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Report No.: 94554-EG

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL FINANCE CORPORATION
MULTILATERAL INVESTMENT GUARANTEE AGENCY
COUNTRY PARTNERSHIP FRAMEWORK
FOR THE
ARAB REPUBLIC OF EGYPT
FOR THE PERIOD FY 2015-2019
NOVEMBER 20, 2015

Egypt Country Management Unit
Middle East and North Africa Region
The International Finance Corporation
The Multilateral Investment Guarantee Agency

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The date of the last Interim Strategy Note (ISN) was June 30, 2012

CURRENCY EQUIVALENTS
(Exchange Rate as of November 4, 2015)
Currency Unit = Egyptian Pound (LE)
US\$1= 8.0 LE

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AFD	Agence Française de Développement	KfW	German Government Owned
AfDB	African Development Bank		Development Bank (<i>Kreditanstalt für Wiederaufbau</i>)
ASA	Advisory Services and Analytics		
CAPMAS	Central Agency for Public Mobilization and Statistics (National Statistics Agency)	LE	Egyptian Pound
		LPG	Liquefied Petroleum Gas
CAS	Country Assistance Strategy	MENA	Middle East and North Africa
CBE	Central Bank of Egypt	MFI	Microfinance Institutions
CLR	Completion and Learning Review	MIGA	Multilateral Investment Guarantee Agency
CPF	Country Partnership Framework	MOF	Ministry of Finance
CPFRCR	Country Partnership Framework Completion Report	MSME	Medium and Small-Scale and Micro-Enterprises
DPF	Development Policy Financing	MWe	Megawatts electricity
DPG	Development Policy Group	OECD	Organization for Economic Cooperation and Development
EEHC	Egypt Electricity Holding Company		
EGPC	Egyptian General Petroleum Corporation	PFM/PIM	Public Financial/Investment Management
EIB	European Investment Bank	PforR	Program-for-Results
EU	European Union	PPIAF	Public- Private Infrastructure Advisory Facility
FDI	Foreign Direct Investment		
GCC	Gulf Cooperation Council	PPP	Public-Private Partnerships
GDP	Gross Domestic Product	PSD	Private Sector Development
GOE	Government of Egypt	SCD	Systematic Country Diagnostic
HI ECS	Household Income Expenditure and Consumption Surveys	SHF	Social Housing Fund
		SME	Small and Medium Enterprises
IBRD	International Bank for Reconstruction and Development	SOE	State Owned Enterprise
		SSN	Social Safety Net
IDA	International Development Association	TA	Technical Assistance
IEG	Independent Evaluation Group	UAE	United Arab Emirates
IFAD	International Fund for Agricultural Development	UNDP	United Nations Development Programme
IFC	International Finance Corporation	USAID	United States Agency for International Development
IMF	International Monetary Fund		
ISN	Interim Strategy Note	WBG	World Bank Group
		WUA	Water Users Association

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ACKNOWLEDGEMENTS

The World Bank Group greatly appreciates the close collaboration of the Egyptian authorities, development partners, business groups, academia, civil society and other stakeholders in the preparation of this Country Partnership Framework.

The strategy is the result of a team effort that relied on knowledge, experience, and guidance from non-Governmental partners across Egypt and individuals across the World Bank Group. The CPF was led by Poonam Gupta (MNCA3), Nada Shousha (CMEEC), and Persephone Economou and Paul Barbour (MIGA). Aliya Husain (MNCA3) prepared the Completion Report of Bank Group assistance during the period FY06-FY14; Husam Abudagga (MNC03) and Eman Wahby (MNAEC) were responsible for organizing WBG consultations for the CPF. The CPF comprised a core team consisting of Aliya Husain (MNCA3), Husam Abudagga (MNC03), Wael Afifi (CBCCE), Guido Rurangwa (MNCA3), and Asma Al-Hanshali (MNCYE), Gustavo Demarco (MNC03), Victoria Gyllerup (GWADR), Rapti A. Goonesekere (CBCCF), Luke Haggarty (CBCRM), Lorraine James (EACNQ), Dahlia Khalifa (GTCDR), Ahmed Kouchouk (GMFDR), Nehal El Kouesny (MNAEC), Bala Menon (MNC03), Bushra Ghulam Mohammad (CBCCE), Joshua McLellan Newell (MNADE), Rami Okascha (MNCA3), Bryanne Tait (CASEE), and Dalia Wahba (CNGS9).

We also wish to thank the following people for their contributions: Maissa Abdalla (MNAEC); Alaa Abdel-Hamed (GHNDR); Laila Abdelkader (GFMDR); Dina Abu-Ghaida (GEDDR); Oyebimpe Adepoju (GENDR); Edouard Al-Dahdah (GGODR); Ipek Alkan (EACIQ); Waleed Alsuraih (GEEDR); Amira Hussein Aly Aboulkheir (GTCDR); George Anayiotos; Sara Al Nashar(GMFDR); Nabila Assaf (GTCDR); Karim Badr (GFMDR); Olivier Le Ber (GTIDR); Benoit Blarel (GENDR); Charles Cormier (GEEDR); Malak Draz (CASMP); Yasser El-Gammal (GSPDR); Hazem El-Wassimy (GTCDR); Muneer Ferozie (CASMP); Thomas Gratowski (MNCA3); Sherif Hamdy (GTCDR); Leonard Hessling (GGO17); Ann-Sofie Jespersen (OPSRE); Amira Kazem (GEDDR); Piers Merrick (MNADE); Sarah Andrei Mikhnev (GTCDR); Felix Neugebauer (MNC03); Africa Olojoba (GENDR); Harry Patrinos (GEDDR); Luis Prada (GGODR); Xavier Reille (CFGA3); Alaa Sarhan (GENDR); Maria Sarraf (GENDR); Andreas Schliessler (GTIDR); Steven Schonberger (GWADR); Maria Vagliasindi (MNC05); Caroline Van den Berg (GWADR); Manuel Vargas (GGODR); Hisham Waly (GGODR); Tatiana Weber (MNC03); Caitlin Whittemore (MNADE); and Sylvia Zulu (CASDR).

We are also deeply grateful to our peer reviewer, Dr. Ziad Bahaa-Eldin, Founder and Member of the Board of Directors of the Ahmed Bahaa-Eldin Cultural Foundation and Senior Counsel of Hashem & Partners, a business law firm, and to Ms. Laurie Efron, consultant, to the CPF team.

ARAB REPUBLIC OF EGYPT
FY2015-2019 Country Partnership Framework

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FY2015-2019 COUNTRY PARTNERSHIP FRAMEWORK FOR ARAB REPUBLIC OF EGYPT

Executive Summary

1. ***The World Bank Group (WBG) Country Partnership Framework (CPF) for Egypt for FY15-19 has been prepared at an important juncture in Egypt's history to support transformational changes to the economic and social space.*** It builds on the Government of Egypt's (GOE) medium-term strategy and national priorities for economic development, responds to client demands, and is informed by consultations with a broad array of stakeholders in Egypt. At the same time, the CPF proposes selective interventions in line with the development priorities of the Systematic Country Diagnostic (SCD) for Egypt,¹ and draws on the WBG's comparative advantage. This proposed program will also seek to implement the new MENA Regional strategy, especially the pillars on renewing the social contract, supporting economic recovery, and promoting regional cooperation.

2. ***Egypt has implemented political, economic, and social reforms, but significant challenges remain.*** Egypt's political transition is progressing, with Parliamentary elections to be completed by end-2015. Egypt has also recently undertaken important measures to reduce the fiscal deficit and restore macroeconomic stability by moving away from universal subsidies towards a more targeted transfer program, taking measures to contain the wage bill and increasing tax revenues. Macroeconomic figures show some improvement, with growth rebounding to 4.2 percent in 2014/15. Financial soundness indicators point to the continued resilience of the banking sector, and the GOE is making efforts to deepen financial inclusion. Nevertheless, continued fiscal and economic reforms are needed to sustain growth. Egypt has also made significant strides in human development indicators: child mortality, life expectancy, primary and secondary school enrollment, and literacy rates have improved dramatically in the past thirty years. Here too, however, governance issues continue to affect health and learning outcomes. To protect the poor, the Government has targeted 1.5 million households in a new cash transfer program.

3. ***Far-reaching structural reforms are needed to transform Egypt's economy into a dynamic system that can reduce poverty, create productive employment opportunities, and maintain social and political stability.*** Economic growth in the past three decades has been moderate and uneven, and insufficient to reduce poverty or absorb the rapidly growing supply of labor. Poverty rates have been persistently high, at about one-quarter of the population, concentrated in Rural Upper Egypt, and unemployment remains high, particularly for women and youth. At the same time, the fiscal deficit is still large, reserves are only at about 3 months of imports, and political and social risks remain because their underlying causes – shortage of formal-sector jobs, high unemployment and underemployment among Egyptian youth, and exclusion of poor segments of the population – persist.

4. ***A recent rebound in the population growth rate combined with the echo boom from the last population bulge has resulted in a second youth bulge nearly 50 percent larger than the first.*** This will increase pressures on the labor market, infrastructure, social services, and the

¹ Promoting Poverty Reduction and Shared Prosperity in Egypt, A Systematic Country Diagnostic, World Bank, (P151429), September 2015. <http://documents.worldbank.org/curated/en/2015/09/25096259/egypt-promoting-poverty-reduction-shared-prosperity-systematic-country-diagnostic>.

environment, making it even more urgent for Egypt to undertake wide-ranging structural and policy reforms.

5. ***The GOE recently presented its Sustainable Development Strategy: Egypt’s Vision for the Year 2030.*** The strategy was developed in consultation with civil society, the private sector, Egyptian youth, and international development partners and is focused on three main areas: economic development, improving governance, and social justice and inclusion. Salient features of the strategy are a focus on the leading role the private sector is expected to play in economic development, emphasis on the need for greater transparency and accountability in the public sector, and emphasis on inclusion. As with all strategies, the key to success will be how well the GOE’s strategy is implemented.

6. ***WBG support under the CPF is focused on the twin goals, prioritizes the first pillar of the MENA strategy “renewing the social contract” and is organized under three closely interconnected focus areas: (i) improving governance; (ii) private sector job creation; and (iii) social inclusion.***

- **Efforts to improve governance** will include improving transparency and efficiency, strengthening inclusive institutions that work for the poor, and promoting citizen engagement and feedback. The WBG will support increasing citizens’ trust in the state, especially with respect to service delivery, such as a targeted social transfer system and decentralization of service delivery for rural sanitation; improving the transparency and efficiency of public administration through strengthening citizens’ ability to hold the state accountable through access to information and feedback on service delivery; and strengthening governance in the energy sector through energy subsidy and policy reforms. Governance issues lie at the heart of the remaining two focus areas as well.
- **Support for private sector job creation** will include improving the business climate for private investments. The WBG may also support catalytic investments in infrastructure, institutions, and capacities that contribute to competitiveness, including market-driven skills development; ensuring Egypt’s energy security and diversification, through enhanced energy efficiency and supporting financial sustainability of the energy sector; strengthening transport to spur mobility, connectivity, and economic activity; enhancing the productivity of agriculture by strengthening allocation and management of water resources and development of supply chains; and improving financial inclusion and governance for MSME development.
- **Improving social inclusion** will be addressed by strengthening the targeting of the social safety net (SSN) system; supporting a local development project aimed at the poorer governorates of Upper Egypt; improving the quality of health services, by expanding family health services that target the bottom 40 percent of the population, and supporting with TA Egypt’s efforts to prevent, diagnose, and treat Hepatitis C; enhancing access to improved sanitation and sewerage service; expanding housing for low-income households; and engaging in dialogue and analytic activities with the GOE to identify a transformational intervention in education to address governance weaknesses in the sector. The benefits in this focus area will accrue to a large extent to women.

7. ***This CPF presents an important departure from previous WBG strategies for Egypt.*** The CPF supports a transformative program to renew the social contract to support private sector job creation, social inclusion, and enhanced governance. The WBG is moving towards more than doubling its lending program compared to the recent past, to a total of about \$8 billion over FY15-19 – of which an indicative amount of about \$6 billion is requested by the authorities to come from IBRD and about \$2 billion from IFC. The actual volume and pace of IBRD lending will depend on the implementation of the program, including the ability to address macroeconomic risks, choice of instruments and economic performance in the course of the CPF period, continued Government interest in IBRD financing, and on IBRD’s lending capacity and demands from other borrowers. Similarly, the actual investments by IFC and guarantees by MIGA during the CPF period will depend on improvements in macroeconomic stability and progress in investment climate reforms that would boost investor confidence and facilitate greater private sector participation. The Bank also intends to use a programmatic approach, including finance and knowledge, use analytic products strategically to underpin policy dialogue and project design, and deploy the WBG’s convening power to promote advocacy and reforms. Lending will rely more on development policy financing (DPF) and Program for Results (PforR)s than in the past where the main instrument was investment loans, although investment loans will continue to be used where appropriate. Governance issues will be an integral part of all Bank Group initiatives, including policy and institutional reforms, and increasing transparency and accountability at the sector and project level; this will include enhancing citizens’ voice and grievance redress mechanisms. The WBG will show greater selectivity in the use of IBRD resources in core public sectors, with IFC leveraging the private sector. The Bank and IFC will use a joint approach in energy, education, and competitiveness. The WBG will seek to encourage regional cooperation in a number of areas: macroeconomic stabilization (through development partner financing support); cross-border private investments in energy and water; and promoting a platform for education for competitiveness.

8. ***The WBG strategy also includes shifts in emphasis among sectors and within sectors.*** The Bank will bring a new focus on education reforms and on lagging regions, particularly in Upper Egypt. In energy, the WBG focus will shift from conventional power generation to enhanced energy efficiency, improved transmission, and scaling up renewable energy from wind and solar power facilities, with efforts aimed at bringing in private sector capital and know-how. In health, the Bank support will focus on accountability of service providers to citizens and improving the quality of health services, with technical assistance aimed at supporting the GOE’s efforts to address Hepatitis C. Support to agriculture and water will be treated holistically rather than as separate sectors, and will shift from irrigation and drainage infrastructure to linking farms with markets and enhancing the productivity of labor-intensive agriculture. Environment will be integrated in relevant operations, for example in energy, agriculture and transport.

9. ***There are also important ways in which selectivity will be applied.*** First, the WBG will focus on priority areas identified in the SCD. Second, for those areas that promote shared prosperity but where there is no country demand for WBG support, the WBG will play an advocacy role. Third, the Bank will refrain from lending in areas that can attract private sector investment, leaving IFC and MIGA to take a more appropriate role in sectors where there is clear private investor appetite. Fourth, the Bank will focus lending in sectors with strong commitment to strengthen institutions and increase the state’s accountability to citizens.

10. ***Strong results are expected under the CPF through both new and ongoing projects and Advisory Services and Analytics (ASA).*** The policy and institutional reforms supported under the proposed DPF and investment operations will help to achieve the twin goals by renewing the social contract, reducing public sector inefficiencies, and strengthening the basis for a private sector led economy. The acceleration of existing project implementation will also bring tangible results. Some results from new programs will be developed in the Performance and Learning Review (PLR) to be carried out in FY18. Environmental sustainability and gender disaggregated monitoring of results will be an integral part of WBG initiatives under the CPF.

11. ***The overall rating of risks that affect the WBG program is high.*** Political, governance, social, macroeconomic and sector strategies and policies risks are rated high and will be closely monitored, with WBG making appropriate adjustments to its lending program and sector dialogue. The Bank will continue to provide technical advice on the distributional impact of a reduction in energy subsidies and on the better targeting of cash transfers to protect the poorest. Risks related to institutional capacity for implementation and fiduciary risks are rated substantial; these risks may be mitigated through technical assistance to implementing agencies and extra due diligence, respectively. To address environmental and social risks, capacity-building will be provided to GOE and implementing agencies for the preparation, implementation, and supervision of specific environmental and social safeguard instruments, and will cover the use of citizen engagement and grievance redress mechanisms.

FY2015-2019 COUNTRY PARTNERSHIP FRAMEWORK FOR ARAB REPUBLIC OF EGYPT

I. Introduction

1. ***This CPF, prepared jointly by IBRD, IFC and MIGA, covers the period FY15 through FY19.*** The most recent WBG strategy was the Interim Strategy Note (ISN), prepared in 2011 in a context of political and economic uncertainty in Egypt and covering an indicative program of support from June 2012 through December 2013. The ISN followed an earlier Bank-IFC joint Country Assistance Strategy (CAS) for the period FY06-09, which was extended through FY11.
2. ***The WBG's Country Partnership Framework (CPF) for Egypt is anchored in the dialogue with the Government of Egypt (GOE), wide consultations, and underpinned by strong analytics.*** The CPF builds upon the GOE's Sustainable Development Strategy for 2030. It is also based on consultations with stakeholders in Egypt, and draws directly from the analysis contained in the Systematic Country Diagnostic (SCD) for Egypt.¹
3. ***The CPF is organized along three interdependent focus areas for achieving the twin goals of boosting shared prosperity and eliminating extreme poverty in a sustainable manner²: (i) governance; (ii) private sector led job creation; and (iii) social inclusion.*** In addition, environmental sustainability, a long-term issue for Egypt, is a cross-cutting theme for WBG assistance and will be integral to WBG initiatives under the CPF.

II. Regional Context and WBG Role

4. ***The Middle East and North Africa (MENA) Region is experiencing widespread turmoil and violence, and a key challenge for the countries in the Region and their partners is to re-establish and maintain peace and stability.*** MENA is beset by civil unrest and violence, inflicting insecurity, destruction of infrastructure, and large-scale human suffering. Some sixteen million people have fled their homes, many to nearby fragile countries that are unable to cope, giving rise to the biggest refugee crisis since World War II. Egypt, a geopolitically important country in the Region, has been significantly affected by this turmoil and has had to give priority to addressing security concerns at the same time as it is grappling with constraints to economic development.
5. ***The WBG's new strategy is focused on supporting peace and stability in the Region, not only because they are prerequisites for economic development, but also because they are global public goods.*** The conflicts and violence in the Region have huge spillover effects, with refugees, further conflict, and terrorism. The WBG strategy is aimed at reversing current trends in the

¹ The SCD is an evidence-based analysis by the World Bank Group of the constraints and opportunities in a country for reducing extreme poverty and boosting shared prosperity in a sustainable manner. For Egypt, see Promoting Poverty Reduction and Shared Prosperity in Egypt, A Systematic Country Diagnostic, World Bank, (P151429), September 2015.

² This CPF organizes the three top priorities for reform and the three key drivers identified in the SCD into three pillars for support. The first pillar of *improving governance* incorporates all three top priorities for reform identified in the SCD (public sector governance, macro stability, and energy subsidies), while *private-sector led job creation* covers both the same key driver in the SCD and selected aspects of the SCD's spatial integration; the CPF's third pillar, *social inclusion*, covers other aspects of spatial integration and inclusion.

Region and helping to establish the conditions for inclusive growth.³ To do this, the underlying causes of conflict and violence need to be addressed, while providing support for mitigating the most urgent consequences of the conflicts.

6. ***The WBG's strategy for the MENA Region is geared towards four pillars: renewing the social contract between the state and its citizens; promoting regional cooperation; enhancing the resilience to displaced persons and refugee shocks; and supporting recovery and reconstruction.*** In the context of Egypt, three pillars are the most relevant and will be the focus of the WBG proposed strategy. These will involve *renewing the social contract and supporting economic recovery* through enabling the private sector to create jobs, especially for the youth, promoting good governance through greater transparency and accountability in use of resources and better quality in service delivery, and more effective protection of the poor and the vulnerable. *Regional cooperation* will be sought, particularly for cross-border private investments, pursuing regional cooperation in the energy, water, and education sectors, and cross border engagements through stronger financial, knowledge, and advocacy partnerships with regional development agencies.

III. Country Context and Development Agenda

A. Social and Political Context

7. ***Egypt is due to complete the political roadmap announced in July 2013.*** After three years of political uncertainty following the 2011 Revolution,⁴ a new constitution was adopted by popular referendum and presidential elections were held in May 2014. Parliamentary elections are due to be completed by the end of 2015.

8. ***The present Government has made progress in restoring security and bringing down the level of civil disturbances and political violence, although the risk of unrest remains.*** The underlying causes of the protests – shortage of formal-sector jobs, high unemployment and underemployment among Egyptian youth, and lack of service delivery to poor segments of the population – persist and are the focus of the GOE's economic and social reforms. Ensuring that the political and social environment is stable, safe, and peaceful is essential for fostering economic growth, attracting employment-generating investments, reducing poverty, and boosting shared prosperity.

B. Economic Developments

9. ***Egypt's economic growth over the past three decades has been moderate, but insufficient to absorb the rapidly growing population and labor force.*** Average per capita growth has been around 2 percent per year since 1980. The economy has been characterized by a decline in public investment rates, low and volatile private investment, low and undiversified exports, low labor force participation and employment rates, especially among women, weak firm dynamics and job creation, absence of a robust small and medium enterprise (SME) sector, and limited productivity growth. Egypt's economy has become increasingly capital-intensive with the share of income

³ This is consistent with the adoption, in September 2015, by the United Nations, of Sustainable Development Goals, which include Goal 16: Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

⁴ President Mubarak was ousted in February 2011; Egypt's first democratic elections brought the political arm of the Muslim Brotherhood to power in 2012, but the Muslim Brotherhood leadership quickly alienated broad segments of the society, and political tensions mounted. In July 2013, massive popular demonstrations removed President Morsi from office. An Interim President was installed until the presidential election in May 2014.

going to labor only around 30-40 percent. Excessive subsidies to capital-intensive industries have contributed to the limited overall job creation in Egypt relative to other middle-income countries.

10. **Since 2000, economic growth in Egypt has been volatile, due to both internal and external factors.** Moderate growth rates in the early part of this period (1999-2003) began to increase in response to wide-ranging structural reforms starting in 2004, including an accelerated program of privatization, improvements to the business climate and exchange rate management, banking sector, tax, and trade reforms. Private investment, driven by high net foreign direct investment (FDI), contributed to the surge in growth, as did the booming Gulf economies and strong global economic growth. Growth rates accelerated to over 7 percent per year in 2007-08 and per capita income grew at a healthy rate. The 2008 global financial crisis and rising food prices halted Egypt's strong economic growth, however, and annual growth rates fell to 4.7-5.1 percent in 2009 and 2010, still outpacing most emerging economies. After the Egyptian Revolution in 2011 and ensuing political turmoil and civil unrest, tourism and foreign investments plummeted, the business climate deteriorated, and annual growth rates fell to some 2 percent (Figure 1). Growth is projected to rebound to over 4 percent in 2015 (Table 1).⁵ Unemployment remains high, at 12.7 percent as of June 2015, and is particularly high for women and youth.

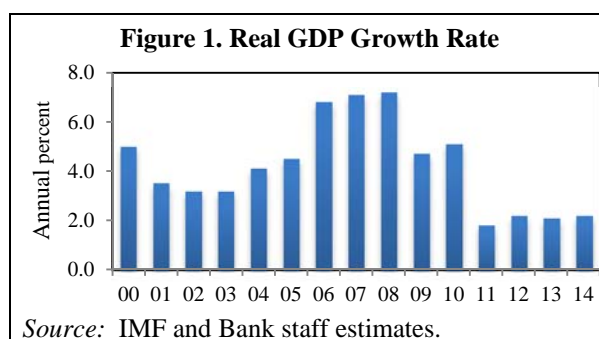


Table 1. Selected macroeconomic indicators, actual and projected, 2006 – 2019

Fiscal year	Actual					Projected				
	2006-10	2011	2012	2013	2014	2015	2016	2017	2018	2019
Real GDP growth rate (%)	6.2	1.8	2.2	2.1	2.2	4.2	3.8	4.4	4.8	5.2
Unemployment rate (End of period, %)	9.3	11.8	12.6	13.3	13.3	12.7	12.5	12.	11.4	10.7
Inflation (CPI Index, Period Average)	11.0	11.0	8.6	6.9	10.1	11.0	9.8	9.5	9.1	8.7
FDI (% GDP)	5.9	0.9	1.5	1.1	1.5	2.0	3.3	4.3	4.3	4.2
National investment ratio (% GDP)	19.6	17.1	16.4	14.2	14.0	14.6	14.7	14.8	15.0	15.2
Of w: Private investment (% GDP)	11.9	10.4	10.3	8.8	n/a	n/a	n/a	n/a	n/a	n/a
Fiscal balance (excl. grants, % GDP)	-7.5	-10.0	-10.7	-13.3	-16.7	-12.6	-10.7	-9.2	-8.0	-7.5
Current Account Balance (% GDP)	-0.1	-2.6	-3.1	-2.0	-0.9	-3.7	-5.6	-5.2	-4.0	-3.1

Source: Actual: National Authorities and World bank staff estimates.

11. **Although Egypt has long had a large structural fiscal deficit and public spending has not supported inclusive growth, the GOE has recently embarked on a number of important reforms.** Egypt's chronic fiscal deficits reflect low tax revenues and high spending on subsidies, interest payments, and civil servants' salaries, which crowd out more productive spending on human and physical capital formation. Government debt to GDP is expected to reach 91 percent of GDP by end-FY15. The significant monetary financing of deficits and large Gulf Cooperation Council (GCC) inflows in FY14 (para. 13) have provided temporary relief from further debt accumulation but these flows have fallen notably in FY15. As an important start to reduce the chronic fiscal deficit, the GOE has recently begun key reforms to reduce energy subsidies, broaden the tax base through the introduction of new taxes, increase prices of fuel products and electricity tariffs, improve targeting of the social safety nets, and reform the civil service. Egypt's return to

⁵ Growth during the first nine months of FY15 averaged 4.7 percent, triple the rate in the same period a year earlier.

international markets in the second half of 2015 with the successful issuance of a \$1.5 billion Eurobond is a positive sign of international confidence, and the recent opening of the Suez Canal after just one year of work and a major gas discovery in Egyptian waters bode well for the country's medium-term outlook.

12. ***Inflation has been volatile and elevated, despite real appreciation of the currency, but may be on the decline.*** Even with the economic slowdown in 2011-13, inflation remained high (Table 1). Egypt's large fiscal deficit and the partial monetary financing of the deficit as well as persistent supply bottlenecks have contributed to inflationary pressures. In addition, the official exchange rate remained broadly unchanged from June 2013 to the end of 2014 due to large inflows from the Gulf, which led to a real effective exchange rate appreciation against the dollar. In response to the widening of the "structural" balance of payments, the Central Bank of Egypt (CBE) introduced a foreign exchange auctioning system in December 2012, to buy and sell foreign exchange. However, restrictions imposed on the auctions and on the interbank market led to an insufficient supply of foreign exchange at the daily exchange rate determined by the CBE and contributed to the development of a parallel foreign exchange market. In 2015, the CBE made efforts to curb the parallel exchange market. It allowed movement in the official exchange rate – a depreciation of 12.5 percent since beginning of 2015 – and widened the exchange-rate margin. A gradual move toward a more flexible exchange rate policy focused on achieving a market-clearing rate would improve the availability of foreign exchange, strengthen competitiveness, and support exports. Inflation was in low double-digits in FY15 despite a weaker Egyptian pound, higher prices of fuel products, and higher consumption taxes. The slightly lower inflation projected for FY16 reflects a proactive monetary policy by the CBE, lower international oil and grain prices, and slowing growth in the Euro area, Egypt's main trading partner. International reserves are currently at about 3 months of imports. Going forward, Egypt needs to meet the substantial backlog of demand for foreign currency and improve its external competitiveness.

13. ***The GOE received large, exceptional financial inflows that have helped to stabilize the economy.*** Since mid-2013, Saudi Arabia, United Arab Emirates, and Kuwait have committed some \$24 billion to Egypt in central bank deposits, cash and in-kind grants, and project aid, of which \$18-19 billion was received in FY14. These inflows helped to stabilize the economy and partially meet the country's energy and food needs. Further pledges from the GCC of \$12.5 billion were made at Egypt Economic Development Conference in March 2015, some of which were received and others are in the implementation phase.

14. ***Vulnerabilities remain.*** The economy is at an early stage of recovery and remains vulnerable to adverse internal or external shocks. Risks include slower growth in other countries that could affect investment, tourism, and global trade; and regional conflicts or deterioration in domestic security that could also affect investor confidence and tourism. Starting in 2014, the GOE implemented two economic stimulus packages amounting to 3 percent of GDP, mainly investment spending that include planned mega-projects (para. 55) that carry economic and fiscal risks, but including as well substantial public sector wage and pension increases, helping mostly middle-income earners. Recent energy pricing reforms are encouraging, as are the increased taxes on selected goods and the introduction of new taxes (para. 23). Further structural reforms are needed to put fiscal and debt levels on a sustainable path and to stimulate a strong private sector-led economic growth. Exchange rate flexibility will be important to enhance Egypt's macroeconomic stability, labor intensive growth, and export competitiveness.

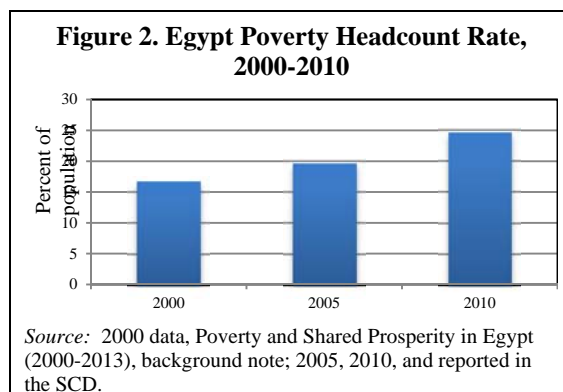
15. ***A recent Debt Sustainability Analysis by the Bank indicates that Egypt's debt would be sustainable over the medium term as long as a pro-growth fiscal consolidation path is adopted.***

The primary deficit during FY16-17 and positive real interest rates would contribute to rising indebtedness, but positive debt dynamics from GDP growth along with achieving a primary fiscal balance in FY18 and a surplus thereafter would more than compensate and allow the debt to GDP ratio to decline from 91 percent of GDP in FY15 to 85 percent by FY19. Debt to GDP would nevertheless remain high and the debt servicing bill would continue to exert pressures on public spending. In addition, the envisaged decline in the debt to GDP path over the medium term would be reversed if the economic recovery is not sustained and if fiscal consolidation efforts weaken.

C. Poverty Profile

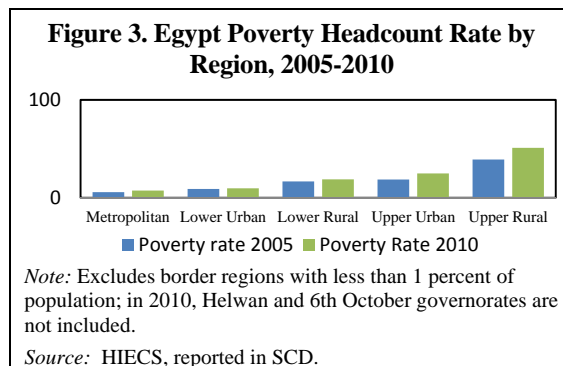
16. *In spite of reasonable economic growth rates during the 2000s, poverty rates increased.*

Through years of both strong and moderate growth, poverty rates increased steadily from 16.7 percent in 2000 to 24.3 percent in 2010 (Figure 2). The welfare of the poor – as measured by the gap of the average income and the poverty line – also worsened between 2005 and 2010. The latest official poverty headcount indicated that more than 26 percent of the population lived below the poverty line in 2013 but data and methodological differences prevent comparison of 2013 numbers with previous years. During the CPF period, Egypt’s national statistical office will finish field work for a new household survey which will be used to update poverty estimates.



17. *Regional welfare disparities are an enduring feature of poverty in Egypt.*

The highest poverty rates are found in Rural Upper Egypt: by 2010, half of the population in the region was considered to be below the national poverty line. Upper Urban Egypt has the second highest poverty rates. Although poverty is particularly high in Upper Egypt, even core metropolitan parts of the country (Cairo, Alexandria, Port Said, and Suez) experienced an increase in poverty (Figure 3).



18. *Economic growth in 2005-2010 did not translate into significant employment creation.*

The private formal sector has been unable to provide productive employment to the growing labor force, and as a result, the share of low-productivity informal sector employment in small and micro-enterprises, with increased vulnerability to economic shocks, has risen. Constraints to private sector growth are discussed below (paras. 31-35). In addition, in spite of strong GDP growth, household income growth declined between 2005 and 2010: annual income growth of the bottom 40 percent (the shared prosperity indicator) was -1.3 percent, while overall average household income fell even faster, at -1.7 percent per year. These results may explain the slight decrease in inequality in Egypt over this period.⁶

⁶ The measure of inequality, the Gini coefficient, was 32-34 percent for Egypt in 2008-09, lower than in previous years and among the lowest in the world and among countries with similar per capita income. Nevertheless, perceptions of life

19. ***The bottom 40 percent of Egyptian households is concentrated in rural regions of Egypt, where access to basic services is below national averages.*** Rural Upper Egypt is home to the largest share of the vulnerable population. Although good progress has been made throughout Egypt in access to education and several health indicators, inequities remain. In tests measuring learning outcomes in math and science, children in rural areas performed, on average, 40 points below those in urban areas and almost 75 points below those in Lower Urban Egypt; in basic education, while there is nearly full enrollment for children in the richest quintiles, the poorest quintile has enrollment rates of about 73 percent for basic education and below 50 percent in secondary education. Geographic inequities in health also persist: under-5 children living in Rural Upper Egypt are twice as likely to die as the same cohort in Lower Urban Egypt.⁷ Lower per capita public spending and coverage rates for basic services in rural areas compared to urban areas may perpetuate economic disparities.

20. ***The worrisome poverty and employment trends are compounded by the recent rebound in fertility and population growth rates.*** In 2012 there were about 7.5 million Egyptians aged 15-29 (9.6 percent of Egypt's population). As this generation joined the labor force, it put tremendous pressure on the labor market. About 70 percent of the unemployed are between 15 and 29 years old, and the young and women are more likely to have informal sector jobs, with irregular hours, no written contract, and no social insurance. Although annual population growth rates had dropped from 3.6 percent in 1980 to 1.9 percent in 2007, the rate rebounded to more than 2.5 percent, and resulted in a second youth bulge. In 2012, there were more than 11 million Egyptians under the age of 5, a generation nearly 50 percent larger than the first bulge. This second youth bulge will put yet more pressure on services as well as a labor market unable to absorb the current youth, and makes it even more urgent for Egypt to undertake wide-ranging structural and policy reforms before this second wave enters the labor force.

D. Development Challenges to Eliminating Extreme Poverty and Boosting Shared Prosperity

21. ***The SCD identified three top priorities for reform to underpin development efforts and three key drivers for eliminating extreme poverty and enhancing shared prosperity in Egypt in a sustainable manner.*** The three top priorities are macroeconomic stability, energy subsidy reforms, and improved governance. The three key drivers identified by the SCD are private sector development; spatial development; and social inclusion. Environmental issues also represent a long-term challenge for Egypt to ensure the sustainability of its economy. These drivers are well aligned with three pillars of the regional strategy which focus on a renewed social contract, reconstruction and recovery, and regional cooperation.

Macroeconomic stability

22. ***The GOE has recently undertaken important measures to reduce the fiscal deficit and restore macroeconomic stability, but further reforms are needed.*** The GOE's recent actions have addressed subsidies, wages, and taxes, but fiscal issues have been a long-standing problem in Egypt. Persistently high deficits have been financed by the domestic banking sector, leading to crowding out in credit

worsened among Egyptians between 2000 and 2008, with more survey respondents feeling poorer and dissatisfied with their financial situation in 2008 than in 2000.

⁷ Country Engagement Briefs on Health Systems in MENA: Egypt: Fairness and Accountability in Health Systems, November 2013, p. 5.

markets for private investments. Large, distortionary subsidies, high interest payments on the public debt, and more recently, doubling the size of the public payroll in the context of an already oversized public sector, have squeezed fiscal space, and public sector investments and maintenance have borne the brunt of this. Resulting persistent supply bottlenecks have kept prices – especially food prices – high, with a disproportionate impact on the poor and vulnerable. Double-digit inflation eroded competitiveness and been a further discouragement to private investors.

23. ***The GOE has introduced a range of new taxes.*** The GOE has introduced taxes on real estate, dividends, and capital gains, as well as taxes on the bonuses of civil servants (which were historically exempt), and has increased taxes on cigarettes three times successively throughout FY15. The GOE also modified the income tax to have a unified tax ceiling of 22.5 percent, which is likely to remain unchanged over the medium-term. In addition, the GOE is planning to replace the sales tax with a VAT system that meets international standards. Work is underway to develop a simplified tax regime for SMEs, as well as to improve tax compliance and control systems. The GOE also plans to collect higher non-tax revenues by enacting recently a new mining law, by issuance of a 4-G license, and through better oversight and performance of economic authorities and public sector entities. These reforms prompted a sovereign rating upgrade by Fitch in December 2014; currently Fitch, S&P, and Moody have a “stable” outlook for Egypt.

24. ***On the spending side, the GOE plans to reduce non-priority spending.*** It introduced a cap on the value of bonuses and rewards in FY16 as well instituted measures to prevent the automatic increases in the wage bill by delinking variable payments from basic salary. The Government published the “Citizen Budget” and is working on approving and publishing a Medium-Term Public Debt Strategy. The absence of sound public investment management (PIM) and procurement undermines the potential contribution of public investment to sustainable growth. Egypt needs to develop an effective and unified (PIM) system based on identification of priorities, cost-benefit analysis, stable funding, and adequate consideration of maintenance obligations, and accompanied by robust procurement procedures.

25. ***The GOE has set a target for the fiscal deficit of 8-8.5 percent of GDP over the medium term, which is ambitious but necessary.*** Achievement of this objective faces a number of risks, including the need for timely implementation of certain measures, such as the VAT system and streamlining of energy subsidies; the likelihood of delays in the pursuit of further fiscal reforms; cost over-runs on large public infrastructure investments; and unexpected downturns in the performance of state-owned enterprises (SOEs). Finally, and critically, improved public sector governance is needed to reduce the risk of uneven implementation of the proposed measures.

Energy subsidy reforms

26. ***Universal energy subsidies are very costly and a major source of distortion in the Egyptian economy.*** These subsidies, amounting in FY13 to almost 7 percent of GDP and over 20 percent of the GOE’s expenditures, exceeded combined spending on health and education, and have recently been twice the level of public investment. Over half of the subsidies accrue to the top 40 percent of the population and are damaging to the social contract. In addition, the subsidies favor energy-intensive industries, and are partly responsible for declining investments across the supply chain, including oil and gas exploration and production. They also lead to excessive energy consumption and imports, and have thus contributed to the current energy deficit and supply bottlenecks: in the past three years, the country has experienced, for the first time in decades, frequent electricity supply interruptions. Furthermore, energy subsidies have negative spillover effects in the transport and

water sectors. Cheap gasoline and diesel have led to rapid growth in road transport, with consequent severe air pollution and congestion in large cities like Cairo. In the water sector, cheap diesel encourages excessive pumping of ground water and irrigation in agriculture along with a bias towards water-intensive crops, contributing to water depletion. The ratio of water withdrawn to availability (renewable water resource) is around 100 percent in Egypt. All of these consequences of energy subsidies are damaging for achieving sustainable growth and poverty reduction.

27. ***In 2014, the GOE took a long-awaited and highly significant first step to reduce these subsidies.*** The GOE introduced comprehensive price increases of 40 – 80 percent for fossil fuels and 20 percent for electricity and announced the allocation of 27 billion LE of the total 50 billion LE of fiscal savings (2 percent of projected GDP) to health, education, and social protection programs, particularly the expansion of the Cash Transfer Program. The recent decline in global oil prices further reduced the subsidies, which are estimated to drop to about 3.3 percent of GDP in FY15 (from 6.6 percent in FY13). The GOE announced in August 2015 further fuel and electricity price increases for FY16 ranging from 3 to 65 percent and a five year trajectory for eliminating subsidies on electricity tariffs.⁸ Going forward, continued energy subsidy reform will be essential for creating fiscal space for higher levels of investments in health, education, and research in development, as mandated by the new Constitution. At the same time, for the sake of equity and public acceptance of these reforms, an effective social safety net needs to offset the impact of increased energy prices on the poor and vulnerable.

Improved governance

28. ***Improving governance is critical, both for strengthening the relationship of the state with its citizens and for achieving sustainable growth and reducing poverty; while the GOE has taken a number of steps to address governance concerns, much remains to be done.*** Reforms aimed at enhancing access to information and citizens' participation across most areas of public sector activity would strengthen the bonds between the Government and its citizens, and reduce the sense of alienation and frustration with the state, and thus the likelihood of civil disturbances. In addition, empirical studies show a high correlation between good governance and economic performance; improving governance contributes to the effective delivery of public goods that are necessary for both businesses and citizens. These also central to the regional strategy on renewing the social contract which focuses on an efficient and inclusive state and a private sector led economy. The GOE's main achievement in this area remains the adoption of a law regulating conflicts of interest in the public sector. A revised law on civil service is due to be passed following parliamentary elections. Nevertheless, Egypt still faces large challenges to improving governance: the country scores poorly on a number of global governance indicators, such as effective enforcement of Government regulations (World Justice Project, 2012 and Global Integrity Indicators, 2010).

29. ***The GOE needs to strengthen transparency and accountability, and address systemic flaws in enforcement of laws, regulations and policies, weak incentives, and an absence of sanctions that make it difficult for both citizens and businesses to access Government services or hold public sector employees accountable.*** Increased transparency and public dissemination of laws and regulations would help to ensure more even implementation, while increasing the transparency

⁸ The DPF supports a planned schedule of electricity tariff adjustments beyond the one implemented in FY15. The analysis conducted on the direct impacts of these changes found small effects on poverty and welfare. Electricity represents on average 1.8% of household total consumption expenditure in Egypt, much below the 10 percent expenditure share typically considered as an indicator of affordability.

of public expenditures on specific services such as social safety nets and education, from the central level down to the most local level, would increase accountability. Disseminating data, such as on the health impact and economic cost of environmental degradation, and using these data for policy discussions and debates could increase citizens' support for reforms. Introducing and strengthening mechanisms for citizens' feedback on service delivery would also enhance accountability of both public entities and civil servants and restore citizen confidence in the ability of state to provide quality services. As one example, the absence of a tradition of parent associations for public schools combined with weak oversight by supervisors means that teachers in Egypt, as civil servants, are shielded from being fired or otherwise disciplined for poor performance, with resulting chronic staff absenteeism, low levels of teaching time in the classroom, and poor student learning outcomes.⁹

30. *The public sector in Egypt is large and thus addressing governance issues is particularly important.* In 2013/14, the public sector accounted for 39 percent of GDP, and, despite a privatization program in the past decade, public institutions control a major share of assets in banking and insurance. In spite of its large role, the public sector has not delivered on two things that Egyptians want the most – good jobs and quality public services. To meet the demands of Egyptian citizens, therefore, governance reforms are critical.

SCD Key Driver 1: Promoting private sector led job creation

31. *In spite of efforts over the years to improve the regulatory environment and create a more attractive climate for the private sector, employment growth in the formal private sector has stagnated.* Between 1998 and 2012, the share of the labor force employed in private formal sector firms was unchanged, while it decreased in the public sector, and increased from about 30 to 40 percent in the informal sector, mainly in micro-enterprises, with low wages, few or no benefits, and unstable employment prospects. The situation has been particularly dire for women: because of the difficulties of working in the informal sector, many educated women have dropped out of the labor force entirely, while fewer than 2 percent of women aged 15-64 work in the formal private sector. With the recent surge in population growth rates (para. 20), the large echo generation will place increased pressure on Egypt's labor market, and the demand for employment will be even higher than it is today.

32. *Egypt's private sector lacks dynamism: in terms of increases in productivity, entry rates, and growth of existing firms (especially medium and large firms), Egypt lags significantly behind comparator countries.* Policy distortions and inefficient incentives have inhibited effective competition. Privileged access to land (and hence to bank loans that use land as collateral) and other resources, an excessively complex and discretionary system of licensing and permits that favors well-connected entrepreneurs, and heavily subsidized energy that encouraged capital-intensive investment have all contributed to sustaining monopolistic market structures in many sectors, with limited ability of the Egyptian Competition Authority to address these issues. A stronger private sector that can create jobs and opportunities for MENA's youth will enhance livelihoods/economic opportunity and lay the foundations for sustained recovery.

33. *GOE has introduced regulatory reforms to improve the environment for private business, but uneven implementation and lack of a level playing field for private sector firms contribute*

⁹ Efforts to improve teacher performance since 2007 include: the establishment of the Teachers Cadre (2007), the development of a career path and promotional system for teachers, along with a 50% increase in basic pay (2007) and bonuses for each promotional level from (2008). However, teacher performance remains an issue.

to an unfavorable investment climate. The GOE has made numerous reforms to reduce the cost and difficulty of starting a business on paper, but implementation of the reforms remains an issue. Waiting times for operating licenses, especially industrial licenses, construction permits, and customs clearance procedures differ significantly among firms within the same industry and between cities. In addition, 85 percent of firms in Egypt identify corruption as a serious problem. These factors impede both entry of new firms and growth of existing firms, and have prevented the formal private sector from providing productive employment to the growing labor force.

34. ***The policy priority for Egypt is to unleash the potential of the private sector to create a large and diverse set of jobs, and to remove regulatory limitations to private participation in key infrastructure and social sectors.*** Considerable scope exists for private investors to contribute capital, technological know-how, and management skills to the development of energy, other infrastructure, agriculture, information technology, support to start ups, housing, education, and health. The GOE can catalyze such investments by making public investments in business-enabling infrastructure and institutions and by undertaking cross-cutting and sector reforms. Reforms to address the business climate would include creating a predictable and fair regulatory environment based on clear and equally enforced rules; easier and less discretionary access to land and construction permits; better contract enforcement; removing unnecessary regulatory procedures; and simplifying the necessary permits and licenses will renew the social contract between the state and its citizens. Strengthening the Competition Authority is also key to removing barriers to competition in all sectors. Improving financial infrastructure through expanding the coverage of the credit bureau and the creation of collateral registries, enacting the secure lending framework, and streamlining the bankruptcy framework would benefit SMEs in particular. The GOE has expressed the political will to take on aspects of this agenda in partnership with the WBG, but results will require persistent efforts to address the issues and to overcome resistance.

35. ***The reform to energy subsidies initiated in 2014 and continued more recently is a key step toward leveling the playing field in the private sector, but further and deeper reforms are needed, including overall energy policy reforms, and investments to address bottlenecks and improve energy diversification.*** In 2013, Egypt ranked 99th worldwide in terms of access to reliable power, and due to power and gas shortages, industry was reported to be operating at 60 to 70 percent of capacity.¹⁰ The growth in electricity demand in Egypt has exceeded economic growth over the past decade. If demand continues on its current path, generation capacity would need to more than double its 2010 level by 2020 to reliably meet this demand. Improving service levels, or at least preventing their deterioration, is also critical for ensuring that pricing reforms are politically acceptable. Measures to address these challenges include governance reforms for enhanced accountability and transparency, promoting private sector participation in particular to meet the challenge of financing investments in power generation, continuation of reforms in energy pricing including electricity tariffs and fuel subsidies, exploiting the potential of renewable energy sources – Egypt has recently made a big push in the area of renewable energy – and incentives for energy efficiency. In parallel, Egypt is increasing the availability of gas through further exploration, production, and perhaps imports, as gas remains the primary fuel (82 percent) of power generation.

SCD Key Driver 2: Enhancing spatial development

36. ***Improvements in infrastructure could increase the productivity of metropolitan firms, help to spread economic activity outside of metropolitan Egypt, and enhance workers' access to***

¹⁰ Financial Times, August 3, 2014, Nick Butler

productive jobs. More than 50 percent of formal private sector jobs are located in metropolitan Egypt, only 5 percent in Upper Egypt. Egypt's infrastructure was ranked 118th out of 148 countries (with roads ranked 122nd). Significant losses (up to 40 percent) in the value of produce transported from Upper Egypt to wholesalers could be reduced with investments in appropriate transport and logistics. Workers' commute into metropolitan Egypt could also be facilitated by better infrastructure and reduced congestion; this would benefit women in particular, who have limited mobility due to social norms and a strong preference for shorter commutes; infrastructure bottlenecks likely contribute to the record low labor force participation rate among young women (although the low rates among women are due to a complex interplay of other factors as well). Improvements should include improving traffic flow and giving priority to public transport on the roads; expanding reliable mass transit; and institutional and regulatory measures. Reforming fuel subsidies will also help reduce traffic on the roads. Trade logistics at ports as well as inland also need to be strengthened.

37. *Land use planning and management in Egypt need a broad vision of urban planning and simplification of laws and regulations.* Streamlining the land use management system and reducing divisions among the numerous Government agencies in sector regulation will create less opaque pricing. Increasing the housing supply in cities, which has been limited by rent control policies and height restrictions, will limit urban sprawl. Simplifying the land and property registration system will create more secure property rights, and improve the availability of housing finance, and allowing the private sector to deliver housing should help to lower costs and increase efficiency.

38. *Agricultural productivity and off-farm employment could be enhanced by policy reforms, better connective infrastructure, more efficient water allocation systems, and improved agricultural and agro-industrial logistics.* Agriculture still employs almost 9 percent of the workforce, more than any other sector. The majority of farmers own less than 2 feddans (1 feddan = 0.4 hectares, 1.04 acres), which is insufficient to support a family of six without the addition of non-farm income. Egypt's irrigation and drainage infrastructure suffers from high salinity and the water supply system operates with only 50 percent efficiency and 40 percent cost recovery, both among the lowest in the region and the world. The GOE needs to reform the water allocation system, and improve the efficiency of the entire irrigation and drainage system, including on-farm irrigation efficiency. The GOE has drafted a new law to allow more flexibility and less Government control of farm cooperatives, to be completed after Parliamentary elections; this should facilitate contract farming and access to credit. The GOE is also reviewing the regulatory environment to encourage public-private partnerships in agricultural infrastructure and logistics such as wholesale markets and cold storage, particularly in Upper Egypt. Further reforms to reduce price distortions for inputs and outputs, allow greater freedom for water user associations (the branch canal law), and encourage private competition in long-haul transport services might also help to increase agricultural productivity.

SCD Key Driver 3: Social Inclusion

39. *Egypt has realized major educational achievements in reaching universal primary school enrollment, increased secondary school enrollment, improved literacy rates, and decreased gender gaps, but challenges remain.* The demand for education will continue to rise due to the recent bulge in population (para. 20). The education system is characterized by fragmentation in education policy, financing, and administration, weak governance with few sanctions for poor teacher performance and no local oversight through parent organizations, discrepancies between

the school supplies allocated by local Governments and what reaches local schools, and geographical inequality in educational achievement. In spite of the growing number of educated youth, unemployment is rising among 15-29 year olds, especially for women. Although the main problem is lack of jobs, the paradox is that employers are not finding youth with either the technical or soft skills needed, adding to the growing numbers of educated unemployed. This mismatch between the skills needed by the market and those supplied by the education and training system can be bridged by reforms to the education system. The GOE's framework for workforce development through education is evolving and as yet lacks clarity. The system needs to enhance the accountability for outcomes, and to have better data to identify priority areas for reform. Regulatory reform is needed to allow or encourage private investment in vocational and post-secondary education. The GOE plans to address inequities in public spending by increasing the number of classrooms by 12 percent, with a particular focus on Upper Egypt, and to scale up literacy and elderly learning projects, enhance vocational training, and upgrade public universities. These measures would need to be accompanied by a focus on learning outcomes.

40. *Egypt has made major strides in improving health outcomes, including significant decreases in child and maternal mortality rates – and is likely to meet the targets for the Millennium Development Goals in these two areas by 2015 – and increased life expectancy, with more than half of the population having access to health insurance, although reforms targeting governance of the sector are needed.* Health services are fragmented among a number of organizations and are characterized by significant inefficiencies in the allocation and use of resources, low Government contribution, and increasing out-of-pocket expenditure. Egypt spends around 5.1 percent of GDP on health (including private out-of-pocket expenditures), and has one of the lowest ratios of public health expenditure to total health expenditure (21 percent) in the region. Better access to family planning services is needed to address the recent unexpected increase in population growth. The system also has limited citizen's engagement and a lack of participation in monitoring the quality of the delivery of health services. Almost 7 percent of Egyptians are pushed into poverty each year due to catastrophic out of pocket health expenditures. Although primary health care facilities are fairly distributed in Egypt, in rural areas they suffer from lack of budgets and of qualified staff.

41. *Egypt has a number of social protection programs, but they need to be streamlined and to provide better protection to the poor.* Egypt has a complex social protection system, including employment services, social insurance (health, pension, and unemployment) and social assistance (cash transfers) in addition to fuel and food subsidies. Much of the spending on the system goes to universal subsidies that mainly benefit the rich: subsidies for energy have been as high as 6-8 percent of GDP – although with recent subsidy reforms this is expected to be around 3.3 percent in FY15 – and accrue disproportionately to the top 40 percent of the population. The Social Solidarity Pension, Egypt's main cash transfer program, reaches less than 10 percent of the poorest quintile, and less than a quarter of the program's resources accrue to the poorest quintile. Egypt needs to improve targeting of beneficiaries, to identify better who is poor, and to improve the Social Safety Net (SSN) business processes, including enrollment, payments, and grievance and redress mechanisms.

42. *Gender issues are of particular concern.* Women's ability to find productive employment is affected by a number of factors, including lower education levels, social and cultural barriers, wage discrimination, and poor infrastructure. Women face a higher effective cost of commuting due to social norms, safety concerns, and the inflexible work schedules entailed by long commutes;

they also face more constraints in accessing credit and to appropriate skills training. Ensuring access to services and to employment is particularly critical for women.

Ensuring environmental sustainability is a long-term challenge

43. ***Economic expansion in Egypt has been accompanied by increasing demands on scarce and often degraded natural resources, resulting in worsening air quality, soil degradation, declining water availability and quality, and hydrocarbon depletion; the recent surge in population growth is likely to place increased strain on Egypt's natural resources in the near future.*** Environmental degradation negatively affects health as well as prospects for future economic growth. In 2002 the cost of environmental degradation in Egypt was estimated at 5.6 percent of GDP and is likely much higher today, with pollution to air, water, and soil as three largest causes of environmental damage.¹¹ Water and soil degradation are primarily rural and account for more than 55 percent of the cost, while urban air pollution accounts for more than 40 percent. Given the concentration of poverty in rural areas, environment degradation affects mostly the poor rather than the non-poor. Climate changes will exacerbate an already fragile natural resource base.¹²

44. ***Air quality in urban area has deteriorated to levels where there are serious concerns about its impacts on public health, the environment, and the economy.*** The cost of degradation related to air pollution in Greater Cairo Metropolitan Area rose dramatically between 1999 and 2009, and is estimated at 1 percent of GDP, including premature mortality and morbidity due to chronic bronchitis and respiratory symptoms. The major contributors of air pollution are transport and open burning of agricultural wastes. Recent fuel subsidy reforms combined with measures to improve urban public transport will contribute to alleviating air pollution in Greater Cairo. Finding feasible solutions to the complex issue of agricultural burning remains to be developed and may require multi-sector solutions.

45. ***Declining availability of fresh water is due to water pollution, primarily from agricultural waste and rural sanitation.*** Deterioration of water quality is adding health and economic burdens to limited water resources. Fresh water availability has been diminishing in Egypt for the past fifty years and is now below the water scarcity threshold. Pollution and degradation due to untreated sewage, industrial effluent, and agricultural runoff (loaded with fertilizers, pesticides, and organic material) are often discharged into the Nile, while drainage canals are heavily polluted by illegal dumping of waste and garbage and by inadequate sanitation systems. Groundwater aquifers, used for both drinking and irrigation, are also polluted because of poor agricultural practices, seepages from livestock, and rural waste. Waterborne diseases and concerns regarding the safety of foods produced with Nile ground water, particularly in the Delta, have significant health and economic impact. Costs related to poor water quality were estimated at 3.2 percent of GDP in 2003.¹³ To avoid a severe water resource crisis, the inefficiencies in water use and sources of water pollution need to be decisively addressed, involving solid waste disposal, rural sanitation, and better urban planning to reduce urban encroachment.

¹¹ World Bank, Arab Republic of Egypt Country Environmental Analysis, 2005, cited in SCD, February 2015, page 35.

¹² Addressing water scarcity and climate change will require high-level regional support and fostering policy and technological innovations including for sustainable urban water management, agricultural water productivity systems, and enhanced cooperation of transboundary water resources via international water management agreements.

¹³ World Bank, op. cit., page 36.

46. ***Egypt ranks first in the world in its rate of desertification, and land degradation is also a serious issue.*** Urban sprawl and over-intensive agriculture have combined to rapidly decrease the availability of good quality agriculture land. Better urban planning (para. 37) and improving agricultural policies (para. 38) can help to address these issues.

47. ***Although Egypt is currently a relatively low carbon economy, it needs to invest in renewable energy and improved energy efficiency to reduce its energy emissions and consumption relative to GDP.*** Measured in terms of carbon emissions per GDP and energy consumption per GDP, Egypt is one of the highest in the region and almost double the global average on both measures, due largely to high energy subsidies. Egypt's energy price reforms and an acceleration of investments in renewable energy are helping ensure the sustainability of the reform process, and due to strict enforcement of controls over fuel leakages and smuggling, the resource intensity of diesel consumption per unit of GDP has come down from 2014 levels, in spite of the recent surge in GDP growth. Adaptation needs are estimated to cost about \$7.6 billion, with the bulk of investments in the coastal zone infrastructure.¹⁴

48. ***Egypt can decrease environmental degradation risks by improving governance, particularly its institutional framework and enforcement capacity, and by promoting a more sustainable approach to energy and water use.*** Although Egypt's environmental laws are outdated and need to be revised, the greatest barrier to successful environmental policy lies in the poor implementation and enforcement of these laws. Lack of data, multiple overlapping authorities, and inadequate human resources make it simple to evade environmental laws. Addressing these issues will require support from civil society, and public dissemination of environmental information and risks may help build this support. In addition, updating the environmental diagnostic can help identify priorities. In sum, Egypt needs a resilience-based developmental approach that is based on an understanding of vulnerabilities and risks.

Prioritizing interventions in the CPF

49. ***The selection by the CPF of interventions during FY15-19 under the key drivers were those that met any three of the four filters laid out in the SCD.*** These four filters were: (i) Improving governance, through addressing institutional capacity, transparency, and accountability in all aspects of public investments and service delivery; (ii) having direct rather than indirect impact on the twin goals of sustainable poverty reduction and improvement in the welfare of the bottom 40 percent of the population; (iii) addressing goals in more than one dimension. For example, agricultural reforms may affect farmers' welfare, as well as more efficient water use and the environment through reducing water and possibly air pollution; (iv) likelihood of achieving quick wins, which are essential to develop a virtuous cycle of change and strengthen the political support. The CPF also includes ongoing projects because some results in the next few years from Bank lending will come primarily from these ongoing operations; however, a few of these legacy projects do not fit with the SCD priorities. These include, for example, airports and energy generation. The interventions *going forward* are consistent with the SCD's key drivers and meet the SCD's filters.

¹⁴ Source: Egypt's National Strategy for Adaptation to Climate Change and Disaster Risk Reduction, 2011.

IV. THE GOVERNMENT'S STRATEGY¹⁵

50. ***The GOE recently presented its long-term development strategy to the year 2030; its twelve pillars can be grouped into three main areas: restoring macroeconomic stability; improving public sector delivery; and fostering social justice and inclusion.*** The strategy was developed using a participatory approach, consulting civil society, the private sector, Egyptian youth, and international development partners. Salient features of the strategy are a focus on the leading role the private sector is expected to play in economic development, emphasis on the need for greater transparency and accountability in the public sector, and emphasis on inclusion in the area of social justice. The following paragraphs describe the main pillars of GOE's development strategy. As with all strategies, the key to success will be how well the strategic initiatives are implemented.

1. Restoring macroeconomic stability and achieving economic growth

51. ***The GOE is pursuing an ambitious fiscal consolidation plan that aims to bring down the fiscal deficit to 8-8.5 percent of GDP from 13 percent in FY13 and public debt to 85 percent of GDP by the end of FY19, from 91 percent of GDP in FY15.*** This will include, on the revenue side, broadening the tax base and combating tax evasion and avoidance. On expenditures, the GOE plans to continue to reduce fuel subsidies while allocating part of the additional resources to health, education, scientific research, and infrastructure investments. In FY15, the overall fiscal deficit reached 11.5 percent of GDP, a reduction from FY14, and the FY16 budget is targeting a fiscal deficit of 9 percent of GDP.¹⁶ Achieving fiscal consolidation will require sustained reforms, however, given high interest payments, constitutional spending targets for health, education, and scientific research, and an ambitious public investment program.

52. ***The GOE also has a medium term strategy to address the country's growing energy needs through ongoing sector reform.*** The GOE intends to promote energy security and the long-term financial sustainability of the energy sector, which will require a sustained reform program and targeted investments. A new electricity law has been enacted to promote a private sector role for renewable energy, and independent gas and electricity regulators. The GOE is planning to diversify the generation mix by targeting 20 percent of energy to come from renewable resources (including hydro) by 2022. It has issued tenders and a new feed in tariff regulation that aims to attract private sector investment to develop up to 4,300 MW of new generation power (solar 2,300 and wind 2,000). It will also introduce coal into the grid to relieve demand on natural gas. At the same time, the GOE expects to import natural gas and power – at least in the short term – to address the current energy deficit, and will target investments to improve systems reliability and enhanced service delivery. The GOE will also need to continue to reduce energy subsidies, substantially improve the cash balances of SOEs, and modernize the governance of the sector. The GOE will also need to continue to reduce energy subsidies, improve the cash balances of the SOEs, review the oil and gas sector to address pricing issues from the wellhead to payment arrears, and modernize the governance of the sector.

53. ***As part of the plan to address energy needs, the GOE has begun to reduce energy subsidies.*** In November 2012 energy prices for energy-intensive industries were increased and a mechanism

¹⁵ Based on GOE's Sustainable Development Strategy: Egypt's Vision for the Year 2030 presented at the Egypt Economic Development Conference in March 2015; the 2103 Roadmap; the GOE's proposed FY15 budget, and stakeholder consultations.

¹⁶ World Bank staff estimate an overall fiscal deficit (including grants) of 10.6 percent of GDP in FY16.

was introduced to compensate the Egypt Electricity Holding Company for the increased cost of electricity. In July 2014 the GOE announced further comprehensive price increases ranging from 41 percent for 92 octane gasoline and 67 percent for diesel fuel, to 77 percent for 80 octane gasoline, and an average 25 percent increase in the price of electricity. Nevertheless, large additional price increases will be necessary to eliminate all fuel subsidies: diesel fuel prices would have to increase four-fold from \$0.25 per liter to about \$1.0 per liter. The GOE has issued a decree that would gradually increase prices with the aim of removing all electricity-related subsidies – except for limited subsidies for poor households – within five years. For now, the price of liquid petroleum gas (LPG), consumed relatively more heavily by the lower income households, has remained unchanged until further expansion of natural gas connection to households.

54. *The GOE has confirmed the leading role that the private sector should have in restoring growth and providing sustainable job creation.* The GOE is working on three fronts to restore investor confidence: (i) supporting existing establishments/investors; this includes paying arrears to construction companies and oil and gas companies; enhancing dispute resolution by settling disputes with private investors outside courts to restore confidence and avoid costly arbitration fees; supporting bankrupt companies to enable them to restart operations; and settling tax disputes, rescheduling due payments, and offering new pieces of land; (ii) improving access to markets and widening opportunities for the private sector, by exploring the potential for establishing two economic free zones for Russian and Gulf investors; linking export promotion to value added and entering new promising markets; allowing private investors to participate in power generation, renewable energy, mining, and issuing new oil and gas concession agreements, as well as other industries; and (iii) improving the business legal and regulatory environment through legislative reforms, focusing in particular on protecting investors, simplifying permits and licensing, easing access to land and construction permits issuance, simplifying liquidation process, improving regulatory governance, and improving access of micro and SMEs to finance, including micro-finance. The GOE is also focused on improving – with private sector participation – energy supplies (including renewable energy), infrastructure, and the supply of labor with needed skills for the job market, to meet the needs of private firms.

55. *The GOE is targeting real growth of 5 percent in FY16, compared to an estimated real GDP growth of 4.2 percent in FY15, up from 2 percent annual growth since FY11.* This is expected from increased domestic demand following a rebound in economic activities including the partial recovery in tourism, resilient remittances, and higher public investments in transportation, manufacturing, communication, tourism, and housing construction. The GOE is planning to undertake six mega projects, which include, in the Suez Canal zone: (i) the Suez Canal Development Project,¹⁷ consisting of four new seaports, an industrial zone, a technology valley in Ismailia, and a program of affordable housing; (ii) doubling the capacity of the Suez Canal; and (iii) enhancing road networks and connectivity of both Suez Canal and Sinai regions¹⁸. Other mega-projects include construction of 4,800 km of new roads; a land reclamation project covering 4 million feddans; the Northwest construction development project; and development of the golden mining triangle. Nevertheless, without in-depth assessment of the return on investments, all of these mega projects carry economic risks as well as potential fiscal risks from contingent liabilities.

¹⁷ To be supported by Reimbursable Advisory Services by the WBG for which a contract has been signed.

¹⁸ The Government is planning to partner with the private sector in implementing these mega projects with the Government primarily providing the land, basic infrastructure needs, and a conducive regulatory environment with the private sector taking the lead in implementing, financing and managing these projects.

2. Improving public sector delivery

56. The Ministry of Planning and Administrative Reform has developed a three-year plan for administrative reforms to reduce corruption and implement decentralization to improve the quality and efficiency of public services. The plan aims to: (i) streamline the legal framework of all public administration units/bodies; (ii) enhance the effectiveness and efficiency of public administrative bodies and the quality of public services; (iii) enhance the capacity of civil servants; (iv) reinforce equity and transparency of public services; (v) strengthen accountability and citizen engagement; and (vi) ensure efficient management of public assets and buildings by establishing a unified database (Fixed Assets Register). In 2015, the Ministry of Finance (MOF) started to develop a new Public Financial Management Strategy, to improve the state budget formulation, execution, and reporting; fiscal risk management; and fiscal transparency and accountability. These reforms are important and fully supported by the WBG, although additional governance issues in need of reforms include improved policy formulation and implementation of sector investments, as well as improving the legal and judicial systems.

3. Fostering social justice and inclusion

57. GOE plans better targeting of subsidies, expansion of the SSN, expanded expenditure in health and education, better quality of education, more and better targeting of social services, and more gender equality. The GOE increased the budget allocation to Cash Transfer Programs, to expand coverage by 0.8 million households in the country's poorest areas (from 1.5 million beneficiaries of Social Pensions at present). GOE is piloting a new cash transfer program (Takaful and Karama) in selected Upper Egypt villages with the highest poverty rates, and preparing a targeting methodology and unified national registry to identify the poorer households. The GOE is also introducing better targeting of foods consumed by the poorer segments of the population, limiting new food subsidy/ration cards to citizens whose monthly income is below LE 1,500 (\$210), has increased the number of commodities (from 7 to 20) that can be purchased at reduced prices through the food ration card and Government outlets, and has introduced a new family smart card point system that allows citizens to replace unconsumed baladi bread with other commodities, to encourage households to reduce excessive consumption of the subsidized bread. The GOE is also addressing leakages in the baladi bread subsidy system by subsidizing the final product (number of loaves sold), instead of inputs.

58. GOE has announced that over half of the fiscal savings from reduced energy subsidies will be directed to increasing social sector spending and better-targeted infrastructure investments. Budgetary health spending is planned to increase to 3 percent of GDP and education spending to 6 percent of GDP, to comply with the Constitutional mandate on health and education spending, with around one quarter of investments directed to Upper Egypt governorates in FY15, targeting the poorest 1,000 villages (out of a total of some 5,000 villages). The GOE is also placing priority on improving the quality of education and ensuring that education provides skills valued by the job market. The GOE is making efforts to adopt a more inclusive, transparent, and geographically balanced capital spending process, although the details of these measures remain have not been fully disclosed, particularly concerning the increased budget transfers to the education and health sectors.

V. WORLD BANK GROUP PROPOSED PARTNERSHIP STRATEGY

A. Lessons from CAS Completion and Learning Review (CLR), Independent Evaluations, and Stakeholder Consultations

59. *Both the Independent Evaluation Group's (IEG) evaluation of WBG assistance in FY99-07 and the CLR covering FY06-14 found that the WBG met important objectives with respect to policy and institutional reforms.* In spite of a difficult environment in Egypt both before and since the revolution, the WBG supported with some success reforms in the financial sector, privatization, pension system, and private sector development, and had a fruitful dialogue in the health sector. The WBG was less successful, however, in supporting reduced corruption, education reform, or improvements to the SSN. Recent sector dialogue on infrastructure and energy sector reforms has begun to bear fruit.

60. *The evaluations found that flexibility as well as a focus on institutional reforms is key to achieving strategic objectives.* For example, in response to the 2011 events the WBG focused on the countries' immediate needs, and deployed a multi-sector team to move the dialogue forward on energy subsidies and sector reforms. IFC provided counter-cyclical and confidence-boosting support to the private sector, to ensure continuity of projects begun prior to 2011, preserve jobs, and provide otherwise scarce financing to investors with high risk appetite. MIGA provided reinsurance to the Overseas Private Investment Corporations for an oil and gas project. At the same time, the Bank, adhering to its assistance strategy, responded selectively to GOE's funding requests. Going forward, the WBG needs to focus its support on GOE-led initiatives that have core policy or institutional reforms and that also address the key drivers to reducing poverty and enhancing shared prosperity.

61. *Given the importance of the need to improve governance, the WBG program can support large infrastructure projects provided they are used as a vehicle for institutional reform and leverages partner resources.* Bank engagement in the transport sector has shown that measures such as management contracts to introduce private sector efficiency can be embedded in investment lending. In energy, Helwan South Power Project (FY14) incorporates institutional change in project design, including grievance redress mechanisms and the Household Gas Connection Project (FY15) leverages almost \$200 million of development partner resources and \$480 million from the GOE. Going forward, institution and capacity building should be systematically embedded in project design and projects must continue to leverage IBRD financing with resources from the GOE and other development agencies

62. *The evaluations also recommended that flexibility be balanced with selectivity and a focus on results.* After 2011, the WBG focused on what it could achieve in an uncertain political situation and during a limited time, by concentrating on what was already under implementation, while remaining open to GOE request for support in selected areas such as energy sector and SSN reforms. Indicators from the most recent strategy document (the ISN) were not all well-specified, however, or were beyond the scope of the WBG's support, such as improving economic management through control of the fiscal deficit and enhancing transparency of GOE operations. The CPF improves on this approach, with expected results based on ongoing efforts and carefully selecting indicators.

63. *The CLR in particular highlighted the importance of partnerships with both civil society and Arab development partners, which have grown in Egypt since 2011.* Following the 2011

events, integrating voice and accountability mechanisms and reaching out to non-Governmental stakeholders have become key features of WBG support. In the water and energy sectors, for example, more active involvement of communities has improved project implementation. Stakeholder consultations reinforce this message, with a call for greater civic participation and transparency in the delivery of social services. Engagement with civil society will continue to be critical to the Bank's reputation, credibility, and effectiveness. In addition, the WBG support is modest relative to Egypt's needs, so pro-active partnerships with the development community are crucial, particularly in social sectors where the GOE is reluctant to borrow from IBRD. Given the large recent flows from the GCC, proactive engagement with Arab partners will be particularly important.

64. *Risk assessment and risk mitigation will continue to be important for WBG support to Egypt.* In the context of past uncertainty over the GOE's appetite for reforms, the WBG has done a good job in its risk assessment and risk mitigation. Prior to 2011, the Bank supported fast-disbursing loans in areas where there was willingness to reform, such as in the financial and housing sectors; the closed loans in these areas have been rated satisfactory by IEG. Post-2011, the WBG encountered a different type of risk associated with political volatility. It took on the associated challenge through deep engagement with the GOE and civil society and collaboration with development partners. The WBG should continue its candid assessment of risks and rewards, including the overarching role of governance.

B. Stakeholder Consultations

65. *Priorities as expressed through CPF consultations with citizens, business groups, and development partners were used as inputs to the CPF.* Two phases of stakeholder consultations were held in Cairo, Alexandria, and Aswan, with participants from the private sector, academia, and civil society, along with online consultations conducted through an open survey on the World Bank Egypt website and engagement on social media. The draft CPF was presented to development partners in October 2015 and their feedback was sought on the proposed WBG program and opportunities for collaboration.

66. *The top priority emerging from the stakeholder consultations in all three locations was the need to improve learning outcomes, the business climate, and water and sanitation services.* General, technical, and vocational education services, with a focus on improving the quality of teachers and educational content, and in particular, ensuring education provided skills valued by the job market was emphasized. All groups also emphasized the importance of developing the private sector, improving the business climate, and improving infrastructure to facilitate business development and trade. They found that improving water services, including the quality of water, and sanitation and drainage services, was a high priority for ensuring economic development of local areas, and that improving water governance presented a particular challenge.

67. *Cross-cutting issues focused on civil society, corruption, gender, disability, inclusion, administrative reform and governance.* Stakeholders focused in particular on the need to improve governance of education, health, and water management, but related issues included more coherent regulations and consistent enforcement of regulations governing business dealings. On gender, the focus was on measures to increase female labor force participation, particularly in the private sector, although in education, having schools located closer to homes in rural areas was also raised as being important for ensuring girls' attendance in school.

68. *The second stage of follow-up consultations on the draft CPF highlighted concerns about the limited WBG support for education and the need to ensure adequate focus on governance and citizen participation in all WBG-supported initiatives; a third stage involved consultations with development partners.* Stakeholders also emphasized the importance of focusing on Upper Egypt. Partly as a result of these concerns, and following further discussion with the GOE, the CPF strengthened WBG's proposed involvement in the education sector. IFC's consultations with the private sector found that the business community agreed with the CPF priorities, and also expressed interest in having the WBG facilitate dialogue between the business community and the GOE, and in maintaining contact with IFC to explore investment opportunities, including in health, education, and low-income housing.

C. Overview of World Bank Group Strategy

69. *Egypt is at a critical juncture in its development, in a Region experiencing enormous turmoil, violence, and the worst refugee crisis in decades.* Risks of economic instability and civilian protests remain, while the benefits from achieving peace, stability, and prosperity will extend well beyond Egypt's borders. The international community is strongly supportive of helping the GOE to undertake far-reaching reforms. The WBG remains a committed partner, to provide direct support and serve as a convening agent for the development partner community, and will work closely with reform-minded champions in key ministries. WBG support will be based on: (i) country demand, both GOE requests and priorities expressed by stakeholders; (ii) priorities and key drivers defined in the SCD to achieve the twin goals of reducing extreme poverty and boosting shared prosperity in a sustainable manner; and (iii) the WBG's comparative advantage. The WBG will also work differently by remaining flexible to respond to the evolving situation in Egypt and bringing integrated development solutions to Egypt, customized to Egypt's specific needs, with world class expertise.

70. *The SCD analysis for Egypt provides the contours of WBG's strategy which closely adheres to the GOE's long-term development strategy (paras. 50-58) and will be an important element of the WBG's regional strategy for MENA.*¹⁹ Through a combination of advisory services and analytics (ASA) and partnerships, the WBG plans to focus on three interconnected areas: (i) improving governance; (ii) improving opportunities for private sector job creation; and (iii) social inclusion.²⁰ All three focus areas will help to renew the social contract built on greater citizen trust; more effective protection of the poor and vulnerable; inclusive and accountable service delivery; and a stronger private sector that can create jobs and opportunities for youth and women. See Tables 2 and 3 below for the CPF's three pillars and WBG's actual and proposed initiatives over the FY15-19 period.

¹⁹ The WBG strategy is also reflects the United Nation's recently adopted Sustainable Development Goals, particularly Goal 16, Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

²⁰ See Footnote 1 and Annex 7 for correspondence between the SCD's top priority reform areas and key drivers on the one hand, and the CPF focus areas on the other. One area where the CPF and the SCD differ is in the treatment of spatial integration: the SCD treats this issue as a separate key driver, while the CPF subsumes the spatial integration objective partly under the private sector pillar, as key factor in linking workers with employment and hence supporting job creation, and partly under social inclusion, where spatial integration will support delivery of public services such as health and education.

Table 2. WBG Pillars and Proposed Lending Interventions

Project Name	CPF Focus Areas			FY15-19	FY15	FY16	FY17	FY18-FY19
	Governance	Private Sector Job Creation	Social Inclusion	Est.	Actual	Projected-		
Inclusive Housing Finance Program P4R			x		\$500m			
Household Gas Connection Project	x	x	x		\$500m			
Strengthening Social Safety Net Project	x		x		\$400m			
Sustainable Rural Sanitation Services P4R	x		x			\$550m		
Equal Access and Simplified Environment for Investment (EASE)	x	x				\$ 5m		
Upper Egypt Local Dev. Project	x	x	x				\$500m	
Fiscal Stabilization, Sustainable Energy and Competitiveness DPF	x	x	x			\$1b	tbd.	tbd.
Integrated Agricultural Development Program in upper Egypt		x	x				\$500m	
Education & Skills Modern. Project		x	x					tbd
				\$6.0b	\$ 1.4b	\$1.55b	← 3.05 b →	

Table 3. WBG Pillars and Proposed Bank Advisory Services and Analytics, FY16-17

ASA Name	CPF Focus Areas		
	Governance	Private Sector Job Creation	Social Inclusion
Poverty Assessment			x
Land Acquisition and Institutional Reform	x	x	x
Programmatic TA-Education Financing Reform & Impr. Accountability	x	x	x
Programmatic TA-Energy Dialogue	x	x	x
Cost of Environmental Degradation	x		x
TA - Hepatitis C			x
Programmatic TA-Public Financial Management	x		
Programmatic TA- Public Sector Reforms	x		
Updated Gender Assessment		x	x
TA - Urban Transport	x		
TA - Public Investment Management	x		
TA - National Accounts & Policy Analysis	x		x
TA - Agriculture Value Chains		x	x
TA - Competition and regulatory framework	x	x	x
TA for Social Safety Nets/Pensions			x

71. *The Bank's proposed lending program and proposed ASA are more certain in the early years than in the outer years.* This is because the planned lending program for the last two years of the CPF period (FY18-19) consists of two possible DPLs, which are new for Egypt, and their scope and timing are conditional on the Government's ability to put in place a credible program to improve the macro economic situation and address macroeconomic risks, in particular to resolve the foreign exchange issue. The education project will also require considerable ASA before the scope and timing of the operation can be defined. Similarly, policy dialogue with various ministries is evolving, and the GOE's demand for the Bank's knowledge services may depend on the outcome of current and planned ASA. An updated gender assessment is planned that would help inform Bank dialogue as well as future operations. The ASA and lending program in the outer years would be reviewed and adjusted as needed at the Program and Learning review in FY18.

72. **The CPF proposes both marked shifts from past support and gradual shifts over the FY15-19 period within sectors.** For shifts in strategy from previous WBG support to Egypt, see Box 1 below.

Box 1. WBG: Shifts from past support

- **Renewing Egypt's social contract** - build greater citizen trust; more effective protection of the poor and vulnerable; inclusive and accountable service delivery; and a stronger focus on fostering a better business climate for the private sector that can create jobs and opportunities for Egypt's youth.
- **Governance issues will be an integral part of all Bank initiatives**, including a focus on policy reforms and institution-building, and strengthening the regulatory role of the GOE, and greater voice and accountability at sector level
- **Greater focus on Upper Egypt**, including five WB projects in FY15-16 that will benefit the poorer population but women in particular (Rural Sanitation and Sewerage, Household Gas Connection, Strengthening the SSN, Enhancing Agricultural Productivity, and an Upper Egypt Local Development Project).
- **Increased emphasis on regional partnerships**, including with GCC and regional bilateral development partners, and in selected sectors such as energy, water, and education. For instance in the energy sector, the WBG is assessing the potential for a regional electricity market, following the construction of an Egypt-Saudi interconnector. In cooperation with the Islamic Development Bank, the WBG is launching "Education for Competitiveness" (E4C) Initiative (para 136).
- **Joint IFC/WB/MIGA efforts** aimed in particular at energy, education, and competitiveness.
- **Scaling-up and more programmatic support: more than doubling average Bank and IFC support**; greater focus on programmatic approaches.
- **Cleaning up the portfolio** through restructuring, closing, and/or cancelations, and more proactive support to implementation, including meeting with PIUs to review implementation issues

73. **Shifts over the CPF period within sectors include:**

- **Competitiveness:** support systemic reforms that simplify regulations, increase consistent implementation, and eliminate barriers to competition, in particular at the sector level; and provide targeted, catalytic, and complementary investments in infrastructure and institutions that leverage private sector investment. Many of the business environment measures will be particularly helpful to SMEs, thereby favoring broader economic inclusion.
- **Energy Sector:** shift from publicly financed conventional power generation to crowding in private sector, including for upstream oil and gas; thermal generation; supporting a mix of public and private investments in renewable energy and energy efficiency; supporting energy security and long term financial sustainability; improving the cash balances of SOEs; creating independent gas and electricity regulators; and pursuing opportunities for regional energy markets.
- **Health, Nutrition, and Population:** moving away from health insurance to health quality, with a focus on governance aspects; expand family health services to the bottom 40 percent of the population in the poorest 10 governorates; support for addressing Hepatitis C.
- **Education:** new pro-active support for improving the quality and equity of the education system, with a strong focus on governance issues.
- **Social Protection:** moving away from support to fragmented Social Protection programs to an integrated Social Protection Systems approach, which would provide

protection to the poorest and most vulnerable households while improving governance of the system in Egypt.

- **Agriculture and Water:** treated holistically rather than as separate sectors; shift from irrigation and drainage infrastructure to enhancing the productivity of labor-intensive agriculture to generate jobs, improve the incomes of farmers and rural communities, and address food security concerns.
- **Sanitation:** shift from conventional sanitation projects to a more decentralized approach with specific benchmarks for progress in institutional capacity, sustainability, and transfer of responsibilities, as well as progress in delivering infrastructure.
- **Lagging regions.** The Bank is enhancing its focus to the poorest regions, targeting youth and women. The new cash transfer program, Takaful and Karama, will benefit 1.5 million poor households, mostly in poorer governorates in Upper Egypt. The Integrated Agricultural Development program and the Upper Egypt Local Development Program will target income growth and job opportunities in lagging regions.
- **Environment mainstreamed in projects where relevant.** This is the case in the energy sector, agriculture and rural sanitation projects. The DPF supported energy program is also expected to have positive impact on the environment as it supports enhancing sustainable energy supply

74. *There are important ways in which selectivity will be applied.* First, the WBG will focus on priority areas identified in the SCD. Second, for those areas that promote shared prosperity but where there is no country demand for WBG support, the WBG will play an advocacy role. Third, the Bank will refrain from lending in areas that can attract private sector investment, leaving IFC and MIGA to take a more appropriate lending/investment role in sectors where there is clear private investor appetite. Fourth, the Bank will focus lending in sectors with strong commitment to strengthen institutions and increase its accountability to citizens.

75. *Strong results are programmed under this CPF.* Policy and institutional reforms supported by development policy and PforR operations will improve governance and prospects for a renewed social contract. Acceleration of current portfolio implementation and greater proactivity will likely lead to tangible results. Where the current portfolio does not reflect the priorities or shifts above, the Bank will exit those areas as these projects close. Results from the new programs financed under the CPF will be fleshed out in the Performance and Learning Review in FY18.

76. *Several issues identified in the SCD as priority areas are not currently targeted in the CPF for WBG interventions.* Some issues, such as the MOF and Central Bank cooperation are entirely within the GOE's domain. In yet other areas, the GOE has not requested Bank support, for example for a national access-to-information policy, an independent anti-corruption agency, and a conflict of interest monitoring body. In these areas the Bank will continue its advocacy role. In addition, some knowledge gaps were identified in the SCD that are not in the CPF's carefully prioritized planned ASA for FY16-17 for example on water and input constraints faced by farmers, on capacity of local authorities to manage funds, benchmarking of school and teacher performance, and benchmarking

of health facility performance. Future ASA will be undertaken after careful consideration of the existing stock of ASA in these areas and by leveraging work by development partners.²¹

1. Objectives of Lending and Non-Lending Activities in supporting CPF key drivers

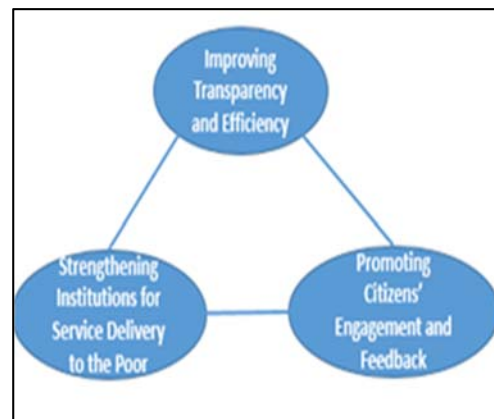
CPF Focus Area 1: Improved governance

77. **Governance in Egypt lies at the heart of the reform program for the country.** Improving governance will involve renewing the social contract between the GOE and the citizens and it touches on all aspects of reforms proposed under the CPF. It concerns not only the reforms to improve efficiency and transparency of the central administrative functions, but beyond that, it is also key to improving macroeconomic and sectoral performance (Box 2). Improving fiscal management, for example, is not only a technical issue of balancing the budget, but touches on different interests within the society, as it involves controlling the public wage bill, increasing tax revenues, and affecting access to foreign exchange. Energy reform will necessarily affect the

Box 2. A Simple Framework for Improved Governance

The Bank’s focus area on governance will entail work on three broad dimensions: promoting transparency and efficiency, supporting inclusive institutions, and promoting citizen engagement and voice.

1. *Promoting transparency and efficiency* is essential to enhance the accountability of the state. This would cover areas such as budget transparency and fiscal management, but also public administration reforms, in particular the promotion of good policies and institutions to support inclusive growth. This also has to do with improving sector governance, such as that in energy, to help promote investments and greater efficiency in the sector.
2. *Strengthening inclusive institutions* is about promoting institutions that work for the poor. This can come through several measures such as the Bank-supported new model of decentralized service delivery of rural sanitation or the support working with development partners (AFD in this case to help finance gas connections for poor households or moving from a system of universal subsidies to a targeted social safety net system.
3. *Promoting citizen involvement and feedback loops* will be critical to strengthen governance. These could come from broader consultations in the discovery, design and delivery of public programs and/or Bank Group interventions. Deliberately making the space in these programs for feedback mechanisms, including for redress of grievances, are important elements to strengthen a framework for improved governance.



These areas are necessarily interconnected and also overlap with the other two focus areas of the CPF. For instance, both social inclusion and private sector development would be helped by improved governance; improvements in education outcomes will depend in large measure on strengthening accountability around the service delivery mechanism. Similarly, improving the business climate to foster job growth is fundamentally about simplifying regulations, reducing the costs of compliance, ensuring effective implementation to ensure a level playing field, and strengthening corporate governance to ensure greater efficiency and transparency in the private sector.

²¹ This work includes, Unicef's annual or biannual (sometimes) reports on childhood and maternal health, CAPMAS (national statistical body) annual report, National Health accounts (previously supported by USAID, but now by WHO) which are produced every few years (3-5 years) and World Bank's in depth analysis of service delivery in Bixi, Hana; Lust, Ellen; Woolcock, Michael. 2015. Trust, Voice, and Incentives: Learning from Local Success Stories in Service Delivery in the Middle East and North Africa. Washington, DC: World Bank.

<https://www.openknowledge.worldbank.org/handle/10986/21607>.

governance of the sector (regulatory agencies; opening to private investments) as well as the governance of the state-owned energy enterprises.

Objective 1.1 Improved fiscal management

78. ***Link to WBG Twin Goals and the Regional Strategy.*** Restoring macroeconomic stability is a prerequisite for growth, for private investments and the creation of job opportunities, and for protecting the poor from rising food prices and consequent increases in poverty rates and fiscal consolidation is a key element for achieving macroeconomic stability. For Egypt this means reducing public expenditures and improving their efficiency, and enhancing Government revenues through broadening the tax base and improving tax collections, thus contributing to the regional strategy pillar of renewing the social contract.

79. ***Country Development Goals.*** The GOE has initiated important reforms (paras. 53-55) and plans to take further steps. These include (i) continued energy subsidy reform by further increases to energy prices; (ii) passage and implementation of the VAT and other tax measures; (iii) further control of public sector wage bill and hiring; (iv) identifying spending cuts on non-priority items to offset increases in health and education expenditures; (v) improving fiscal and monetary policy coordination to improve deficit financing; (vi) improving public debt management and developing the primary and secondary markets for Government securities; (vii) developing a PIM system to address, inter alia, possible cost over-runs of ongoing public infrastructure works; and (viii) promotion of a competitive and sound financial system.

80. ***WBG Solutions – Going Forward.*** A proposed programmatic Development Policy Financing (DPF) has been requested by the GOE. Its main components would be: (i) advancing fiscal consolidation, through higher revenue collection, moderating the growth in the wage bill, and strengthening debt management; (ii) ensure sustainable energy supply through private sector engagement; and (iii) enhance the business environment by facilitating investment laws, simplifying industrial licensing requirements and increasing competition. The Bank will also support the GOE through ASA and policy dialogue on these issues. In addition, the Bank will continue its macroeconomic monitoring, which involves quarterly reporting and dissemination to key stakeholders of macroeconomic assessments.

Objective 1.2 Improved fiscal transparency

81. ***Link to WBG Twin Goals and the Regional Strategy:*** Improving Public Financial Management (PFM) and Procurement Institutions will allow the GOE to reduce poverty and boost shared prosperity through effective budget and procurement management systems, relevance and quality of information available for decision making, internal controls to prevent and detect leakages, and assurance and accountability mechanisms over the use of public funds. Reforms in PFM will be particularly important to ensure effective service delivery in the context of the GOE's planned large capital investment program (requiring strong public investment, procurement and contract management practices), social safety reform, management of a considerable wage bill, and increased role of sub-national Governments in service delivery (requiring effective resource allocation and accountability arrangements). These reforms will also support economic recovery and strengthen trust between government and its citizens towards a renewed social contract.

82. ***Country Development Goals:*** As stated in its new medium-term macroeconomic framework and strategic plan, the GOE is in the process of advancing a comprehensive PFM program with

the objective of maximizing efficient use of resources for the intended priorities. The MOF has requested the Bank to help assess progress and develop a coherent PFM strategy with well-prioritized and sequenced actions. The GOE has also made progress in fiscal transparency, making the approved budget publicly available since 2010, publishing and disseminating a citizens' budget in 2014 and 2015. The new constitution included provisions to strengthen independence and transparency of the supreme audit institution.

83. **WBG Solutions – Going Forward.** The Bank is supporting the MOF with the development of a clear road map for PFM reform. With TA from the Bank, the MOF recently finalized the Manual of Procedures of the Internal Financial Control, clarifying and standardizing the financial controls for each category of expenditure. Specific areas of engagement discussed with the GOE include:

- **Support for PFM Strategy Design and Implementation:** The Bank is providing technical support to the MOF in the design of the PFM Strategic Action Plan, which covers essential PFM elements including budget planning, program-based budgeting, financial controls and audit.
- **Financial Controls and Internal Audit:** The Bank will provide the MOF with TA for continued implementation support to the financial control manual, starting with the design of training activities, followed by discussion on rationalization of business processes is envisaged. TA is also planned to gradually develop modern internal audit practices.
- **Fiscal Transparency:** The Bank is supporting the discussion and dissemination of budget documentation. The Bank will continue to review and provide recommendations to develop and improve the content, analysis and publication of fiscal documents.
- **Public investment management system:** The Bank will work with the Ministry of Planning and Administrative Reform and the MOF in the assessment of the Public Investment System, a roadmap for reform and follow-on support.
- **Procurement reform and policy dialogue:** In response to a request from the MOF, the Bank will support modernization of the public procurement law and its executive regulations, as well as assessing the use of framework agreements for commonly used commodities to bring about significant savings in procurement.
- **Oversight and Accountability institution.** In 2013, after years of disengagement, the Bank reestablished dialogue with the Accountability State Authority (ASA). Initial interventions included a technical review of the ASA draft law and capacity building events on Supreme Audit Institution (SAI) legal frameworks and stakeholder communications. The Bank will continue to support ASA awareness and knowledge sharing on good practices including the SAI performance measure framework that would better inform ASA's own strategy as well as other development partners' support.

Objective 1.3 Establish evidence base for performance-based public administration

84. ***Link to WBG Twin Goals and the Regional Strategy:*** An effective public administrative system is a prerequisite for effective public investment and service delivery programs targeting the poor and vulnerable. It is also a key element in Egypt's economic recovery and for the renewal of the social contract.

85. ***Country Development Goals:*** As part of its three-year plan aimed at widespread administrative reform, the GOE is committed to improving the effectiveness and efficiency, as well as the accountability of the civil service. For example, in March 2015, it issued Law 18/2015 on Civil Service, replacing Law 47 of 1978 regulating the recruitment, dismissal, promotion of civil servants, as well as performance-related salary-increases, leave options, and bonuses. The new law is a central element in the ambitious action plan of the Ministry of Planning and Administrative Reform to introduce performance measurement criteria and for meritocratic recruitment and promotion of staff. The action plan also includes actions to reduce graft and steps towards improving the responsiveness and quality of public services. These measures should contribute to greater accountability in service delivery and more efficient PIM in the medium to long term.

86. ***WBG Solutions – Going Forward.*** Since 2013, the Bank has been supporting these reforms through TA, supporting the introduction of EU quality standards for the public administration, policy advice for drafting the civil service law, and the automation of the delivery of administrative services at the provincial level. Going forward, targeted support to the reform program will include TA on improving civil service accountability and performance, including actions to: (a) implement the individual performance management framework, linking pay to performance; and (b) build capacity for assessing and improving institutional performance starting with entities that deliver administrative services at the national level. The pilot is undertaken in partnership with the Ministry of Personnel and Administrative Reform and the Central Agency for Organization and Administration.

Objective 1.4 Strengthened citizen engagement in service delivery

87. ***Link to WBG Twin Goals and the Regional Strategy:*** Strengthening the accountability of the state to its citizens is essential for achieving sustainable growth and reducing poverty. Good governance has been linked in empirical studies to strong economic performance, through the effective delivery of public goods necessary for both businesses and citizens. In Egypt, many obstacles to job-creating growth and quality public services, such as the capture of industries by political elites or the absence of teachers and doctors in public schools and clinics, are due to the failure of citizens to hold policymakers and service providers accountable. Reforms aimed at enhancing access to information and citizens' participation in social service delivery would not only accelerate shared prosperity, but would also reduce the sense of alienation and frustration with the state, and thus the likelihood of civil disturbances, also central to the MENA strategy pillars of economic recovery and renewing the social contract.

88. ***Country Development Goals:*** The GOE's Sustainable Development Strategy is focused on economic development, improving governance, and social justice with an emphasis on the need for greater transparency and accountability in the public sector.

89. **WBG Solutions – Going Forward.** *The focus on strengthening accountability of the state for improving public services will entail a combination of project, sector, and country-level approaches.* During project preparation and implementation, the Bank will work with country counterparts and partners to consider how a project might help advance governance (institutional capacity, transparency, accountability, participation, and anti-corruption), how governance risks may affect the achievement of project development objectives, and how to mitigate them. At the sector level, the WBG will integrate governance considerations in its strategic engagement. This will include the identification of key governance issues affecting sectors or sub-sectors to inform not only project design but also policy dialogue. Where feasible, the WBG will support priority activities aimed at addressing these challenges as part of its overall support to the sector. Finally, at the country level, the WBG will regularly review experiences in governance mainstreaming, and adjust course as necessary in its knowledge and financing work, including through the CPF's Performance and Learning Review.

90. The IFC has provided TA to improve corporate governance in the private sector, supported the creation of the Egyptian Institute of Directors, helped in drafting the corporate governance code for listed companies, and reviewed the corporate governance code for state-owned enterprises. Going forward, the WBG solutions to strengthen accountability will include providing citizens with information and enabling them to provide feedback on service delivery, and using the feedback to hold the service provider accountable. As an example, interventions that replace fuel subsidies with targeted cash transfers will not only improve equity, but it will make utilities responsive to consumers. Finally, working with and strengthening civil society organizations that deliver basic services effectively or advocate for the poor and voiceless would be a step in the right direction. See Box 3 for examples from proposed CPF support.

Box 3. Bringing citizen engagement and renewing the social contract into WBG operations

Examples from WBG support proposed under the CPF:

- **Sustainable Rural Sanitation Services Program** aims to increase transparency in the fiscal transfer system and enhance institutional accountability of rural sanitation services. The program will put in place a new system of performance-based capital grants to water sanitation companies based on annual performance assessments, using indicators of operation and maintenance of systems, as well as beneficiary satisfaction; including women will be a key element of the citizen engagement process. This supports the renewal of the social contract by generating greater trust in institutions by ensuring that local service providers answer to their customers.
- **Strengthening Social Safety Nets Project** provides cash transfers to the most vulnerable. It will use a live M&E system aimed at deepening the accountability of the program. The operation features a grievance redress mechanism and beneficiary satisfaction surveys, and is working with NGOs and community leaders on implementation and monitoring.
- **Inclusive Housing Finance Program** aims to *enhance transparency* by a public awareness campaign targeted at potential beneficiaries; public dissemination of housing sector data; publication of financial audits of the program and to *enhance accountability* through beneficiary screening mechanisms; fiduciary strengthening; grievance redress mechanisms; and client satisfaction surveys.
- **Upper Egypt Local Development Program** will aim at improving both access and quality of basic services. The Program will seek to strengthen accountability in service delivery modalities, especially strengthening the role of governorates and districts and improving local participation in service delivery priority setting and monitoring.

Objective 1.5 Strengthened energy sector governance

91. ***Link to WBG Twin Goals and the Regional Strategy.*** At the intersection of public sector governance and macroeconomic management, two priority areas for reform in Egypt that need to underpin efforts to reduce poverty and enhance shared prosperity, are reforms in the energy sector – both energy subsidies and sector governance. These have the potential to dramatically improve Egypt’s fiscal situation and reduce significant distortions in other sectors with multiple benefits: improved incentives for more labor-intensive investments, greater efficiency and productivity in the private sector and thus expanded job opportunities, bringing energy demand in line with supply, encouraging more sustainable growth and more funding for social programs.

92. ***Country Development Goals.*** The GOE has expressed its commitment to reduce energy subsidies and strengthen energy sector governance. It has committed to a five-year plan for reducing energy subsidies from 6.6 percent of GDP in 2013/14 to 0.5 percent of GDP by 2018/19, with the remaining subsidies covering only LPG and electricity consumption of the poorest households. To improve governance in the power sector, a new Electricity Law approved in July 2015 paves the way for substantial reforms of the electricity sector. The law envisages the separation of the Egypt Electricity and Transmission Company as a Transmission System’s operator, independent of generation and distribution sectors. The new Gas Law is expected to be approved with its supporting Executive Regulations in 2016 which would create a new independent gas regulator in 2016, open the market for private suppliers to supply to eligible consumers, and establish a new regulatory agency, which is expected to improve transparency in the sector by providing on-line public access to all regulations and approval procedures.

93. ***WBG Solutions – Going Forward.*** The Bank, through multi-sector teams, has been providing just-in-time TA for extensive analysis of the distributional impact of changes in energy prices and accompanying safety net reforms through an energy/SSN project financed by the MENA Transition Fund and plans to continue support in this area. The Bank will also continue to support GOE in the implementation of its 2015-2020 strategy for the energy sector with focus on security, sustainability, and governance, in part through the proposed DPF (para. 80). The DPF will support actions to ensure sustainable energy supply through a combination of continuing to reduce energy subsidies, improving governance in the power and gas sectors, opening the gas sector to private investments, establishing an independent gas sector regulator, and enabling private sector investments in renewable and cleaner forms of energy. Through its support for sustainable energy supply, the DPF is thus expected to have a positive impact on the environment.

94. ***In addition, regional energy initiatives will be pursued in order to further strengthen regional cooperation.*** In particular, the WBG will focus on developing electricity and gas regional and sub-regional markets. The WBG is supporting an assessment of the potential for the development of a regional gas market, with Egypt as a gas hub, and the opportunities to be provided by the EU-Med Gas Platform. In addition, the WBG is assessing the potential for a regional electricity market, following the construction of an Egypt-Saudi interconnector.

CPF Focus Area 2: Improved opportunities for private sector job creation

Objective 2.1: Improved regulatory environment for private investment

95. ***Link to WBG Twin Goals and the Regional Strategy.*** Egypt’s private sector is characterized by a complex and inefficient regulatory business environment that has hindered business development.

This in turn has limited jobs growth, particularly for the poor and unconnected, and undermined shared prosperity. Sustained private sector led growth forms a critical part of renewing the social contract.

96. **Country Development Goals.** In the GOE Sustainable Development Strategy for 2030, the private sector is to play a key role in enhancing economic competitiveness and job growth. Export-oriented sector diversification based on competitive and comparative advantages are key GOE objectives, as well as increasing the rate of industrial development, moving towards technology-driven industries, and promoting SME linkages to large industries.

97. **WBG Solutions – Expected Results of Current Operations.** The WBG portfolio in this area has focused on regulatory reforms alongside specific innovative sector interventions. The recently approved EASE Investment in Egypt project builds on previous advisory work on licensing and permitting. Expected results are an improved regulatory framework for investment, especially in business entry, industrial licensing, and industrial land allocation. Support to the Egyptian Competition Authority has begun with capacity building. The WBG is also providing advisory services to review the amended Investment Law and provide recommendations for further enhancing the investment framework. The WBG is also working with the Ministry of Industry and Foreign Trade to promote innovation and entrepreneurship in the renewable energy and energy efficiency sector, as well as with the Ministry of Communication and Information Technology to reform the ICT sector investment policy, attract foreign investment and promote innovation in the ICT sector. On the investment front, despite a weak business environment since the revolution, IFC has been able to grow its investment portfolio across diverse sectors.

98. **WBG Solutions – Going Forward.** The WBG’s support will continue to be structured around: (i) support for reforms that address fundamental constraints to business entry and competition that have been favoring connected incumbents for decades – such as industrial licensing mentioned above, access to land, discretionary issuance of permits, investment approvals, and the broader competition framework; and (ii) investments to unlock constraints to private investment and entrepreneurship and promote broad-based growth to catalyze competitiveness in specific industries and regions (including lagging regions). This will be implemented through the Business Environment pillar of the DPF (para. 80), the EASE Investment in Egypt project, the proposed Upper Egypt Local Development Program, and the proposed Integrated Agricultural Development Program. Both the Upper Egypt Local Development Program and Agriculture Development Program will aim at strengthen business environment and deepening value chain linkages to encourage private investments that support local economic development and job creation. Furthermore, technical assistance on this reform agenda will be provided to the GOE and regional governorates, including proposed TA to the Egyptian Competition Authority that will focus on anti-trust enforcement. The Bank will also continue to use the PPIAF assistance in Egypt for preparatory work to enable private sector participation in infrastructure and service delivery.²² Subject to improvements in the investment climate, IFC will continue to invest across key sectors in Egypt, especially those that have an export-oriented focus, are in high value added sectors, and have high impact on job creation/preservation. MIGA will seek to support foreign investments in export-oriented and high value added manufacturing and services through its political risk insurance guarantees.

²² PPIAF support includes PPP work in the irrigation, waste-water, power, wind and the roads sector as well as a diagnostic on PPPs in Egypt.

Objective 2.2: Improved energy generation capacity and energy efficiency

99. ***Link to WBG Twin Goals and the Regional Strategy.*** Egypt is a fully electrified country with more than 99 percent of households connected to the electricity grid. Consequently, the power sector has a direct impact on practically every household, business, school, and hospital in the country. Availability of reliable energy supply has been identified as a major constraint by the private sector in expanding businesses and therefore job creation. The brisk energy demand growth is expected to continue for the foreseeable future and investments in the supply side of the power sector and efficiency enhancing measures will have to expand significantly to meet the demand and reduce frequent power cuts. These measures will enhance economic recovery and strengthen the private sector.

100. ***Country Development Goals.*** The GOE is focused on improving the supply of energy and on enhancing energy security through securing fuels from either domestic or imported sources, shifting a significant portion of that supply to renewable sources, and diversification through imported coal. The GOE has set an ambitious goal of reaching 20 percent of energy from renewable sources (including hydro) by 2022. The National Energy Efficiency Action Plan focuses on reducing electricity consumption in particular through efficient lighting, mandatory building codes, and standards and labeling. The policy and regulatory framework for private participation in the energy sector has been set with the (Public-Private Partnership) PPP Law in 2010 and a Renewable Energy Investment law in late 2014. A draft Energy Law in front of Parliament would gradually liberalize the entire power sector, allowing private investment in distribution and supply. This would complement efforts by the GOE to promote the long-term financial sustainability of the energy sector, which would also have a positive impact on Egypt's fiscal balance.

101. ***WBG Solutions – Expected Results from Current and Proposed Operations.*** The Bank is financing four projects to support additional gas-fired conventional power supply. Substantial parallel loans have been secured, totaling almost US\$2 billion.²³ At the same time, IFC and MIGA are engaging potential private developers, including for an ongoing PPP transaction for a gas fired power plant. The Wind Power Development Project supports diversification of energy sources by supporting the expansion of transmission infrastructure to connect wind power generation in the Gulf of Suez region with the national grid, and by providing TA for the first wind power project to be financed by the private sector. The aim is to support GOE's effort to eliminate power cuts by FY17 and to promote financial sustainability of the sector by FY19 through the increased participation of the private sector in new energy generation, including the construction of 5,450 MW of generation capacity of conventional energy and 5,250MW of renewable energy by the private sector, and enhancing systems reliability, in particular through 1,006 km of efficient transmission infrastructure. As noted above (para. 80), the DPF is also supporting governance and continued subsidy reforms in the energy sector to increase private sector investments and enhance regulatory oversight. Based on the actions proposed in the DPF, it is estimated that Green House Gas emissions will be reduced by about 25 percent in 2019 compared to a scenario of no reforms proposed under the DPF.

102. ***IFC is engaging leading enterprises to demonstrate the attractiveness of investments in energy efficiency through advisory services and investments.*** Since 2011, IFC has been supporting the development of private oil and gas companies in Egypt by investing in six projects in the oil and gas exploration and production sub-sector and in one refinery project. In light of increasing payment

²³ The partners are: the Islamic Development Bank (\$450 m), the Arab Fund for Economic and Social Development (\$400 m), the Kuwait Fund (\$214 m) and the OPEC Fund (\$70 m). The AfDB also supports these efforts (\$550 m), as does the EIB (\$307 m).

delays by Egypt's power and gas utilities in recent years, IFC has been called upon by its clients to provide long-term capital for ongoing projects. MIGA has supported a project in the oil and gas sector through reinsurance to Overseas Private Investment Corporation and issued a guarantee in FY15 for a refinery project. Through a joint intervention, MIGA and IFC are supporting an investment in the refining facility that produces cleaner refined fuel products and aims at alleviating fuel shortages while improving air quality. In addition, the project plans to implement environmental upgrades (e.g. soil decontamination) to the industrial complex site where it is located, as well as to the adjacent Cairo Oil Refining Company from where it receives the atmospheric residue for processing, thus improving local air quality in neighboring communities.

103. ***WBG Solutions – Going Forward.*** The Bank and IFC will develop business plans for joint implementation in the energy sector. The WBG will work with the GOE on the enabling environment, including development of appropriate sector policies (pricing, role of regulator), reform of the legal and regulatory environment (IPP framework), and the use of credit enhancement instruments needed to attract private investors. The WBG will support the assessment of the potential and opportunities for regional cooperation in developing gas and electricity markets (para. 94). In coordination with the Bank, IFC will continue to advise public authorities on the implementation of potential PPPs in the electricity generation sector. IFC and MIGA will also support the upcoming pipeline of gas-fired thermal and renewable energy private sector generation projects under the feed in tariff framework, competitively bid transactions, IPP's, or through privately negotiated transactions through financing and helping to mobilize external funding sources. The WBG will continue to support FDI in the oil and gas sub-sector, focusing on tier II (medium size) companies entering or expanding in the market. Finally, WBG will support sustainable energy finance by providing loans and risk sharing facilities to financial institutions. MIGA is open to providing political risk insurance guarantees to foreign investors in potential PPP projects. With regard to financial sustainability, the aim is to support a shift towards financial cost recovery for both power and petroleum sectors by the end of the CPF period, in support of the GOE's objective to eliminate subsidies.

104. ***The Bank will support the establishment of a Clean Energy Facility, which is an innovative financing mechanism to provide financial support for the scale-up of renewable energy and energy efficiency projects on a commercial basis, and to reduce project risks.*** The WBG will also finance transmission and distribution infrastructure to enhance the reliability of the grid. MIGA is looking to use its political risk insurance guarantees to support eligible investors in renewable energy projects. During the CPF period, the Bank also plans credit enhancement instruments for Build Own Operate programs for wind power generation in the Gulf of Suez area. The WBG and other development partners (KfW and GIZ, Islamic Development Bank, EIB, and USAID) will continue to engage with the GOE to pilot energy efficiency, energy planning and monitoring, and more community-based management. The WBG will support private sector investment in supply side energy efficiency improvements and improved efficiency in transmission and distribution sectors. MIGA will complement these efforts by paying particular attention to the energy efficiency dimension of all projects in Egypt seeking guarantees.

Objective 2.3: Enhanced capacity and safety of key transport infrastructure

105. ***Link to WBG Twin Goals and the Regional Strategy.*** The transportation sector is key to Egypt's economic growth and the country's integration, both internally and globally, as it supports shared prosperity through economic exchange and improved spatial development. Transport infrastructure bottlenecks and lack of safety currently serve as key constraints to trade, mobility, job creation and service delivery across Egypt, specifically affecting the more impoverished areas of the Nile Delta and

Upper Egypt. Meanwhile the air transport sector is directly connected to the tourism sector, itself a major source of job creation for the poor.

106. **Country Development Goals.** The GOE aims to strengthen the transport and logistics chains through a variety of measures with the goal of spurring mobility and economic activity, helping increase the very low labor force participation rates of Egyptian women, and facilitating agricultural development.

107. **WBG Solutions – Expected Results from Current Operations.** The Bank has active projects in both the air and rail transport sectors, which are aimed at enhancing the capacity and the quality of services of the Cairo International Airport, and improving railway services, respectively. The Bank is assisting with strategic planning to strengthen the institutional capacity of the airports sector and financing capacity enhancement of the airport, boosting capacity to 25 million passengers a year and supporting the tourism sector in the process. Regarding the railways sector, the Bank is financing infrastructure investments to improve the safety, efficiency, and reliability of railway services for the poor, and is attending to sectoral governance issues by undertaking studies to support the preparation of a Safety Management System for the Egyptian railways operating agency.

108. **WBG Solutions – Going forward.** The WBG will seek to scale up measures to attract the private sector for infrastructure investments in the transportation sector. The Bank and IFC will also work together to determine the feasibility of PPP schemes with MIGA offering its political risk insurance guarantees to eligible private sector investors and lenders. Bank will continue to engage in policy dialogue in the transport sector. IFC will explore options for supporting upcoming private port concessions through financing and helping to mobilize external funding sources and explore opportunities in the airport sector. In the Upper Egypt region, where poor connectivity is a major constraint to address poverty, improve household incomes and enable private investments, WBG will support improved connectivity, both transport and ICT related, via the proposed Upper Egypt Local Development Program.

Objective 2.4: Enhanced access to improved agriculture and irrigation services

109. **Link to WBG Twin Goals and the Regional Strategy.** As highlighted in the SCD, Egypt's agricultural sector continues to account for a significant share of employment and is the major source of income for the bottom 40 percent who are largely in rural areas and Upper Egypt; therefore, providing access to improved agriculture and irrigation services will have an immediate impact on the livelihoods of many poor rural households. Low agricultural productivity, lack of off-farm opportunities, and inefficient water use are key constraints to improving livelihoods of rural farmers and supporting agribusiness-led growth of the rural economy. Adequately addressing these issues will require greater private sector participation and regional cooperation.

110. **Country Development Goals.** The GOE has long recognized the importance of the rural sector for reducing rural poverty and its Sustainable Development Strategy for 2030 reaffirms its commitment to provide support to farmers to improve agricultural productivity and value added in the traditional farming areas (the Old Lands, mainly in the Nile Valley and Delta), as well as to develop reclaimed farmlands (the New Lands) to increase employment opportunities.

111. **WBG Solutions – Expected Results from Current Operations.** The Bank has a large portfolio focused on improving the irrigation and drainage infrastructure at all levels, and establishing Water Users Associations (WUAs) to take over responsibilities for allocating irrigation water among

members. By FY19 improved irrigation and drainage services, land management and production, and marketing support will have been provided to over one million beneficiaries, improved on-farm irrigation services will benefit more than 140,000 small-scale farmers, and close to 21,000 WUAs will be registered. The impact and sustainability of these outcomes will depend, however, on a more comprehensive approach to provide farmers and WUAs with incentives to use water more effectively. In particular, without improvements to the current system of water allocation and utilization in the Old Lands, the GOE's objectives for large expansion of the New Lands will be constrained to use of groundwater at much higher costs. WBG's interventions expect to advance legal and regulatory reforms to support logistical and distributional services for agriculture and agri-businesses. IFC's Risk Sharing Facility in support of importers of food crops will enhance food security with financing of 3 million metric tons of agri-commodities. IFC invested in the agri-business sector to help it expand and diversify thereby increasing farmers' capacity to harvest local crops.

112. ***WBG Solutions –Going Forward.*** The GOE has requested support for an Integrated Agricultural Development Program focused on the poorer governorates in Upper Egypt, impoverished areas close to the Nile and transport corridors. Specifically, the project is expected to focus on (i) institution building and capacity enhancement; (ii) sustainable water and land development; (iii) modern agribusiness and related infrastructure; and (iv) knowledge and innovation systems. The Bank will also continue to provide TA support to the implementation of the recently prepared Branch Canal Law. The Bank will undertake analytical work on agricultural policies to reduce agricultural pollution, and it will review water-pricing mechanisms to better align the use of water resources with Egypt's growth, employment, and poverty eradication objectives. The Bank is mobilizing global experts to provide inputs on strengthening allocation and management of land and water resources and development of supply chains which link small farmers to agribusiness, to be followed up with financing, leveraging resources of Arab and other partners. Finally, the Bank is seeking to strengthen the regional approach to water issues through the establishment of the MENA Water Security Initiative, which would focus on developing cutting edge strategies to water scarcity, across agriculture, urban, and environmental areas, building on current efforts in the Region. IFC is ready to support private investment in warehousing, cold chain, and distribution infrastructure. IFC is also targeting investments in Fast Moving Consumer Goods (FMCG) sectors, particularly expansion of production capacity and the supply chain. FMCG sectors are known to have a robust domestic supply chain (both upstream and downstream), and therefore a strong employment multiplier effect. MIGA is open to supporting eligible foreign investors in agribusiness seeking political risk insurance guarantees.

Objective 2.5: Enhanced access to finance for medium, small scale, and micro-enterprises (MSMEs)

113. ***Link to WBG Twin Goals and the Regional Strategy.*** Promoting financial inclusion is one of the key pillars of the WBG engagements in Egypt, where Egypt is one of the priority countries selected for Achieving Universal Access by 2020. MSMEs have played a dominant and increasing role in creating jobs in Egypt, particularly for the poor, yet access to finance is a significant constraint in enabling MSMEs to grow and generate employment opportunities. MSMEs account for roughly 85 percent of all non-agriculture job creation and are critical for low-income households to smooth consumption and respond to financial shocks. However, over half of informal micro-enterprises and small manufacturing firms report access to finance as a major factor constraining growth. Women entrepreneurs face more challenges in accessing finance than men, particularly with respect to the use of assets as collateral. This is in the larger context of banks increasingly financing the public sector:

private credit as a percent of GDP has dropped dramatically, from almost 50 percent in 2006 to only 27 percent in 2014.

114. **Country Development Goals.** The GOE's recent strategy statements include support to SMEs, including technical and vocational training, and a focus on rural finance. The GOE has a long-standing program of credit to SMEs implemented through the Social Fund for Development. In addition, the Cabinet recently approved a microfinance law that allows commercial companies to engage in microfinance and allows NGOs to establish and own shares in microfinance companies. This may encourage expansion of private sector microfinance institutions (MFI) and improve the performance and governance of these institutions. Moreover, the CBE is developing a financial inclusion strategy, which includes streamlining operations for MSE lending, and strengthening credit guarantee schemes.

115. **WBG Solutions – Expected Results from Current Operations.** The Bank finances two active lines of credit focused on MSMEs, particularly firms headed by youth and women, and in underserved regions, and are expected to provide a range of innovative financial services to 90,000 micro-finance and small enterprise clients, including 35,000 women. Advisory support is also being provided for the development of financial infrastructure through building a viable secured transactions framework. IFC's advisory program supports three Egyptian MFIs in risk management, product development, strategic planning, and capacity building as well as provides training in SME banking to relevant private-sector bank staff in partnership with the Egyptian Banking Institute. IFC has also supported MSMEs in Egypt through its trade finance instrument as well as agri-commodity financing through a risk-sharing facility under the Global Warehouse Program with a regional bank. Overall, the WBG expects its strategic bank and MFI advisory partners to double their outreach to MSMEs by 2020.

116. **WBG Solutions – Going Forward.** The Bank will work with the GOE on opportunities to further improve financial inclusion in Egypt particularly in underserved areas. IFC will continue to provide advisory support for financial infrastructure development through drafting and enacting the secured transactions law and the creation of a moveable collateral registry. IFC will also continue to provide advisory services to private banks and MFIs; support access to finance through its international trade finance program (the GTFP); develop SME-specific instruments for banks and help increase their SME outreach through risk-sharing facilities or long-term loans. If the opportunity arises, IFC will partner with regional/GCC banks through equity investments to establish their presence and expand their operations in Egypt. CPF Focus Area 3: Social Inclusion

Objective 3.1: Improved access to short-term income opportunities for the poor and increased coverage of the Social Safety Net system

117. **Link to WBG Twin Goals and the Regional Strategy.** Strengthened social safety nets constitute the primary mechanism to protect citizens from falling into extreme poverty, while also enhancing access to a variety of human development opportunities for the poor. Egypt needs to enhance the governance the social safety net systems, by improving targeting of beneficiaries, to identify better who is poor, and to improve the Social Safety Net (SSN) business processes, including enrollment, payments, and grievance and redress mechanisms.

118. **Country Development Goals.** In its Sustainable Development Strategy for 2030, the GOE confirmed its commitment to the expansion of the SSN program to reach an additional 0.5 million households in FY15, and to expand it to an additional 1 million households in FY16-17 through a newly established and better-targeted cash transfer program – Takaful and Karama. In addition, the GOE has been generating jobs for the poor through a labor-intensive job creation program and is

creating an equity fund, Ayady, with private partners, to seed investment projects across governorates to create employment opportunities. As the GOE reforms the SSN program and subsidies in the medium-term, a strong cash transfer program is also needed to alleviate the immediate effects of poverty and provide social protection in the short-term.

119. ***WBG Solutions – Expected Results from Current Operations.*** The WB, in partnership with the EU, is working to support programs to alleviate the immediate effects of poverty through creation of short-term employment and the provision of basic infrastructure and community services in poor areas. The Emergency Labor Intensive Investment Project is expected to reach 240,000 people, of which at least 40 percent are female, 70 percent are from Upper Egypt, and 60 percent are youth. In the medium term, to address targeting issues and the SSN programs, the WB is currently helping the GOE build the first version of the Unified National Registry (UNR). The Energy-SSN Transition Fund is expected to establish a version of the UNR, and to develop the poverty targeting methodology and design features of the new cash transfer program. In addition, the Bank is supporting the GOE’s new cash transfer program, Takaful and Karama, meant to help move away from generalized subsidies to targeted transfers that can better protect the poorest against adverse policy impacts. It will benefit 1.5 million poor households; results will be disaggregated by gender. The first wave of the program, benefitting 500,000 households, will be rolled out in the 19 poorest districts of Egypt. During the project’s life, Takaful and Karama will cover about ten percent of the population and 37 percent of the poor. Benefitting family co-responsibilities include school attendance, visits to health clinics, maintaining child growth monitoring records, and attending nutrition awareness sessions. The project will provide conditional and unconditional cash transfers under the Takaful and Karama program, as well as improve SSN targeting and efficient delivery systems critical for ensuring that transfers reach deserving families.

120. ***WBG Solutions – Going Forward.*** The WB plans to support an operation designed to address social inclusion by targeting the poorer areas of the country, specifically in Upper Egypt. The design of the Upper Egypt Local Development Project will be informed by the gender focused ASA which highlighted the challenges of labor market participation and opportunities for women.²⁴ A multi-sector WB team is engaged with the Minister of Local Development, the Ministry of Trade & Industry, select Governorates of Upper Egypt and other stakeholders to develop a transformational program aimed at improving access to and quality of basic services, upgrading economic infrastructure and connectivity, and improving the regulatory, fiscal and institutional environment for enhanced service delivery and enterprise development. It is bringing best international practices on lagging regions in middle-income countries to bear on the design of this critical operation.

Objective 3.2: Increased access to quality healthcare services

121. ***Link to WBG Twin Goals and the Regional Strategy.*** Reforms to better reach poorer households with good quality health services directly address the key driver of inclusion and the goal of enhancing shared prosperity. Although primary health care facilities are fairly distributed all over Egypt, in rural areas they suffer from lack of budgets and qualified staff. In addition, although there have been significant improvements in health indicators in Egypt, the governance of health service delivery needs to address weak civil service incentives, organizational fragmentation, inefficiencies in

²⁴ “Narrowing the Gap: Improving Labor Market Opportunities for Women in Egypt” World Bank. 2011, which has also informed the CPF approach in other areas such as education, sanitation, and the on-going labor-intensive works project. “Mapping Gendered Pathways to Inclusion: Shaping Youth Policy in Upper Egypt”, 2013, MENA development report. Washington, DC. World Bank.

the allocation and use of resources, low Government contribution, increasing out-of-pocket expenditure, limited citizen's engagement, and a lack of participation in monitoring the quality of the delivery of health services.

122. **Country Development Goals.** Egypt's vision, as expressed in its Sustainable Development Strategy for 2030, is to achieve universal health coverage for an essential package of health services by: (i) improving the health of disadvantaged groups through the support of health programs in lagging regions; (ii) increasing financial protection for disadvantaged groups through expanding healthcare coverage for the poor and workers in the informal sector; and (iii) improving the quality of healthcare in public facilities, enhancing system responsiveness, and improving citizen engagement for an accountable and sustainable health system.

123. **WBG Solutions – Expected Results from Current Operations.** The ongoing Health Care Quality Improvement project targets the poorest 1,000 villages by accrediting family health facilities that meet national healthcare quality standards. The results are expected to be an additional 400 targeted family healthcare facilities receiving accreditation certification by 2017 with improved services in at least 700 facilities. As a complement to these efforts, the Bank's ongoing Emergency Labor Intensive Investment Project provides cash for female health workers to provide access to maternal and child health services and family planning services. In addition, the Bank is supporting the GOE with technical assistance on its responsiveness to prevent, diagnose, treat, and assess the fiscal impact of viral Hepatitis C, and to coordinate with other donors. IFC has investments in two hospitals and provided PPP advisory support to Alexandria hospitals to enhance access by the urban poor.

124. **WBG Solutions – Going Forward.** The Bank will focus on expanding family health services that target the bottom 40 percent of the population in the poorest governorates in Upper Egypt. A potential Healthcare Support Project in the outer years of the CPF would: (i) expand equitable access to family health services; (ii) improve health system response to neonatal and obstetric cases; and (iii) improve patient and blood safety. It would also strengthen health governance and accountability through: (i) establishment of independent user feedback mechanisms to monitor satisfaction, utilization, and performance; and (ii) automation of medical records to build the foundation for patient accountability. To monitor accountability, the percentage of registered grievances that are addressed and the percentage of client satisfaction with family health series will be tracked.

Objective 3.3: Increased access to housing for low-income households

125. **Link to WBG Twin Goals and the Regional Strategy.** The provision of affordable housing will directly contribute to achieving the twin goals through addressing several key constraints to growth and well-being for the poor. Currently, housing subsidies are large and untargeted and are delivered non-transparently through dysfunctional institutional mechanisms. Providing better targeted affordable housing will therefore have a direct and immediate effect on poverty by increasing the percentage of income available for non-housing costs and by reducing transportation costs and increasing proximity to employment opportunities, markets and services. Enhancing the affordability of housing for the poor segments of the society will also enhance financial inclusion.

126. **Country Development Goals.** To reach its low-income housing goals, the GOE adopted a National Housing Strategy, and introduced a series of legal, regulatory, and institutional reforms to address a wide range of constraints to improved access to affordable housing. These include a reform of the housing subsidy system to make it more transparent and better targeted at qualified beneficiaries, improved real estate and property registration, regularizing informal areas to allow for delivery of

water, sanitation, and electricity, strengthening building codes, and improving mortgage financing. The GOE created the Social Housing Fund (SHF) and plans to provide institutional and financial support to undertake a national program with the goal of providing one million social housing units. The SHF will consolidate and expand existing housing programs and create new ones to fill the housing gap for the most underserved segments of the population, for both rental housing and ownership. In addition, the SHF will address major policy issues that hinder private investment in the housing sector.

127. ***WBG Solutions – Expected Results from Current Operations.*** The Bank’s on-going program aims to support reforms in housing subsidies – thus also helping to reduce the fiscal deficit – to increase efficiency and more effective targeting of the poor, and to enhance transparency. The Inclusive Housing Program PforR is aimed at reforming the institutional structure of the sector, and providing effective targeting mechanisms for reaching the poorest. The operation also offers incentives to private companies to develop low-income housing and to bring private rental landlords into the low-income housing sector. The operation supports greater transparency through: a national public awareness campaign, dissemination of data, and independent audits of housing programs; greater accountability through beneficiary screening, penalties for fraud, and a grievance redress mechanism; and citizen participation through a beneficiary feedback mechanism involving regular consultations with beneficiaries and civil society organizations. Key expected results include approximately 575,000 households to gain access to affordable housing through the program during the CPF period, at least 50 percent of whom are poor; results will be disaggregated by gender; a more efficient mortgage finance subsidy mechanism; improved social fund housing capacity; and provision of financial incentives to owners of vacant or unfinished units in both formal and informal neighborhoods to improve these units and bring them to market.

Objective 3.4: Increased access to improved sanitation and sewerage services in rural areas

128. ***Link to WBG Twin Goals and the Regional Strategy.*** Access to improved sanitation services is uneven across geographical areas and socio-economic groups, and affects the living conditions and health of millions of Egyptians. Only 12 percent of the population of rural areas has access to improved sanitation and 42 million people are underserved. Lack of access to proper sanitation services coupled with low levels of good hygiene practices lead to the spread of water related diseases, significantly affecting children's health and nutrition.

129. ***Country Development Goals.*** The GOE has an ambitious program of investments in water supply, wastewater treatment, and sanitation, which will improve water quality, particularly for the bottom 40 percent of the population.

130. ***WBG Solutions – Expected Results from Current Operations.*** The Bank is providing support to expand the network of sanitation infrastructure in rural areas in the Nile Delta and Upper Egypt. As a result of the ongoing projects, it is expected that an additional 1.65 million users in rural areas will have access to improved wastewater collection and treatment services. The Bank is also supporting a reduction in the urban-rural divide in Egypt through a rural sanitation PforR to improve sanitation services in rural areas. The National Rural Sanitation Program (NRSP) aims to ensure rapid delivery of urgently needed sanitation services to rural households in three priority governorates in the Delta Region (where the high water tables make contamination a particular health risk). At the same time, the program builds in incentives for the governorate-level Water and Sanitation Companies to improve their performance in terms of client engagement and accountability, financial sustainability and technical efficiency – reforms which had largely been stalled in Egypt and which lie at the heart of an

approach of “fixing the institutions that fix the pipes, rather than just fixing the pipes.” IFC is prepared to provide PPP advisory services to the GOE if requested to promote projects to the private sector in waste-water treatment and desalination; is engaging with potential developers for financing the Abou Rawash waste water treatment plant; and will explore options to finance private sector investments in the water and waste water treatment sectors. While tariffs have been gradually increased for water services, they remain well below cost recovery levels, and would need to be reviewed.

Objective 3.5: Increased household access to natural gas

131. ***Link to WBG Twin Goals and the Regional Strategy.*** Increasing household access to natural gas will contribute to advancing the Twin Goals by extending natural gas service delivery to disadvantaged and poor areas and increasing the disposable incomes of consumers. During the last three years, shortages of gas supply (LPG) have emerged across the country, directly impacting the poor, as they lack access to reliable and safe energy for cooking. The distribution network is informal and inefficient, and it is often the women who must navigate this network, deal with persistent shortages, and pay informal market prices, often with exorbitant rents.

132. ***Country Development Goals.*** The GOE’s objective is to move from the current system of LPG to grid-connected natural gas, which would also allow the GOE to reduce their costs related to LPG subsidies and provide more reliable and safer access of LPG to households. The GOE plans to connect 1.8 million households to natural gas networks, especially urban poor households, for cooking purposes.

133. ***WBG Solutions – Expected Results from Current Operations.*** The Bank through its Household Gas Connections project is providing households with access to natural gas for cooking, building on the existing grid in greater Cairo, with 75 percent of the investment targeted to neighborhoods that have poverty rates above the national average. As it is typically women who are charged with cooking, they comprise the vast majority of the beneficiaries. It will also expand the grid in new areas with high population density, where 40 percent of the neighborhoods have poverty rates above the national average and 300,000 additional poor households are expected to receive connections. The project includes support on reducing gas connection cost for poor households. Of the 11 governorates targeted by the Bank, three are among the poorest in Upper Egypt. The move away from LPG will result in Government budgetary savings from subsidies of approximately US\$200 million a year. The Bank is also supporting the development of a financing management plan and reporting systems for SOEs as a step towards restructuring the debt and implementation of a financial sustainability plan. Technical Assistance for Gas Sector Regulatory Development is also being provided.

Objective 3.6: Improved education sector governance

134. ***Link to WBG Twin Goals and the Regional Strategy.*** Access to primary, secondary, and tertiary education enhances human capital and facilitates the ability to take advantage of opportunities, thereby reducing extreme poverty and increasing shared prosperity. Considerable challenges remain in terms of improving governance of the system and learning outcomes for the country. Inequities in both quantity and quality of education are largely due to limitations in the governance of the education system, characterized by fragmentation in policy, financing, and administration, weak incentives for civil servants (teachers) and absence of local citizen (parental) participation, and insufficient data throughout the system down to the local school level. There is also an immediate need to focus on skills development to address the issue of unemployment among youth and women.

135. **Country Development Goals.** In both the GOE’s Sustainable Development Strategy for 2030 and for many stakeholders, broader access and improved quality of education are top priorities. The Strategy for 2030 identified a number of ambitious key performance indicators for achievements in all levels of education. In addition, the GOE has announced two new initiatives, Beaidak (co-financed by the UAE) and Forsa, both of which will provide training and skills tailored to the demands of the private sector labor market. The constitutional amendment of 2014 has set increased spending targets for education, and the authorities have stressed the need to improve the quality of education outcomes and equip youth with the skills required by Egypt’s job market, to improve their economic opportunities.

136. **WBG Solutions – Expected Results from Current Operations.** A Bank-supported project that focused on expanding access to early childhood education in disadvantaged areas closed satisfactorily in June 2014. The Bank has also recently delivered two key analytical documents: the Bank-OECD report and the SABER WfD; both provide rigorous diagnoses of education and workforce development challenges and actionable recommendations. The WBG’s E4E Initiative for Arab Youth is working with the Information Technology Industry Development Agency (ITIDA), the executive arm of Ministry of Communication and Information Technology (MCIT), to identify and bridge the gap between the skills needed by the ICT sector and those supplied by the education and training system. Building on the existing E4E Initiative for Arab Youth, the WBG is also launching, in cooperation with the Islamic Development Bank, the “Education for Competitiveness” (E4C) Initiative, which is a global initiative whose first phase is focused on a regional approach in MENA, and which spans all levels of education, from early childhood education to skills development and higher education. The E4C initiative aims at promoting regional policy dialogue towards regional education targets, raise awareness of the challenges in the education sector, strengthen accountability, and encourage increased mobilization of resources to address the challenges.

137. **WBG Solutions – Going Forward.** Proposed WBG contributions in this area aim to address inequities in quantity and quality of education stemming from fragmentation of policy-making and lack of clarity in financing and management roles and responsibilities. The Bank is starting project preparation for an education project in FY17. This is a new area of dialogue and considerable preparatory work is needed before a common vision of a transformational project can be supported.

D. Implementing the Country Partnership Framework

138. **The WBG support will be implemented using a combination of knowledge services, financial support, and partnerships.** The WBG is moving towards more than doubling its program compared to the recent past, to a total of about \$8 billion over FY15-19 – of which an indicative amount of about \$6 billion is requested by the authorities to come from IBRD (the volume and pace of IBRD lending will depend on the implementation of the program including the ability to address macroeconomic risks, choice of instruments and economic performance in the course of the CPF period, continued GOE interest in IBRD financing, and IBRD’s lending capacity and demands from other borrowers) and about \$2 billion from IFC. IFC expects to commit about \$250 million in FY16, rising to an average of around \$400-\$500 million per annum in outer years. Similarly, the actual investments by IFC and guarantees by MIGA during the CPF period will depend on improvements in macroeconomic stability and progress in investment climate reforms that would boost investor confidence and facilitate greater private sector participation. The Bank and IFC have identified three areas of collaboration during CPF implementation and will develop joint implementation plans across the energy sector (Box 4).

Box 4. Areas of WBG Collaboration in Egypt

Bank and IFC teams have identified three key areas of collaboration during CPF implementation, assuming continued commitment from the GOE to implement reforms: energy, youth skills development, and investment climate/competitiveness, the latter two areas involve leveraging the Global Practices (GPs).

- **Energy:** While the Bank maintains its dialogue with the GOE on the sector reform and pricing revisions throughout the energy value chain, IFC will continue to provide advice on reforms needed to implement potential IPPs and PPPs in electricity generation. The WBG will identify avenues to (i) contribute to an overall energy strategy which addresses Egypt's energy crisis; (ii) support private participation in new generation facilities, including shifting fuel mix toward renewables; (iii) support reforms in electricity distribution; (iv) identify incentives for energy efficiency; (v) provide direct support to industries and (vi) facilitate greater market uptake of renewable energy and energy efficiency through financial intermediaries. See paras 93 and 94 above for areas of potential institution-specific engagements.
- **Skills development:** As part of the Trade and Competitiveness and Education GPs, IFC and Bank teams will work with GOE, employers, and post-secondary education/training providers, both public and private, to identify skills gaps, especially in growth sectors, and address these gaps by improving quality assurance and competency frameworks, regulatory frameworks governing investment and operation of education entities, availability of labor market information, and enhanced access to finance for students, in addition to a potential skills and competitiveness loan targeting specific industrial clusters. The focus will be on incentives and performance contracts, along with more comprehensive programming that includes employment services, internships, and on-the-job training. IFC will continue to look for investment opportunities to support skills development by the private sector across all levels of the education spectrum. The benefits of skills development will accrue to women and youth.
- **Competitiveness:** The Trade and Competitiveness joint GP will also focus on regulatory governance, investment processes, licensing and permits (including industrial licenses, construction permits, and access to land), clusters development, deeper value chain integration, and competition policy. Competition policy support may involve industry and sector specific support, in particular to remove barriers to competition in certain infrastructure sectors (with the relevant GPs).

139. ***For monitoring and evaluation, the Bank will continue to incorporate user oversight and input, through transparent processes for community participation, open data systems to foster more efficient citizen/beneficiary feedback, and effective program/project level grievance redress systems to channel citizen mechanisms.*** The existing Egypt portfolio has mainstreamed consultations to include a broad range of non-state actors. Citizen engagement has been incorporated in the energy sector in the Household Natural Gas Connections Project through strengthening customer service centers as well as a radio program to raise awareness about services and safety-related issues. The Health Care Quality Improvement Project will introduce independent user feedback mechanisms including customer satisfaction and grievance redress mechanisms, supporting district level councils for patient's rights, and mainstreaming automation of medical records.

140. ***The Bank's current portfolio in Egypt, with a net commitment of US\$6.47 billion and accounts for 41 percent of MENA active commitments.*** As of October, 2015, the active WBG portfolio consists of 18 IBRD projects, 4 GEF operations, and 6 large Recipient Executed Trust Funds. The portfolio almost doubled in FY10 with the approval of large commitments in response to the financial crisis; commitments have been on the rise since then. The increase in lending, mainly for infrastructure projects with large lumpy contracts and typically a two-year delay in disbursements, depressed the disbursement ratio from 25 percent in FY09 to 14 percent in FY10, while the aftermath of the January 2011 Revolution caused a further drop, to 7 percent in FY11. Since FY12, the disbursement rate recovered to 23 percent at end-FY15 (Table 4 shows the historical data).

Table 4. Egypt Portfolio at a glance from FY09-FY15

	<i>FY09</i>	<i>FY10</i>	<i>FY11</i>	<i>FY12</i>	<i>FY13</i>	<i>FY14</i>	<i>FY15</i>
Portfolio and disbursements							
Active projects (#)	15	22	23	22	25	26	26
Net commitments (\$m)	1,794	3,400	3,894	4,072	4,615	4,908	5,921
Undisbursed balances(\$m)	1,542	2,884	3,205	3,242	3,380	3,308	3,584
Disbursements in FY (\$m)	113	298	173	378	448	372	750
Disbursements ratio (%)	25%	14%	7%	10%	14%	11%	23%
Slow disbursements (%)	7%	5%	5%		9%	12%	21%
Portfolio riskiness							
Actual problem projects (#)	3	1	2	5	5	5	8
Actual problem projects (%)	20%	5%	10%	25%	23%	20%	30%
Projects at risk (%)	27%	5%	10%	25%	23%	20%	29%
Commit at risk (%)	16%	4%	1%	10%	9%	20%	17%
Proactive index (%)	50%	67%	100%	50%	20%	60%	100%
Realism index (%)	100%		100%	100%	100%		
Effectiveness Delay (%)	33%	20%	20%	25%	14%	12%	13%
<i>Note:</i> No of projects, disbursements and commitments include small RETFs <\$5m, all other indicators excludes small RETFs. . The projects that closed during the FY and the amounts disbursed on these projects are not reflected in the table.							

141. ***Trust Funds are an important component of the Bank’s support to Egypt.*** The Bank acts as a platform for development partners and GOE to work cooperatively to support experimental approaches, capacity building, and cutting-edge technical advice, while development partner support, largely through country-specific trust funds, allows the Bank to leverage IBRD financing of projects and programs and scale up coverage. As of October 2015, 58 trust funds support Egypt, of which 39 are Bank-executed, and 19 Recipient-executed, totaling \$306.9 million, focused on agriculture and water, social protection, transport and ICT, and finance and private sector development. The largest is the Wind Power Trust Fund, amounting to \$150 million, followed by the EU trust fund of €7.6 million (\$85.8 m in October 2015) supporting social protection; together, the two trust funds account for 75 percent of the trust fund portfolio.

142. ***To address portfolio implementation issues, the Bank and GOE have developed a Portfolio Improvement Plan (PIP), with the objectives of reducing delays in effectiveness and portfolio riskiness, increasing disbursement ratios, and thereby improving results.*** The principles of the interventions are: (i) rapid restructuring, as needed; (ii) pro-active cancellations for non-performing projects; (iii) no or limited extensions for problem projects unless there is a clear restructuring plan; (iv) no new projects approved in sectors with non-performing projects going forward; if performance improves significantly, lessons learnt reflected in the design of new projects; and (v) focus on increasing implementation capacity including in procurement, financial management, and safeguards.

143. ***The PIP focuses on two types of projects: those in sectors not aligned with CPF priorities; and those in sectors aligned with CPF priorities that are not disbursing.*** Projects in sectors not aligned with CPF priorities will be closed as scheduled within the next four years. These include the power generation projects, Helwan South, Giza North, and Ain Sokhna, and the Airport Project. These sectors all have a clear role for the private sector and IFC will seek opportunities to invest in them, as appropriate. For projects in sectors aligned with CPF priorities that are not disbursing, no new projects will be approved unless performance of on-going projects improves significantly. For these projects, the Bank will undertake restructurings as needed, with on-time closures.

144. ***To improve implementation capacity, the Bank will focus on the areas of public procurement, financial controls, supreme audit institution development, and safeguards, an engagement that will be broadened and deepened during the CPF period.*** Extra due diligence will be exercised for procurement in high-value, highly complex transactions, and entry points will be identified during project design. Advance procurement and TA as well as active engagement with the GOE in modernizing procurement practices with the use of e-procurement and e-disbursements to improve disbursements will also be needed. In addition, extra effort will be made towards strengthening institutional capacity and compliance with safeguards to mitigate safeguard issues during project preparation and implementation, in particular with respect to land acquisition management, which has been a challenge facing all infrastructure projects.

145. ***Efforts to date have resulted in some significant portfolio improvements, although more progress is needed.*** The disbursement ratio increased from 11 percent in FY14 to 23 percent in FY15, and the share of effectiveness delays decreasing from 20 percent in FY11 to 13 percent in FY15 (Table 4). Proactivity improved from 20 percent in FY13 to 60 percent in FY14 and 100 percent in FY15, and is significantly higher than the Regional and Bank averages (of around 65 percent). Nevertheless, more focused and strategic effort is needed at project, sector, and program levels, including continued regular portfolio reviews, to have a well-performing portfolio. Specific enabling mechanisms will need to be agreed upon with GOE to maintain progress with regard to effectiveness delays after the election of Parliament.

146. ***For IFC, Egypt is the MENA region's largest portfolio, amounting to around \$1 billion, almost half of which is in equity investments, across 36 companies, diversified in the financial markets, infrastructure, oil and gas, agribusiness, manufacturing, and health care sectors (see Annex 5 for details).*** IFC's investments are complemented by a strong advisory program. IFC's Egypt program has increased since 2011 due to its support to the private sector when other financing sources dried up. IFC's portfolio has been performing relatively well given the difficulties in the operating environment post-January 2011. IFC took a pro-active approach to portfolio management including stress-testing all exposures, helping clients to restructure their balance sheet, and cancelling selectively undisbursed commitments in agreement with clients. With the exception of three investments underperforming pre-January 2011, the portfolio is current with no delay in repayments to date. IFC will continue to monitor its portfolio actively with strong portfolio and results measurement teams based in Egypt and other regional offices.

147. ***MIGA's diversified portfolio in Egypt, a member since 1988, is the second largest in MENA, with a gross exposure of \$210 m as of the first quarter of FY15, in three active guarantees in the oil and gas and manufacturing sectors.*** MIGA's ongoing support to foreign investors in Egypt has been during periods when the political risk insurance industry's capacity for Egypt had been constrained, sending a strong signal that MIGA is open for business in the country.

148. ***Going forward, a focus on Parliamentary approval of loans, procurement, and land acquisition issues is key to improve the implementation of Bank projects.*** Proposals include: (i) early engagement with Parliamentary officials to ensure speedy ratification of loans; (ii) advance procurement and TA as well as active engagement with the GOE in modernizing procurement practices with the use of e-procurement and e-disbursements to improve disbursements; and (iii) strengthening institutional capacity and compliance with safeguards to mitigate safeguard issues during project preparation and implementation. These actions along with continued proactive portfolio management will be needed to significantly improve the performance of the portfolio.

VI. MANAGING RISKS TO THE CPF PROGRAM

149. *The risks discussed below are limited to those that would directly affect the WBG program, rather than general risks that could affect the larger economy or social fabric.* They are summarized in Table 5.

150. **Political:** *The risk is assessed as high. A number of decisions, including the approval of laws and regulations that are prerequisites for CPF operational engagement, still need to be taken.* Further political risks relate to the exclusion from power and the public sphere, after July 2013, of parts of the electorate, and the possibility of resulting political backlash that could bring changes to the current Government and affect the dialogue and commitments between the GOE and WBG. Sporadic violence in the Sinai, if not contained, is also a source of political risk.

151. **Governance:** *The risk is assessed as high. Given the extent of governance issues (paras. 28-30), the GOE may find it difficult to introduce and enforce significant reforms.* The success of the Bank’s focus on sector-level governance issues through investment projects could also be undermined by weak implementation of governance reforms, such as effective enforcement of laws, at the central level. In particular, new laws to level the playing field, policies to stimulate agricultural productivity, and more transparency and accountability for results in the education and health sectors could threaten entrenched interests or be ineffective because of weak sanctions for service providers who fail to perform to standards. On a positive note, however, President El-Sisi and the GOE have implemented and are continuing to implement substantial reforms that had been postponed for years for fear of popular uprising, which indicates the resolve of the current regime to address key economic challenges. To guard against this risk, the WBG could step back from supporting areas that lack good laws and policies, and carefully monitor the situation, while keeping the dialogue going with the GOE.

152. **Macroeconomic:** *The risk is assessed as high.* President El-Sisi and his Cabinet have been implementing key structural reforms since mid-2014 including: reducing energy subsidies, introducing tax reforms, and moderating the growth in wage bill. Although these measures are significant and should improve macroeconomic indicators and investor confidence level in the short term, the risk of emerging or continuing external and/or domestic imbalances is high. While exceptional Gulf inflows especially in FY14 helped support the external accounts, foreign reserves started declining since the beginning of FY16, due to large debt repayments, the unfavorable external environment, as well as CBE’s ongoing injection of foreign exchange to meet import needs and foreign currency demand backlogs. The recent crash of Russian airline would increase pressures on external accounts. The macro situation remains fragile also because of potential slippage in implementing key reforms such as the VAT, containing the public sector wage bill, and energy subsidy reforms, as well as vulnerability to regional instability and potential external shocks. The GOE’s efforts to stimulate the economy by increasing investment spending involve contingent liabilities and the plans to increase spending on health and education to meet

Table 5. Systematic Operations Risk-Rating Tool (SORT)

<i>Risk Categories</i>	<i>Rating (H, S, M or L)</i>
1. Political	H
2. Governance	H
3. Macroeconomic	H
4. Social	H
5. Sector strategies and policies	H
6. Institutional capacity for implementation and sustainability	S
7. Fiduciary	S
8. Environment and social	S
9. Stakeholders	M
Overall	H

constitutional pledges may improve social stability but can also add to the macro risks if other measures to contain the fiscal deficit are delayed. Bank operations, particularly approval of subsequent DPFs, could be affected by any slowdown in the pace of implementation of structural reforms. In addition, the absence of a speedy resolution of the shortage of foreign currency will adversely impact investor confidence as well as both IFC's and MIGA's operations and ability to attract foreign investments into Egypt during the CPF period. The WBG will monitor weekly the macroeconomic situation in close coordination with the IMF.

153. ***Social: The risks are assessed as high.*** With high unemployment, lower standards of living, and high food inflation, the risk of social disruption is real. Egypt experienced a backlash when an escalating succession of labor and trade union strikes (doctors, taxi drivers, factory workers) rocked the country in early 2014, threatening to coalesce into an all-out crisis; it was defused only when the cabinet resigned in February 2014, eight months after its formation. How rapidly such discontent unfolded then is a reflection of the high expectations of the Egyptian people after July 2013 and their growing impatience with the perceived slow pace of reforms. This risk could be compounded by the adverse impact of further fuel subsidy cuts. The social protection mechanisms to cover the entire marginalized and poor groups of the population have advanced through better targeting and efficient programs, such as the introduction of new cash transfer programs and the overhaul of the food subsidy system. However, the policies and institutions for expanding the reach of social protection need to match with the pace of reforms envisaged in the DPF program, especially on energy subsidies, fiscal revenue expansion and wage control. To mitigate these risks, the Bank will support the Government on a comprehensive communication strategy on its reform program, and require the institutionalization of a grievance redress mechanism and a citizen outreach program to build greater acceptability of reforms within society.

154. ***Sector strategies and policies: The risk is assessed as high in the sectors targeted for WBG engagement – financial inclusion, energy, transport, agriculture, water, health, and safety nets.*** Risks include the level of ambition of shifting to a market approach in the energy sector, with few successful global examples of the pace envisaged, the inability or unwillingness of the GOE and sector ministries to address the absence of an energy efficiency institutional framework, lack of availability of gas for energy sector projects, lack of clarity regarding the institutional structure and governance arrangements for managing urban transport, systemic issues related to land acquisition in energy/transport/water projects, fragmentation of health agencies in the provision, financing, and regulation, the absence of a unified national registry for social safety nets linking relevant databases, and the inefficiency of irrigation water under the current centrally administered system of water allocation. The Bank is considering ways to mitigate these risks in new operations and restructuring on-going operations in water supply and sanitation, health, and energy. IFC and MIGA will assess these sector risks when considering supporting domestic and foreign investors in these sectors. The GOE is well aware of most of these constraints and some are currently being addressed.

155. ***Institutional capacity for implementation and sustainability: The risk is assessed as substantial.*** The institutional capacity of implementing agencies in social sectors, environment, procurement, financial management, and monitoring and evaluation remains weak. There is also uncertainty regarding the implementing agencies' capacity to sustain the outcomes of the operations, which would adversely affect the achievement of the development objectives of projects financed under the CPF. The GOE recognizes this issue and is engaged in wide-reaching

administrative reforms. The WBG will support the GOE's efforts by combining operational engagements with substantial TA.

156. ***Fiduciary: The country-level fiduciary risks are assessed as substantial.*** The use of funds may not achieve sufficient value for money with integrity, due to deviations from transparency and fairness resulting from weak practices and unclear accountability. While the PFM arrangements have been deemed adequate for budget support operations, concerns remain over stagnation in key areas of PFM reform.²⁵ The Bank is engaged in dialogue and technical assistance in the areas of financial controls, public procurement, and Supreme Audit Institution development, an engagement that will be broadened and deepened during the CPF period. Extra due diligence will be exercised for procurement in high value, highly complex transactions. New PforR operations may increase the fiduciary risk associated with novel use of program systems in certain sectors. Action plan recommendations will be made, with some tied to Disbursement Linked Indicators, such as for internal audit and control arrangements, and complaints resolution mechanisms.

157. ***Environmental and social: The risk is assessed as substantial.*** The interventions under the CPF could have multi-dimensional environmental and social concerns. Egypt has a history of weak institutional arrangements in implementing environmental and social management plans, and for Resettlement Action Plans in particular, the risk exists that not all parties will be compensated or resettled in a satisfactory manner. To mitigate this risk, capacity-building will be provided to GOE and implementing agencies for the preparation, implementation, and supervision of specific safeguard instruments, and will also cover the use of citizen engagement, grievance redress mechanisms, and resettlement/compensation monitoring. The WBG will monitor this risk in collaboration with the Egyptian Environmental Affairs Agency, and will continue to provide technical guidance on environmental and social issues on case-by-case basis.

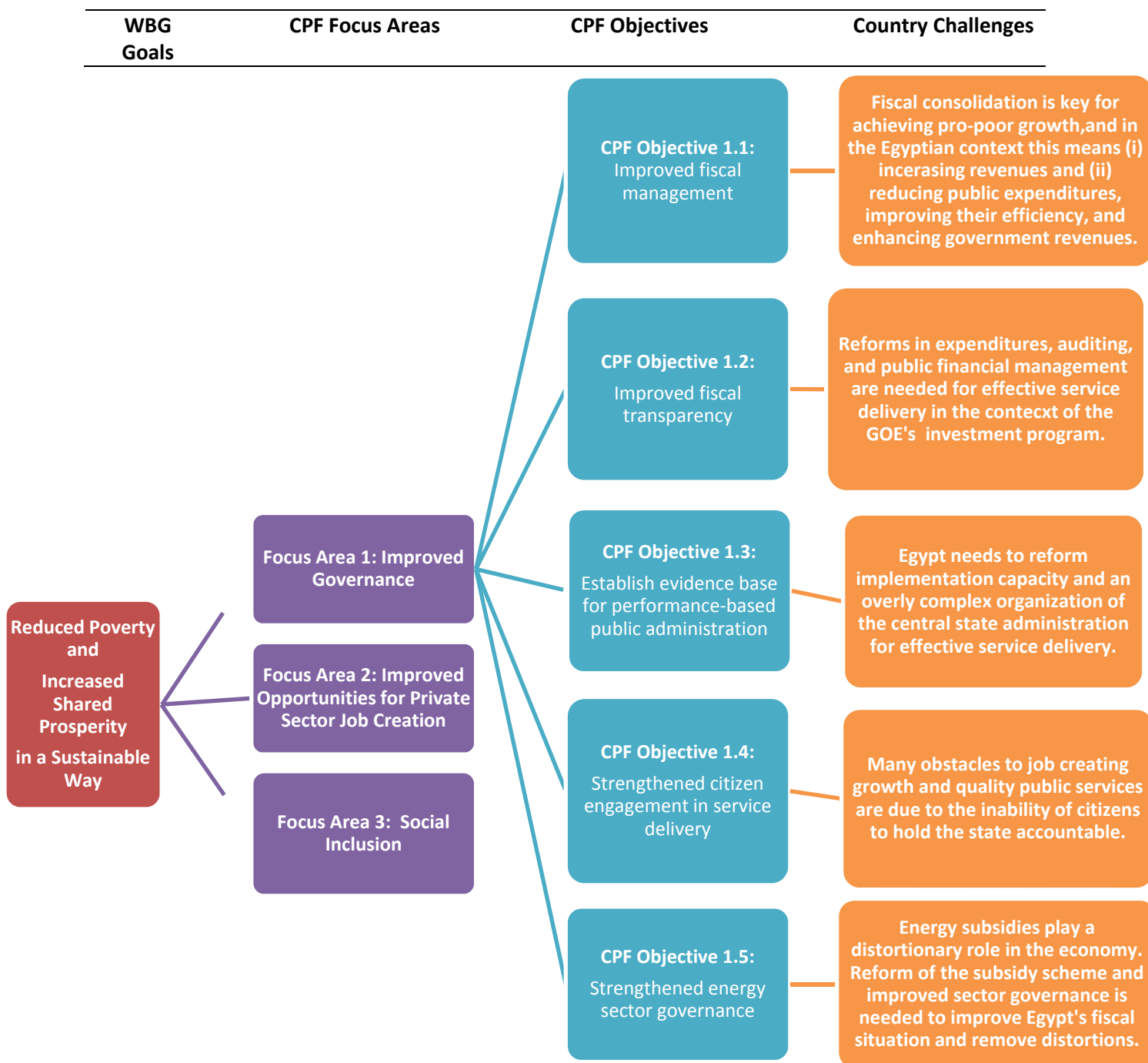
158. ***Stakeholder: The risk is assessed as moderate.*** The risk that stakeholders will oppose specific CPF operations is considered low, following extensive stakeholder consultations. Nevertheless, some risk stems from the potential disconnect between the priorities that emerged in stakeholder consultations and Bank program. For example, education emerged as a top priority in stakeholder consultations, and although the Bank is currently in dialogue with GOE on how to achieve good quality education, the support provided in the education and skills modernization project will not materialize before FY18. Significant risk exists that the Bank may not fully meet stakeholder demands for voice, accountability, and transparency for infrastructure projects; the Bank is mitigating this risk by supporting measures for social inclusion (through consultation, fully functioning grievance redress mechanisms to promote citizen involvement, and ensuring safeguards standards are followed), communicating lessons learnt, bringing in champions from other countries working on safeguards, and carrying out intensive training on safeguards. IFC and MIGA will continue to closely assess risks related to integrity due diligence and politically exposed persons for each of its engagements in Egypt.

²⁵ In Bank-financed projects, as of end-FY14, 75 percent of operations (representing 86 percent of commitments) had moderate FM risk, taking into consideration existing mitigating measures.

ANNEX 1: CPF RESULTS FRAMEWORK

Focus Area 1: Improved Governance

Aligned with GOE 3 Year plan for administrative reforms to reduce corruption and implement decentralization to improve the quality and efficiency of public services



Focus Area 1: Improved Governance

CPF Objective 1.1: Improved fiscal management		
CPF Indicators (2018)	Supplementary Progress Indicators (2016)	WBG Program
Challenges: <ul style="list-style-type: none"> - Fiscal consolidation is a key impediment for achieving macroeconomic stability. - Public expenditures need to be reduced and made more efficient. - Government revenues need to increase through broadening the tax base. 		Solutions supported by WBG: <ul style="list-style-type: none"> - A Development Policy Financing on Fiscal Stabilization, Sustainable Energy, and Competitiveness
<p><i>1.1.1 Single unified tax rate for all goods and services</i> <i>Baseline: No (2015)</i> <i>Target: Yes (2018)</i></p> <p><i>1.1.2 Established tax credit system for direct and indirect inputs</i> <i>Baseline: No (2015)</i> <i>Target: Yes (2018)</i></p>	<p><i>Primary Balance:</i> <i>Balance: 3.6% of GDP in 2015</i> <i>Target (2016): 2.4% of GDP</i></p>	<p><u>New:</u> DPF on Fiscal Stabilization, Sustainable Energy and Competitiveness</p>

Focus Area 1: Improved Governance

CPF Objective 1.2: Improved fiscal transparency		
Challenges: <ul style="list-style-type: none"> - High public sector wages and limited control on its increasing path - Lack of audit function in the Ministry of Finance - Public Financial Management (PFM) institutional weaknesses and system performance shortcomings that affect fiscal policy implementation, service delivery, and accountability. - Absence of strategic direction to guide PFM reform 		Solutions supported by WBG: <ul style="list-style-type: none"> - A Development Policy Financing on Fiscal Stabilization, Sustainable Energy, and Competitiveness - Technical assistance and policy dialogue on PFM Strategy design and implementation, modernization of Financial Controls and Internal Audit, Public Investment Management (PIM) system assessment and reform, and Public Procurement modernization. - Knowledge dissemination and awareness raising on public finance Transparency and Accountability. - A Development Policy Financing on Fiscal Stabilization, Sustainable Energy, and Competitiveness
CPF Indicators (2018)	Supplementary Progress Indicators (2016)	WBG Program
<p><i>1.2.1 Established internal audit function in the Ministry of Finance</i> <i>Baseline: No (2015)</i> <i>Target: Yes (2018)</i></p> <p><i>1.2.2 Reduced central Government wage and salaries bill to nominal GDP</i> <i>Baseline: 8.2% (2015)</i> <i>Target: 7.5% (2018)</i></p> <p><i>1.2.3 Publish medium term debt management strategy</i> <i>Baseline: No (2015)</i> <i>Target : Yes (2018)</i></p>	<p><i>MOF adopts a new PFM Strategy</i></p> <p><i>MOPAR adopts a PIM Reform Roadmap</i></p> <p><i>Simplified ex-ante financial controls :</i> <i>Baseline: New manual issued</i> <i>Target: Processes simplified and aligned with GFMIS</i></p> <p><i>Public Investment Projects Data Bank</i> <i>Baseline: Not operational</i> <i>Target: Project databank operational, including well-classified investment projects aligned with the development strategy</i></p>	<p><u>New:</u> DPF on Fiscal Stabilization, Sustainable Energy and Competitiveness (IBRD)</p> <p><u>ASA:</u> Public Financial Management and Public Investment (IBRD TA) Public Sector Reforms (IBRD TA)</p>

Focus Area 1: Improved Governance

CPF Objective 1.3: Established evidence base for performance-based public administration		
Challenges: <ul style="list-style-type: none"> - Many Government entities have overlapping, duplicating mandates and functions resulting in competition, and lack of cooperation and coordination; - Too many conflicting, sometimes contradictory layers and pieces of legislation (laws, decrees, decisions, ordinances) resulting in confusion and uncertainty by both civil servants and citizens; - Absence of institutional performance management framework, and absence of a culture of performance in the public administration; - Individual performance management, is in practice, based on seniority not on performance, merit, or skills. - Civil service is bloated, inward-looking, inefficient, and lacks motivation and responsiveness. 		Solutions supported by WBG: <ul style="list-style-type: none"> - Introduce and mainstream the European Union's institutional performance management framework (CAF) at the national level. - Implement actions to simplify the number of administrative procedures, starting at the municipal level (construction permits, commercial permits, etc.) - Implement the provisions in law 18/2015 on the civil service about performance-based salary increase for individual civil servants
CPF Indicators (2018)	Supplementary Progress Indicators (2016)	WBG Program
<p><i>1.3.1 Number of Government entities adopting and applying the EU institutional performance management framework</i> Baseline: 0 (2015) Target : 15 (2018)</p> <p><i>1.3.2 Percentage of civil servants receiving highest individual performance rate, following implementation of Law 18/2015</i> Baseline: 99.5% (2015) Target: 75% (2018)</p>	<p><i>Ministry of Planning, Monitoring and Administrative Reform receives accreditation from EU-EIPA as sole provider of institutional performance certificates of compliance with CAF</i></p> <p><i>100 mid-level public officials trained by EIPA on institutional performance management</i></p> <p><i>Simplified business process for municipal administrative service delivery adopted in 10 Cairo municipalities and in 15 Alexandria municipalities</i></p>	<p><u>ASA:</u> Public Financial Management and Public Investment (IBRD TA) Public Sector Reforms (IBRD TA)</p>

Focus Area 1: Improved Governance

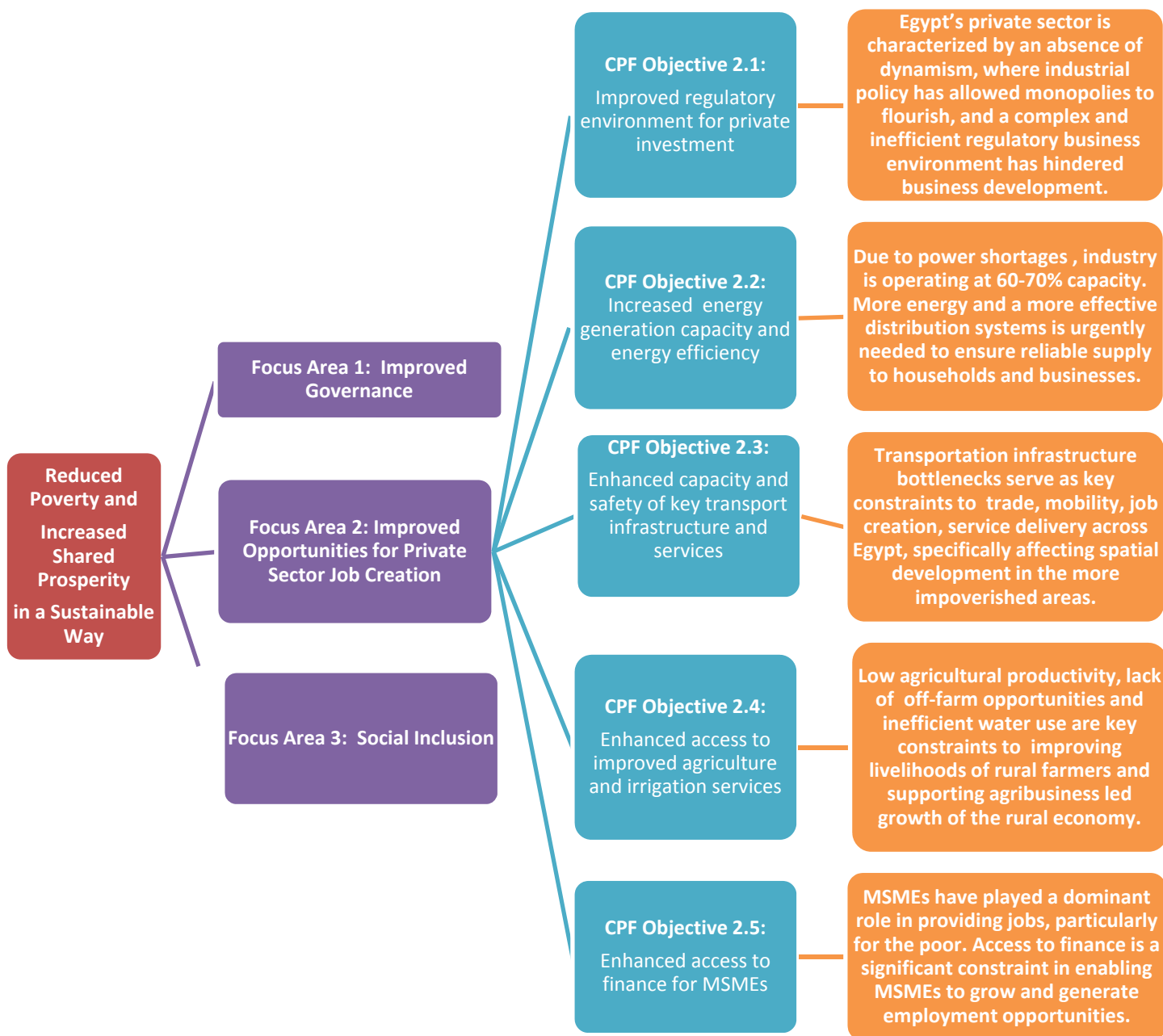
CPF Objective 1.4: Strengthened citizen engagement in service delivery		
CPF Indicators (2018)	Supplementary Progress Indicators (2016)	WBG Program
Challenges: <ul style="list-style-type: none"> Limited ability of citizens to hold policy-makers and public sector entities accountable for the effectiveness and quality of service delivery. 		Solutions supported by WBG: <ul style="list-style-type: none"> Sector level: projects and programs financed by the Bank integrate suitable arrangements for citizen engagement, for instance: (i) consultations, (ii) providing citizens with information on service delivery and enabling them to provide feedback that is acted upon, through grievance redress and other mechanisms; (iii) results-based incentives that respond to client demand, (iv) information and awareness campaigns on service delivery standards, and (v) participation of non-state actors in implementation or monitoring.
<p>1.4.1 Percentage of resolved complaints in housing office: Baseline:0 (2015) Target: 90% (2018)</p> <p>1.4.2 Satisfaction survey undertaken in sanitation sector. Baseline:0 (2015) Target: 1 (2018)</p> <p>1.4.3 Percentage of grievances addressed in stipulated timeframe in the Takaful and Karama cash transfer program Baseline:0 (2015) Target: 70% (2018)</p>	<p>Transparency and accountability mechanism established in the housing sector. Baseline:0 (2015) Target: 1 (2018)</p> <p>Grievance redress mechanisms functioning in the sanitation sector. Baseline:0 (2015) Target: 1 % (2018)</p>	<p><u>New:</u> Measures to enhance sector governance and citizen engagement incorporated in project and PforR operations Upper Egypt Local Development Program (IBRD)</p> <p><u>ASA:</u> Mainstreaming Beneficiary Feedback in Select Sectors (MENA MDTF TA)</p>

Focus Area 1: Improved Governance

CPF Objective 1.5: Strengthened energy sector governance		
Challenges: <ul style="list-style-type: none"> - Energy subsidies have a distortionary effect on the economy. - Improved sector governance is needed improved effectiveness and efficiency. 		Solutions supported by WBG: <ul style="list-style-type: none"> - Just-in time TA for extensive analysis of the distribution impact of changes in energy prices and safety net reforms. - A Development Policy Financing on Fiscal Stabilization, Sustainable Energy, and Competitiveness - Promote the development of regional and sub-regional gas and electricity markets
CPF Indicators (2018)	Supplementary Progress Indicators (2016)	WBG Program
<p><i>1.5.1 Reduction of energy subsidies as proportion of GDP</i> Baseline: 6.6% Target: 3.3%</p> <p><i>1.5.2 Increase in the average electricity tariff</i> Baseline: 0.226 LE/kWh Target: 0.451 LE/kWh</p>		<p><u>New:</u> DPF on Fiscal Stabilization, Sustainable Energy and Competitiveness (IBRD)</p>

Focus Area 2: Improved Opportunities for Private Sector Job Creation
 Aligned with GOE economic program pillar 2 ‘promoting economic rebound and job creation’

WBG Goals	CPF Focus Areas	CPF Objectives	Country Challenges
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Focus Area 2: Improved Opportunities for Private Sector Job Creation

CPF Objective 2.1: Improved regulatory environment for private investment		
Challenges: <ul style="list-style-type: none"> - Lack of dynamism in the formal private sector in terms of business entry , growth, and innovation - Policy distortions and a weak competition framework constraint competition and skew investment towards large, capital-intensive firms that do not create jobs. - Complexity of the regulatory environment, unequal access to regulatory services, and weak insolvency framework creates uncertainty for businesses and inhibits entry and exit. - Poor value chain linkages and access to markets, including in terms of spatial integration between Lower and Upper Egypt. - Low youth employability (especially among university graduates) due to skills mismatch impacting firm growth. 		Solutions supported by the WBG: <ul style="list-style-type: none"> - Systemic reforms that simplify regulations, reduce disparate treatment in their implementation and eliminate barriers to competition, in particular at the sector level. - Reforming processes for incoming investment, industrial licensing, permits, industrial land allocation, and the competition framework. - Integrated industry and region specific approaches to promote competitiveness and job growth through investments in infrastructure, institutions, capacities, and skills and targeted regulatory and economic governance reforms in key sectors (including ICT and agribusiness) and regions (including lagging regions).
CPF Indicators (2018)	Supplementary Progress Indicators (2016)	WBG Program
<p><i>2.1.1 Number of firms benefiting from business regulation</i> Baseline: 0 (2015) Target : TBD (measured 3-yrs post completion)</p> <p><i>2.1.2 Average Duration of Business Licensing Process</i> Baseline: 320 Days (2015) Target: 75 days (2018)</p>	<p><i>Business-related regulations made accessible online to the public.</i></p> <p><i>Government has approved simplified industrial licensing procedures.</i></p> <p><i>Commercial Mediation continues to resolve disputes and generate private sector savings.</i></p> <p><i>Mediation law presented to the parliament for approval by 2016.</i></p> <p><i>Industrial Licensing System Deployed in 10 subnational Branches (2018)</i></p> <p><i>Number of trained youth in select sectors (ICT) increased by 14,000 (2018)</i></p>	<p><u>Ongoing</u> Subnational Doing Business in Alexandria (WB/ IFC) Suez Canal Industrial Zone Development RAS (WB/IFC) E4E ICT Sector Egypt – Labor Market information System and Quality Assurance Framework (WB/ IFC) IFC investments in manufacturing/services/ chemicals (IFC)</p> <p><u>New</u> Upper Egypt Local Development Program Integrated Agriculture Development Program (IBRD) Equal Access and Simplified Environment (EASE) for Investment in Egypt operation (TF) Expected IFC investments in manufacturing/ services/ export-oriented and high-value-added sectors (IFC) Political risk insurance guarantees (MIGA) DPF on Fiscal Stabilization, Sustainable Energy and Competitiveness (IBRD)</p> <p><u>ASA:</u> Competitiveness and competition programmatic technical assistance (WB/ IFC) ICT investment policy and promotion (IFC) Regional ASA (including Egypt) on privilege-resistant economic policies (WB/ IFC)</p>

Focus Area 2: Improved Opportunities for Private Sector Job Creation

CPF Objective 2.2: Increased energy generation capacity and energy efficiency		
Challenges: <ul style="list-style-type: none"> - Investments in energy generation have not kept up with sustained demand for electricity leading to frequent power shortages - Generation capacity would need to more than double by 2020 to reliably meet demand of households and businesses - Insufficient fuel supply has prevented utilization of existing power generation capacity - There is significant untapped potential for renewable energy development and energy efficiency solutions. 		Solutions supported by the WBG: <ul style="list-style-type: none"> - Increase supply and reliability of electricity to meet demand, including through private sector participation as well as PPPs. - Innovative financing models including a competitive bidding approach for supply of power from large scale renewable energy (including wind) for specific pre-determined sites on a Build, Own, Operate (BOO) basis. - Overall energy policy reform as well as strengthening of energy efficiency institutional framework - Invest in new and improving transmission lines that will facilitate the evacuation of power to households
CPF Indicators (2018)	Supplementary Progress Indicators (2016)	WBG Program
<p>2.2.1 Capacity of power generation constructed</p> <p>Conventional Baseline: 0 (2014) Target: 5500 MW (2018)</p> <p>Renewable Baseline: 0 (2014) Target: 250 MW (2018)</p>	<p><i>Preparation of a long term strategy for fuel –to-power by 2016</i></p> <p><i>1,006 km of transmission lines constructed by 2016 (Bank: 280 km; IFC: 726 km)</i></p> <p><i>Power plants constructed at Giza North by 2016, Ain Sokhna by 2017, and Helwan by 2018</i></p> <p><i>Completion of transmission infrastructure capable of evacuating 3,000 MW of wind power by 2018</i></p> <p><i>Procedures for wind power integration by system operator developed by 2016</i></p> <p><i>Establishment of Energy Efficiency Unit at Ministry of Electricity & Renewable Energy by 2016</i></p>	<p><u>Ongoing Portfolio:</u> Ain Sokhna Power Project (IBRD-\$600m) Wind Power Development Project (IBRD-\$70m) Giza North Power Project (IBRD-\$840m) Helwan South Power Project (IBRD-\$585m) Transition Fund Energy/Social Safety Nets Sector reform (IBRD TF) Several IFC Investments and one MIGA guarantee in Oil and Gas</p> <p><u>New:</u> Dairut IPP (IFC) Privately negotiated or competitively bid IPPs (gas generation and renewable energy) (IFC) Investing in sustainable energy finance projects directly and through partner FIs (WB/IFC) Investing in thermal and renewable projects under the feed in tariff framework (IFC) Investment in Oil and Gas (IFC)</p> <p><u>ASA:</u> Policy note on PPPs (IFC) Policy note on energy efficiency (IBRD and IFC) TA on Climate Efficient Industries (IFC)</p>

Focus Area 2: Improved Opportunities for Private Sector Job Creation

CPF Objective 2.3: Enhanced capacity and safety of key transport infrastructure and services		
Challenges:		Solutions supported by WBG:
<ul style="list-style-type: none"> - Transport infrastructure bottlenecks stand as key constraints to trade, mobility, job creation and service delivery. - Poor transportation and connectivity hinders spatial development, particularly in the more impoverished areas of the Nile Delta and Upper Egypt. 		<ul style="list-style-type: none"> - Strategic improvements to key transport infrastructure, including airport and railway - Strengthen capacity of key stakeholders in strategic sector planning - Improve safety, efficiency, and reliability of railway services. - Improve connectivity (transport and ICT) in lagging regions.
CPF Indicators (2018)	Supplementary Progress Indicators (2016)	WBG Program
<p><i>2.3.1 Passengers that can be served through TB2 terminal at Cairo Airport in one day (number)</i> <i>Baseline: 21,000 (2013)</i> <i>Target: 25,000 (2016)</i></p> <p><i>2.3.2 Average number of fatalities due to railway accidents on the ENR network (number per billion passenger–km)</i> <i>Baseline: .595 (2014)</i> <i>Target: 0.3 (2018)</i></p>	<p><i>A plan for the institutional development of the Greater Cairo Transport Regulatory Agency (GCTRA) has been formally adopted by GCTRA’s supervisory board by the end of 2015.</i></p> <p><i>A new airport terminal completed in Cairo and certified as reaching level B of IATA level of service by 2016</i></p> <p><i>60% of strategic recommendations of the air transport studies/plans implemented by 2016</i></p> <p><i>Modernized signaling system on Cairo-Alexandria line operational by 2019</i></p> <p><i>Studies to support the restructuring of Egypt National Railways completed by 2019</i></p>	<p><u>Ongoing:</u> Cairo Airport Development– TB2 (IBRD-\$280m) Egypt National Railways Restructuring (IBRD-\$600m)</p> <p><u>New:</u> Potential investment in transport sector (including ports and airports when feasible) (IFC) Upper Egypt Local Development Program (IBRD)</p> <p style="text-align: center;">(i) <u>ASA:</u></p> <p>TA on Urban Transport (IBRD)</p>

Focus Area 2: Improved Opportunities for Private Sector Job Creation

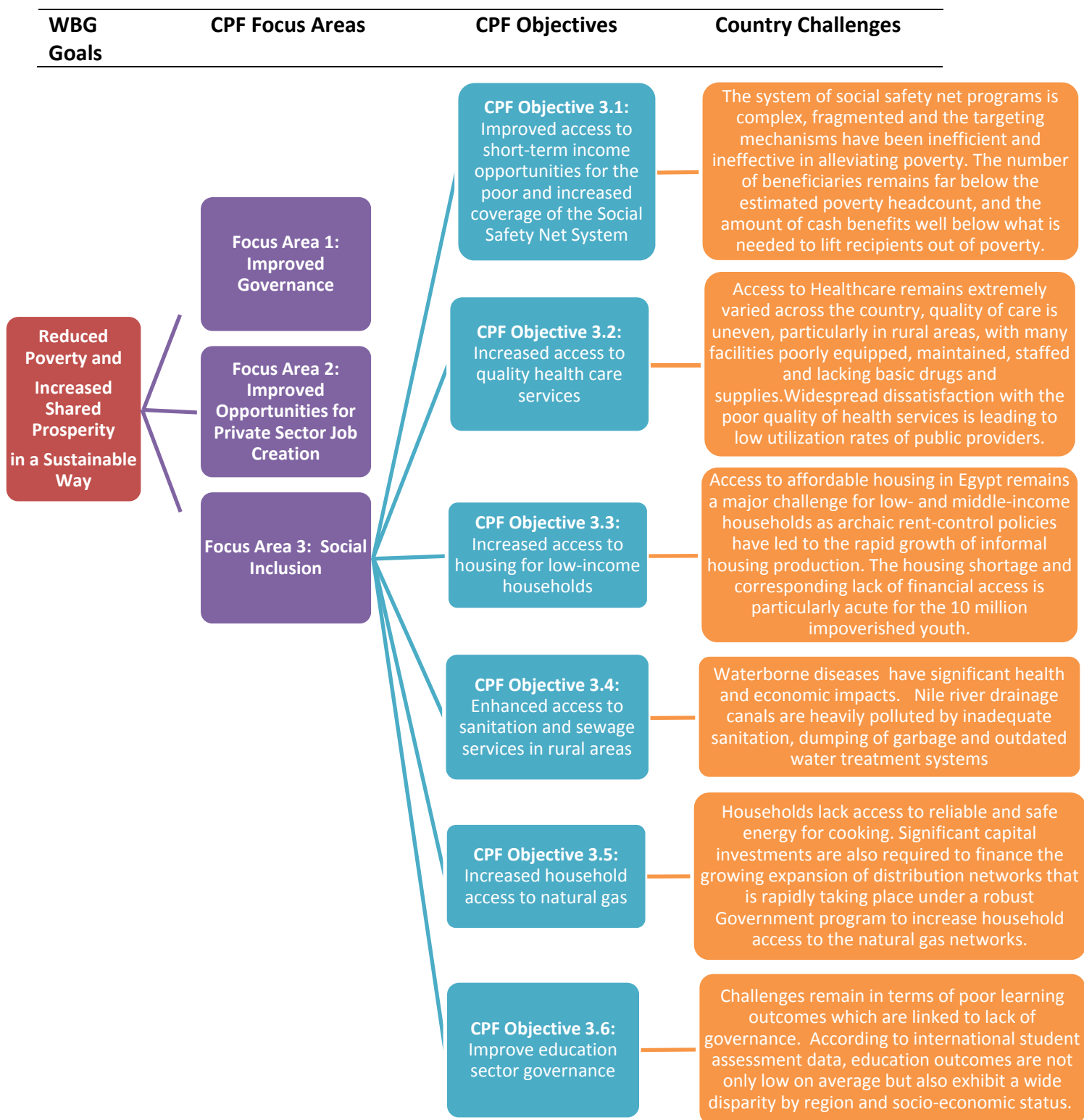
CPF Objective 2.4: Enhanced access to improved agriculture and irrigation services		
<p>Challenges:</p> <ul style="list-style-type: none"> - Current system of water allocation and utilization is not efficient - Low agricultural productivity and lack of off-farm opportunities - Egypt's logistics sector adds significant cost and time in the trade operations, especially for agribusiness exporters - Significant gaps in supply-chain logistics which limit farmers distribution networks 	<p>Solutions supported by the WBG:</p> <ul style="list-style-type: none"> - Improve irrigation and drainage infrastructure and establish Water User Associations to take over responsibilities for allocating irrigation water among members - Institutional modernization in areas such as farmer business management, agribusiness development, crop procurement - Create a more conducive operating environment for domestic and international logistics service providers agribusiness space - Promote MENA Water Security Initiative to develop innovative solutions and share knowledge on addressing water scarcity challenges 	
CPF Indicators (2018)	Supplementary Progress Indicators (2016)	WBG Program
<p><i>2.4.1 Water users provided with new/improved irrigation and drainage services (number)</i> Baseline: 1,073,000 (2014) Target: 1,400,000 (2018)</p> <p><i>2.4.2 Higher value horticulture crops grown (number)</i> Baseline: 0 (2015) Target: 12,000 (2018)</p>	<p><i>Operational water user associations reach more than 1500 by 2016 (up from 494 in 2014)</i></p> <p><i>Area provided with improved irrigation and drainage services increase from 450,000 ha in 2014 to 675,000 ha in 2016</i></p> <p><i>15 new technologies demonstrated in the project areas by 2016</i></p> <p><i>Agreement on alternative model for PPPs in irrigation management</i></p>	<p><u>Ongoing:</u> Integrated Irrigation Improvement and Management (IBRD-\$200m) National Drainage (IBRD \$80m) Farm Level Irrigation and Modernization (IBRD \$100m) Enhanced Water Resources Management (TF \$6.7m) Investment in Wadi Group, a major agribusiness player in Egypt (IFC \$25m) Risk-sharing facility with regional bank for agri-commodities (IFC \$20m)</p> <p><u>New:</u> Integrated Agriculture Development Program (IBRD) Potential IFC investments in agribusiness (IFC) and Fast Moving Consumer Goods (FMCG) sectors</p> <p><u>ASA:</u> Land Acquisition and Institutional Reform</p>

Focus Area 2: Improved Opportunities for Private Sector Job Creation

CPF Objective 2.5: Enhanced access to finance for medium, small and micro-enterprises (MSMEs)		
Challenges: <ul style="list-style-type: none"> - MSMEs lack access to external financing for both working and investment capital - MSMEs lack capacity to prepare business plans and loan applications, have opaque or non-existent financial statements, and insufficient collateral - MSMEs face non-financial issues, including cumbersome legal and regulatory framework as well as a highly bureaucratic system - A large majority of Egyptian women lack access to the formal financial sector. - 		Solutions supported by the WBG: <ul style="list-style-type: none"> - Lines of credit for MSMEs. - Reforms to streamline and improve the regulatory and legal framework, including a secured transaction law and a moveable assets registry. - Mobilize investments in the financial sector to help increase access to finance for MSMEs. - Target underserved segments of society, including women rural areas. - Provision of advisory services to banks and MFIs to better serve MSME clients -
CPF Indicators (2018)	Supplementary Progress Indicators (2016)	WBG Program
<p><i>2.5.1 MSME portfolio of Financial Institutions participating in WBG financed interventions</i></p> <p><i>Baseline: \$3.2 billion (2014)</i></p> <p>a) Bank: \$1.9 bln</p> <p>b) IFC: \$1.3 bln</p> <p><i>Target: \$14.5 billion (2019)</i></p> <p>a) Bank: \$12.5 bln</p> <p>b) IFC: \$2.0 bln</p> <p><i>2.5.2 Women served through the line of credits</i></p> <p><i>Baseline: 2,963 (2014)</i></p> <p><i>Target: 35,000 (2018)</i></p>	<p><i>Development of a strategy to expand access to finance, especially in the underserved regions (such as Upper Egypt) by 2019</i></p> <p><i>A developed NBFi regulator and a more sound Egyptian Financial Supervisory Authority (EFSA)</i></p>	<p><u>Ongoing Portfolio:</u></p> <p>Enhancing Access to Finance for MSEs Project (IBRD-\$300m)</p> <p>Promoting Innovation for Inclusive Financial Access Project (IBRD-\$300m)</p> <p><u>New with firm request received:</u></p> <p>Inclusive Regulations for Microfinance (IBRD Transition Fund)</p> <p>Potential debt/ equity investments in finance institutions to support MSMEs including with GTFP support (IFC)</p> <p>Regional MENA MSME Facility (joint World Bank/IFC)</p> <p><u>ASA:</u></p> <p>Microfinance (IFC TA)</p> <p>SME banking through IFC Business Edge/ Toolkit (IFC TA)</p> <p>Corporate Governance (IFC TA)</p> <p>SME banking (IFC TA)</p>

Focus Area 3: Social Inclusion

Aligned with GOE economic program pillar 3 'enhancing social protection and social service delivery'



Focus Area 3: Social Inclusion

CPF Objective 3.1: Improved access to short-term income opportunities for the poor and increased coverage of the Social Safety Net System		
CPF Indicators (2018)	Supplementary Progress Indicators (2016)	WBG Program
Challenges: <ul style="list-style-type: none"> - Social Safety Net programs are complex and fragmented, leading to inefficiencies and weak targeting of the poor. - The number of beneficiaries remains far below the estimated poverty headcount, and the amount of cash benefits well below what is needed to lift many of the recipients out of poverty. - Reforms to the social safety nets are needed to mitigate adverse impacts of energy subsidy reform. 		Solutions supported by the WBG: <ul style="list-style-type: none"> - Labor Intensive Public Works which aim to create short-term employment and to provide basic infrastructure. - Support for the creation of a platform for a targeted social safety net system. - Improve the understanding of the distributional impact of current subsidies and the potential impact of proposed changes in energy prices. - Strengthen communication efforts for energy pricing reform and ensure transparency of the process.
<p><i>3.1.1 Beneficiaries of Active Labor Intensive Public Works program (number)</i> <i>Baseline: 0 (2014)</i> <i>Target: 240,000</i></p> <p><i>a) 40 percent are female</i> <i>b) 70 percent are from Upper Egypt</i> <i>c) 60 percent are youth</i></p> <p><i>3.1.2 Households registered in unified SSN registry (number)</i> <i>Baseline: 0 (2014)</i> <i>Target: 10 million (by 2016)</i></p> <p><i>3.1.3 Poor households benefiting from the new Cash Transfer Program (number)</i> <i>Baseline: 0 (2014)</i> <i>Target: 1.5 million</i></p>	<p><i>1,380 Labor Intensive Public Works Sub-projects under implementation</i></p> <p><i>Action plan in place by 2016 to adopt the unified registry under coordination of MOAD</i></p> <p><i>A baseline survey of beneficiaries to identify undercoverage of poor and vulnerable in existing programs completed by 2016</i></p> <p><i>A communication strategy for fuel subsidy reform including public consultation is prepared by December 2015</i></p> <p><i>An energy pricing and fuel switching strategy, including action plan to mitigate the impact of subsidy removal is developed by Dec. 2016.</i></p>	<p><u>Ongoing</u></p> <p>Emergency Labor-Intensive Investment Project (IBRD \$200m)</p> <p>Emergency Employment Investment Project (IBRD EU-TF \$94m)</p> <p>Transition Fund Grant to support implementation of unified registry and Technical Working Group on Cash Transfer Program (IBRD TF)</p> <p>Social Safety Nets Project (IBRD \$400m)</p> <p><u>ASA:</u></p> <p>Social Safety Nets/ Pensions TA (IBRD MDTF)</p>

Focus Area 3: Social Inclusion

CPF Objective 3.2: Increased access to quality health care services			
CPF Indicators (2018)		Supplementary Progress Indicators (2016)	WBG Program
<p>Challenges:</p> <ul style="list-style-type: none"> - Access to healthcare remains extremely varied across the country. - Healthcare quality is uneven, particularly across income groups and in rural areas, with many facilities poorly equipped, maintained, staffed and often lacking in basic drugs and supplies. 		<p>Solutions supported by the WBG:</p> <ul style="list-style-type: none"> - Expand family health services that target the bottom 40%. - Promote the establishment of PPPs for the delivery of family health services, especially in poor urban slums. 	
<p>3.2.1 Targeted family healthcare facilities in the poorest ten Governorates receiving accreditation certification Baseline: 0 (2014) Target: 400 (2017)</p> <p>3.2.2 People with access to a basic package of health, nutrition or population services Baseline: 0 (2015) Target: 1,000,000 (2017)</p>	<p>Targeted family healthcare facilities in the poorest ten Governorates that have submitted Quality Improvement and Maintenance Plans by 2016 BL: 0 (2014) Target: 1,000 (2016)</p>	<p><u>Ongoing:</u> Healthcare Quality Improvement Project (IBRD \$75m) Two portfolio investments in Magrabi Egypt & Dar Al Fouad (IFC \$29m) IFC supported Public-Private Partnerships in Alexandria Hospitals (IFC)</p>	

Focus Area 3: Social Inclusion

CPF Objective 3.3: Increased access to housing for low-income households			
CPF Indicators (2018)		Supplementary Progress Indicators (2016)	WBG Program
<p>Challenges:</p> <ul style="list-style-type: none"> - Inability of low- and middle-income households to have access to affordable housing. - The social housing sector is fragmented and its programs are poorly managed and coordinated - Lack of comprehensive and long-term housing policy to guide housing programs and ensure that all segments of society are addressed 		<p>Solutions supported by the WBG:</p> <ul style="list-style-type: none"> - Establish a new Social Housing Fund to be the unified organization responsible for the social housing programs in Egypt - Establish a transparent and economically efficient demand-side subsidy system to facilitate access to new and existing housing for low-income households. - Reform the current supply-side housing subsidy system for the low and middle income sectors. 	
<p><i>3.3.1 Number of targeted households accessing ownership and rental housing units with support from the Program (number)</i></p> <p>Total Baseline: 0 (2015) Target: 575,000 (2019)</p> <p>Of which in the bottom 20% of the income distribution Baseline: 0 (2015) Target: 50% (2019)</p> <p>Of which female-headed households Baseline: 0 (2015) Target: 20% (2019)</p>		<p><i>Number of targeted households residing in “new” units with support from the program</i> Baseline: 0 (2014) Target: 110,000 (2016)</p> <p><i>Number of targeted households residing in “previously existing” units with support from the Program</i> Baseline: 0 Target: 20,000 (2016)</p> <p><i>Housing M&E system functioning and informing the Multi-Year Plan and Annual Targets</i> Baseline: No (2014) Target: Yes (2016)</p>	<p><u>Ongoing:</u> Inclusive Housing Finance Program (IBRD \$500m)</p>

Focus Area 3: Social Inclusion

CPF Objective 3.4: Increased access to sanitation and sewage services in rural areas		
Challenges: <ul style="list-style-type: none"> - While at least 85 percent of rural households have some type of sanitary facility (usually a septic tank), only a limited percentage of villages have facilities for safe collection, conveyance, and treatment of wastewater. - Wastewater is discharged (usually without treatment) to agricultural drains and sometimes to canals causing a grave threat to public health. - The Egyptian water and wastewater sector has operated under a regime of restricted pricing policies, limited investment programs, and under-financing of operational activities. - 		Solutions supported by WBG: <ul style="list-style-type: none"> - Provide populations in targeted Governorates with increased access to improved sanitation and sewerage services - Strengthen the institutional framework for addressing sanitation issues in rural areas - Build effective sector institutions to deliver waste services leveraging public resources, attracting private sector and finding a role for the informal sector
CPF Indicators (2018)	Supplementary Progress Indicators (2016)	WBG Program
<p><i>3.4.2 Users in rural areas with access to improved sanitation and sewerage services</i> <i>Baseline: 0 (2014)</i> <i>Target: 2,483,000, (2019)</i></p>	<p><i>45 decentralized Wastewater Treatment Systems implemented in rural areas by 2016</i></p> <p><i>Share of households contributing to operation and maintenance of decentralized systems reaches 25% by 2016 up from 0% in 2014</i></p> <p><i>Revised National Strategy for Rural Sanitation adopted (2017)</i></p> <p><i>New National Tariff Structure to allow for sustainable cost recovery prepared and approved (FY17)</i></p>	<p><u>Ongoing:</u> Integrated Sanitation and Sewerage Infrastructure 1 & 2 (IBRD \$120m and \$200m) Rural Sanitation (IBRD \$550m)</p> <p><u>New:</u> Potential IFC investments in PPP support/investment in waste-water services (IFC)</p>

Focus Area 3: Social Inclusion

CPF Objective 3.5: Increased household access to natural gas		
Challenges:		Solutions supported by the WBG:
<ul style="list-style-type: none"> - Households lack access to reliable and safe energy for cooking, with gas (LPG) shortages emerging over the last three years. - Women are particularly affected by gas shortages, as they must navigate this inefficient network, deal with persistent shortages, and pay informal market prices, often with exorbitant rents. - Fuel subsidies including those associated with LPG gas for household use are an important source of the large fiscal deficit. 		<ul style="list-style-type: none"> - Investment in household gas expansion, targeting areas where cooking gas is currently in short supply or where households have to pay exorbitant prices. - Reform in the sector, particularly related to sector regulation and utility customer responsiveness. - Support a reduction in Government costs related to fuel subsidies through fuel switching from LPG to natural gas.
CPF Indicators (2018)	Supplementary Progress Indicators (2016)	WBG Program
<p>3.5.1 Households connected to the natural gas networks under program Baseline: 0 (2014) Target: 1.5 million (2019)</p> <p>3.5.2 Double the number of poor households connected to natural gas networks Baseline: 300,000 (2014) Target: 600,000 (2019)</p> <p>3.5.2 Female project beneficiaries from Household Gas Connections Project Baseline: 0 Target: 50% (2019)</p>	<p>4,500 km of new household gas distribution networks installed in target areas by 2016</p> <p>Financial management plan and reporting systems in place for targeted state owned enterprises. by 2016.</p> <p>Government annual savings from reduction in LPG imports due to decreased LPG consumption in the targeted project areas. (LE) Baseline: 0 (2014) Target: LE298 million (2018)</p>	<p><u>Ongoing:</u> Household Natural Gas Connections Projects (IBRD \$500m) Transition Fund Energy/Social Safety Nets Sector reform (IBRD TF) Apache Energy-oil and gas (MIGA)</p> <p><u>ASA:</u> Programmatic TA-Energy Dialogue (IBRD)</p>

Focus Area 3: Social Inclusion

CPF Objective 3.6: Improved education sector governance		
Challenges:		Solutions supported by the WBG:
<ul style="list-style-type: none"> - The education system is characterized by inequities in quantity and quality of education. - There is fragmentation of policy-making and lack of clarity in financing and management roles and responsibilities. - There is a scarcity of skilled workers. 		<ul style="list-style-type: none"> - Programmatic TA to inform a proposed IBRD operation addressing higher education financing and quality assurance. - Promote regional initiatives aimed at improving the quality and accountability of the educational system (the E4C initiative)
CPF Indicators (2018)	Supplementary Progress Indicators (2016)	WBG Program
<p><i>3.6.1</i> <i>A rigorous diagnosis and actionable improvement in the education governance is in place</i> <i>Baseline:0 (2015)</i> <i>Target: 1 (2018)</i></p> <p><i>3.6.2 Issuance of Higher Education Law and Higher Education Strategy in compliance with international good practice</i> <i>Baseline:0 (2015)</i> <i>Target: 1 (2018)</i></p>	<p><i>SABER – EMIS completed (2016)</i></p> <p><i>SABER EMIS would provide rigorous diagnosis and areas for actionable improvement towards improved information sharing and accountability at the school level.</i></p> <p><i>Policy notes to support the finalization of the higher education strategy and higher education law (2016);</i></p> <p><i>Action Plan for the Education Development Fund – driven by the governance assessment (2016)</i></p> <p><i>Manual of procedures towards improved accountability in school-level budget setting</i></p>	<p><u>New:</u> Education Skills Modernization Project (IBRD)</p> <p><u>New:</u> Programmatic TA on: i) Educational sector budget Reform ii) EMIS; iii) Teacher policy reform iv) Higher education: university financing and quality assurance</p>

ANNEX 2: COMPLETION AND LEARNING REVIEW

ARAB REPUBLIC OF EGYPT
COMPLETION AND LEARNING REVIEW FY06-14

OCTOBER 10, 2015

PREPARED BY ALIYA HUSAIN AND BUSHRA MOHAMMAD

INTRODUCTION

This Completion and Learning Review (CLR) is a self-evaluation by the World Bank Group (WBG) of the joint Egypt Country Assistance Strategy (FY06-11) and Interim Strategy Note (FY12-14). This CLR: i) evaluates CAS and ISN performance in achieving WBG expected outcomes; ii) assesses WBG performance in the design and implementation of the program; iii) discusses program alignment with the WBG's strategic goals of eliminating extreme poverty and boosting shared prosperity in a sustainable manner; and, iv) draws lessons to inform the scope and structure of the new Country Partnership Framework (CPF) under preparation.

The World Bank and IFC presented a joint CAS in May 2005 for the period FY06-09 to the Board of Executive Directors. The CAS objectives were developed against a backdrop of improving growth and investment rates and were closely aligned with the priorities of the Government's economic reform program. The overall CAS objectives were to: i) facilitate private sector development; ii) enhance the provision of public services; and iii) promote equity. Under these pillars, selectivity was exercised by giving priority to sectors for which there was clear Government commitment and which had greatest potential to promote private sector-led growth. A joint CAS Progress Report was subsequently presented to the Board in June 2008 and extended the CAS period from FY09 to FY11 to synchronize the strategy with the elections in the country.

Preliminary work on a new country strategy was initiated in early FY11 but was halted by the unprecedented events of the Arab Spring in 2011. Since no new strategy had been developed by that stage, no CAS Completion Report was prepared either. Given the profound political and economic uncertainty in Egypt, IBRD and IFC instead moved rapidly to present a joint Interim Strategy Note (ISN) in June 2012 outlining an indicative program of support for the period from June 2012 through December 2013. Although initiated in a very different context compared to the CAS, the ISN pillars of economic management, jobs and inclusion were broadly similar with the exception that a serious deterioration of the macro-fiscal situation in the immediate post-revolutionary period warranted a stronger and more explicit emphasis on macroeconomic management.

This CLR assesses progress made during both the CAS and ISN but does so against the outcomes identified in the ISN Results Framework. The rationale for this approach is based on two factors: i) the ISN pillars were largely derived from the existing CAS results framework but updated to reflect the altered operating context; ii) the sectoral interventions identified under the CAS and ISN were substantially the same (although some newly relevant outcome indicators were added) as the focus of the ISN was to sustain the performance of the ongoing portfolio rather than initiating new lending during the short (18-month) ISN implementation period.

Overall progress in achieving CAS and ISN objectives is rated *Moderately Unsatisfactory*. Despite the overall Moderately Unsatisfactory rating, it should be noted that there were areas of substantial progress including in private sector development, the financial sector,

air/water quality, and gender. Out of 13 CAS/ISN objectives, four were fully achieved, one was mostly achieved, seven were partially achieved and one was not achieved.²⁶

Overall World Bank Group performance in designing and implementing its strategy is rated good.

The program of lending and non-lending activities supported by the WBG was relevant and addressed priorities of the Governments in power during this tenure. Prior to the 2011 revolution, the program was anchored in the Mubarak Government’s National Development Agenda which consolidated and deepened pro-growth reforms in the context of a deteriorating global environment (as a result of the food and financial crises). After the revolution, the program needed to be adjusted. The Bank Group promptly responded to the needs of its clients and focused increased resources on key sectors. The CAS Progress Report and the subsequent ISN correctly identified the risks to CAS outcomes and the appropriate mitigation measures. The CAS Progress Report supported a mid-course adjustment, namely scaling up the Bank Group’s support in the financial sector and infrastructure in the midst of strong economic performance at that time.

Table 1: Summary of Ratings ²⁷

Pillar 1: Economic Management	MU
1.1 Reduce fiscal deficit	PA
1.2 Increasing transparency	PA
Pillar 2: Jobs	MS
2.1 Private Sector Development	A
2.2 Financial Sector Development	A
2.3 Infrastructure (Energy/Transport/Telecom)	PA
2.4 Education	MA
2.5 Trade	PA
Pillar 3: Inclusion	MU
3.1 Water/Sanitation	PA
3.2 Air and Water Quality	A
3.3 Health	NA
3.4 Social Safety Nets	PA
3.5 Upper Egypt	PA
3.6 Gender	A
Key	
not achieved	NA
partially achieved	PA
mostly achieved	MA
achieved	A

In terms of efficacy, this support has yielded some good results notably in the financial sector, private sector development, air/water quality, and gender. However, results were not achieved in some key areas, including in the health sector. Also, the political turmoil did affect Bank Group’s engagement, for example, expected progress on the energy subsidy issue was hampered by the political situation. The WBG collaboration during the strategy period was particularly important and saw IFC emerge as one of the leading IFIs in the area of private sector development²⁸. IBRD-MIGA interaction has also been strengthened with MIGA providing inputs to both strategies under review.

After the revolution, the Bank Group readjusted its engagement with the ISN in line with Government priorities.

The Bank Group needed to build credibility with the new authorities and stakeholders who had led the revolution. The ISN lending program was modest, anchored in a Bank-financed Emergency Labor Intensive project (approved in June 2012) which was focused on job creation. While lending program was modest, a key focus during this period was dissemination of knowledge and advisory services and the initiation of substantial dialogue in key areas, including gender, governance, energy subsidies, financial sector reforms, and transport. The

²⁶ A detailed analysis of achievement by objective can be found in Attachment 1.

²⁷ The document refers to pillars from the ISN. However, all the specific results which are referenced encompass both the CAS and ISN.

²⁸ IFC total commitments between FY11-14 reached around US\$1 billion, of which US\$340 million was mobilized from other lenders.

Bank also instituted the beneficiary feedback mechanisms to better respond to stakeholders' needs and demands.

OBJECTIVES AND OUTCOMES

Pillar 1: Economic Management. This pillar is rated *moderately unsatisfactory* because of little progress in reducing the fiscal deficit and in increasing transparency of public sector management.

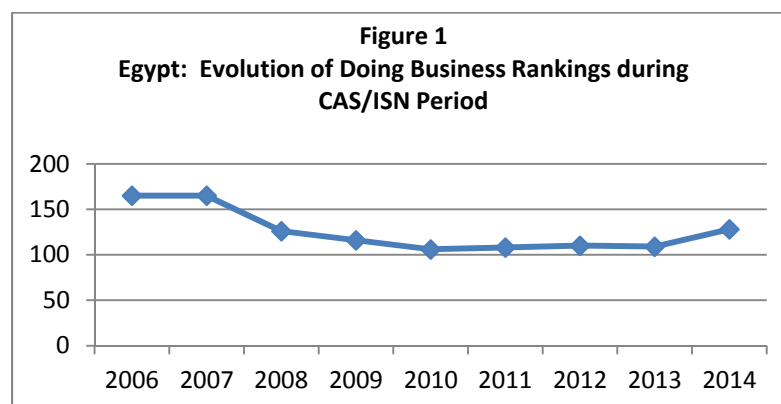
- **The outcome of effective implementation of the Government's plan to gradually reduce fiscal deficit was partially achieved.** The Government was unable to rein in public expenditures, including subsidies, and implement much needed tax reforms during most of the CAS period. As a result, the fiscal deficit worsened during this period. In FY10, the deficit was at 8.1 percent of GDP and in FY13, it was at 13.7 percent of GDP, and slightly improved to 12.8 percent in FY14. The ISN lending program envisaged a DPL on governance and safety net reforms on the back of an IMF program, but the IMF program did not transpire because of Government inability and unwillingness to tackle the energy subsidy reform. The Bank was able to advance the dialogue with the authorities on fiscal sustainability, notably on the energy subsidy. Egypt has now launched an ambitious energy subsidy reform initiative aimed at liberalizing energy prices over the coming 5-10 years. The initial steps were taken in 2012-2013, mainly to raise prices for energy-intensive sectors.
- **The outcome of increasing transparency as measured by governance scorecards issued by major independent observatories was partially achieved.** While there were some improvements in perceptions of transparency, the reforms undertaken during this period did not go far enough in increasing transparency. Over the past six years, Egypt has provided more budget information to the public, and its score improved from 19 in 2006 to 49 in 2010 in the Open Budget Index.²⁹ Egypt's 2010 score indicated that the Government provided the public with limited information on the central Government's budget and financial activities. The Government also made progress with the drafting of several laws aimed at increasing transparency over the ISN period. These included draft legislation on Conflict of Interest; Access to Information; Anti-corruption Agency; Whistleblower; Witness Protection; Procurement; Central Auditing Organization; Income and Asset Disclosure; and Consumer Protection. The Bank successfully mobilized grant funding for technical support to the drafting of these laws. However, reforms such as resuming publication of a citizen's budget, issuing a budget framework paper, and publishing audits of state-owned enterprises (SOEs) did not occur during this period.

Pillar 2: Jobs. This pillar is rated as *moderately satisfactory* with notable progress in private sector development and the financial sector. The Bank Group sought to address the following key constraints: a difficult regulatory environment and investment climate; low access to finance; gaps in access to sustainable energy and transport services; telecommunication costs; and skills mismatch. Given the employment creation potential for construction and services sectors, IFC's commitments included a US\$100 million facility to support the operations of the largest Egyptian construction group as a means for channeling funds to other players including sub-contractors, as

²⁹ Open Budget Index 2010, International Budget Partnership, www.internationalbudget.org

well as US\$6 million equity invested in Egypt’s pioneering electronic payment services company to expand its network across the country. Achievement of outcomes pertaining to these challenges is discussed in the following paragraphs.

- **The three outcomes related to creating an enabling environment for private sector investment, namely improved *Doing Business* rankings, successful completion of regulatory reforms, and expansion of private sector through launch of public-private partnerships (PPPs) were achieved.** There was improvement in overall “Doing Business” rankings through 2014 (see Figure 1). As a follow on to the “Doing Business”, IFC partnered with the Ministry of Investment and Ministry of Local Development to conduct an extensive sub-national “Doing Business” survey that expanded the benchmarking of four “Doing Business” topics—starting a business, dealing with construction permits, registering property, and enforcing contracts - to 14 additional cities beyond Cairo and analyzed the challenges of trading across borders through five strategic ports. The Bank and IFC support to the regulatory reform agenda yielded results including streamlining of procedures and other reforms in reconciliation. The IFC also worked to launch several PPPs, including in health, education, and sanitation. While IFC was successful in introducing a number of key reforms in the areas mentioned, the reform momentum slowed down considerably following the financial crisis in 2008 and even further after the post-January 2011 revolution. This was due to the uncertain political and policy environment.



- **The six outcomes pertaining to World Bank Group support to improving financial sector competitiveness and efficiency were also achieved.** The IFC and the Bank both provided substantial support to this sector during this period in the form of lending and technical assistance. The key achievements include:
 - A strategy to expand access to the poorest was achieved through Government’s strengthening of the micro-, small, and medium-sized enterprises (MSMEs) and the Social Fund for Development which allow for mechanisms to reach targeted populations. These activities were supported by both the IFC and the Bank. IFC specifically provided technical support to non-Governmental multilateral financial institutions in Egypt to (i) diversify offerings of lending products; and (ii) improve risk management.

- The Central Bank has strengthened corporate governance in the banking system and the Government has amended the Central Bank, Money, and Banking Law to improve its internal governance. IFC in cooperation with several business associations held corporate governance workshops to train MSMEs on best practices to help improve performance.
- There is increased private sector ownership of the banking sector. Reforms initiated since 2005 have helped increase competition in the financial sector. These reforms were undertaken with active lending and advisory support from the Bank and IFC, including through the MSME Technical Assistance Facility that is being jointly implemented by both institutions.
- **The outcome of expanded and improved infrastructure was partially achieved.** Details are provided below by sector.
 - The outcomes related to improving power infrastructure, namely expansion of power generation capacity by 27,000 MW, expansion of natural gas by 300,000 households, and reform of energy subsidies, were mostly achieved. The outcome of expansion of power generation capacity was partially achieved. Although the numerical target was not met, the Bank made substantial progress in helping the country expand its generation capacity. The fast track power generation program (2,100 MW) was one of the main drivers for bringing installed capacity to a total of 29,000 MW. From FY06 to FY14, the World Bank financed four gas-fired generation plants (El Tebbin³⁰, Ain Sokhna, Giza North and Helwan South) and supported a program of renewables. IFC has supported the Egyptian power program through the development of the 2,250 MW gas-fired Dairut independent power project as the Lead Transaction Advisor. Progress on the transaction has been slow particularly after the revolution due to a number of issues, including the need to provide a sovereign guarantee, sizing of the plant, and fuel supply among others. The Bank has supported the Government of Egypt's effort to expand household access to natural gas in the Greater Cairo Area through the US\$75 million Natural Gas Connection Project. This project has successfully financed gas connection to 365,637 households (exceeding the target of expanding access to gas for 300,000 households), or 15 percent of connected households. IFC's investments in the oil and gas sector in Egypt and regionally have also helped the country meet its domestic demand for gas, particularly the industrial sector. On energy subsidies, as noted earlier, there was an increase in electricity tariffs for a group of energy intensive industries, and tariff reforms for consumers were also implemented. The Bank provided substantial policy advice in this area.
 - In the transport sector, results were partially achieved with respect to the outcomes - increased airport capacity; improved financial viability of railways; increased financing for road maintenance; and improved urban transport. Airport capacity

³⁰ In a recent IEG review, the El Tebbin project outcome was rated Moderately Unsatisfactory. The Bank team recommended a Moderately Satisfactory rating because of efficient operation of the plant prior to a fire incident and the ongoing successful efforts at repair. Moreover, two of the three TA components which would lead to improving energy efficiency of the industrial sector, would translate into financial benefits for Egypt's power sector.

will improve from 3.5 to 7.5 million passengers per annum. Rehabilitation and expansion of an existing terminal (T2) in Cairo airport was slower than envisaged at the time of project approval but has since advanced. An air transport liberalization study was carried out as well and implementation of its recommendations is ongoing. The Bank also supported the Government in setting up management contracts for the airports. Reorganization of the Egyptian National Railways (ENR) is ongoing in line with the ISN objectives; and modernization of signaling on Cairo Assiut line is also under implementation. The financial viability of the ENR was improving but was set back by the political instability. The Bank is discussing railways reform with the authorities to improve governance and efficiency of railways management. In line with the CAS/ISN goal, the Government has adopted a road asset management strategy aiming, among others, to improve road maintenance. The Greater Cairo Urban Transport Authority is established on paper and the Bank is providing support to the Government to make it fully operational.

- In telecommunications, information is not readily available on cost reduction which was the expected outcome, so results were not achieved. The Bank involvement was framed under an elaborate Reimbursable Advisory Services (RAS) program that did not pertain specifically to costs decrease, but rather to capacity building on statistics, legal and broadband policy. Notably, the Bank delivered two RAS on “Strategic Options for Broadband Policy” and “Broadband Development: Socio-economic Assessment”. These two activities were used by the Government to formulate the eMisr Strategy, a comprehensive sector development strategy to provide access to broadband to 8 million Egyptian households.
- **The two education outcomes: i) successful scale up of pilot schemes for improving the quality and relevance of education, and ii) improved curriculum for secondary education were mostly achieved.** The first outcome, successful testing and an eventual scaling-up of pilot schemes for improving quality/relevance of: (i) higher education, (ii) skills development, and (iii) early childhood development was achieved. Important contributions to the modernization of higher education in Egypt were made by the Bank by helping to establish the National Quality Assurance Commission and quality assurance units in all universities; as well as the Competitive Fund for the Improvement of Higher Education. On skills upgrading, the IBRD-financed Skills Development Project developed a funding mechanism that supported training for in-service and prospective workers through a cost-shared and competitive approach. In addition, a SABER-WfD³¹ technical assistance was provided to facilitate next steps for policy dialogue in skills development. For early childhood education (ECE) the main achievement was the expansion of access by supporting NGOs, as well as public schools; the preparation and design of new standards and curriculum for ECE; and the development of new learning materials to support the implementation of the new standards. Achievements in relation to the second outcome of improving the curriculum

³¹ *SABER WfD help countries evaluate the skills development policy options for improvement.* Following the launch of the World Bank’s Education Sector Strategy 2020, the Bank has embarked on the System Assessment and Benchmarking for Education Results (SABER) Initiative to support implementation of the strategy.

for secondary education were mixed. Although the Ministry of Education approved the new curriculum framework for secondary education, it was unable to translate the framework into a well-developed new curriculum document due to a lack of cooperation between education institutions and the business community. In order to support private sector development in the education space, IFC committed a US\$15 million investment to Cairo Investment and Real Estate Development S.A.E., a leading K-12 education institution for their expansion plan across governorates.

- **The outcome of successful development of schemes for improving linkages between suppliers and external markets was partially achieved, mainly through IFC interventions.** During the CAS period, the Bank and IFC provided knowledge support in improving Egypt's competitiveness, notably through the dialogue on "Doing Business" indicators. However, this dialogue has not been sustained post-2011 due to the political turmoil. IFC used its Business Edge (a face-to-face management capacity building program) advisory instrument to train 7,434 individuals (of which 20 percent were women) between July 2005 and December 2013. Of these, 1,721 persons were from 130 different SMEs, part of the value chain of four large lead firms in the ICT, Fast Moving Consumer Goods, Pharmaceutical, and Telecommunications sectors. These value chain interventions helped to strengthen the overall value chain and to improve the relationship with the lead firm, resulting in increased sales of firms.

Pillar 3: Inclusion. The Bank Group's efforts aimed at ensuring broader access by disadvantaged segments of the population - women, youth, lagging geographical regions - to infrastructure and social services. This pillar is rated *moderately unsatisfactory* with notable progress in water and air pollution abatement and expanding credit access to women. Progress in achieving the outcomes is discussed below.

- **The outcome of successful testing of pilot schemes for expanding sanitation into rural areas, increased efficiency and beneficiary participation in drainage and developing PPPs was partially achieved as a result of progress on the irrigation and drainage side in particular.** There have been improved irrigation and drainage services to over 300,000 farmers as a result of Bank-financed Integrated Irrigation Improvement and Management Project and National Drainage Project II that have also yielded results of more beneficiary participation. On sanitation, results were more mixed. The goal of expansion of networked sanitation infrastructure into the rural areas is progressing under the Bank-financed Integrated Sanitation and Sewerage Infrastructure Projects (ISSIP1 and ISSIP2 accompanied by a Sanitation Trust Fund) but was delayed due to delay in detailed designs, bidding processes and environmental and social impact assessment; local communities' obstructions; and land acquisition issues. IFC has successfully advised the Government on its first wastewater PPP transaction in the country via the implementation of the New Cairo Wastewater project. The project attracted US\$120 million of private investment and reached financial close in 2010 and is now fully operational.
- **The CAS/ISN environmental outcome - successful scale up for pollution abatement and wastewater management - was achieved.** This outcome was met as part of the Bank-financed Egypt Pollution Abatement Project (EPAP) I. The

subsequent Bank-financed EPAP II contributed to the improvements of emissions notably from cement sector and brick factories, both among the most polluting sectors. The Bank has also been involved in other sectors that would lead to the improvement of the air quality, such as the Natural Gas Connections Project, the taxi scrapping program, and the Cairo Congestion Study. One innovation of the Bank's engagement in environment is that EPAP II was implemented using the Country Environmental System in 2006. Various actions were taken such as issuing revised environmental impact assessment guidelines, stipulating a provision that severe penalties are promulgated for establishments constructed/ operated without EIA, and issuing new sectoral EIA guidelines for thermal power plants and manufacturing of petrochemicals, textiles, cement, and fertilizers. These activities were supported by the technical assistance (TA) component of EPAP II.

- **The outcome of expanded healthcare access was not achieved.** The main vehicle for the strategy in the health sector was the Bank-financed Health Insurance Development Project. Although approved in FY10, the project was not implemented by the new Government at the time as it was not in line with its priorities. The Health Insurance Systems Development Project has been redesigned to better target the poorest 1,000 villages in Egypt by accrediting family health facilities that meet the national healthcare quality standards. IFC has financed four private sector-managed health facilities, three of which are now fully operational.
- **The outcome of increasing investments to Upper Egypt was partially achieved, principally through lending although some notable analytical work focusing on Upper Egypt was disseminated.** A project dedicated to Upper Egypt envisaged in the ISN did not materialize due to continued political instability in the country. However, the Bank-financed Labor Intensive Investment Project, also envisaged in the ISN and targeting Upper Egypt, was approved in FY12. Equally important was the Bank's ability to leverage EU grant funding for this project to the tune of Euro 70 million which increased funds allocated to Upper Egypt and made borrowing more concessional to the Government. The Bank also focused on strengthening the analytical base for policy and investment decisions affecting Upper Egypt. In 2013, the Bank published "Mapping Gendered Pathways to Inclusion: Shaping Youth Policy in Upper Egypt". This study provided an analysis of the conditions of young men and women aged 15–29 residing in the region of Upper Egypt and their perceptions regarding the various factors that facilitate or limit their socioeconomic inclusion. The Bank-financed Natural Gas Connections project and a follow on project approved in FY14 are targeting underserved areas, including those in Upper Egypt.
- **The outcome of strengthening social safety nets through the definition and implementation of a sound plan to move towards a more transparent and sustainable system and new pension regulations reflecting international best practice was partially achieved.** As noted earlier, the Governance and Social Safety Nets DPL which would have anchored a reform effort in this area did not materialize. The Bank has maintained a sustained dialogue to consolidate and strengthen Egypt's social protection system. One of the main achievements of the Bank support in this area has been support to the development of a poverty map for better targeting of social safety

net interventions. The Bank also supported the design of a comprehensive social insurance reform through a multi-year technical assistance program. In June 2010, the Egyptian Parliament approved a new Social Insurance and Pensions Law that introduced a systemic reform which was expected to constitute a landmark in the Middle East region. The new system was to become effective in January 2012, but the implementation was delayed after the revolution, and in early 2013 the Government decided to cancel the law. The Bank provided technical assistance through a multiyear program developed in two phases. The decision of the Government to cancel the Social Insurance Law delays the solution to critical shortcomings of the current pension system, notably concerning the fiscal implications of projected deficits in the existing schemes (in spite of a high tax wedge on labor), the lack of coverage of a significant number of Egyptian workers, the high volatility of the real value of pensions due to the practice of “ad hoc” arbitrary indexation, and the inadequate targeting of non-contributory pensions. The Government has expressed concerns with these issues and a new reform (with a different approach) is under study, but the scope, content, and potential impact of such reform still remain unclear.

- **Both outcomes on gender - which were contributing to informed advocacy on gender and a specialized financing aimed at women - were fully achieved.** There was active and sustained dialogue on gender issues in the country. The 2010 Gender Assessment which examined the gender dimension of the Egyptian labor market was disseminated in the country and attracted a lot of attention from stakeholders. The findings of this report have fed into a Bank study of the Egyptian labor market. Intense policy dialogue on gender resulted in a number of gender-informed operations in Egypt, focused on increasing female employment through business development training and access to finance, including the 2012 Egypt Development Marketplace that aimed to support agribusiness and handicrafts projects across Egypt, with a special focus on Upper (southern) Egypt. Under the Enhancing Access to Finance for Micro and Small Enterprises (MSE) Project, the strong impact on women is evident in the increase in the number of female-owned MSEs from about 4,500 in June 2012 to 20,000 in June 2013. IFC has sought to address issues of gender disparities through its Business Edge and access to finance advisory programs as highlighted above.

BANK GROUP PERFORMANCE

The program designed in the 2005 CAS was responsive to the needs on the ground and the ISN was flexible. In view of the improved context with the economic reforms initiated in 2004, the CAS and CAS Progress Report envisioned scaled up support for Egypt. This scaled up support did occur as Bank commitments more than doubled from FY06 to FY14. Similarly, IFC’s investment portfolio tripled during this period. IFC played a strong countercyclical role and was instrumental in mobilizing outside investors into Egypt over the FY11-14 period, something it had not done at such scale during previous CAS periods. The Bank Group changed course with the ISN following the political turmoil in Egypt. This was a difficult time for the Bank Group engagement because of the lack of a coherent Government vision during this period. One issue for the ISN was whether the flexibility was balanced with firmness to ensure credibility. The lack of a consistent Government policy framework during the post-revolutionary period prevented the Bank from being able to make progress with an agenda. So while there was a course correction

vis a vis the ISN, in reality, the focus during the post-revolutionary period was on implementation of the ongoing portfolio. The design of the lending program in the context of uncertainty was flexible, building on the ongoing operations while moving to new priority areas in a modest way. The results framework of the ISN was modest, exhibiting realism, and it built on the CAS Progress Report's results framework focusing on outcomes from the ongoing operations.

The Bank and IFC conducted consultations with Government officials and other stakeholders in a time of political transition (see Attachment V for details on outcomes of ISN consultations). During the post-revolutionary period, the World Bank Group reached out to various stakeholder groups (including the private sector) and new agents of change and future reform champions, with the objective of seeking viewpoints on key issues and priorities for a new Egypt emerging from political transition. The consultations (both formal and informal) sought to address how best the Bank Group could support Egypt in this new environment. Overall, these early engagements and multi-stakeholder consultative meetings were helpful in informing the ISN about (i) what the development priorities are for Egypt; and (ii) where stakeholders see the World Bank Group playing a role. The key issues raised during consultations, including work on safety nets, support for SMEs, education quality, and natural gas are very much part of current engagement.

Table 2: IEG recommendations and Corresponding Bank Interventions

<i>IEG Recommendation</i>	<i>Select Bank Interventions</i>
Targeting Social Safety Nets	<ul style="list-style-type: none"> • Transition Fund Project on Safety Nets; • Emergency Labor Intensive Project; • Inequality of Opportunity Study
Analysis on Macroeconomic Issues and Income Disparities	<ul style="list-style-type: none"> • Dialogue on Energy Subsidies; • Inequality Study
Financial Sector Reforms and Combatting Corruption	<ul style="list-style-type: none"> • Financial Sector DPLs (I,II,III) • Affordable Mortgage DPL • MSME Project • TA on Governance
Infrastructure and Energy Institutional Reform	<ul style="list-style-type: none"> • Helwan South Power Project • Airports Project • Railways Project

The ISN took on board recommendations from 2009 IEG's Country Assistance Evaluation (CAE). Notably, the CAE recommended that future Bank strategy should reflect Egypt's middle-income status by including a flexible lending program and an emphasis on knowledge services. It also recommended that the Bank further strengthen the recent successful partnership by: (i) identifying direct and indirect interventions that could help reduce income disparities through improving the targeting of social safety nets; (ii) focusing analytic work on macroeconomic analysis and income disparities, and improving its dissemination; (iii) pursuing further financial sector reforms and promoting reforms that indirectly combat corruption (public financial management, simplification of taxation and business procedures, and an information act); and (iv) emphasizing sectoral strategies and policy and institutional reforms in infrastructure and energy. All these are areas where the Bank Group is actively engaged (see Table 2 for examples).

Table 3: CAS/ISN Proposed Operations of Which Delivered

Proposed Bank Operations		Delivered Bank Operations	
FY	Activity	Project	Commit
06	West Delta Irrigation Infrastructure	West Delta Water Conserv. & Irrig. Rehab	145
	El Tebbin Power	El Tebbin Power	259.6
	Mortgage Finance	Mortgage Finance	37.1
	Ports Sector Development		
07	Urban/Alexandria Growth Pole	Alexandria Development	100
	Integrated Governorates Development		
	Social Funds IV		
	Education Enhancement II		
	Pollution Abatement II	Second Pollution Abatement	20
Solar Thermal			
Financial Sector Restructuring Loan	Financial Sector Reform DPL	500	
08	Transport/Road Asset Management		-
	Integrated Governorates II		
	Railways	Railways Restructuring	270
	Delta Integrated Sanitation and Sewerage Infr	Integrated Sanitation & Sewerage Infr	120
	Financial Sector Loan II	Financial Sector DPL II	500
09	Additional Financing for Mortgage	Affordable Mortgage Finance DPL	300
	Low Income Social Housing		
	Ain Sokhna Power Project	Ain Sokhna Power	600
	Railways Restructuring	Egypt National Railways Restructuring	330
	National Drainage (AF)	National Drainage II Add. Financing	30
10	Facilitating Access to Finance	EG-Enhancing Access to Finance for SMEs	300
	Gas Infrastructure	Natural Gas Connections	75
	Airports II	Airports Dev Additional Financing	40
	Roads Assets Management		
	Post-Basic Education Reform		
	Social Protection DPL		
	Health Insurance System Development	EG-Health Insurance Systems Development	75
Upper Egypt Integrated Development			
11	Power III	EG-Giza North Power Project	600
	Clean Technology for Energy	EG-Wind Power Development	70
	Urban Transport Infrastructure		
	Solid Waste		
Agriculture/Poultry Industry Recovery	EG-Farm-level Irrigation Modernization	100	
12	Giza North (AF)	EG-Giza North Additional Financing	240
	Emergency Labor Intensive	EG Emergency Labor Intensive Investment	200
13	Helwan South Power Project	EG - Helwan South Power Project	585.4
	Kom Ombo Solar		
	Urban Transport Infrastructure Project		

The Bank emphasized the appropriate procurement and financial management mechanisms to improve implementation progress and disbursement rates and build country capacity. The Bank is supporting the Government to prepare procurement documentation in advance of approval of projects, streamlining the funds flow process by increasing use of e-disbursement, improving implementation readiness of projects, and providing support upstream for environmental and social safeguards. The Bank's extensive engagement in infrastructure has helped drive the development of state of the art implementation arrangements, including with respect to financial management, procurement, and monitoring and evaluation in energy, water, and transport among others. This has also attracted donors to pool resources with the Bank (e.g. Helwan South) and will be important in the effective absorption of Bank and other donor resources going forward, including the funds from Gulf countries.

The Bank and IFC mobilized lending and non-lending services to support the program in the CAS and in the ISN. Bank lending during FY06-FY12 averaged US\$934 million annually, and lending volume foreseen in the ISN was largely met (see Table 3). The Bank undertook Analytical and Advisory Activities (ASA) in a number of areas, including poverty assessment, inequality studies, education, and economic geography analysis. The Upper Egypt Study and the inequality study will inform the new Bank Group's CPF which is expected to focus on inequality issues and spatial disparities within the country. The Bank leveraged low lending volumes in critical sectors with enhanced knowledge advice through ASA, for example in education, where ASA led to development of new approaches to university entrance and secondary education graduation exams. IFC also exceeded its historical investment trends under previous CAS periods. IFC has committed a total of US\$2.2 billion (including mobilization of US\$392 million) during the CAS and ISN period (FY06-FY14). Of this, US\$1.8 billion was during FY06-FY12 and the balance during the ISN period.

World Bank portfolio performance. Although the Bank has made particular efforts to improve portfolio performance. Portfolio performance was weak during much of the period, as demonstrated by delays in effectiveness, portfolio riskiness, and modest disbursement ratios. The political turmoil during some of this period also contributed to delays. Although effectiveness delays and disbursement ratios improved during the period, the share of problem projects continued to be high (see Table 4). Egyptian counterparts and the Bank held quarterly portfolio performance review meetings and focused on restructuring and cancellations of non-performing projects, and capacity building for procurement to resolve implementation bottlenecks. Lessons from active portfolio management have also infused new projects to ensure adequate preparation and better results on the ground.

Table 4. Egypt Portfolio at a glance, FY09-FY14						
	<i>FY09</i>	<i>FY10</i>	<i>FY11</i>	<i>FY12</i>	<i>FY13</i>	<i>FY14</i>
Portfolio and disbursements						
Active projects (#)	15	22	23	22	25	26
Net commitments (\$m)	1,794	3,400	3,894	4,072	4,615	4,908
Undisbursed balances(\$m)	1,542	2,884	3,205	3,242	3,380	3,308
Disbursements in FY (\$m)	113	298	173	378	448	372
Disbursements ratio (%)	25%	14%	7%	10%	14%	11%
Slow disbursements (%)	7%	5%	5%		9%	12%
Portfolio riskiness						
Actual problem projects (#)	3	1	2	5	5	5
Actual problem projects (%)	20%	5%	10%	25%	23%	20%
Projects at risk (%)	27%	5%	10%	25%	23%	20%
Commit at risk (%)	16%	4%	1%	10%	9%	20%
Proactive index (%)	50%	67%	100%	50%	20%	60%
Realism index (%)	100%		100%	100%	100%	
Effectiveness Dly (%)	33%	20%	20%	25%	14%	12%
Note: No of projects, disbursements and commitments include small RETFs <\$5m, all other indicators excludes small RETFs.						

IFC portfolio performance. IFC took a proactive approach to portfolio management including stress-testing all exposures, helping clients to restructure their balance sheet and cancelling selectively undisbursed commitments in agreement with clients. As of June 30, 2014, total portfolio stood at US\$977 million with less than US\$163 million (almost 17 percent

of total) undisbursed. With the exception of three investments which were underperforming before the start of the revolution, the portfolio is current with no delay in repayments to date.

MIGA portfolio performance. Prior to the revolution MIGA experienced very little interest in its political risk insurance products. After the revolution MIGA received more inquiries and between FY13-FY14, MIGA provided US\$120 million of guarantees into the oil and gas, and manufacturing sectors. Both projects involved are performing satisfactorily.

ALIGNMENT WITH THE WBG TWIN GOALS

The recently completed Egypt Systematic Country Diagnostic (SCD) shows that past engagement has not always addressed the key drivers to eliminating poverty and increasing shared prosperity in a sustainable manner. The strategic objectives of the FY06-11 CAS were facilitating private sector development; enhancing the provision of public services; and promoting equity. The SCD emphasized macroeconomic management, particularly the subsidy issues and governance, as key areas in need of reform. As the moderately unsatisfactory rating of Pillar I (economic management) shows, Bank engagement in macroeconomic management and governance issues has not been successful. Notably, little progress was made in reducing subsidies, as emphasized in the SCD. Although Bank engagement was more successful in Pillar 2 (jobs), little progress was made in addressing the institutional issues of sector governance emphasized in the SCD. The bulk of Bank engagement was in infrastructure lending, including energy, transport, and finance where there was good progress in terms of achieving results.

Despite the lack of emphasis in some areas, there were a number of important areas brought up in the SCD where the Bank has made progress in moving forward the reform process. IFC supported the regulatory reforms to improve the business environment. Also, the Bank was involved in improving safety net mechanisms during this period, including poverty mapping to set up a targeting mechanism to better reach the poorest.

KEY LESSONS AND SUGGESTIONS FOR THE NEXT CPF

Large infrastructure projects should be accompanied by institutional measures and used as a vehicle for institutional reform provided such measures are embedded in the projects. Bank engagement in the transport sector has shown that institutional reform measures such as management contracts to introduce private sector efficiency can be embedded in investment lending. For example, the Bank-financed Helwan South Power Project embeds institutional change in project design, including grievance redress mechanisms. This was not always the case in the Bank-financed energy sector projects. Going forward, institutions and capacity building should be embedded in project design more systematically. Focusing on sector reforms (especially in important areas like power) and the sequencing of these reforms would be important in the new CPF in order to increase private sector participation in this space.

Flexibility is important in a high risk political environment such as Egypt. The Bank and IFC's flexible response to the events of 2011 to changes in the country context enabled an adjustment of the strategy to better respond to the Egyptian revolution. In a highly fluid

political environment, the Bank and IFC should focus on the country's immediate needs with a mix of instruments. In the case of energy subsidies, the Bank was able to assemble a multi-sector team to advance the dialogue on the issue in the absence of a DPL envisaged in the ISN. IFC's Management decision to provide counter-cyclical and confidence boosting support to the private sector (despite the high risk environment where other commercial financing was drying up) helped in job preservation/creation. This approach used under the previous CPS/ISN period could help guide IFC's intervention in the new CPF period.

Realism in results framework is crucial. The outcomes should focus only on what it can influence in terms of results and what is achievable in the time frame of the CAS/ISN. In the CAS/ISN period, the ISN kept the original CAS Progress Report's results framework with the intent that results would only be achieved in projects already under implementation. In hindsight, this more scaled back results framework was the correct decision. One exception was the macroeconomic outcome with a specific fiscal deficit target which was not under the control of the Bank. The Bank and IFC should continue its realism and assessment of risks and rewards when developing project and program level results given continued uncertainty in the political and economic situation.

Proactive engagement with the donor community is important in leveraging our support. The Bank has successfully leveraged donor support in a number of projects, most recently the Bank-financed Emergency Labor Intensive Investment Project and the Helwan South Power Project, and advisory engagements like the MSME Technical Assistance Facility. In an environment where Bank support is relatively small in comparison to needs, continued engagement with the donor community is crucial. In social sectors where the Government is reluctant to borrow IBRD resources, the Bank can leverage grant funding.

It is important to integrate voice and accountability mechanisms and reaching out to stakeholders. The Bank needs to reach out to CSOs and other stakeholders in project and program design. This was, notably, evident in the implementation of the Bank-financed Integrated Sanitation and Sewerage Infrastructure Project. Moreover, having in place beneficiary feedback mechanisms is crucial to achieving results in Bank interventions. In the water and energy sectors, for example, the changing political environment has led to more

ATTACHMENT I

COMPLETION AND LEARNING REVIEW: ACHIEVEMENT OF RESULTS UNDER ISN AND CAS RESULTS MATRIX FOR EGYPT, FY06-FY14

ISN outcome/cluster of outcomes and milestones Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons
Strategic Objective/Pillar 1: Economic Management		
1.1. Contain the fiscal deficit: Partially Achieved		
<p>Effective implementation of the Government’s plan to gradually reduce fiscal deficit by end ISN period.</p> <p>ISN Milestones</p> <ul style="list-style-type: none"> Gradual phasing out of energy subsidies for energy intensive industries is launched <p>Policy dialogue on macroeconomic targets and priority activities is ongoing and constructive. In the early years of the CAS implementation, the Government goal of one percent reduction in the fiscal deficit was on track, but the fiscal deficit has since been increasing steadily from 8 percent of GDP in FY10 to 14 percent of GDP in FY13. This was due to weak growth, averaging only two percent over the past three years. Some improvement in the fiscal situation was seen in FY14, with the deficit down to 12.8 percent. The Government’s plan to reduce the fiscal deficit involved lowering energy subsidies. One of the key focus areas for Bank dialogue has been the energy subsidies and there has been some progress recently. Egypt has launched an ambitious energy subsidy reform initiative aimed at liberalizing energy prices over the coming 5-10 years. While smaller steps were taken in 2012-13, mainly to raise prices for energy-intensive sectors, broader price increases for both firms and households were implemented in July 2014 reducing subsidies by 25-30 percent and yielding fiscal savings of around 2 percent of GDP. <i>[REF CAS Progress Report Outcome 2.1. Consolidate macroeconomic stability]</i></p>	<p>Ongoing Economic monitoring</p> <p>FY09: Poverty Assessment</p> <p>FY11: Savings Study</p> <p>FY12 Inequality Study</p> <p>FY13: Social Safety Nets TA</p> <p>FY13 Expanding Opportunities for the next generation</p>	<p>Our ESW was helpful in maintaining ongoing dialogue even in the absence of lending.</p> <p>Our DPL discussions, which took place in parallel with the IMF discussions over the past two years, also contributed to advance the agenda on both social safety net and governance issues.</p>
1.2. Improve transparency of public sector management: Partially Achieved		
<p>Increase rating on governance and transparency scorecards issued by major independent observatories of perceptions of transparency process – by end-CAS</p> <p>ISN Milestones</p> <ul style="list-style-type: none"> Government’s annual budgets, audited accounts and audit reports are disclosed Launch of a formal program to improve perceptions of public sector transparency <p>While there were some improvements in perception, the reforms undertaken during the ISN period did not go far enough in increasing transparency. Over the past six years, Egypt has</p>	<p>FY04: Egypt Public Expenditure and Fiduciary Management (ongoing TA)</p> <p>FY08 Country Financial Accountability Assessment</p> <p>FY09: Egypt Governance</p>	

ISN outcome/cluster of outcomes and milestones Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons
<p>provided more budget information to the public, and its score jumped from 19 in 2006 to 49 in 2010 on the Open Budget Index. Egypt's 2010 score, the latest available, indicates that the Government provides the public with limited information on the central Government's budget and financial activities. The Government also moved forward with the drafting of several laws aimed at increasing transparency in recent years. These included: Conflict of Interest; Access to Information; Anti-corruption Agency; Whistleblower; Witness Protection; Procurement; Central Auditing Organization; Income and Asset Disclosure; and Consumer Protection laws. The Bank successfully mobilized grant funding for technical support to the drafting of these laws. The Bank also engaged in dialogue with the authorities and stakeholders to create debate and consensus but only the Witness Protection and the Conflict of Interest laws have been passed. Reforms such as resuming publication of a citizen's budget, issuing a budget framework paper, and publishing audits of SOEs did not occur during this period. A formal program to improve perceptions was not launched.</p> <p><i>[REF CAS Progress Report Outcome 2.5. Strengthen public sector performance]</i></p>	<p>Diagnostics Survey FY09 (TA) FY09: Governance and Anti-Corruption TA FY14: Public Sector and Governance TA</p>	
Strategic Objective/Pillar 2: Jobs		
2.1. Create an enabling environment for private investment and businesses: Achieved		
<p>Improvement in the Business Environment as measured by Doing Business surveys – by end-ISN period.</p> <p>ISN Milestones</p> <ul style="list-style-type: none"> Improvement of Doing Business rankings from 108 (2011) <p>In September 2006, <i>Doing Business</i> ranked Egypt 152 out of 175 economies. In <i>Doing Business 2008</i>, Egypt improved to 126 in the rankings. After that, the rankings stagnated or deteriorated in specific indicators due the absence of reform during 2011-2013. <i>Doing Business</i> rankings were 109/189 in 2013 compared with 106/189 in 2010 period. Overall in the CAS period, there was improvement.</p> <p>Successful completion of regulatory reforms that would lead to a level playing field and a more competitive environment</p> <p>ISN Milestones</p> <ul style="list-style-type: none"> New investment opportunities <p>There was progress in undertaking regulatory reforms which improved the enabling environment for investment. The following regulatory reform activities were undertaken with support from the IFC and World Bank:</p>	<p>Ongoing: Benchmarking through Doing Business (TA) FY07 Investment Climate Assessment Follow up FY09 Investment Climate Update (ESW) FY12: ICA Update Ongoing: Investments in PPPs (IFC) FY13: SME Training through IFC Business Edge/Toolkit Ongoing: Streamline construction</p>	

ISN outcome/cluster of outcomes and milestones Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons
<ul style="list-style-type: none"> • Simplification of procedures to establish industrial projects by canceling the initial approval of the General Authority for Industrial Development. Simplification of registration procedures of companies' foreign branches by reducing time to 3 days (instead of 4-6 months). Simplification of procedures, documents. • Simplification of registration procedures of foreign companies' representative offices (Reduce time to 3 days (instead of 40 days). Simplification of procedures. • Second phase of electronic business registration (Electronic payment) • Abolish security approval for the press companies. • Issuance of imports certificate valid for 3-5 years instead of stamping invoices on a regular basis and issuance of exports certificate valid for 3-5 years instead of issuing letter on a yearly basis • Simplification of Construction Permitting procedures and issuance of the Unified Construction Law executive regulations. • Development of smart regulations for Investment Zone regimes in Egypt. • Completion and launch of the Egypt Subnational Doing Business (SNDB) 2014 report, catalyzing reform activities by Government. <p>Successful Completion of pilot PPPs in selected sectors, including education and irrigation. IFC has successfully advised the PPP Central Unit of the Ministry of Finance and Ministry of Higher Education in the implementation of the Alexandria Hospitals PPP Project. First waste water PPP in Egypt successfully completed.</p> <p><i>[REF CAS Progress Report 1.3. Increase private business activity]</i></p>	<p>permits and licenses (IFC TA)</p> <p>Ongoing: Roll out Competitiveness Index nationwide (IFC TA)</p> <p>Ongoing: Development of the post SNDB launch reform activities in FY14, targeting reform implementation in 15 governorates</p> <p>Ongoing: Capacity building for Parliament and Government on business environment</p>	
2.2. Improve financial sector competitiveness and efficiency: Achieved		
<p>Adoption by the Government of a sound strategic approach to expand access to finance to the poorest – by end-CAS</p> <p>Our strategy to reach the poorest is achieved through expanding microfinance. Enhancing micro and small enterprises (MSEs) access to finance is an important pillar of the Government's agenda. In particular, the second generation of the Financial Sector Reform Program (2009–2013) focuses on financial intermediation and improving access to finance.</p> <p>The Social Fund for Development (SFD) has launched a Micro and Small Enterprise Development Strategy (2009–2013) aiming at improving the environment for MSEs. Significant activities have</p>	<p>FY14: Financial Development and Growth (ESW)</p> <p>Ongoing: Support to financial sector reform (TA)</p> <p>FY10: Affordable Mortgage Finance Development Policy Loan (SPN)</p>	<p>DPLs were successful in providing timely and successful financial assistance in support of the overall objective of financial sector reform.</p> <p>An integrated approach to lending and ASA in the sector, where capacity building activities were</p>

ISN outcome/cluster of outcomes and milestones Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons
<p>been undertaken by the World Bank to improve the business environment for MSMEs and enhance capacity building of financial regulators and Government agencies. These activities include: (i) support to the CBE in the development of a credit guarantee facility for MSME financing; (ii) capacity building of SFD and EFSA to set up the regulatory framework to support the Microfinance Law; (iii) capacity building of SFD; and (iv) capacity building of the Egypt Post on product development, risk management and Islamic financial services. The World Bank is providing capacity building to SFD for major institutional and governance-related reforms.</p> <p>Substantial increase in access to finance evident in the rise of credit by end-CAS:</p> <p>ISN Milestone:</p> <ul style="list-style-type: none"> • Development of a strategy to expand access to finance • Effective implementation of ongoing financial reforms. <p>This result was partially achieved. Although the financial reforms led to a sound and stable system (as evident in the capital adequacy ratio, that increased from 14.7 in 2008 to 15.6 in 2011), improvements in financial intermediation to the private sector were not maintained, due to the developments associated with the January 25th revolution, which led to increased crowding-out of the private sector by the Government’s budget deficit and sell-off of Government bonds by non-financial sector holders. In addition, private borrowers were not interested in borrowing due to the overall macroeconomic environment and the uncertain security situation. Credit of the banking sector to the Government has continued to accelerate; increasing by 41.4 percent in December 2011 and 45.3 percent in January 2012. Credit in the private sector grew by 6.1 percent in December 2011 and 5.4 percent in January 2012. The Government’s share in total credit increased to 53 percent in January 2012, up from 45.2 percent in January 2011. The share of the private sector shrank to 43 percent in January 2012, from 50.7 percent in January 2011, when it was starting to pick up right before the revolution.</p> <p>Increase of annual mortgage loans extended by primary lenders–by end-CAS</p> <p>ISN Milestones:</p> <ul style="list-style-type: none"> • Successful operation of the mortgage refinancing facility <p>This result was achieved. The reforms implemented by the Bank’s Mortgage Finance Project have yielded the following result: an increase in volume of market-based mortgage loans extended by primary lenders from LE 300 million in 2006 to LE 4.5 billion in 2011. More recently, the mortgage market experienced a modest increase during Q1 2013, with the overall size of the market reaching about LE 4.8 billion by March 31, 2013. Achievements also</p>	<p>FY10: Financial Sector DPL III</p> <p>FY08: Financial Sector DPL II</p> <p>FY10: Enhancing Access to Finance for SMEs Project (SPN)</p> <p>Investments in finance institutions (IFC)</p> <p>FY06: privatization of remaining state owned stake in Commercial International Bank “CIB”). IFC participated with Ripplewood Holdings to purchase the entire remaining state owned stake in the largest private sector bank in Egypt.</p> <p>FY09: worked with Intesa Sanpaolo (“ISP”) for the privatization of one the main four public sector banks in Egypt (“Bank of Alexandria” or “BoA”).</p> <p>FY 07: IFC worked with a regional champion, Ahli United Bank to acquire and successfully restructure a banking asset in Egypt with a</p>	<p>undertaken in support of the Government policy reform efforts proved to be very successful.</p>

<p align="center">ISN outcome/cluster of outcomes and milestones Status and Evaluation Summary</p>	<p align="center">WBG Activities that contributed to the Outcome</p>	<p align="center">Lessons</p>
<p>include: (i) an increase in the length of maturity term of a mortgage loan to 16 years in 2011 from seven years in 2006, exceeding the target of 15 years; (ii) an increase in mortgage finance companies from 2 in 2006 to 12 in 2011; and (iii) a rise in bank lending for mortgages from LE 12 million in 2006 to LE 2.6 billion in 2011.</p> <p>The Mortgage Finance Subsidy Program has been making good progress, and the key policy measures the DPL has been supporting, have been achieved. These include (i) strengthening the legal, regulatory and institutional framework for the Mortgage Finance Subsidy Program; (ii) developing an effective and efficient mortgage finance subsidy mechanism; and (iii) improving the institutional framework to enhance transparency and targeting of housing subsidies</p> <p>In 2007, IFC joined forces with 27 local banks and MFCs to establish the first mortgage refinance vehicle, Egypt Mortgage Refinance Company (“EMRC”). EMRC started playing an instrumental role in providing long term funding to housing finance originators.</p> <p>A developed NBFi regulator and a more sound Egyptian Financial Supervisory Authority (EFSA)</p> <p>ISN Milestone:</p> <ul style="list-style-type: none"> • Publication of the Financial Stability Report, enhancing transparency <p>This result was achieved. Progress achieved towards the strengthening of the regulatory and supervisory framework of NBFIs was reflected in the issuance of the Non-Bank Financial Sector Law No. 10 of 2009, which was enacted, establishing EFSA as the single regulator for NBFIs. The EFSA merger was completed and in January 2011 the then Chairman issued a comprehensive report covering background, establishment, internal restructuring plans and achievements to date</p> <p>EFSA has undertaken several reforms, as follows: (i) the first organizational chart of EFSA has been approved in 2011, where EFSA was able to fully integrate its departments based on functions; (ii) the supervision department has undergone restructuring; (iii) the salary scheme of all EFSA employees has been restructured to guarantee leveled and fair compensation for all employees; (iv) EFSA has succeeded in unifying the regulations and disclosures throughout the nonbanking financial sector; and (v) EFSA has contributed substantially to reducing any systemic risk after the revolution and the reopening of the Egyptian Stock Market.</p> <p>Issuance of the Corporate Governance Code for the banking sector, preventing potential conflict of interest, improving transparency, and establishing good governance.</p> <p>ISN Milestone:</p>	<p>challenged asset quality profile and an inadequate capitalization base (Delta International Bank).</p> <p>Microfinance institutions (IFC TA)</p> <p>Credit Bureau (IFC TA)</p> <p>Corporate Governance (IFC TA)</p> <p>SME banking (IFC TA)</p> <p>Joint WB-IFC MSME Technical Assistance Facility</p> <p>IFC Advisory Support for Corporate Governance</p> <p>FY13: Investment in Fawry to broaden financial services and increase efficiency of such transactions</p>	

ISN outcome/cluster of outcomes and milestones Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons
<ul style="list-style-type: none"> • Further improvement and enforcement of the corporate governance regulation <p>The Central Bank of Egypt (CBE) has strengthened corporate governance in the banking system by issuing Corporate Governance Regulations on July 5, 2011. The World Bank is working closely with the CBE on strengthening CBE’s macro prudential supervision by conducting annual stress testing for the banking sector, and by preparing quarterly consolidated banking sector reports that will serve as the basis for the CBE’s Financial Stability Report.</p> <p>Amendment of the Central Bank, Money and Banking Law, improving the governance of the Central Bank of Egypt</p> <p>ISN Milestone:</p> <ul style="list-style-type: none"> • Effective conduct of stress testing, using Financial Protection Model <p>CBE has amended the Central Bank, Banking System, and Money Law No. 88 of 2003 in October 8, 2011, introducing changes regarding improving CBE’s own governance, reconstituting its own board of directors to remove conflicts of interest, and tightening supervisory capacity and processes. The CBE is conducting periodic stress testing of the aggregate balance sheet of the banking sector and individual banks annually since 2008 (a main action supported by the third Financial Sector DPL), and stress testing has become an integral part of the CBE’s systemic surveillance of the banking sector. Currently, CBE is involved in an intensive technical assistance project with the World Bank to strengthen its stress testing framework through the integration of the Financial Projection Model (FPM) into its supervision.</p> <p>Substantial reduction in state ownership of commercial banks and divestiture of public shares in joint venture banks-by end CAS.</p> <p>There is increased private sector ownership of the banking sector. The banking sector is still predominately owned by the state (based on asset ownership) however reforms initiated since 2005 have helped increase competition in the financial sector. These reforms were undertaken with active lending and advisory support from the Bank and IFC, including through the MSME Technical Assistance Facility that is being jointly implemented by both institutions The reforms succeeded in attracting foreign and regional strategic investments and inviting banking know-how. This resulted in the reduction of state control of the banking sector as indicated by the direct and indirect share of state-owned banks of banking system deposits, which declined from over 70 percent in 2004 to 45.5 percent in 2009.</p>		

ISN outcome/cluster of outcomes and milestones Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons
<p>In 2009, IFC worked closely with a global bank, Intesa Sanpaolo (“ISP”) to acquire the majority (80%) state-owned stake in one of the main four public sector banks at the time, BoA. the project also fully privatized the management of the bank and contributed to enhancing its competitiveness and efficiency. In 2006, IFC participated in divesting the entire remaining state-owned shareholding (19%) in CIB and fully privatizing the Bank. IFC’s involvement in this project was critical in providing comfort to a group of foreign investors led by New York based Ripplewood Holdings, tapping the Egyptian market for the first time.</p> <p><i>[REF CAS Progress Report Objective 1.1 Improve Financial Sector Competitiveness and Efficiency]</i></p>		
<p>2.3. Expand and improve power and transport infrastructure: Partially Achieved</p>		
<p><u>Energy: Mostly Achieved</u></p> <p>Expansion of power generation capacity by 27,000 MW – by end-CAS; increasing share of renewables in generation mix</p> <p>ISN Milestone:</p> <ul style="list-style-type: none"> • Effective advancement of works on power projects and natural gas connections project. <p>Although the goal of expansion of power generation capacity by 27,000 MW was not achieved, the fast track power generation program (2,600 MW) was one of the main drivers for bringing installed capacity to over 27,000 MW in total. The Bank financed projects included: Construction of 700 MW El Tebbin in 2010; construction of 140 MW Kureimat Solar-Thermal Power in 2011 (which is a renewables project). In addition, construction of 3,550 MW in gas-fired power plants is underway. A Wind power project for construction of high-voltage transmission lines and a 250-MW wind power plant are under implementation. In addition, IFC advised the Government on a 2,250 MW gas-fired power plant in Dairut,</p> <p>Conversion from highly-subsidized LPG to natural gas consumption for 300,000 households – by end-CAS.</p> <p>In 2008, the Bank approved a natural gas connections project to increase household connections to natural gas. This has now closed. Through support by the Bank-financed project, conversion to natural gas consumption for over 300,000 households has been achieved.</p> <p>Reform of energy pricing and subsidies, to reduce the fiscal impact of global price increases – by end-CAS</p> <p>ISN Milestone:</p> <ul style="list-style-type: none"> • Design of a gradual yet substantial energy pricing reform and launch of its first phase. 	<p>FY06: El Tebbin Power Project</p> <p>FY08: Kureimat Solar-Thermal Project</p> <p>FY08: Natural Gas Connections Project</p> <p>FY09: Ain Sokhna Power Project</p> <p>FY10: Wind Power Development Project</p> <p>FY10-FY15: Dairut Power Plant advisory</p> <p>FY10: North Giza Power Project (SPN)</p> <p>FY13: Helwan South Power Project</p> <p>FY13: Investments in Petroceltic, Transglobe, and regional projects with Egypt focus (IFC)</p>	<p>When it comes to enhancing our dialogue, the engagement in conventional and renewable power generation has strengthened our dialogue in improving sector sustainability and energy subsidies. The projects did not focus on conditionality and this approach has strengthened the Bank’s position as a partner for sector reform rather.</p> <p>Sector reform, including energy pricing, needs time and persistence. Our previous engagement was diversified and timely for Egypt.</p> <p>A proactive approach should be taken to design our energy sector engagement in a way with clear pillars/programs (e.g. power generation, energy pricing, energy efficiency, privatization etc.) and framework instead of project/ASA based program. This could help in</p>

<p align="center">ISN outcome/cluster of outcomes and milestones Status and Evaluation Summary</p>	<p align="center">WBG Activities that contributed to the Outcome</p>	<p align="center">Lessons</p>
<p>On energy pricing reforms, the result is mostly achieved. Egypt has launched an ambitious energy subsidy reform initiative aimed at liberalizing energy prices over the coming 5-10 years. While smaller steps were taken in 2012-13, mainly to raise prices for energy-intensive sectors, broader price increases for both firms and households were implemented in July 2014 reducing subsidies by 25-30 percent and yielding fiscal savings of around 2 percent of GDP.</p>		<p>having more effective monitoring and shorten the approval process.</p>
<p><u>Transport: Partially Achieved</u></p> <p>Increase of capacity of key international airports (Cairo and Sharm El Sheikh) and delegation of airports management to the private sector</p> <p>ISN Milestone:</p> <ul style="list-style-type: none"> • Rehabilitation and expansion of an existing terminal (T2) in Cairo airport is well advanced; an air transport liberalization strategy is adopted. <p>Capacity of the airport has been increased so the result is achieved. Construction of a new airport terminal has been completed in Cairo airport (T3) and Sharm El Sheikh airport; airports management has been strengthened with the assistance of the private sector. The rehabilitation/extension of the terminal 2 in Cairo airport (T2) is underway to expand further the overall capacity.</p> <p>Increase of financial viability and safety of Egypt National Railways</p> <p>ISN Milestones:</p> <ul style="list-style-type: none"> • The Government has completed the modernization and reorganization of ENR; • Modernization of signaling of railways in Cairo Assiut is ongoing. <p>This result of increasing the financial viability and safety of Egypt National Railways is partially achieved. The Government has approved a restructuring plan of Egyptian National Railways (ENR), by Bank-recommended priorities, and focusing on increasing the safety, quality and reliability of services and financial viability of railways services; the financing of a modernization program of signaling systems between Alexandria and Assiut is in place. The financial viability had been improving but was jeopardized by the ongoing political and economic situation. The overall safety of the railways is still an issue and will take a longer time to overcome.</p> <p>Increase of financing for and regularity of road maintenance</p> <p>ISN Milestones:</p>	<p>FY10: Cairo Airport Project II FY09: Railways Restructuring Project FY10: Cairo Airport Project II FY07: Road asset management ASA FY12: Transport regulations TA</p>	

ISN outcome/cluster of outcomes and milestones Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons
<ul style="list-style-type: none"> The Government has adopted a road asset management strategy aiming to improve road maintenance. A pilot PPP road project is underway. Restructuring of freight road transport sector is underway and effective transport strategy is in place and effective regulation is in place to improve the performance of logistics. <p>This result is partially achieved. Government has adopted a road asset management strategy aiming, among others, to improve road maintenance; a pilot PPP road project has been experimented with but the PPP experience was terminated as prices offered were way above the estimate. The Government is implementing the Bank recommendations on Transport regulation and has secured EU funding to carry out detailed studies for the establishment of a regulatory agency (study almost completed).</p> <p>Improve public urban transport in greater Cairo area</p> <p>ISN Milestones:</p> <ul style="list-style-type: none"> The Greater Cairo Urban Transport Authority is in place and fully operational; the Cairo Urban Transport Infrastructure Development Project is underway. <p>This is not achieved. An urban transport authority for Greater Cairo has been established but is not yet operational.</p>		
<p><u>Telecoms: Not Achieved</u></p> <p>Reduction in the cost of telecommunications services – by end-CAS</p> <p>ISN Milestone:</p> <ul style="list-style-type: none"> Award of second national fixed line operator license. <p>On the telecom sector, our engagement was framed under a RAS program that did not pertain specifically to costs decrease, but rather to capacity building on statistics, legal and broadband policy. Some cost reduction may have happened but there is no evidence that it can be attributed to our RAS program.</p> <p><i>[REF CAS Progress Report 2.2. Expand and modernize infrastructure services]</i></p>	<p>FY08-11 several RAS with the National Telecom Regulatory Authority, the Ministry of ICT, the Information Technology Industry Development Agency, and the Egypt National Postal Organization.</p>	<p>With the political upheaval, the Bank tried to keep a line of dialogue with our technical counterparts, so as to be able to reengage formally as soon as the opportunity occurs;</p>
<p>2.4. Increase relevance of education for labor market: Mostly Achieved</p>		
<p>Successful testing (for an eventual scaling-up) of pilot schemes for improving quality/relevance of: (i) higher education, (ii) skills development, (iii) early childhood development – by end-CAS</p> <p>ISN Milestones:</p>	<p>FY05: Early Childhood Education Enhancement Project (SPN)</p> <p>FY99: Secondary Education</p>	<p>The key lessons learn are: (i) getting buy into from top level education authorities and renewing that involvement and commitment is essential to the success of critical</p>

ISN outcome/cluster of outcomes and milestones Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons
<ul style="list-style-type: none"> • Effective dialogue to scale up the skills development pilot project • Effective policy dialogue to support Government efforts to improve technical and vocational education <p>This was achieved in several ways. In the case of higher education and skills upgrading, quality assurance and accreditation mechanisms, the development of universities' IT infrastructure and library networks and the modernization and upgrading of mid-level technical education were established. In the case of early childhood education (ECE) the main achievement has been the explanation of access by supporting NGOs schemes; the preparation and design of new standard and curriculum for ECE; and the development of new learning materials to support the implementation of the new standards. The WBG is also providing support that aims to bridge the skills gap for the ICT industry and improve the employability of students. In addition, the Work Force Development study in MNA countries and E4E Study have highlighted for policy makers the mismatch between the type and level of skills needed by the labor market and those being supplied by the education and training system. IFC signed an agreement with the Information Technology Industry Development Agency (ITIDA) to help enhance the skills of prospective information and communication technology (ICT) workers in Egypt, develop sector specific education and training, and improve the employability of ICT graduates.</p> <p>Improved curriculum especially with regard to the transition from secondary to post-secondary education and to the labor market – by end-CAS: Achievements in relation to the improvement of the curriculum for secondary education have been mixed. On the one hand, the Ministry of Education recently approved the new curriculum framework for secondary education, but on the other it has not been able to translate the ideas of the new framework into a well-developed new curriculum document.</p> <p><i>[REF CPS Progress Report 2.4. Increase relevance of education for labor market]</i></p>	<p>Enhancement Project (SPN)</p> <p>FY04: Skills Development Project</p> <p>TA to expand use of a benchmarking toll for universities</p> <p>IFC ITIDA Project</p> <p>TA to strengthen planning and monitoring in education</p>	<p>modernization initiatives; (ii) the World Bank team should be flexible in order to be able to reallocate resources that are critical for successful implementation support of projects; and (iii) collaboration with donors is a must in order to not duplicate efforts but also to guide the donor support in the same direction.</p>
<p>2.5. Increase trade with regional and global partners: Partially Achieved</p>		
<p>Successful development of schemes for improving the linkages between suppliers and external markets in (i) services, (ii) agriculture in Upper Egypt – by end-CAS.</p> <p>ISN milestones</p> <ul style="list-style-type: none"> • Successful completion of the pilot schemes and effective launch of a substantive dialogue on their scaling up/adjustment. • Increased trade infrastructure capacity. <p>IFC helped improve linkages across value chains through (i) the development of a supply chain management tool for an</p>	<p>IFC Business Edge Program</p>	

ISN outcome/cluster of outcomes and milestones Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons
<p>agribusiness lead firm, (ii) the development of a contract farming model in the poultry sector, and (iii) capacity building of suppliers and distributors in the value chains of lead firms, focusing on improving management skills through the IFC Business Edge program. In total, 1,721 persons from 130 different SMEs, part of the value chain of four large lead firms in the ICT, FMCG, Pharmaceutical, and Telecommunications sector, were trained. IFC committed US\$428.2 million into 13 South-South projects with sponsors from India, Turkey, Saudi Arabia, Lebanon and other nationalities. Furthermore, to promote trade finance, IFC committed US\$95.2 million during the period through its GTFP program.</p> <p><i>[REF CPS Progress Report 1.2. Increase trade with regional and global partners]</i></p>		
Strategic Objective/Pillar 3: Inclusion		
3.1. Improve management of water, sanitation and irrigation systems: Partially achieved		
<p>Outcome: Successful testing (for an eventual scaling-up) of pilot schemes for (i) expanding networked sanitation infrastructure into rural areas; and (ii) increasing efficiency and beneficiary participation in irrigation management; and (iii) developing PPPs – by end-ISN (CAS PR 2.2).</p> <p>ISN milestones:</p> <ul style="list-style-type: none"> • Expansion of networked piped sanitation services in targeted rural areas in Gharbeya, Beheira, and Kafr-el Sheikh governorates and implement at least 6 decentralized waste water systems under ISSIP1 • Expansion of networked piped sanitation services in targeted rural areas in Sharquia, Monorfia, Asiat, and Sohag governorates under ISSIP2. • Improved irrigation and drainage services to 65,000 farmers. • All 1,420 water user associations registered. • Agreement on alternative model for PPPs in irrigation management. <p>There has been notable progress in irrigation and drainage, less so in sanitation. Results include:</p> <ul style="list-style-type: none"> • It is expected that launch of a new rural networked sanitation program in 3 needy governorates in the Nile Delta under the National Rural Sanitation Program • First waste water PPP in Egypt successfully completed (IFC). The project sponsors have started operations and the Government 	<ul style="list-style-type: none"> • FY08: Integrated Sanitation and Sewerage Infrastructure Project • FY11: Second Integrated Sanitation and Sewerage Infrastructure Project • FY08: Integrated Irrigation Improvement Management Project (IIIMP) • FY00: Second National Drainage Project (NDP2, and Additional Financing in 2010) • FY11: Farm-level Irrigation 	<p>There should be only one lead implementing agency to avoid implementation confusions and bureaucratic delay in procurement process and flow of funds.</p> <p>Design consultants must be selected competitively.</p> <p>Also, project construction supervision consultants (Engineer in the contract) must be selected competitively.</p> <p>When there are capacity constraints within the Government and implementing agencies, the projects can recruit a program management consultant who supervises the project construction supervision consultants in place of the Government agencies.</p> <p>Government agencies also need support of environmental and social consultant to prepare ESAs</p>

ISN outcome/cluster of outcomes and milestones Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons
<p>is leveraging the experience they acquired on the New Cairo Wastewater project to tender out several others including Abu Rawash Plant.</p> <ul style="list-style-type: none"> Improved irrigation and drainage services provided to over 300,000 farmers 1,465 water user associations (WUAs) have been established, of which 711 have been fully operational. 122 branch canal WUAs fully operational and 14 integrated irrigation water districts fully operational. A pilot scheme for PPP in irrigation has been launched but the procurement aborted due to lack of sufficient qualified bids. Decentralized sanitation has been pilot tested under ISSIP1, which is to be expanded under ISSIP2 and new Projects. Due to delay in implementation of the decentralized schemes under ISSIP1, it is still in pilot stage, not expansion stage. <p>Expansion of networked sanitation infrastructure into rural areas is ongoing under the Bank-financed ISSIP1 and ISSIP2 projects. The result of Phase I of ISSIP1 is not promising because of high investment costs due to poor engineering designs done by local consultants and poor implementation by local small contractors. Designs of Phase II of ISSIP1 and Phase I of ISSIP2 have been improved significantly by rectifying the designs and with local consultation and are being implemented without local obstructions.</p>	<p>Modernization Project (FIMP)</p>	<p>and carry out consultation with local beneficiaries in the planning and design stages to avoid local community obstructions during construction.</p> <p>Government's land acquisition procedures need streamlining and an appropriate compensation mechanism needs to be established independently from the respective implementing agencies.</p> <p>Weak contract management has led to delayed implementation progress under many contracts, especially under subsurface drainage contracts.</p> <p>The Government needs to push for expedited implementation progress, esp. for contracts that are being implemented by public contractors.</p>
<p>3.2. Improve air and water quality: Achieved</p>		
<p>Successful testing (for an eventual scaling-up) of pilot schemes for: (i) reduction of industrial air pollution; and (ii) waste management by end-CAS.</p> <p>ISN Milestones</p> <ul style="list-style-type: none"> Effective launch of a substantive dialogue on the scaling up/adjustment of the pilot scheme for industrial air pollution abatement. Launch of a pilot scheme for waste management pollution abatement. <p>As to pilot schemes for reduction of industrial air pollution, the pilot phase (Egyptian Pollution Abatement Project (EPAP): 1999-2005) was successful and was scaled up by the Second Pollution Abatement Project (EPAP II): 2006-2014. Despite the unstable situation in Egypt after the Arab Spring, the EPAP pipeline remained strong with increasing number of companies showing interest to participate. EPAP stimulated similar projects such as</p>	<ul style="list-style-type: none"> FY06: Pollution Abatement Project II (SPN) FY05: Country Environment Analysis FY13: Cairo Air Quality ESW 	<p>The Bank needs to stay engaged and keep an ongoing dialogue with the stakeholders in the sector.</p>

ISN outcome/cluster of outcomes and milestones Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons
<p>the Private Public Sector Industry Project (PPSI) financed by KfW. A waste water treatment plant was financed by the Bank project after the successful testing of waste water pollution abatement.</p> <p>The EPAP II contributed to the improvements of emissions notably from cement sector and brick factories, one of the most polluting sectors. Recent Cairo Air Quality ESW observed improvements in the air quality. The finding shows that concentrations of PM10 and PM2.5 were lower in fall 2010 than in fall 1999. This decline may be attributed to several factors, namely, the expansion of the road and highway network, improved car efficiency, industrial pollution control, and efforts to contain open burning</p> <p>ISN Milestone</p> <ul style="list-style-type: none"> Improvement of environmental standards regulations by end -CAS <p>There has been progress in adopting legal and institutional measures for improving air quality such as amendment of the environmental protection Law #4 of 1994 by Law #9 of 2009 which prohibits waste burning by imposing heavy fines on offenders. The air quality standards set forth in the executive regulations of 1995 were revised in 2005 and further revised as a result of the enactment of Law 9 of 2009, although these executive regulations have not yet been issued by the Council of Ministers. This was supported by the Bank operation.</p> <p><i>[REF CPS Progress Report 2.3. Improve air and water quality]</i></p>		
<p>3.3. Expand access to healthcare: Not achieved</p>		
<p>Adoption of a health insurance reform reflecting international best practice – by end-CAS</p> <p>ISN Milestones:</p> <ul style="list-style-type: none"> Completion and adoption of actuarial studies and an implementation plan for rolling out the reform. Contract verification and validation firm to deliver hands-on support to the health insurance payor for decision-taking, technical advice, and verification and validation services. Commitment of the Government to expand universal health coverage to a new group of uninsured population, mainly the poor. <p>The adoption of health insurance reform has not taken place. The Bank’s main intervention is the Health Insurance Systems Development Project, which has been recently restructured with a more flexible design to expand health coverage to the poor using a fast disbursing design to pay premiums for enrollment in social health insurance. When a new Government was appointed after June 30, 2013, the Government showed concerns about the financial sustainability of their social health insurance and</p>	<p>Health sector reform project (SPN-closed)</p> <p>FY10: Health Insurance Systems Development Project</p> <p>Ongoing: Dialogue on Universal Health Insurance (TA)</p> <p>Alexandria Hospitals PPP Project: the PPP Contract was signed in April 2012 and the project is currently undergoing</p>	<p>Flexibility in project design is crucial. The adoption of a more flexible design in the project should lead to better outcomes going forward since it will better respond to Government concerns.</p>

ISN outcome/cluster of outcomes and milestones Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons
<p>requested our technical assistance to conduct a number of studies that will help in looking into ways to make the project financially sustainable with a possibility of revisiting the project design once more to fit the current Government priorities. IFC has successfully advised the PPP Central Unit of the Ministry of Finance and Ministry of Higher Education in the implementation of the Alexandria Hospitals PPP Project.</p> <p><i>[REF CPS Progress Report 3.3. Expand access to healthcare]</i></p>	<p>financial closure (IFC)</p>	
<p>3.4. Develop targeted and sustainable safety nets: Partially Achieved</p>		
<p>Definition and implementation of a sound plan to move towards a more transparent and sustainable system.</p> <p>Definition and implementation of new pension regulations reflecting international best practice.</p> <p>ISN Milestones:</p> <ul style="list-style-type: none"> • Preparation of an implementation plan for subsidy reform informed by international best practice. • Completion of the technical work on pension reform (including regulations and actuarial work). • Due to the prevailing conditions in Egypt, despite Bank’s sustained effort we were not able to transition away from the subsidy system to a more efficient and poverty targeted SSN system although a sustained dialogue on this issue was ongoing. However, the Bank is using the transition fund project and the ongoing SSN TA to continue to push for SSN reform. One of the main achievements of the Bank in this area has been support to the development of a poverty map for better targeting of social safety net interventions. The Bank also supported the design of a comprehensive Social Insurance reform through a multi-year technical assistance program. In June 2010, the Egyptian Parliament approved a new Social Insurance and Pensions Law that introduced a systemic reform which was expected to constitute a landmark in the Middle East region. The new system was to be effective in January 2012, but the implementation was delayed after the revolution and in early 2013 the Government decided to cancel the law. The Bank provided technical assistance through a multiyear program developed in two phases. The decision of the Government to cancel the Social Insurance law delays the solution to critical shortcomings of the current pension system, notably concerning the fiscal implications of projected deficits in the existing schemes (in spite of a high tax wedge on labor), the 	<p>FY12: Emergency Labor-Intensive Works Pension reform (RTA) FY13: Inequality of Opportunity Study Ongoing: Social Protection Strategy Note (TA)</p>	<p>On ASA, it is important to engage the client fully and to focus on emerging policy priorities of the client to enhance the value of our interventions. However, we need to be mindful of the prevailing country environment. Despite our best intentions and efforts, success is not guaranteed as there are factors beyond our control. This has been particularly true in Egypt.</p>

ISN outcome/cluster of outcomes and milestones Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons
<p>lack of coverage of a significant number of Egyptian workers, the high volatility of the real value of pensions due to the practice of “ad hoc” arbitrary indexation, and the inadequate targeting of non-contributory pensions. The Government has expressed concerns with these issues and a new reform (with a different approach) is under study, but the scope, contents and potential impact of such reform still remain unclear. The Bank supported the Government to establish a poverty-based targeting methodology using proxy means testing and the HIECs data, which has been adopted as the mechanism to identify the poor for the newly established Cash Transfer Program – Takaful and Karama. A \$400 million IBRD Loan was delivered in FY15 – Strengthening Social Safety Net Project (SSNP) - which supports the Government establish and implement the CT program. As implementation of the CT and LIWs programs mature, these two programs provide a solid targeted SSN system in Egypt, which would allow for reforming and consolidation of old legacy SSN programs that have suffered from inefficiencies. The SSNP is investing in the establishment of a Unified National Registry (UNR) which will act as the national database platform to support consolidation of SSN and social service programs and facilitate coordinated targeting and delivery mechanisms. The UNR initiative has already made some progress toward linking the Family Smart Card (food subsidy), SSP, and social security databases through the national ID. Having well-tested SSN programs in place is expected to provide some enabling conditions to progress in the subsidy reform.</p> <p><i>[REF CPS Progress Report 3.1. Develop targeted and sustainable safetv nets]</i></p>		
3.5. Reduce interregional disparities: Partially Achieved		
<p>Strong pro-poor targeting of public investment in Upper Egypt by end CAS</p> <p>ISN Milestones:</p> <ul style="list-style-type: none"> Adoption by the Government of the findings and recommendation of analytical work on Upper Egypt sources of growth and poverty. <p>The Labor Intensive Investment Project is focused on upper Egypt and should produce further results. 70% of disbursements are allotted for upper Egypt, much of which have been disbursed.</p>	<p>FY12: Reclaiming their Voice: New Perspectives from Young Women and Men in Upper Egypt”</p> <p>FY:12: Emergency Labor Intensive Investment Program</p>	

ISN outcome/cluster of outcomes and milestones Status and Evaluation Summary	WBG Activities that contributed to the Outcome	Lessons
<p>Due to the prevailing political environment, the Bank was unable to establish a sustained dialogue in this area so the goal is considered only partially achieved. The Bank did release a study on youth and women in upper Egypt which enabled a continued dialogue in this area.</p> <p><i>[REF CPS Progress Report 3.2. Reduce interregional disparities]</i></p>		
3.6. Reduce gender disparities: Achieved		
<p>Effective contribution to informed advocacy and policymaking on gender issues by end -CAS</p> <p>ISN Milestone:</p> <ul style="list-style-type: none"> Adoption by the Government of the findings and recommendations of Bank analytical work on gender and economic opportunities. <p>This result was achieved. During the ISN period the Bank released and widely disseminated a number of important reports on gender issues, including: (i) World Development Report 2012 on Gender and Development; (ii) Opening Doors: Gender Equality and Development in the Middle East and North Africa (2013) - a regional companion report to the WDR 2012; (iii) Gender Assessment “Narrowing the Gap: Improving Labor Market Opportunities for Women in Egypt (2011); and (iv) “Reclaiming their Voice: New Perspectives From Young Women and Men in Upper Egypt” (2012).</p> <p>The strong emphasis on policy dialogue on gender has also been accompanied with a renewed corporate, regional and sectoral commitment on mainstreaming gender into Bank-financed operations. In the last couple of years, regions, networks and sectors have developed gender action plans. Specifically, the MENA Regional Gender Action Plan (2012) adopted a two-pronged approach, supplementing support to country programs with an explicit focus on informing dialogue and providing a platform for debate.</p> <p>Specialized Windows for women to improve their access to finance:</p> <p>The intense policy dialogue on gender has resulted in a number of gender-informed operations in Egypt, focused on increasing female employment through business development training and access to finance (CAS outcome #2), including:</p> <p>In June 2013, the Egypt Development Marketplace program (DM) awarded grants of US\$1.25 million to 45 organizations, to contribute to job creation in agribusiness and handicrafts projects across Egypt, with special focus on Upper (Southern) Egypt. Upper Egypt predominantly thrives on the agriculture and handicrafts sectors as a primary source of income, and it is where women tend to earn their living. The program offers women the</p>	<ul style="list-style-type: none"> FY11: Gender Assessment FY12: Reclaiming their Voice: New Perspectives from Young Women and Men in Upper Egypt” FY12: MSME Project 2012: Support for Egypt Development Marketplace FY13: TA on Enhancing Microfinance among Women in MNA 	<p>Our sustained dialogue and cross sectoral engagement with a mix of ASA and lending activities was generally successful.</p>

<p align="center">ISN outcome/cluster of outcomes and milestones Status and Evaluation Summary</p>	<p align="center">WBG Activities that contributed to the Outcome</p>	<p align="center">Lessons</p>
<p>opportunity to network with counterparts in the field as well as with local and international development organizations, to explore opportunities during and after the grant period. In November 2012, outreach events were held in Assyut, Qena, Aswan, and Minya to raise awareness for the DM and to encourage organizations operating in the targeted locations to apply. In April 2013, two 4-day capacity building workshops for the finalists were organized in Aswan and Minya, to provide in-depth, interactive training on proposal writing, budgeting, social impact monitoring and evaluation, and communication skills. Through the Egypt DM initiative, projects with the highest potential for scale, replication, and financial sustainability have been identified for support. The DM provided a platform to support high performing enterprises and inclusive business models, mainly led by women, to scale up and increase their capacity to reach disenfranchised communities with basic and essential goods and services.</p> <p>TA Middle East and North Africa: Enhancing Microfinance Amongst Women and Youth in MENA (P144655) (approved June 2013) that seeks to enhance microfinance access and usage amongst women and youth in Morocco, Tunisia, and Egypt through demand-side analysis of access to finance constraints amongst women and youth; developing financial literacy modules targeted to women and youth; and South-South learning and training.</p> <p>Enhancing Access to Finance for Micro and Small Enterprises Project (P116011) (approved in April 2012). To date, a total of 77,818 loans have been disbursed to MSEs leading to the creation of over 111 thousand job opportunities. Youth, a severely underserved segment suffering from disproportionately high unemployment rates, have been effectively targeted, with beneficiaries between the age of 21 to 35 and representing 60 percent of all microfinance lending during the period of January 2011 and June 2013. The strong impact the operation has had on gender mainstreaming is evident in the increase in the number of female-owned MSEs from 4,573 to 20,536 from June 2012 to June 2013, which represents 25 percent of all financed projects.</p> <p><i>[REF CPS Progress report 3.4. Reduce gender disparities]</i></p>		

Attachment II
Completion and Learning Review
From CAS to ISN: Pillars and Covered Sectors

CAS Pillar 1: Facilitating Private Sector Development	ISN Pillar 1: Economic Management
Financial	Macro
Trade	PS/Governance
PSD	
CAS Pillar 2: Enhancing Provision of Public Services	ISN Pillar 2: Jobs
Macro	PSD
Infrastructure ³²	Financial
Water/Env	Infrastructure
Education	Education
PS/Governance	Trade
CAS Pillar 3: Promoting Equity	ISN Pillar 3: Inclusion
Social Protection	Water/Env
Interregional Disparities	Social Protection
Health	Interregional Disparities
Gender	Health
	Gender

³² Infrastructure is broken down into energy, transport, and telecommunications in both the CAS and ISN.

ATTACHMENT III

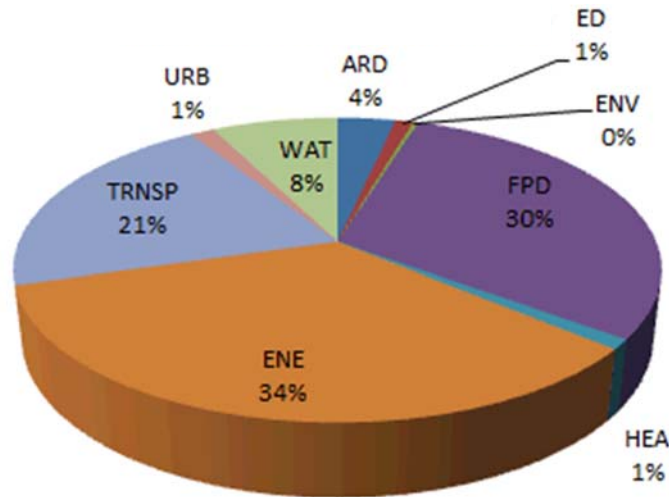
COMPLETION AND LEARNING REVIEW: PROPOSED CAS/ISN ACTIVITIES FOR FY06-FY14

Those delivered (*)	Health Insurance System Development*
	Upper Egypt Integrated Development
Lending	
FY06	FY11
West Delta Irrigation Infrastructure *	Power III *
El Tebbin Power *	Clean Technology for Energy *
Mortgage Finance *	Urban Transport Infrastructure
Ports Sector Development	Solid Waste
	Agriculture/Poultry Industry Recovery*
FY07	FY12
Urban/Alexandria Growth Pole*	Giza North (AF)*
Integrated Governorates Development	Emergency Labor Intensive *
Social Funds IV	
Education Enhancement II	FY13
Pollution Abatement II*	Helwan South Power Project*
Solar Thermal	Kom Ombo Solar
Financial Sector Restructuring Loan*	Urban Transport Infrastructure Project
FY08	
Transport/Road Asset Management	
Integrated Governorates II	
Railways *	
Delta Integrated Sanitation and Sewerage	
Infr *	
Financial Sector Loan II*	
FY09	
Additional Financing for Mortgage*	
Low Income Social Housing	
Ain Sokhna Power Project *	
Railways Restructuring *	
National Drainage (AF)*	
FY10	
Facilitating Access to Finance *	
Gas Infrastructure*	
Airports II *	
Roads Assets Management	
Post-Basic Education Reform	
Social Protection DPL	

Attachment IV
Completion and Learning Review: Bank Approvals FY06-FY14

Year	Proj ID	Commit Amt
FY06	EG- FINANCIAL SECTOR REFORM DPL	500.0
FY06	EG-Second Pollution Abatement	20.0
FY06	EG-EI Tebbin Power	259.6
FY07	West Delta Water Conserv. & Irrig. Rehab	145.0
FY07	EG-MORTGAGE FINANCE	37.1
FY08	EG-ALEXANDRIA DEVELOPMENT	100.0
FY08	EG INTEGRATED SANITATION & SEWERAGE INFR	120.0
FY08	EG-FINANCIAL SECTOR DPL II	500.0
FY08	EG-Natural Gas Connections Project	75.0
FY08	EG-AIRPORTS DEV ADDITIONAL FINANCING	40.0
FY09	EG-Ain Sokhna Power	600.0
FY09	EGYPT-Railways Restructuring	270.0
FY10	EG-Health Insurance Systems Development	75.0
FY10	EG-Cairo Airport Development Project-TB2	280.0
FY10	EG-National Drainage II Add. Financing	30.0
FY10	EG-Affordable Mortgage Finance DPL	300.0
FY10	EG-Wind Power Development	70.0
FY10	EG-Enhancing Access to Finance for SMEs	300.0
FY10	EG-Giza North Power Project	600.0
FY10	Financial Sector DPL III	500.0
FY11	EG-Farm-level Irrigation Modernization	100.0
FY11	EG-Integrated Sanitation & Sew. Infra. 2	200.0
FY11	EG-Egypt National Railways Restructuring	330.0
FY12	EG-Giza North Additional Financing	240.0
FY12	EG Emergency Labor Intensive Investment	200.0
FY13	EG - Helwan South Power Project	585.4
Overall Result		6,477.1

Approvals FY00-FY13



ATTACHMENT V

COMPLETION AND LEARNING REVIEW: ISSUES RAISED IN ISN CONSULTATIONS

Area 1: Economic management

Suggestions for Bank involvement:

- Focus on social protection (e.g., conditional cash transfers for education, nutrition, and targeted energy subsidies);
- Promote institutional development to guarantee public access to information to inform the policy debate and assess the impact of public policy;
- Support increased use of natural gas in Egyptian economy, including transport (CNG); and
- Support to governance, accountability, monitoring and evaluation, and transparency.

Area 2: Jobs

Suggestions for Bank involvement:

- Support technical education and vocational training;
- Support improvement of business environment and doing business, especially for SMEs development, including through capacity building;
- Support lending for SMEs development, for employment generation; and
- Reach out to the parliament and media;

Area 3: Inclusion

Suggestions for Bank involvement:

- Working further on access to education in poor areas to improve equity (medium-term);
- Early childhood development;
- Engage in benchmarking, capacity building, monitoring and evaluation (education);
- Cooperation on eradication of illiteracy (medium-term);
- Dialogue on designing the transition to universal health coverage for the poor;
- Health sector governance;
- Results-based financing and pay for performance
- Support temporary employment (such as waste collection, canals cleaning, and other poor self-selective labor intensive works) and be involved in social protection programs;
- Support rural road improvements; and
- Support agriculture to eradicate poverty.

ANNEX 3: DONOR ACTIVITIES

Development Partners' Activities: Major ongoing and pipeline projects relevant to CPF focus areas (based on information provided by DPs or publicly available and reported in original currency of the project loan/grant)

Focus Area 1: IMPROVED PUBLIC SECTOR GOVERNANCE					
	Objective 1.1 Improve macroeconomic stability	Objective 1.2 Promote pro-poor resource allocation in the energy sector	Objective 1.3 Strengthen citizens' ability to hold the state accountable in promoting private sector jobs and improving public services	Objective 1.4 Improve transparency and efficiency of public expenditure management	Objective 1.5 Assist in creating a more effective public administration
AfDB	Pipeline: Multi-sector Budget Support Operation (2015, UA 286 m; 2016, UA 200 m)				
AFD					
AFESD					
EBRD					
EIB					
IDB					
JICA					
Kuwait Fund					
Gov't Germany					
OFID					
EU					Administrative Reform (Public Administration Reform and Local Development) (EUR 9 m)
USAID			Effective Service Delivery Program (US\$ 9.6 m)	Cash management and Financial Inclusion (US\$ 3.7 m)	Effective Planning and Services Program (US\$ 9.6 m)

Focus Area 2:
IMPROVED OPPORTUNITIES FOR PRIVATE SECTOR JOB CREATION

	Objective 2.1	Objective 2.2	Objective 2.3	Objective 2.4	Objective 2.5
	Strengthened business environment and competitiveness	Increased energy generation capacity and energy efficiency	Enhanced capacity and safety of key transport infrastructure and services	Enhanced access to improved agriculture and irrigation services	Enhanced access to finance for medium, small scale, and micro-enterprises (MSMEs)
AfDB	Franchising Sector Support Program (2009-15; UA 25.4 m)	Suez Thermal Power Plant (2010-16; UA 349.6 m); Ain Sokhna Thermal Power (2008-15; UA 286.1 m); Abu Qir 1300 MW Steam Power (2007-14; UA 212.8 m); Egyptian Refining Company (2010-16; UA 129.44 m) Pipeline: 1500 MW Damanhour Power Plant (UA 95 m); 200 MW Wind Farm (UA 95 m)	Sharm el-Sheikh Runway (UA 60 m)		
AFD		EPTP+ pv Kom Ombo (EUR 90 m); EGAS (EUR 70 m loan + EUR 68 m grant delegated by EU) Pipeline: Renewable Energy: EUR 150 m (Including Gulf of Suez)	Cairo Metro Line 2 and 3 (EUR 344 m) Pipeline: Transport (EUR 110 m)	FIMP - Farm-level Modernization Irrigation Project (EUR 35 m)	Small agricultural SMEs (EUR 52 m of which EUR 22 m grant delegated by EU)
AFESD		Assiut Power Plant (2014; KD 55 m); Electrical Interconnection Egypt/Saudi Arabia (2014; KD 45 m); Helwan South Power Project (2012; KD 55 m); Banha Power Power Plant (2010; KD 50 m); South Gas Pipeline Project (2010; KD 25 m); El Ain El Sokhna Power Plant (2009; KD 55 m); Expansion of Abu Qir Power Plant I and II (2008; aggregated KD 60 m); Al Atf Power Plant (2008; KD 30 m)	Electrical Signals Railway Benna-Zagazig Ismailia - Port Said (2013; KD 44 m); Development of Hurghada Intl Airport (2012; KD 15 m)		Emergency Program Support to the Private Sector (2012; KD 30 m)
EBRD		Power Sector Energy Efficiency including conversion of Damietta West and El Shabab power plants to CCGT (US\$ 190 m) Pipeline: Damanhour CCGT (ca. US\$ 200 m)	Egyptian National Railways Restructuring project (EUR 126 m) Pipeline: Cairo Metro (ca. EUR 100 m)		Support to National Bank for SMEs project (EUR 80 m); Small Business Support Program TA
EIB		El Shabab Power Plant (EUR 205 m); Wind Farm Gulf of Al Zayt (EUR 50 m); Egypt Power Transmission Project (EUR 260 m); Giza North (EUR 300 m + EUR 50 m); Egyptian Refinery Company ERC (EUR 346.37 m) Pipeline : Damanhour Power Plant (US\$ 600 m), Gulf of Suez (EUR 115 m) , FIT, others	Cairo Metro Line 3 (approved EUR 600 m; signed tranche 1 EUR 200 m, EUR 400 m pending signing). Pipeline: Cairo Metro Rolling Stock (ca. EUR 75 m), other transport projects		Global loan to National Bank of Egypt for supporting SMEs (EUR 200 m)
IDB		9 projects (aggregated US\$ 1,690 m): combined cycle power plant and steam power plant projects including South Helwan Power Plant	Development of Sharm El Sheikh Intl Airport, Phase 1 & 2 (US\$ 457.00 m)	2 projects (aggregated US\$ 142.25 m): rehabilitation and expansion of irrigation and drainage systems	3 projects (aggregated US\$ 60.53 m): microfinance support program, youth employment support program
JICA		Energy Control System Upgrading Project in Upper Egypt (2008-19; JPY 10,768 m); Kuraymat Integrated Solar Combined Cycle Project (2008/8-2015/19; JPY 20,100 m); Gulf of El Zayt Wind Farm Project (2010-19; JPY 38,864 m)	Greater Cairo Metro Line (2012-27; JPY 32,717 m)		Micro Enterprise Assistance Project (2008-19; JPY 3,760 m)
Kuwait Fund		Abu Qir Thermal Power Plant (KD 30 m + KD 30 m); Ain El Sokhna Power Plant (KD 30 m); Banha Power Plant (KD 30 m); Helwan South Power Plant (KD 30 m); Assiut Steam Power Plant (KD 30 m); West Cairo Steam Power Plant (KD 30 m)	Modernization of Signaling and Control on Banha - Ismailia - Port Said Railway (KD 30 m)	Development of 400 Thousand Feddans in North Sinai (KD 25 m)	
Gov't Germany		6 projects (2008-2017; loans, grants) in support of renewable energy and energy efficiency (aggregated EUR 311.5 m) Pipeline: Gulf of Suez Wind Farm; Energy Efficiency Program		Joint Integrated Sector Approach for Irrigation and Drainage (since 2014; EUR 21 m); Agricultural Productivity in the Water Sector for Climate Mitigation (2012-18; EUR 4 m)	Financing for MSMEs (since 2014; EUR 16.5 m)
OFID		Giza North Power Plant Project (2011-15; US\$ 30 m); Banha Power Plant Project (2011-15; US\$ 40 m); South Helwan Power Plant Project (2014-17; US\$ 70 m); Assiut Power Plant Project (2015-18; US\$ 55 m)		On-Farm Irrigation Development Project (2014-17; US\$ 35 m); Rehabilitation of Irrigation & Drainage Pumping Stations Project (2014-17; US\$ 30 m); Buhyyah Canal Irrigation Improvement Project (2012-15; US\$ 15 m)	Pipeline: Social Fund for Development (SFD) II project (US\$ 40 m)
EU	Trade and Domestic Market Enhancement Program (2011-16; EUR 20 m)	Gulf of El Zayt Wind Farm Project (2010-15; EUR 20 m); Energy Sector Policy Support Program (2011-15; EUR 60 m)	Targeted Support for Transport Sector Reform (2008-15; EUR 80 m)	Rural Development Projects (2009-19; EUR 37 m)	Support for Agricultural SMEs (2011-19; EUR 22 m)
USAID	Egyptian-American Enterprise Fund (2013-22; US\$ 120 m); Trade Reform Project (starting 2015; US\$ 12.5 m); Workforce Development Project (starting 2015; US\$ 19-24 m)			Premium Project for Egyptian Small Growers (US\$ 5.6 m); AMAL - Advanced Marketing and Agribusiness Logistics Project (US\$ 5.5 m); FAS - Food Security and Agribusiness Support Project (US\$ 23 m)	SEED - Support Entrepreneurship and Enterprise Development Project (US\$ 19 to 24 m)

Focus Area 3:
IMPROVED SERVICE DELIVERY FOR THE POOR AND SOCIAL PROTECTION

	Objective 3.1	Objective 3.2	Objective 3.3	Objective 3.4	Objective 3.5	Objective 3.6
	Improved access to short-term income opportunities for the poor and improved targeting of the Social Safety Net system	Targeted healthcare facilities to meet national healthcare quality standards	Increased access to housing for low-income households	Enhanced access to improved sanitation services	Increased household access to natural gas	Increased capacity to plan and manage education sector reform
AfDB	RIEEP-Rural Income and Economic Enhancement Project (2010-14; UA 44.5 m)			Gabel El-Astar Wastewater Treatment Plant (2009-15; UA 46.9 m); National Drainage Improvement Phase III (UA 45 m) Pipeline: Abu Rawach Wastewater treatment plant (UA 50 m)		
AFD			Support to SFD for urban development (EUR 80 m loan + EUR 15 m grant delegated by EU)	IWSP - Improved Water and Wastewater Services Program 1 and 2 (EUR 97 m) Pipeline: Alexandria STEP (EUR 35 million)	EGAS (EUR 70 m loan + EUR 68 m grant delegated by EU)	
AFESD						
EBRD				Pipeline: Kafr El-Sheikh Wastewater Expansion Program (Sovereign loan of up to EUR 55 m)		
EIB			Community Development Program implemented by SFD (EUR 45 m)	Kafr El Sheikh Wastewater Treatment Plant (EUR 77 m); IWSP 2 (EUR 57 m); IWSP 1 (EUR 70 m)		
IDB		2 projects (aggregated US\$ 41.03 m) including Avian Influenza Control and Al-Azhar University Hospital				3 projects (aggregated US\$ 33.30 m): supporting E-learning, vocational training and education, literacy program for poverty reduction
JICA				Pipeline: Rehabilitation and Improvement of Dirout Group of Regulators		
Kuwait Fund				Al Shrouk City Sanitary Water Treatment Plant (KD 6m)	Expansion of Transmission and Distribution of Natural Gas Network (KD 20 m + KD 17 m)	
Gov't Germany	4 projects (2014-17; grants, loans) promoting employment for sustainable economic development (aggregated EUR 40 m)			Water Management Reform Program (2015-17; EUR 6 m); Water and Wastewater Management Program (2015-16; EUR 6 m); Sector Approach Urban Water Management (since 2008; EUR 126 m); Assiut Barrage (since 2001; EUR 236 m)		Support for Basic Education (EUR 49 m)
OFID		Expansion and Rehabilitation of Ain Shams University Specialized Hospital (2014-2018; US\$ 27 m)				
EU	EEIP - Emergency Employment Investment Project (2012-18; EUR 70 m)	Health Sector Policy Support Program (2009-15; EUR 110 m)	Local Development / Upgrading Informal Areas in the Greater Cairo Region (2011-16; EUR 20 m; 2013-2018; EUR 20 m)	IWSP (2008-16; EUR 39 m); Water Sector Reform Program II (2010-15; EUR 120 m); National Solid Waste Management (2013-16; EUR 20 m) Pipeline: Kafr El Sheikh Wastewater Expansion (EUR 17 m)	Household Natural Gas Connection Project (EUR 68 m)	Education Sector Policy Support Program (2007-15; EUR 140 m); Technical and Vocational Education and Training Reform Program (2012-18; EUR 50 m); Enhancing Access to Education Project (2012-16; EUR 60 m) Pipeline: Expanding Access to Education and Protection for At-Risk Children (EUR 30 m)
USAID		Several projects including Perinatal and Child Health and Nutrition Program, HIV Prevention among At Risk Population, Program to Improve Quality and Safety of Healthcare, Demographic Health Survey DHS-7, Support for Egypt's National Polio Immunization Campaign (2012-15; US\$ 15 m); IMCHN - Improving Maternal Child and Nutrition Services in Egypt (2015-2018; \$ 3.5 m)		Potable Water and Sanitation Projects in North Sinai (ca. US\$ 50 m); Other projects to enhance access to safe water and basic sanitation services to under-served populations in Upper Egypt (US\$ 26 m)		STEM - Science, Technology and Mathematics Model Schools Project (2012-16; US\$ 24 m); Improved Basic Education II (2014-15; US\$ 49 m)

ANNEX 4: SELECTED INDICATORS OF BANK PORTFOLIO PERFORMANCE AND MANAGEMENT

As Of Date 10/20/2015

Indicator	2013	2014	2015	2016
Portfolio Assessment				
Number of Projects Under Implementation ^a	21	22	21	22
Average Implementation Period (years) ^b	4.1	4.5	4.0	4.2
Percent of Problem Projects by Number ^{a, c}	19.0	18.2	28.6	27.3
Percent of Problem Projects by Amount ^{a, c}	8.6	20.4	18.1	16.5
Percent of Projects at Risk by Number ^{a, d}	19.0	18.2	28.6	27.3
Percent of Projects at Risk by Amount ^{a, d}	8.6	20.4	18.1	16.5
Disbursement Ratio (%) ^e	14.4	11.4	19.0	5.0
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	107	4
Proj Eval by OED by Amt (US\$ millions)	6,789.4	351.0
% of OED Projects Rated U or HU by Number	23.5	50.0
% of OED Projects Rated U or HU by Amt	14.5	88.8

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the Bank's country portfolio.

c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

ANNEX 5: EGYPT OPERATIONS PORTFOLIO (IBRD/IDA AND GRANTS)

Operations Portfolio (IBRD/IDA and Grants)

As Of Date 10/20/2015

Closed Projects 122

IBRD/IDA *

Total Disbursed (Active)	2,073.44
of which has been repaid	33.25
Total Disbursed (Closed)	3,143.17
of which has been repaid	1,871.77
Total Disbursed (Active + Closed)	5,216.60
of which has been repaid	1,905.02
Total Undisbursed (Active)	4,251.08
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	4,251.08

Active Projects

Project ID	Project Name	Last PSR		Fiscal Year	Original Amount in US\$ Millions			Cancel.	Undisb.	Difference Between	
		Supervision Rating			IBRD	IDA	GRANT			Expected and Actual	
		Development Objectives	Implementation Progress							Orig.	Frm Rev'd
P118090	EG - Enhanced Water Resi S	MS	✔	2013			6.682		4.154381		
P117407	EG - Helwan South Power IMS	MU	✔	2013	585.4				538.8749	319.8082	
P126339	EG Emergency Labor Inten S	S	✔	2012	200				24.66655	-20.33345	-21.1448
P150993	EG Inclusive Housing Finar MS	MS	✔	2015	500				500		
P094311	EG INTEGRATED SANITA` MU	MS	✔	2008	120				56.91451	56.914505	56.91451
P100047	EG-Ain Sokhna Power S	S	✔	2009	600				217.6221	217.62213	
P101201	EG-Cairo Airport Developm S	MS	✔	2010	280				101.8162	101.81621	70.48288
P116011	EG-Enhancing Access to FS	S	✔	2010	300						
P117745	EG-Farm-level Irrigation Mo MS	MS	✔	2011	100				82.571	74.304329	
P116194	EG-Giza North Power Proje MS	MS	✔	2010	840				352.198	112.198	177.4644
P080228	EG-Health Care Quality Imq U	U	✔	2010	75				75	75	23
P073977	EG-INTEGRATED IRRIGAT MS	MS	✔	2005	120				26.41161	26.411607	26.41161
P120161	EG-Integrated Sanitation & MU	MU	✔	2011	200				189.5	130.5	66.16667
P113416	EG-Wind Power Developme MS	MU	✔	2010	70				56.91245	56.912453	56.91245
P146007	EG: Household Gas Conne S	S	✔	2015	500				500	0.0001	
P116230	EG: Sustainable POPs Mn S	MS	✔	2014			8.1		7.5	1.4	
P095925	EG:GEF Alexandria CZM /IS	MS	✔	2010			7.15		3.669684	3.6696839	-0.53477
P101103	EGYPT-Railways Restruct MS	MS	✔	2009	600				485.2923	155.29233	56.62566
P146244	Promoting Innovation for Inc S	S	✔	2014	300				93.29906		
P130801	Regional Coordination for In U	U	✔	2013			1.05		0.839004		
P145699	Strengthening Social Safety S	S	✔	2015	400				400		
P154112	Sustainable Rural Sanitatio #	#	✔	2016	550				550		
Overall Result					6340.4		22.982		4267.242	1102.0766	512.2987

ANNEX 6: STATEMENT OF IFC'S HELD AND DISBURSED PORTFOLIO

As of 9/30/2015
(In USD Millions)

FY Approval	Company	Committed					Disbursed Outstanding				
		Loan	Equity	**Quasi Equity	*GT/RM	Partici pant	Loan	Equity	**Quasi Equity	*GT/RM	Partici pant
0	Adl	0	58.18	0	0	0	0	58.18	0	0	0
0/12/15	Aub egypt	0	37.84	0	0.22	0	0	37.84	0	0.22	0
2008	Bank alexandria	0	196.67	0	0	0	0	196.67	0	0	0
2009	Beltone egypt	0	2.77	0	0	0	0	1.97	0	0	0
2015	Cheiron	50	0	0	0	0	37.55	0	0	0	0
2009	Citadl mena ji f	0	1.99	0	0	0	0	0	0	0	0
2007/15	Dar al fouad	0	0.96	0	0	0	0	0.96	0	0	0
2014	Ecred	60	0	0	0	0	0	0	0	0	0
0	Efc egypt	94.1	0	0	0	58.81	94.1	0	0	0	58.81
2010	Efg hermes	0	4.31	0	0	0	0	4.31	0	0	0
2005	Egypt factors	0	3	0	0	0	0	3	0	0	0
2011	Eipet sokhna	35	0	0	0	0	35	0	0	0	0
2013	Elif plastik	13.95	0	0	0	0	13.95	0	0	0	0
2013	Fawry	0	6	0	0	0	0	6	0	0	0
2011/12	Galaxy chemicals	10.33	0	0	0	0	10.33	0	0	0	0
0	Gwfp aube	10	0	0	10	0	0	0	0	0	0
2007	Ipi	15.01	0	0	0	0	15.01	0	0	0	0
0	Magrabi egypt	10	0	0	0	0	10	0	0	0	0
1992	Misr compressor	6.8	0	0	0	0	6.8	0	0	0	0
0	New al-salama	7.71	0	0	0	0	7.71	0	0	0	0
2012	Nile kordsa	2.23	0	0	0	0	2.23	0	0	0	0
2008	Nile suez	8	0	0	0	0	8	0	0	0	0
2010	Npc egypt	0	7.15	0	0	0	0	6.72	0	0	0
0	Oc dubai	0	5.4	0	0	0	0	5.4	0	0	0
0	Oci n.v.	0	25.64	0	0	0	0	25.64	0	0	0
2007	Omar effendi	30	0	0	0	0	30	0	0	0	0
2010	Orient ltd	0	85	0	0	0	0	68.64	0	0	0
1996	Orix leasing egt	0	0.53	0	0	0	0	0.53	0	0	0
2013	Petroceltic	91.12	0	0	0	0	58.25	0	0	0	0
2015	Sindbad club	10.5	0	0	0	0	0	0	0	0	0
2009	Sphinx egypt	0	2.53	0	0	0	0	2.33	0	0	0
2015	Sphinx glass	0	21.27	0	0	0	0	0	0	0	0
2013	Transglobe	1.5	2.34	0	22.17	0	0	2.34	0	19.55	0
2008/10	Wadi group	18	0	0	0	0	18	0	0	0	0
Total Portfolio:		474.25	461.58	0	32.39	58.81	346.93	420.53	0	19.77	58.81

* Denotes Guarantee and Risk Management Products.

** Quasi Equity includes both loan and equity types.

ANNEX 7: SCD PRIORITIES AND WBG PROPOSED INTERVENTIONS UNDER THE CPF

<i>Foundation/Highest Priority Areas of SCD</i>	<i>World Bank Group Interventions under CPF</i>
<p>Improvement in public sector governance</p> <ul style="list-style-type: none"> • Increase GOE transparency by making more data publicly available and making progress towards rights to Information Law. • Amend the civil service law to allow meritocratic hiring, promotion and firing. • Amend the public procurement law according to OECD/UNICITRAL good practices 	<ul style="list-style-type: none"> • Working with GOE at central level as well as across sectors, embedding greater transparency, citizen participation and feedback in all WBG initiatives at sector level • Egypt Public Sector/ Governance TA Phase 2 • PFM TA • Development Policy Framework (FY16)
<p>Macroeconomic stabilization</p> <ul style="list-style-type: none"> • Tax reform • Energy subsidy reform • Wage bill drift • Ministry of Finance-Central Bank coordination • Improve public debt management • Improve primary and secondary markets for Government securities • Prepare a Public Investment Management (PIM) system • Enhance financial sector competition through facilitating entry/exit and enforcement of corporate governance code • Promote access to finance for private sector, especially MSMEs, including through strengthening the financial infrastructure: improved quality and quantity of credit data collected by the credit bureau, secured lending framework and registry of movable assets. 	<p>ASA on energy sector and policy reform</p> <p>TA (RAS) on Medium-Term Debt Management Strategy; second RAS on establishing Debt Management Office, accounting for contingent liabilities and developing the primary and secondary markets for Government securities.</p> <p>Development Policy Framework (FY16)</p>
<p>Energy subsidies</p> <ul style="list-style-type: none"> • Rebase the current price controls with ad valorem subsidy rates allowing for price adjustments in line with international prices. • Eliminate distortions within the energy sector, both across fuels and users, to avoid undesirable substitution and rent-seeking trade. • Implement a clear time bound plan for phasing out overall fuel subsidies, and use the resulting savings for high priority social and growth needs. This needs to be supported by an effective communication plan, social protection measures to compensate the poor and vulnerable from price shocks. • Scale up energy efficiency programs and improve the generation mix to increase the share of renewable energy and secure the long term supply of natural gas • Underpin the above measures with improved energy services and improvements in the governance structure of the energy and gas sectors. 	<p>Development Policy Framework (FY16)</p>

<i>SCD priorities</i>	<i>World Bank Group Interventions</i>
<p>Key Driver I: Increase Private Sector Led Job Creation</p> <p>Competition Information Simplification Bankruptcy</p>	<p>Focus Area I: Increase Private Sector Led Job Creation and Spatial Integration</p> <ul style="list-style-type: none"> • Upper Egypt Local Development Program (FY16) • Inclusive Agricultural Development Program (FY17) <p>Development Policy Framework (FY16)</p> <ul style="list-style-type: none"> • TA and investments to the Ministries of Investment and Industry and agencies on regulatory governance and policy. • TA and investments in competitiveness and skills • Industry-specific TA: ICT investment policy and promotion, skills development for ICT, green manufacturing and innovation TA • ASA on Sub-national Doing Business and enterprise survey • Support for energy policy reforms, to include private sector participation, pricing, regulatory policies, and improving governance of energy SOEs • IFC investment projects and technical assistance MIGA guarantees
<p>Key Driver II: Enhance Spatial Integration</p> <p>Cooperative law</p> <ul style="list-style-type: none"> • Branch Canal law <p>Land Committee Urban Planning</p>	<p>Focus Area I: Increase Private Sector Led Job Creation and Spatial Integration</p> <p>Upper Egypt Local Development Program (FY 16)</p> <ul style="list-style-type: none"> • Inclusive Agricultural Development Program (FY17) <p>Agriculture Productivity TA and international expertise (FY16-17)</p> <p>Possible programmatic support for metropolitan governance and planning to focus on improved urban planning and institutional development and inclusive service delivery (FY17)</p>
<p>Key Driver III: Inclusion</p> <p>Family Health Services Model Cash transfers Unified National Registry</p>	<p>Focus Area II: Service Delivery for the Poor and Social Protection</p> <p>Just in time notes/papers, Health Quality Operation (FY17)</p> <p>Social Safety Net Operation (FY15)</p> <p>Programmatic Just in time support to Social Protection (FY15)</p> <p>ASA on Allocative efficiency of Social Expenditures (FY15)</p> <p>SSN sector reform transition fund (FY16)</p>

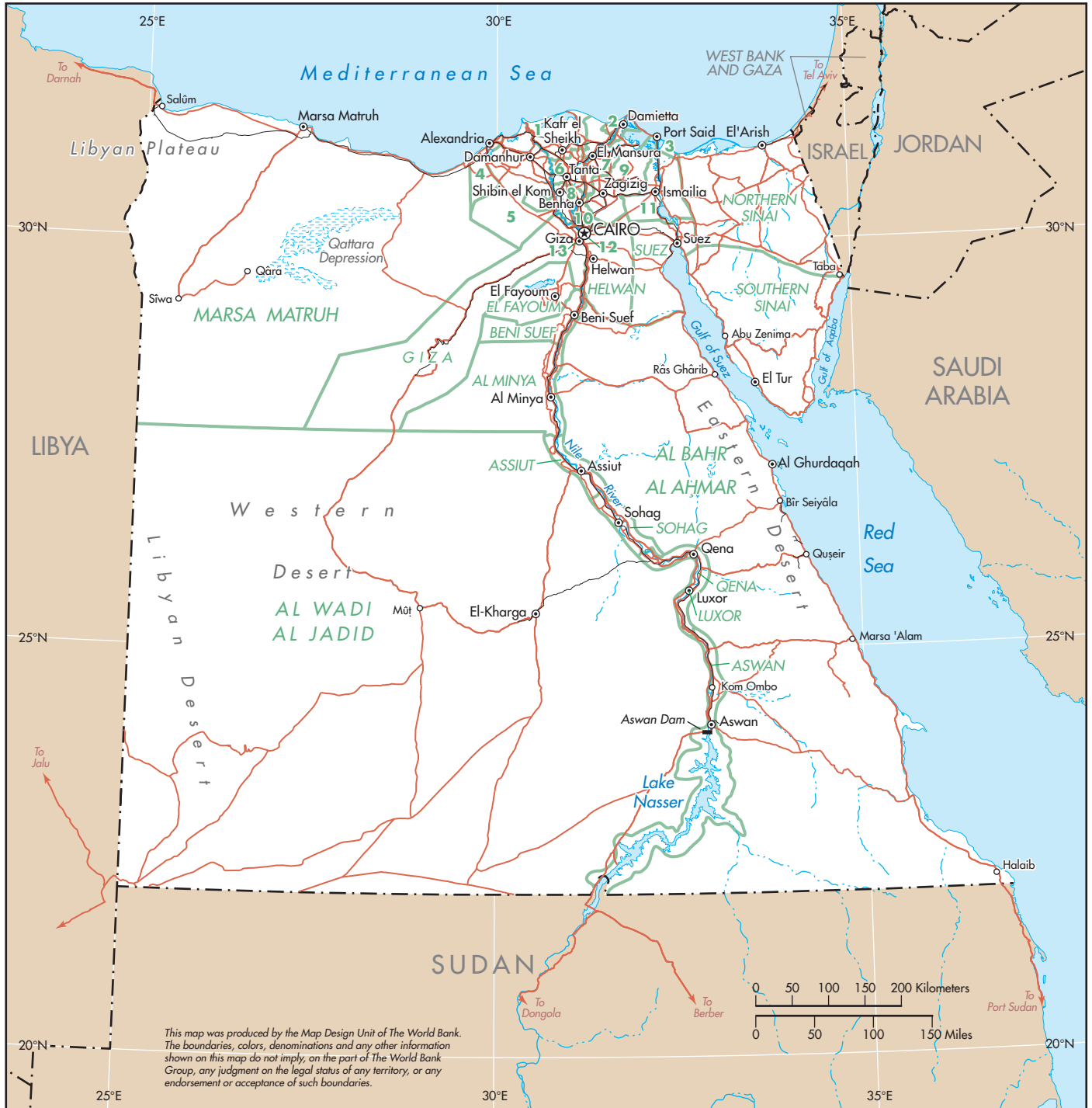
ARAB REPUBLIC OF EGYPT



- CITIES AND TOWNS
- ⊙ GOVERNORATE CAPITALS
- ⊕ NATIONAL CAPITAL
- RIVERS
- MAIN ROADS
- RAILROADS
- GOVERNORATE BOUNDARIES
- - - INTERNATIONAL BOUNDARIES

GOVERNORATES IN NILE DELTA:

- | | |
|------------------|--------------|
| 1 KAFR EL SHEIKH | 8 MENOUIFYA |
| 2 DAMIETTA | 9 SHARGIYAH |
| 3 PORT SAID | 10 QALIUBIYA |
| 4 ALEXANDRIA | 11 ISMAILIA |
| 5 BEHEIRA | 12 CAIRO |
| 6 GHARBIYA | 13 GIZA |
| 7 DAGHALIYA | |



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