first objective is satisfactory based on the satisfactory ratings for increasing the geographical coverage of microfinance institutions, increase in the number of public collateral registrations, increase in the number of new coded investors and increase in the number of digital (non cash transactions).

Overall efficacy of the second objective is moderately satisfactory based on the satisfactory ratings of three results indicators (value of shareholder index in Doing Business Report, increase in the number of firms registered at the Investor Service Centers (ISCs) in lagging regions, non-government financing as percentage of total financing under the Fekretak - Sherketak initiate), modest rating for the number of SMEs awarded contracts under the new procurement law) and the negligible rating for the number of days needed to start a business.

Efficacy of the third objective is rated as satisfactory based on the satisfactory rating for the increase in the number of companies filing tax returns electronically, the reduction in energy subsidies as a percentage of GDP, the publication of an expanded Medium Term Debt Strategy and the number of governates and districts preparing FY 2020/2021 capital investment plans in accordance with the formula based system.

Taking these ratings into account, overall efficacy is satisfactory.

Overall Efficacy Rating
Satisfactory

6. Outcome

Rationale

The PDOs were relevant to the Government and Bank strategy for Egypt. The prior actions which had strong analytical underpinnings, were appropriate first steps along the results chain for realizing the intended objectives. The results indicators were a direct measure of the pillar's achievement and could be verified. Of the fourteen results indicators, twelve were realized (though some with delays), one was modest and one negligible. Significantly, progress made in terms of enabling the private sector were modest and there is little evidence any significant gains were made in this area. Thus, the overall outcome rating is moderately satisfactory as achievement against the objective had moderate shortcomings.

a. Rating

Moderately Satisfactory

7. Risk to Development Outcome

Government commitment/ownership. The risk to development outcome due to the lack of government commitment is moderate. This was the second generation of reforms, which was intended to build on earlier reforms. The Government's commitment was demonstrated by its continued commitment to phasing out
energy subsides. Further, the ICR (paragraph 96) notes that the prior actions of this operation continued to be implemented beyond the closing date of the DPF, illustrating the Government commitment to reforms.

Macroeconomic risk. During the final months of this operation, Egypt’s robust growth performance was interrupted by the disruptive repercussions of the COVID-19 pandemic. Growth declined from 3.6% in FY2019/2020 to 3.3% in FY2020/2021. However, exposed sectors that were contracting due to the pandemic (tourism, manufacturing, extractive and the Suez Canal) started rebounding during April - June 2021. Given this, the macroeconomic risk is moderate.

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

The Bank prepared this operation based on the experiences from the previous Bank-financed DPF series. Lessons incorporated at design included; (i) focusing on implementation support suited to the country context; (ii) ensuring monitoring of reforms at the highest levels of Government (the Prime Ministerial level); (iii) focus on concrete actions to achieve tangible results for the beneficiary population (such as actions like the rollout of collateral registry, mobile payments for microfinance companies and online tax filing; (iv) TA both for implementing the recommended prior actions; and (v) and (v) focusing on homegrown reforms based on the Government's long-term objectives to ensure Government Commitment and ownership. As discussed in Section three, the prior actions were based on sound analytical underpinnings.

The Bank prepared this operation in coordination with international donors and in close coordination with the IMF, since this operation complemented the structural reforms supported by the International Monetary Fund (IMF) in Egypt (such as supporting the Government’s fiscal consolidation efforts through phasing out energy subsidies, publishing Egypt’s Medium-Term Debt Strategy (MTDS) and supporting private sector-led growth).

Several risks were identified at appraisal, including country and social risks as Egypt was recovering from a period of political and economic transition when this operation was prepared. The mitigation measures incorporated at design proved to be adequate. The risks associated with the uncertainty in the wake of the COVID-19 pandemic was unknowable when the operation was prepared.

There were modest shortcomings during preparation. The design of the DPF changed from a one tranche operation to two tranche operations at a relatively late stage in preparation (discussed in Section 2). A two tranche operation was expected to enable stronger monitoring of the reform process. This process however had limitations, because having two STRCs approved by the Board significantly limited the flexibility to take into account the evolving country and sector dynamics. In this operation, two of the four STRCs had to be revised, triggering the need for a waiver and amendments.
Rating

Moderately Satisfactory

b. Bank Performance – Implementation

Rationale

The ICR (paragraph 92) notes that two multi sectoral supervision missions were held (one at the end of 2019 and one at the end of 2020), for measuring the progress of reforms. The supervision team included highly qualified staff in both the country office and at headquarters, and the supervision team included specialists in financial sector development, financial management, procurement and social safeguards. The supervision team ensured that TA was provided for implementation of the prior actions.

Rating

Satisfactory

c. Overall Bank Performance

Rationale

Overall Bank performance is rated as moderately satisfactory because of the moderate shortcoming during preparation.

Overall Bank Performance Rating

Moderately Satisfactory

9. Other Impacts

a. Social and Poverty

Two of the prior actions of this operation were primarily focused on the lagging and poor regions in Upper Egypt (expanding the geographical reach of microfinance institutions and expanding Investment Support Centers in these areas). The outcomes would be expected to contribute to reducing the incidence of poverty in these regions, though no specific evidence of this is reported.

b. Environmental
The analysis conducted by the Bank to determine whether the specific reforms supported by the DPF are likely to cause significant effects on Egypt's environment and natural resources concluded that the supported policies are not likely to have negative impacts on Egypt's environment or its natural resources.

c. Gender

Expanding mobile payments for microfinance institutions would help in reducing the gender gap.

d. Other

There were no observed unintended impacts.

10. Quality of ICR

Rationale

The ICR is well-written. It provides a clear rationale for the chosen prior actions and second tranche release conditions. The theory of change provided in the text clearly illustrates the causal links between the prior actions, the results indicators and the intended outcomes. The ICR provides ample evidence for the ratings and draws good lessons from the experience of implementing this operation.

One minor shortcoming with the ICR is its length. The main body of the text at 35 pages is more than twice the recommended length of 15 pages. The ICR could have benefitted from better editing.

a. Rating

Substantial

11. Ratings

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12. Lessons

The ICR draws the following main lessons from the experience of implementing this operation.

1. A careful assessment of the government commitment can help in determining the success of a DPF operation. In this operation, the reforms were aligned with the Government program. Strong ownership was demonstrated through the commitment of the various participating government entities and involvement of high level government officers including the Prime Minister.

2. Close cooperation with the IMF will be useful in a DPF operation. This is particularly so when some of the prior actions of this operation (like phasing energy subsidies and private sector development) were also supported by the IMF.

3. Technical Assistance activities both in the preparation and supervision phase can ensure implementation of reforms. The prior actions in this operation had strong underpinning. This together with technical assistance during implementation helped in ensuring that the reforms moved forward.

13. Project Performance Assessment Report (PPAR) Recommended?

No