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Report No: ICR00005121

IMPLEMENTATION COMPLETION AND RESULTS REPORT

IBRD-85710, 86850, 88030 ON A

LOAN

IN THE AMOUNT OF
US$3.15 BILLION

TO THE

THE ARAB REPUBLIC OF EGYPT

FOR THE

FIRST, SECOND, AND THIRD FISCAL CONSOLIDATION, SUSTAINABLE ENERGY, AND COMPETITIVENESS
PROGRAMMATIC DEVELOPMENT POLICY FINANCING

September 30, 2020

Energy and Extractives Global Practice
Middle East and North Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective June 30, 2019)

Currency Unit	=	Egyptian Pound (EGP)
EGP 16.647	=	US$1
EGP 1	=	US$0.0599

FISCAL YEAR

July 1 - June 30

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
ASA	Advisory Services and Analytics
DPF	Development Policy Financing
ECA	Egyptian Competition Authority
EEHC	Egyptian Electricity Holding Company
EETC	Egyptian Electricity Transmission Company
EFF	Extended Fund Facility
ESMAP	Energy Sector Management Assistance Program
Egypt ERA	Egyptian Electric Utility and Consumer Protection Regulatory Authority
IFC	International Finance Corporation
IMF	International Monetary Fund
GAFI	General Authority For Investment and Free Zones
GasReg	Gas Regulatory Authority
GDP	Gross Domestic Product
GoE	Government of Egypt
ICR	Implementation Completion and Results Report
MoF	Ministry of Finance
MTDMS	Medium-term Debt Management Strategy
MSMEs	Micro, Small, and Medium Enterprises
OECD	Organization for Economic Co-operation and Development
PDO	program development objective
PFA	Public Financial Management
PSIA	Poverty and Social Impact Analysis
SMEs	Small and Medium Enterprises
TA	Technical Assistance
VAT	Value Added Tax

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DATA SHEET

BASIC INFORMATION

Program Series

Project ID	Short Name	Full Name
P157704	1st Prog DPL on Fisc. Sust. Energ. &Comp	First Fiscal Consolidation, Sustainable Energy and Competitiveness DPF
P161228	2nd Prog DPL on Fiscal,Sust Energy& Comp	Second Fiscal Consolidation, Sustainable Energy & Competitiveness DPF
P164079	3rd Prog DPF onFiscal, Sust Engy&Comp	Third Fiscal Consolidation, Sustainable Energy & Competitiveness DPF

Series Details (USD)

Project ID	Approved Amount	Disbursed Amount
P157704	1,000,000,000.00	1,000,000,000.00
P161228	1,000,000,000.00	1,000,000,000.00
P164079	1,150,000,000.00	1,150,000,000.00
Total	**3,150,000,000.00**	**3,150,000,000.00**

	P157704	P161228	P164079
Policy-Based Guarantees	No	No	No
Ln/Cr/TF	IBRD-85710	IBRD-86850	IBRD-88030
Concept Review	02-Nov-2015	19-Oct-2016	14-Sep-2017
Decision Review	12-Nov-2015	23-Nov-2016	26-Oct-2017
Approval	17-Dec-2015	20-Dec-2016	05-Dec-2017
Effectiveness	08-Sep-2016	15-Mar-2017	04-Mar-2018
Original Closing	30-Jun-2017	30-Jun-2018	30-Jun-2019

Actual Closing	30-Jun-2017	30-Jun-2018	30-Jun-2019
Crisis or Post-Conflict	No	No	No
Regular Deferred Drawdown Option	No	No	No
Catastrophe Deferred Drawdown Option	No	No	No
Sub-National Lending	No	No	No
Special Development Policy Lending	No	No	No

Organizations

Series Project	Borrower	Implementing Agency
P157704	Ministry of International Cooperation	
P161228	Minister of International Cooperation	
P164079	Ministry of International Cooperation	Ministry of Investment and International Cooperation

Program Development Objective (PDO)

Program Development Objective (PDO) (From last operation in the series)

The proposed operation is built around three pillars, which are also the program development objectives (PDOs) of the programmatic series: (1) advance fiscal consolidation through higher revenue collection, greater moderation of the wage bill growth, and stronger debt management; (2) ensure sustainable energy supply through private sector engagement; and (3) enhance the business environment through investment laws, industrial license requirements as well as enhancing competition.

PROGRAM FINANCING DATA (USD)

World Bank Administered Financing

	Approved Amount	Actual Disbursed
P157704		
IBRD-85710	1,000,000,000	1,000,000,000
P161228		

IBRD-86850	1,000,000,000	1,000,000,000
P164079		
IBRD-88030	1,150,000,000	1,150,000,000
Total	**3,150,000,000**	**3,150,000,000**

RATINGS SUMMARY

Program Performance

Overall Outcome	Relevance of Prior Actions	Achievement of Objectives (Efficacy)
Satisfactory	Satisfactory	Satisfactory

Bank Performance

Satisfactory

ACCOUNTABILITY AND DECISION MAKING

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P157704

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I. PROGRAM CONTEXT AND DEVELOPMENT OBJECTIVES

A. CONTEXT AT APPRAISAL

1. **This Implementation Completion and Results Report (ICR) assesses the results of the programmatic series of the First, Second, and Third Fiscal Consolidation, Sustainable Energy, and Competitiveness Development Policy Loans to the Arab Republic of Egypt.** The objectives of this DPF series were to (a) advance fiscal consolidation through higher revenue collection, moderation of government sector wage bill growth, and stronger debt management; (b) ensure sustainable energy supply through private sector engagement; and (c) enhance the business environment through modifying investment laws and industrial licensing requirements as well as through enhancing competition. The first operation (DPF1, P157704) of US$1,000 million was approved by the World Bank's Board of Directors on December 17, 2015; the second operation (DPF2, P161228) of US$1,000 million was approved on December 20, 2016; and the third operation (DPF3, P164079) of US$1,150 million was approved on December 5, 2017. The official closing date of the last operation in this Development Policy Financing (DPF) programmatic series was June 30, 2019.

2. **At the time of appraisal of the programmatic DPF series, Egypt was emerging from a period of political and economic instability during 2011–14.** Among the consequences of this instability, and the policies that prevailed before and during the period, was an exacerbation of macroeconomic imbalances and structural weaknesses in the economy.

3. **On the macroeconomic side, the fiscal deficit and public debt increased significantly, while international reserves plunged.** Government expenditures rose from around 29 percent of gross domestic product (GDP) in FY11 to 33 percent in FY14, revenues (especially from taxes) dropped sharply, and the fiscal deficit rose from an already high 9.8 percent of GDP in FY11 to 12.0 percent in FY14 (see table 1 for details and sources).Gross public debt rose from around 82 percent of GDP in FY11 to 89 percent in FY14 Reserves were used up in defending the exchange rate to such an extent that they declined from US$26.6 billion in FY11 to US$16.7 billion in FY14, just enough to cover 3.3 months of imports.[1]

4. **Clear signs of foreign exchange shortages and rationing emerged.** Supplier credits began rising as a proportion of import bills, foreign investors experienced difficulties in repatriating profits, and a parallel market for foreign exchange arose. Initially, the Government responded to these pressures through administrative measures such as controlled auctions of foreign exchange to banks, but it became clear that these were insufficient and a longer-term adjustment program involving the exchange rate was needed.

5. **On the structural side, the energy sector showed signs of stress.** In 2014, Egypt's electricity supply was characterized by frequent power outages that affected both consumer welfare and business output. Residential consumers were subjected to outages of up to six hours daily, while small and medium enterprises reported losses of 3.2 percent of annual sales. Power generation was affected by the shortage of gas and oil, and many plants were producing below capacity as they did not have the financial means

[1] Viewed over FY10–FY13, the decline in reserves was even more alarming, dropping from US$35.2 billion to US$14.9 billion or from 8.6 months of import cover to 3.1 months only.

to spend as much as needed to function at full capacity. Extraction activity was stalled by the accumulation of large arrears to international oil companies (up to US$6.3 billion in June 2012). Indeed, the situation had become so critical that the estimated power generation deficit was measured at 5,540 MW or one-sixth of installed capacity. At the same time, the fiscal burden of the sector was heavy: energy subsidies rose from 5 percent to 6.9 percent of GDP during FY11–FY13.

6. **Stress was also visible in the performance of the private economy.** The growing misalignment of the exchange rate and the problems of the energy sector had affected the confidence of the large-scale manufacturing and service firms that play a big role in the Egyptian economy. Overall, private investment declined sharply during FY11–FY14, from about 10 percent of GDP to only about 7 percent. Meanwhile, the formal unemployment rate rose from an already high 11.8 percent in FY11 to 13.3 percent in FY14.

7. **The net outcome of these pressures was an anemic growth rate.** The economy hobbled along at a real GDP growth rate of around 2.3 percent on average for the four-year period (FY11–FY14). The poor performance of the economy and the prospect of further decline led the Government of Egypt (GoE) to initiate a reform program in 2014. The initial focus was to reduce the fiscal deficit through raising taxes, cutting energy subsidies, and moderating wage growth in the government sector. Energy subsidies were cut; indeed, the prices of some major fuel and power categories rose between 40 percent and 78 percent. This led to budget savings and helped reduce the fiscal deficit. There was an upward move in inflation as energy prices increased but, on the positive side, economic growth jumped to 4.4 percent in FY15, and the budget deficit was cut to 12.5 percent. The Government also committed to foster private sector-led growth through a package of reforms designed to cut red tape, reduce barriers to entry, and promote competition.

Table 1. Key Economic Indicators at Initiation of DPF Series

Indicator	FY11	FY12	FY13	FY14	FY15
Real GDP growth rate (year-on-year)	1.8	2.2	2.2	2.9	4.4
Unemployment rate	10.4	12.4	13.0	13.4	12.9
Inflation rate (CPI period average)	11.0	8.6	6.9	10.1	10.9
Non-sovereign corporate income tax + VAT (percent GDP)[a]	5.9	5.2	5.0	4.6	5.4
Budget deficit (percent GDP)	9.8	10.0	12.9	12.0	11.4
Budget deficit, excluding grants (percent GDP)	10.0	10.6	13.2	16.5	12.5
Primary balance (percent GDP)	–3.6	–3.7	–5.0	–3.9	–3.5
Wages and salaries (percent GDP)	7.0	7.3	7.7	8.4	8.1
Energy subsidies (percent GDP)	5.0	6.2	6.9	6.5	4.0
Net international reserves (US$, billions)	26.6	15.6	14.9	16.7	20.1
Gross public debt (percent GDP)[b]	82.3	78.0	88.1	89.3	93.1

Source: World Bank staff calculations based on data from Ministry of Finance (MoF), Ministry of Planning and Economic Development, Central Bank of Egypt, and Central Agency for Public Mobilization and Statistics.
Note: CPI = Consumer Price Index; VAT = Value Added Tax.

a. Non-sovereign revenues from VAT includes general sales tax on goods, general sales tax on services, excises on domestic commodities (Table 1) and excises on imports (Table 1) and only excludes excises on petroleum products.
b. Gross public debt is defined as gross domestic budget sector debt plus external government debt.

8. **This initial success emboldened the Government to embark on a broader reform program aimed at four objectives:** (a) fiscal consolidation, (b) private sector-led growth, (c) transparency and accountability, and (d) social and economic inclusion. These objectives were to be achieved through several measures including some that had already been tried successfully in FY15. Fiscal consolidation measures included both revenue and spending measures. On the revenue side, reforms envisaged the introduction of a VAT in addition to raising funds from real estate, dividends, and related taxes. On the spending side, measures focused on reducing the growth of government sector wages and reducing energy subsidies. Private sector-led growth was to be achieved through paying off arrears to private international oil and gas companies, signing new foreign investment agreements and reducing electricity outages through additional supply, as well as reforming industrial licensing policies and processes. The DPF series featured early and sustained collaboration among the IBRD, IFC, and MIGA in energy and private sector development issues. This was manifested in coordinated efforts in analytic work, TA, and complementary financing, in particular on competition policy and industrial licensing. The latter were not initially considered by the Government as part of the DPF series but due to substantial analytical work in these areas, it was proposed to consider introducing both the competition policy and industrial licensing. Greater transparency and accountability were to be fostered through allowing more information about the budget to be made public and for an internal audit function to be established in various government agencies. Finally, social and economic inclusion was to be enhanced through cutting red tape in the business licensing process to stimulate new small and medium enterprise (SME) business start-ups as well as strengthening the social safety net for poor and vulnerable families through conditional and unconditional cash transfer programs. While social protection was an important part of the Government's reform program, it was not incorporated into the DPF series as other Bank operations directly related to social protection were already in place. The two most relevant such projects were the Takaful and Karama operation and the labor-intensive works operation. However, the likely poverty, social, and environmental implications of the DPF series were discussed in each project appraisal document.

9. **The reform program was anchored in a long-term vision, the Egypt 2030 Sustainable Development Strategy, and constituted a serious effort to tackle fundamental problems.** While many reform actions were envisaged, the ones that stood out for their potentially transformative nature were those proposing to cut energy subsidies, introduce a VAT that had been two decades in the making, foster a competitive market for electricity and gas with private sector participation, and modify industrial licensing policies to enable more firms to operate in an environment of regulatory certainty. Interconnections among goals and measures were recognized. To take just two examples, it was understood that, while the short-term benefit of cutting energy subsidies would be felt in the fiscal accounts, a larger impact would eventually be felt in in the energy sector through more investment and better maintenance. Similarly, while modifying industrial licensing policies would help the private sector, they would also have a long-term impact on (a) the fiscal accounts through higher tax generation and (b) social and economic inclusion through higher formal sector employment opportunities. For technical and financial support, the Government turned to the international development community, including the World Bank.

Rationale for Bank assistance

10. **There were several good reasons for the World Bank to engage.** First, there was clear evidence of the Government's ownership of the reform program. For example, it was clear that the Government was committed to electricity price reforms because it had already published a schedule of tariffs that

would apply for five years and had already implemented the increase scheduled for the first year. Second, the program aligned closely with the World Bank's Country Partnership Framework (CPF)[2]. For example, it included the following items that were also among CPF priorities: improved fiscal management and transparency; improved energy sector governance, generation capacity, and efficiency; and improved regulatory environment for private investment.[3] Third, there was a body of prior analytic work in the key reform areas that provided guidance and reassurance. For most of the measures that were considered by the Government, adequate analysis existed to help identify needed measures and assess likely outcomes. For measures in the areas of fiscal and exchange rate management, similar information was available from work done by the International Monetary Fund (IMF).

11. **Behind these specific reasons also lay the realization that the Government was thinking big and long term** and that it was not simply focusing on a few specific measures to tide over a crisis but conceiving the crisis itself as an opportunity for, as the Minister of International Cooperation put it in the Letter of Development Policy to the President of the World Bank, "reengineering the Egyptian economy, through a comprehensive set of coherent policies, programs, and projects." The comprehensiveness lay in the broad and integrated sweep of the proposed program, covering macroeconomic stabilization, the revival of the energy sector, and the repositioning of the private sector as a major driver of future growth. The coherence lay in the fact that achievements in each of these three areas were expected to facilitate achievements in the other areas. Sensing a strong commitment from the Government and a significant economic transformation in prospect, the World Bank went bold. It designed an ambitious program that supported the Government's reform efforts in an integrated fashion, which contained measures to achieve both short-run and medium-run objectives, and which connected with priorities of other international development partners. The appropriate instrument for this was programmatic DPF and the World Bank decided to structure this over three operations, to stay engaged over a longer period and thus promote deeper and more durable reforms.[4]

12. **In doing so, the World Bank was taking a risk but a well-informed one.** The main risks stemmed from the macroeconomic imbalances prevailing at the onset of the program, as outlined above in the section describing the "context at appraisal". Further there were risks pertaining to sustained reform implementation in the context of a programmatic series, especially as several measures supported by this DPF series have previously been perceived as untouchables (such as the streamlining of energy subsidy and the reforms to contain the wage bill growth). The first operation in the programmatic DPF series was approved by the World Bank Group's Executive Board in the absence of an IMF program, recognizing the credibility of the Government's reform program.[5] This marked a turning point in the World Bank Group's relationship with the GoE, paving the way for the World Bank to support an expansion of the Government's reform efforts into new areas. The IMF's Extended Fund Facility (EFF) followed a year later.

[2] Report number: 94554

[3] While social protection was an important part of the Government's reform program, it was not incorporated into the DPF series as other operations directly related to social protection were already in place. The two most relevant such projects were the Takaful and Karama operation and the labor-intensive works operation. However, the likely poverty, social, and environmental implications of the DPF series were discussed in each project appraisal document.

[4] The multiyear DPF instrument was preferred to a stand-alone operation because it allowed for sustained policy dialogue with the Government, attention to medium-term objectives, and the flexibility to make design changes should circumstances warrant. These aspects are noted in the report titled Development Policy Financing Retrospective: Results and Sustainability, World Bank, 2015.

[5] The disbursement of funds under DPF1 was made subject to the adoption of a VAT that had long been under discussion. The acceptance by the Government of this condition further strengthened the case for World Bank engagement.

It built on the DPF's policy matrix and relied on the World Bank's expertise in structural areas such as the energy sector and private sector development. For example, while the IMF program advocated measures on energy subsidies to achieve fiscal consolidation, it was the World Bank that provided the technical know-how on the implementation of such measures and their implications for income distribution. The structural reforms supported by the DPF series and the IMF EFF also helped leverage a significant financial effort from the G7 countries (including US$250 million from Germany, US$150 million from France, and US$50 million from Japan). Additionally, the United Kingdom joined forces with the World Bank Group, offering a guarantee to expand the size of the third operation in the DPF series by US$150 million.

Original Program Development Objective(s) (PDO) (as approved)

13. The operation was built around three PDOs: (a) to advance fiscal consolidation through higher revenue collection, slower growth of government sector wages, and stronger debt management; (b) to ensure sustainable energy supply through reforming energy subsidies, improving sector governance, and enabling private investments in renewable energy; and (c) to enhance the business environment through modifying investment laws and industrial licensing requirements as well as through enhancing competition.

Original Policy Areas/Pillars Supported by the Program (as approved)

14. The original policy areas/pillars of the DPFs were Advancing Fiscal Consolidation, Ensuring Sustainable Energy Supply, and Enhancing the Business Environment. The original objectives under each pillar are as follows:

- **Pillar 1: Advancing Fiscal Consolidation**
  - Objective 1.1: Enhancing Government Revenues
  - Objective 1.2: Containing the Wage Bill
  - Objective 1.3: Strengthening Debt Management
- **Pillar 2: Ensuring Sustainable Energy Supply**
  - Objective 2.1: Reforming Energy Subsidies
  - Objective 2.2: Improving Energy Governance
  - Objective 2.3: Enabling Private Sector Investments in Renewable Energy
- **Pillar 3: Enhancing the Business Environment**
  - Objective 3.1: Improving Investment Regime and Facilitation
  - Objective 3.2: Reforming Industrial Licensing
  - Objective 3.3: Strengthening the Competition Framework

B. Significant Changes During Implementation

Revised Program Development Objectives (PDOs)

15. There was no change in the overarching PDOs across the three operations. There were moderate changes in the sub-objectives under some pillars, as noted in the next section.

Revised Policy Areas/Pillars supported by the Program

Pillar 1: Advancing Fiscal Consolidation

16. This pillar included three sub-objectives: (a) enhancing government revenues; (b) containing the wage bill; and (c) strengthening debt management. At the time of the second operation, the last-mentioned objective was changed to 'strengthening debt management and aspects of public financial management' to give prominence to broader public financial management (PFM) considerations as well.

Pillar 2: Ensuring Sustainable Energy Supply

17. Ensuring sustainable energy supply was to be done through (a) reforming energy subsidies, (b) improving energy governance, and (c) enabling private sector investments in renewable energy. In the second operation, the title of the third objective was changed to 'enabling private energy investments', and in the third and final operation it was further changed to 'accelerating the low carbon energy transition'. The last formulation of the sub-objective was significant in that it changed the emphasis from private investment in the energy sector to progress toward a greener system.

Pillar 3: Enhancing the Business Environment

18. The business environment was to be enhanced through three sub-objectives: (a) improving the investment regime and facilitation, (b) reforming industrial licensing, and (c) strengthening the competition framework. At the time of the second operation, the first sub-objective was renamed 'improving the investment regime and its transparency, particularly for MSMEs' to emphasize both transparency and micro, small, and medium enterprises (MSMEs).

Other Changes

19. No significant changes occurred in design, scope, scale, implementation arrangements, or schedule. The third operation (DPF3) was expanded to US$1,150 million from US$1,000 million. The additional US$150 million was covered by a guarantee to IBRD from the United Kingdom.

II. ASSESSMENT OF KEY PROGRAM DESIGN AND OUTCOMES

A. Relevance of Prior Actions
Rating: Satisfactory

20. The assessment of key program design and outcomes is based on the prior actions, triggers, and results indicators detailed in annex 6. The annex also includes a discussion of changes, if any, to the indicative triggers and results indicators. Overall, the relevance of prior actions is rated Satisfactory for the following reasons. First, individual prior actions listed in each pillar were logically related to each sub-objective and, through them, to the overall objectives of the DPFs. There was a credible theory of change linking actions to objectives in each case, as discussed in detail in the following paragraphs. Second, the prior actions were derived on the basis of good analytic work for the most part (as shown in table 5 of the

Program Document for DPF1). Where Egypt-specific analytical work was not available, support was derived from regional and global best practices. Third, there was a high degree of consistency between indicative triggers in one operation and prior actions in the succeeding operation. Where changes in triggers or prior actions occurred, they were based on pragmatic considerations and the modified actions remained relevant to the desired objectives. Fourth, prior actions were aligned with government priorities, thus ensuring that they were more likely to be 'owned' by the implementing agencies and met on schedule.

Pillar 1: Advancing Fiscal Consolidation

21. The first objective of the DPF series was to advance fiscal consolidation through higher revenue collection, moderation in wage bill growth, and better debt and financial management. Pursuit of this objective was justified by the high fiscal deficit that still existed at the start of FY15. The implied theory of change was that increases in tax revenues and restraint in public expenditures would reduce the fiscal deficit over time. So would better management of the public debt and of government financial operations.

22. **Enhancing Government Revenues.** The Government was required to take, as prior actions to successive DPF operations, several measures related to the tax system, such as unifying the top income tax rate for all economic actors and enacting and publishing a law on taxation disputes. In addition, the introduction of a VAT arrangement was treated as a condition for disbursement of the first operation. Initially, an 'assessment of the VAT implementation' was envisaged as a trigger for DPF2. However, with the addition of the VAT introduction as a disbursement condition for DPF1, this prior action was effectively brought forward and strengthened. The overarching objective of these measures was to raise revenues by decreasing distortions in the tax system and widening the tax base.

23. The action related to enacting and publishing the law on tax disputes was added in DPF2 to strengthen an area which originally only envisaged an initial assessment of a proposed VAT. The new prior action read as follows: the Borrower enacted Law No. 79 of 2016 Finalization of Taxation Disputes and published said law in its Official Gazette, which was renewed through Law No. 16 of 2020 that was issued in March 2020. This was important as it provided the legal framework to cover pending general sales tax payments once Egypt retired the general sales tax and introduced the VAT.

24. An indicative trigger (3.1) for DPF3 originally called for the introduction of a harmonized and simplified tax regime for micro and small businesses based on turnover. This was dropped as a prior action for DPF3 because the Government preferred to do this under the aegis of a new MSME Law rather than as a stand-alone action. The idea was to not separate tax treatment from other components to be included in the overall policy framework for MSMEs. To make progress toward the development of the new framework, an Agency for Development of Medium, Small, and Micro Enterprises was formed in FY17 under the aegis of the Ministry of Trade and Industry. As a result, the Small and Medium Enterprises (SMEs) Law (No. 152 of 2020) was issued in July 2020.

25. Overall, the targeted measures were clearly relevant to the objective of enhancing revenues. In particular, the introduction of a VAT is known from widespread international experience to increase sales tax collections in an efficient manner with limited scope for evasion. The unification of tax rates and, in particular, the raising of tax rates on firms located in special economic zones from 10 percent to 22.5 percent, was also likely to raise tax collections. International experience suggests that firms are attracted

to special economic zones, not so much by tax rate discounts as by efficient infrastructure and a supportive business climate. Enacting a law relating to taxation disputes was aimed at helping make the resolution process easier, more efficient, and final. In turn, this was supposed to make the tax system simpler, fairer, and more transparent, thus leading to better compliance and higher tax collections.

26. **Containing the Wage Bill.** The Government was required to modify annual budgets to reduce the rate of growth of its own wage bill relative to GDP. Relevant measures included capping of bonuses and rewards, delinking the variable portion of salaries from the basic component, and automating the process of administering and monitoring the wage bill.

27. These measures were thought necessary because the wage bill had risen above historical norms during FY11–FY14 due to a series of populist measures undertaken by various governments of the day. Indeed, wages and salaries had risen faster than many other spending categories over this period. The rise was also due to elements of inertia in the public sector wage-setting process that generated automatic increments over time unrelated to individual performance or unit budget allocations. Finally, increased automation of the payroll system was expected to reduce the cost of processing wages and salaries and improve financial inclusion because all employees would be required to have bank accounts to receive wage payments. The measures adopted through the DPFs thus aimed to bring the wage bill back to historical norms, control inertial tendencies toward wage bill inflation, and reduce the operating costs of the payroll system, thereby helping cut the fiscal deficit.

28. In relation to this objective, Trigger 3.2 (i) in DPF2 called for the Cabinet to set a cap on the number of new recruits in the public sector relative to the number of retirees. This was not subsequently adopted as a prior action in DPF3 because it was established that a relevant cap already existed. It had been put in place by the Supreme Committee, set up in April 2017, to decide on public sector recruitment modalities, among other administrative matters. The rule to be followed henceforth was that new recruits to government service could not number more than 25 percent of those who retired in a given year. This was a big improvement over earlier practice which left decisions on new hires to the decentralized discretion of ministries and authorities.

29. **Strengthening Debt Management** and Aspects of Public Financial Management**.** By way of prior actions, the Government was required to issue decrees to (a) mandate the publication of the medium-term debt management strategy (MTDMS), (b) establish a PFM Improvement Unit to conduct internal audits and monitor the fiscal risks of state-owned agencies and authorities and enhance financial control, and (c) establish a Sovereign Guarantees Committee to review and assess requests for guarantees as well as to develop new policies in this regard.

30. The above-mentioned measures were connected to the objective of advancing fiscal consolidation in various ways. For example, publishing a debt management strategy focuses attention on the term structure and currency composition of the public debt and on ways to reduce the costs of servicing the debt through lengthening maturities and currency mix optimization. Establishing the practice of internal audits allows scrutiny of expenses in a way that allows mistakes and wrong practices to be identified and fixed more rapidly than is possible through the conduct of ex post audits by external audit bodies. Finally, systematically reviewing requests for sovereign guarantees enables a comparison of risks and terms across a variety of cases and helps avoid the granting of guarantees in a piecemeal fashion that could generate substantial contingent liabilities. Dialogue on this was also coordinated with the IMF

whose program called for the disclosure of financial information of state-owned entities that was eventually done for the first time in 2018.

31. In relation to the objective of strengthening debt and PFM, the relevant Prior Action (2.3) in DPF2 was strengthened to expand the scope of the new unit to be established. Originally, the prior action only called for the establishment of an 'internal audit unit'. This was now expanded to become a PFM Improvement Unit, with a mandate not just to handle internal audits but also to monitor fiscal risks and enhance accounting and financial control.

32. In the matter of guarantees, the relevant Prior Action (3.2) in DPF3 was strengthened by calling for a Sovereign Guarantees Committee to review requests for new guarantees, assess the associated risks, and recommend or deny the guarantee. The prior action was further strengthened with a fiscal transparency measure. Prior Action 3.2 (iii) was added to reflect the inclusion of a section on 'Risks to Budget Implementation' in the budget statement. This section was published for the first time in the current FY17/18 budget statement.

33. The result indicator relating to debt management was modified in DPF3. The MoF needed more time to develop the medium-term debt strategy as a routine government process and document. Hence, the word 'annual' was dropped and replaced by the word 'updated' in the relevant indicator.

Pillar 2: Ensuring Sustainable Energy Supply

34. As noted earlier, during FY11 until FY14, Egypt was on an unsustainable energy supply trajectory, manifested most dramatically in frequent power outages. For the existing state-owned companies, the gap between underlying costs and prevailing tariffs led to high and persistent financial imbalances, which compromised their ability to function as commercial entities and prevented adequate spending on maintenance and new projects. Meanwhile, private investors were hesitant to enter the power sector because of low prices, lack of transparent rules governing investments and operations, and prospects of a major exchange rate adjustment. Accordingly, the Government began working on a plan in FY15 that evolved over time to cover objectives such as reducing energy subsidies, improving energy sector governance, and enabling private sector participation in the gas and renewables (clean energy) sectors.[6] The theory of change implicit in these objectives was that their achievement would enable both public and private companies to invest more in energy supply as well as improve competition, private participation, and transparency in this important sector.

35. **Reforming Energy Subsidies.** Initial measures of the reform plan concerned energy subsidies, starting with a five-year electricity tariff adjustment schedule in FY15. To strengthen adherence to this program, prior actions were negotiated for the Government to issue decrees implementing annual price adjustments in successive years. In addition, cabinet and ministerial measures were required showing commitment to a policy of fuel price indexation to achieve full cost recovery by FY22. These measures were built on technical work undertaken by a World Bank energy team and government counterparts.

[6] The evolving plan was based on analyses of long-run sector options and strategies such as the Five-year Medium-Term Action Plan (White Book) for the Integrated Sustainable Energy Strategy to 2035, European Union, 2015 and the Assessment of Private Sector Participation in the Power Sector of Egypt, World Bank, 2014.

36. These actions had a direct connection to the objective of ensuring sustainable energy supply. First, they were expected to improve the financial conditions of existing generating and distribution companies, thus enabling them to both improve the yield from existing capacity (through better maintenance) and add to capacity (through new investments). Second, they were expected to attract new companies into the sector, further adding to energy supply.

37. **Improving Energy Governance.** The energy sector in Egypt is institutionally organized to focus on electricity, oil and gas, and renewables. At the time of the first DPF in FY15, electricity supply was fully controlled by the state-owned Egyptian Electricity Holding Company (EEHC) which engaged in generation, transmission, and distribution activities. Gas supply was controlled by the state-owned Egyptian Natural Gas Holding Company. The renewables sector was, in principle, open to private investment but had not seen much activity for over a decade. This governance structure had led to institutional stasis with all three components of the power supply chain, namely generation, transmission, and distribution, working at suboptimal levels. Institutional reform was thought necessary to introduce competition and transparency and shake the sector out of its low-performance rut.

38. The DPF series contained several prior actions aimed at making progress toward this objective. For example, with respect to the electricity sector, prior actions were designed to promote competition by separating the Egyptian Electricity Transmission Company (EETC) from the EEHC to operate independently and allow a third-party open access to eligible large customers. This will eventually allow both the existing state-owned generators and new private generators to compete to supply such customers at directly negotiated terms and conditions. With respect to the gas sector, prior actions were set to establish a new regulator that would, through designing appropriate rules, enable greater choice (of suppliers) for large consumers.

39. Transparency was sought through attention to public consultation and disclosure of information with respect to retail prices. For example, once the principle of reducing subsidies was accepted, it was important that the methodology for computing electricity tariffs be disclosed to the public and the public be given a chance to participate in hearings on important regulatory decisions. These were the objectives of prior actions required for the last DPF in the series.

40. Some triggers and results indicators under this pillar were modified over time. The EETC was supposed to be established as an independent utility through Trigger 5.1 (ii) of DPF1. This was carried over to DPF2 as Trigger 3.5 (i). It was then implemented in a modified fashion through Prior Action (3.4) in DPF3 to reflect the Government's decision that the proper sequence of actions required first the approval of a new General Assembly for the EETC and then, over a period of three years, the implementation of full legal and financial separation. The first action has been taken and the second is expected soon. Furthermore, DPF1 included a result indicator that anticipated a decrease in the market share of the EEHC from more than 92 percent in FY15 to 85 percent in FY18. This result indicator was dropped as the energy supply situation improved substantially, and the Government decided on a timeline of reforms that saw greater private participation in the more distant future and not within the duration of the DPF program.

41. **Accelerating the Low Carbon Energy Transition.** Actions relating to gas and renewables aimed to obtain greater energy supply as well as inject more competition and transparency to ensure better outcomes for consumers. An important co-benefit was progress toward a low carbon energy system. For gas, legislation was needed to make it easier for private investors to enter the downstream part of the

sector, enable third-party access to the distribution network, and establish an independent regulator. The relevant law was drafted and moved through the Cabinet, Parliament, and President's Office in successive steps during FY15 until FY18 as prior actions of successive operations in the DPF series. For renewables, actions were required to allow competitive bidding, net metering, and a system of feed-in tariffs. These were managed through a series of decrees, circulars, and cabinet letters.

42. While the objectives remained constant, the timeline and implementation process differed from what was originally anticipated. With regard to the gas sector, Triggers 3.6 (ii) and (iii) of DPF2 related to administrative actions by the Ministry of Petroleum and Mineral Resources were dropped. Trigger 3.6 (i) required the issuance of executive regulations implementing the new Gas Market Activities Regulatory Law once approved. This was transformed into a new results indicator. The relevant law itself was ratified by the President in August 2017.

43. The transition to a low carbon economy also required measures to improve energy efficiency. In part these were covered by a decree of the Ministry of Electricity and Renewable Energy that specified measures to improve the energy efficiency of large electricity consumers. They were also covered by a decree to set up an energy efficiency unit at the same ministry to help implement the National Energy Efficiency Action Plan.

Pillar 3: Enhancing the Business Environment

44. Despite periodic reforms, the business climate in Egypt had long been tough for MSMEs. More than 60 percent of these were in the informal sector, and it is assumed that a large share of these informal firms do it to avoid red tape. Furthermore, those who had opted for the formal route consistently complained of the difficulty in conducting business. Reform of the business environment has been a consistent challenge to tackle in a comprehensive manner, given the number of overlapping and conflicted institutions involved in business regulation and implementation, the existence of many archaic laws and regulations that also overlap and conflict, and the absence of a sustainable platform for public private dialogue. Therefore, reforms tackling business environment usually deal with standalone issues that require significant effort (such as to raise the capacity of relevant institutions, modernizing laws and regulations etc.), which has an effect, albeit small, on the overall business environment. This approach can be thought of as a mosaic that builds consistently small pieces towards an overall improvement. In this vein, the earlier phase of reforms had brought about some improvements in the area of facilitating business registration. This was followed by focusing on industrial licensing and competition.[7] Those two topics were not in the early stages of the DPF discussion. However, given the existence of an ongoing WBG program on these topics, and the unique opportunity that the DPF offered to elevate and accelerate the reforms, those two topics were added in subsequent discussions. Relevant prior actions were devised for each of these areas under the DPF series and are discussed in the following paragraphs. The idea was that the chosen measures would make it easier for new businesses to be set up formally as well as for existing registered businesses to operate in an environment of greater regulatory certainty and competition. An integrated approach in all three areas (business registration, industrial licensing, and

[7] Three relevant pieces of analytic work were (a) Strategic Assessment and Recommendations: Industrial Licensing in Egypt, IFC (2008); Egypt Investment Climate Assessment, World Bank (2009); and (c) From Privilege to Competition: Unlocking Private-led Growth in the Middle East and North Africa, World Bank (2009).

market competition) was thought to offer a more promising path to higher rates of business formation and activity, generating a higher level of employment and incomes in the process.

45. **Improving the Investment Regime and its Transparency, particularly for MSMEs.** The investment and company legislation required modernization and transparency to attract formal entry. The start was with the investment legislation which strengthened investor's guarantees through, among others, extending the principle of national treatment to foreign investors, allowing repatriation of profits, and improving dispute resolution (see for example Triggers 1.8 and 3.7[i]).

46. The triggers evolved to reflect the Government's reform agenda. For example, they were strengthened by introducing in DPF2 (trigger 2.8) a draft law on single-person companies that extends the corporate veil to sole proprietors who form the majority of the informal sector in Egypt.[8] For context, it is important to note that this reform had long been debated in Egypt among legal scholars with no resolution. The DPF catalyzed this reform to limit the risk faced by sole proprietors to company rather than personal funds.

47. The DPF also presented the needed incentive for online publication of important information for investors as well as sectoral guidelines in a clear and organized fashion, that were, otherwise, scattered and not readily available to small businesses who cannot afford the cost of legal advice. Now, sectoral guidelines for establishing a business, a list and text of relevant legislation, an investor guidebook, and a list of available incentives and guarantees are easily accessible on the website of the General Authority for Investment and Free Zones (GAFI) (Trigger 3.7 [iii]).

48. **Reforming Industrial Licensing.** The ability to set up an industrial firm in Egypt was regulated by industrial licensing procedures based on a law that had not been substantially revised since 1954. A major problem with the prevailing law and its regulations was the onerous compliance burden they imposed. As a result, it took 634 days and 663 steps for a typical applicant to go through the licensing process, with less than 20 percent succeeding. The World Bank analysis suggested that the main reason why the process took so long was because all applicants were evaluated through the same risk lens, even though a cursory review could have established that many could safely be put in a low risk category. The main objective of the DPF-supported measures was to introduce risk-based evaluation processes to reduce decision times significantly and provide greater regulatory certainty to licensees.

49. Given the complex legal, institutional, and procedural considerations involved, the reform of the industrial licensing process required action from a level of government higher than a single ministry or regulatory authority. What was needed was a Prime Ministerial Decree to force intergovernment cooperation toward introducing risk-based enforcement of health, safety, security, environmental, and land use requirements by the concerned agencies; separating regulatory from policy and facilitation functions; and devolving licensing services to lower-level units. This Prime Ministerial Decree was seen as unconventional at the time, but it was adopted (in DPF1), followed by prior actions to have the Cabinet endorse the reform plan (in DPF2) and for the plan to be submitted to Parliament (in DPF3).

50. These triggers were modified in view of the Government's evolving reform agenda and progress with respect to industrial licensing. Triggers 9.1 and 9.2 from DPF1 were converted into Prior Action 2.9

[8] This law became part of the larger Companies Law in DPF3 (Trigger 3.7[ii]), a better outcome from a transparency standpoint.

in DPF2 to reflect the Government's decision to submit to Parliament a new industrial licensing law covering many reforms rather than focusing on a single regulatory area. This reflected significant progress, as the Government's commitment to licensing reform was now enshrined in a law that adopts the principle of a risk-based approach in licensing, moves toward the streamlining and transparency of industrial requirements, mandates a substantial reduction of the number of days to issue an industrial license, allows for private accreditation offices, and establishes grievance procedures. Indicative Trigger 3.9 in DPF2 was dropped. Part (i) of this trigger was made redundant because the Government had already enacted a new industrial licensing law and its executive regulations. Furthermore, there had been much progress with respect to Part (ii) which called for online availability of all requirements related to establishment, operation, and termination of industrial activities. Senior management also balanced this progress against the potential corporate risks with being associated with the shift to a risk-based approach and concluded that the remainder of the reform was best attained through the provision of targeted technical assistance (TA). Despite disagreeing with the dropping of the trigger, IDA's commitment to the reform was not affected and the Government supported the issuance of the new industrial licensing law.

51. **Strengthening the Competition Framework.** Prior analytic work for the Middle East and North Africa region had identified the strengthening of anti-cartel policy and actions as important to improving the business environment. Ongoing TA to Egypt had identified areas for policy reforms in this regard. Accordingly, prior actions were devised to submit executive regulations to the Prime Minister to implement relevant amendments in the Competition Law (under DPF1), get the Cabinet to issue a decree notifying these executive regulations and the Egyptian Competition Authority (ECA) to adopt administrative regulations to strengthen anti-cartel enforcement policy (under DPF2) and, finally, have the Board of the ECA adopt secondary legislation to implement the Competition Law (under DPF3). The final measure focused on matters such as exemptions, leniency guidelines, and guidelines relating to fines and settlements. The logic behind these prior actions was that they would enable more action against anticompetitive practices, thus rendering the Egyptian business environment more competitive and making it easier for new firms to enter certain sectors.

Table 2. Critical Triggers and Prior Actions[9]

Item	Remarks
Introducing a VAT **Trigger 1.1 from DPF1:** The Government has done an initial assessment of the implementation of the proposed Value Added Tax law which introduces the following features of the value added tax regime: (i) a single unified tax rate for all goods and services; (ii) a clearly stated table detailing excise taxes; (iii) a well-identified list of exempted goods and services; (iv) a full-fledged tax credit system for direct and indirect inputs; and (v) a tax refund system for expenses related to the purchase of equipment and machinery.	This was critical because it showed willingness to take the long-discussed VAT to the next stage. In the event, there was no need to convert this trigger from DPF1 into a prior action in DPF2 because the VAT Law was adopted in 2016 prior to the start of DPF2.
Committing to Electricity Tariff Setting Formula **Trigger 3.4 from DPF2:** (i)The Borrower's Cabinet implements the annual energy price adjustment for FY17–18 consistent with passing through unanticipated changes in the cost of energy to	This was critical because it established the Government's willingness to stick by a formula for setting electricity tariffs

[9] The detailed table including all Prior Actions, triggers and results indicators is in Annex 6, which also includes changes to the triggers and results indicators.

Item	Remarks
achieve subsidy ceilings set in the Medium-Term Fiscal Framework 2016–2019, pursuant to the Supreme Energy Council Policy Decision of 2016. (ii) The Supreme Energy Council adopts a policy for automatic periodic indexation of energy prices.	despite a big change in underlying costs due to depreciation and inflation.
Promoting competition in the electricity sector **Prior action 5 in DPF1:** The decree promulgating Law No. 87 of 2015 has been issued mandating the promotion of competition in the electricity sector and the separation of the Egyptian Electricity Transmission Company. Specifically, the law mandates (i) the creation of a competitive wholesale electricity market providing direct access between generation companies and eligible large consumers; (ii) the separation of the Egyptian Electricity Transmission Company as an entity independent from the generation and distribution sectors.	This was critical because it committed the Government to promoting competition in the electricity sector. However, some aspects of this prior action were modified in subsequent years and progress toward greater competition was slower than expected. A result indicator targeting the decrease in the market share of the EEHC (from 92 percent in FY15 to 85 percent in FY18) was dropped.
Opening the Gas Sector **Prior Action 3.5 in DPF3:** The Borrower, through its President, has assented to the Gas Market Activities Regulatory Law No. 196/2017, which opens the downstream gas sector to private investors, introduces third-party access to the network, and legally establishes the independent gas sector regulator.	This was critical because it committed the Government to the pursuit of transparency and competition in the gas sector.
Allowing single person companies **Prior Action 2.8 in DPF2:** The Borrower's Cabinet approved the draft Single-Person Company Law that includes limited liability protection and submitted it to the Borrower's Parliament for consideration.	This was important because it allowed small one person companies to benefit from limitations on liability, thereby increasing the incentive to register.
Simplifying industrial licensing **Prior Action 2.9 in DPF2:** The Borrower's Cabinet approved the draft Law on Streamlining Procedures of Granting Licenses for Industrial Establishments that includes measures for simplified licensing by notification for low-risk industrial activities and submitted it to the Borrower's Parliament for consideration.	This was important because it provided a legal basis for modifying licensing procedures and streamlining the process considerably for low risk cases.

B. Achievement of Objectives (Efficacy)

Rating: Satisfactory

52. The achievement of objectives under the three operations is rated Satisfactory based on the extent to which (a) specific results indicators were met under each pillar and (b) progress was made toward the three overarching objectives, Advancing Fiscal Consolidation, Ensuring Sustainable Energy Supply, and Enhancing the Business Environment.

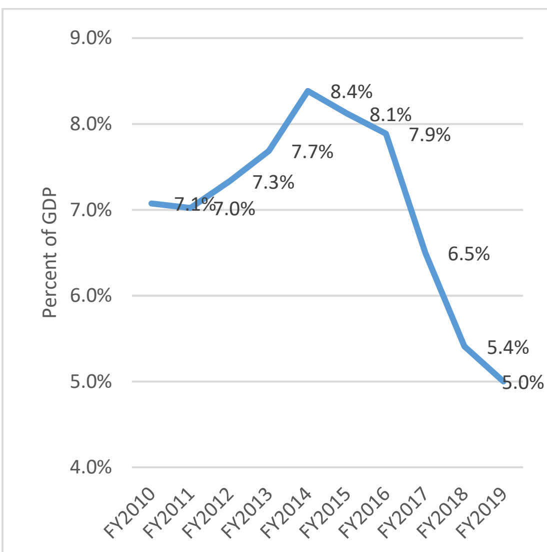
Pillar 1: Advancing Fiscal Consolidation

53. This pillar had three sub-objectives relating to increasing government revenues, moderating government wage bill growth, and strengthening debt and PFM. The results indicators chosen for each sub-objective were relevant in that they flowed directly from the measure in question. For example, implementing a VAT should be expected to raise the ratio of revenues from sales to GDP and moderating

government wage bill growth should be expected to reduce the ratio of wages and salaries to GDP. The indicators were measurable in that they related to standard macroeconomic data routinely available in most national accounts. For PFM, the relevant indicators were the carrying out of a specific number of internal audits and the publication of an updated medium-term debt strategy document, both easily tracked. However, some of the chosen indicators set a more difficult challenge than some might think necessary. For example, it could be argued that targets set for specific tax and expenditure actions should be framed in terms of total tax revenues and budget outlays, respectively, rather than in terms of GDP. This is because GDP is affected by many variables in addition to those directly influenced by the chosen measures.

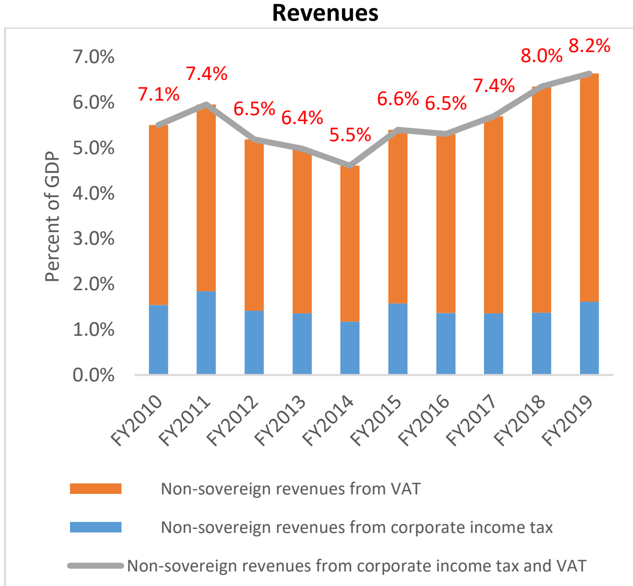
54. With regard to the fiscal consolidation pillar, the numerical targets for enhancing government revenues and containing the wage bill were both met (see figures 1 and 2). Indeed, in the latter case, the wage and salary bill dropped to 5.4 percent of nominal GDP by end FY18 as compared to a target of 7.4 percent. However, there was insufficient progress toward meeting the third sub-objective. The target of four internal audits was not met according to schedule by end FY18 but more than a year later. The delay was because of difficulties in finding a head for the internal audit unit with the necessary qualifications and experience (especially on a civil service pay scale) and hiring and training audit staff. Also, while an MTDMS was published (in April 2019, a year behind schedule) it was not an update of the previous strategy but a new strategy altogether covering the three-year period (FY19 to FY21). The delay was due in part to understaffing at the debt management unit of the MoF and in part to diversion of the available staff to other priorities. Among these were several Eurobond issuances that required the preparation of detailed bond prospectuses for which the debt management unit was responsible.

Figure 1. Evolution of Egypt's Wage Bill



Source: MoF.

Figure 2. Non-sovereign Corporate Income Tax and VAT Revenues

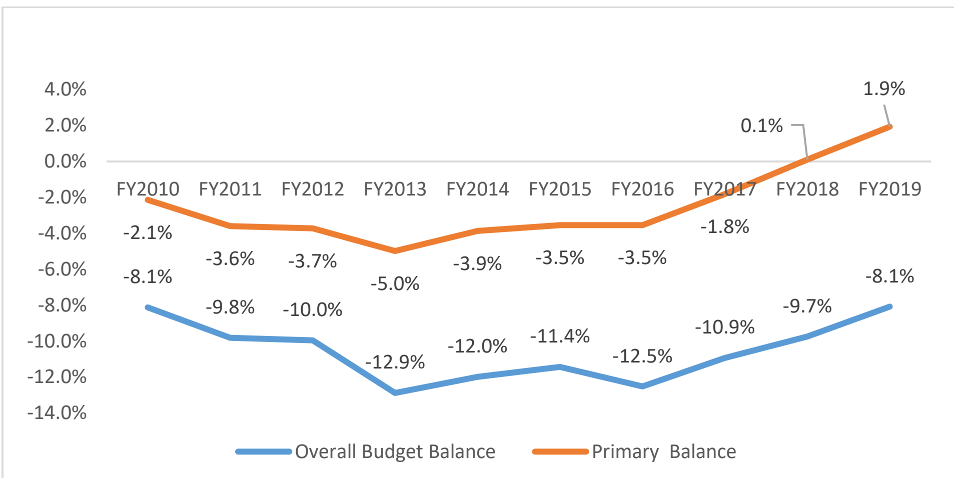


Source: World Bank staff calculations based on data from the MoF and Ministry of Planning and Economic Development.

55. **Summary assessment.** Above and beyond the achievement of specific results, there clearly was significant progress on fiscal consolidation. During the three-year period (FY16–FY18), the overall fiscal deficit declined from 12.5 percent of GDP to 9.7 percent (see table 3). This was due largely to a decline in government spending, from 30.2 percent of GDP to 28.0 percent,[10] assisted by the reduction of energy subsidies for both electricity and fuel, as well as the containment of the civil servants' wage bill. Tax revenues rose from 13.0 percent of GDP to 14.2 percent, although total revenues and grants declined a bit because of a decline in nontax revenues and grants, as exceptional financing from the Gulf countries phased out. The consolidation trend continued beyond FY18 with the fiscal deficit declining to 8.1 percent of GDP at end FY19, while the primary balance reached a surplus of 1.9 percent of GDP, marking an impressive improvement in the order of 5.5 percent of GDP over a three-year period (figure 3). At the same time the public debt ratio declined from 108 percent of GDP in FY17 to about 90 percent in FY19.[11]

56. A related aspect is that of overall economic growth and vulnerability. There has been clear improvement on this front in recent years. For example, real GDP growth improved from a rate of 2.9 percent in FY14 to 5.3 percent in FY18 (and further to 5.5 percent in FY19.) The economy also became less vulnerable as gross international reserves increased from US$17 billion at end FY14 to US$44.3 billion at end FY18. Prospects are clouded now by the onset of the global coronavirus pandemic, but the economy is in better shape to cope with that challenge now than it would have been barely five years ago.

Figure 3. Egypt's Fiscal Outturns



Source: MoF.

Pillar 2: Ensuring Sustainable Energy Supply

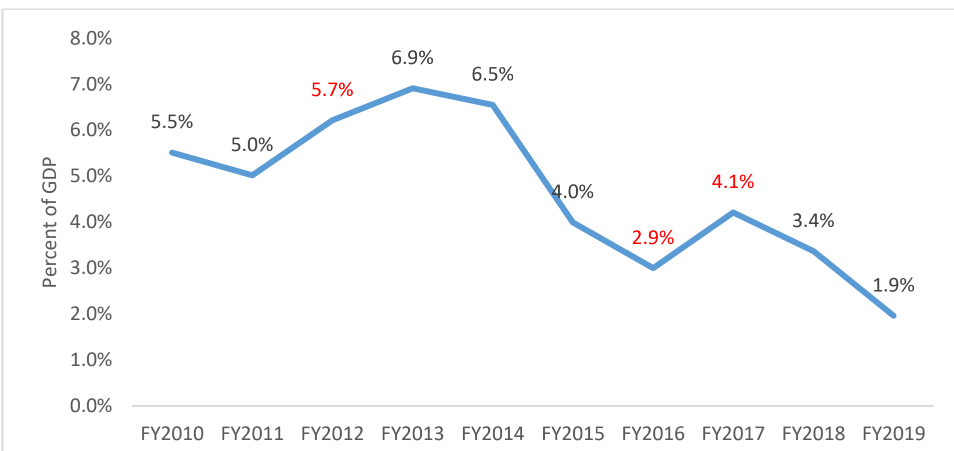
[10] Government expenditures here include 'net acquisition of financial assets.

[11] A similar assessment is provided by the IMF. In the fifth and final review of performance under the EFF, issued in July 2019, the IMF Board noted the following: "Egypt has successfully completed the three-year arrangement under the Extended Fund Facility and achieved its main objectives. The macroeconomic situation has improved markedly since 2016, supported by the authorities' strong ownership of their reform program and decisive upfront policy actions. Critical macroeconomic reforms have been successful in correcting large external and domestic imbalances, achieving macroeconomic stabilization and a recovery in growth and employment, and putting public debt on a clearly declining trajectory."

57. The three sub-objectives of this pillar focused on reforming energy subsidies, improving energy governance, and accelerating the low carbon energy transition. Indicators chosen were relevant to the measures undertaken. For example, if energy subsidies are being reduced, then it is logical to expect their ratio to decline as a proportion of GDP. Similarly, if measures are being taken to make the overall energy supply system work better through more public disclosure, then it is logical to require the disclosure of specific items, such as the methodology for the computation of electricity tariffs or the publication of gas market rules. Finally, with respect to promoting private investments in renewable energy, choosing an indicator that measures private capacity commitments over time is appropriate. Furthermore, each of these indicators is easily measured.

58. All numerical targets for results indicators were met. Energy subsidies declined as a percentage of GDP to 3.4 percent by end FY18 and stood at 1.9 percent at end FY19 (see figure 4). New private investments in renewable energy climbed to 1,500 MW by end FY18 (as measured by financial closure of projects.) The number of energy audits for large buildings rose to 234 by end FY18.[12] Furthermore, the indicator calling for a transformation of the energy deficit (of 5,540 MW) observed in FY15 to a surplus (of 1,000 MW) by FY18 was achieved ahead of schedule. The improvement in the net supply position occurred because demand growth fell due to rising consumer prices while supply rose due to the (a) purchase of liquified natural gas to run gas power plants that had been operating below capacity, (b) payment of arrears to international oil companies to induce them to resume or expand extracting and generating activities, (c) rapid operationalization of a major (14 GW) commercially financed power generation project, and (d) exploitation of a major new offshore gas field (Zohr).[13]

Figure 4. Evolution of Egypt's Energy Subsidies



Source: World Bank staff calculations based on data from the MoF and Ministry of Planning and Economic Development.

[12] Though not formally connected to the DPFs, it is worth noting that the Benban Solar Park project promises to add significant capacity from solar energy in FY20 and beyond. This project is currently the world's fourth largest solar power plant with a capacity of 1,650 MW and has attracted at least 25 independent power producers already.

[13] In 2015–16, 6.9 GW of generation capacity was added from the gas sector. In 2015, a project was signed with Siemens to supply three 4.8 GW combined power plants, one of the largest such projects to date in the world and one which was completed on time and fully commissioned in May 2018. The growing security of supply helped ensure power reliability over a period of rising charges for consumers.

59. **Summary assessment.** Overall, Egypt's energy sector is in a better shape today than it was six years ago. Energy subsidy reforms have been satisfactorily implemented. There has been a turnaround from a situation of energy deficit, arrears to foreign companies, possible default on bilateral and commercial agreements, routine load shedding, and public protests to one featuring energy surplus, removal of arrears, resumption of interest among international energy companies in doing business, and more reliable and cleaner domestic power supply. The total energy supply capacity rose from 35.2 GW in FY15 to 55.2 GW by end FY18 (and further to 58 GW by end FY19). Within this expansion, there was a shift toward cleaner sources, such as gas and renewables. Thus, the reforms aiming to accelerate low carbon energy transitions have been effective.

60. Egypt has also moved toward better and substantially improved energy sector governance to enable greater competition, transparency, and private sector participation. Initial steps have already been taken through the revision of laws and regulations and some institutional restructuring. But much remains to be done to ensure that the steps taken will have the desired impact over a longer period and will prove sustainable. Thus, while a larger private sector role is now possible through the revised regulations, such a role is not yet visible in practice. Indeed, the two indicators that would have reflected concrete change in power sector governance, a reduced market share for the EEHC and the unbundling of the EETC, were dropped midway. The number of private distributors has not increased yet. There is not much evidence of an increase in the number of companies having direct access to the grid nor of multiple suppliers negotiating directly with large consumers on terms and conditions.

Pillar 3: Enhancing the Business Environment

61. This pillar had three sub-objectives: improving the investment and facilitation regime, reforming industrial licensing, and strengthening the competition framework. The results indicators chosen were appropriate in the sense that they corresponded with objectives.

62. **Improving the Investment Regime and its Transparency, particularly for MSMEs.** The relevant results indicators measure whether more enterprises are attracted into the formal sector through easier registration procedures. The first of these indicators tracks the number of fully integrated GAFI Investor Services Center from a baseline of 0 in FY15 to 4 by the end of FY18. This is a pertinent indicator as it relates to the vehicle through which the registration service is provided and its decentralization across Egypt. The target may be considered reasonable because it requires extensive financial and human resources commitment from the Government to provide infrastructure, information technology requirements, buildings, and employees to operate these centers. The target was easily surpassed as the number of relevant centers numbered 8 in 2018 and 11 in 2019. The second indicator tracks business entry. This indicator was introduced in DPF2 and originally targeted an increase in the number of single-person company registrations from 0 in FY15 to 500 in FY18. The indicator was changed in DPF3 to cover all types of business registrations from a baseline average of 867 per month in FY15 to 1,430 in 2018 (an increase of 65 percent). This target was also easily met with an average of 1,756 monthly registrations in 2018 and 2,027 in 2019.

63. **Reforming Industrial Licensing.** The point of rationalizing the industrial licensing process was to reduce the time and resources it takes for new firms to get licensed. Accordingly, a target of 160 days was set for a firm to be able to comply with relevant requirements and obtain a decision, as compared to a baseline of 634 days in 2015. Another relevant target was for the authorities to adopt a risk-based

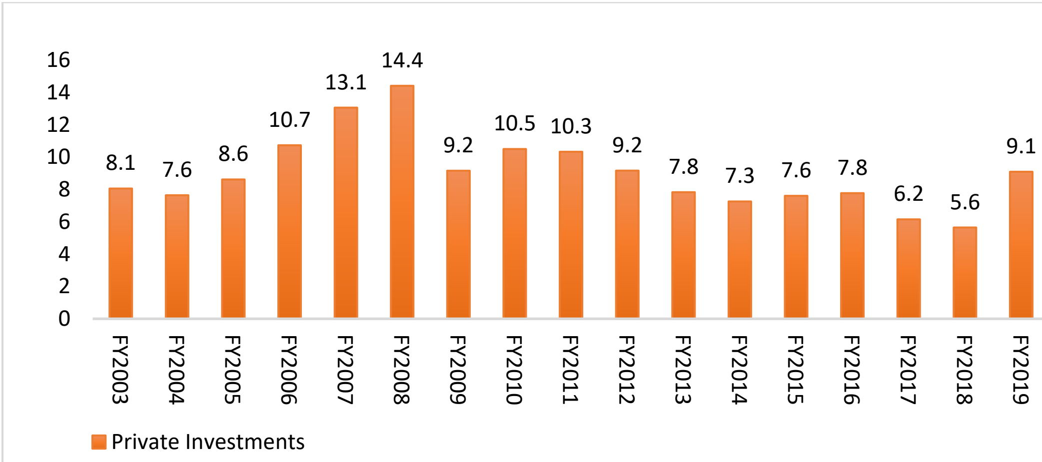
evaluation process and reduce the number of days to issue a license by notification (to low-risk applicants) to no more than seven days by the end of FY18. Both targets are reported by the authorities to have been met; it now takes only 55 days to comply with the requirements (reduced and streamlined) and only 5 days to issue licenses by notification.[14]

64. **Strengthening the Competition Framework.** The implementation of pro-competition reforms has contributed to a significant increase in the number of anticompetitive practices prevented or eliminated by the ECA in key sectors and markets. The target of 11 anticompetitive practices to be prevented during FY16–FY18 was exceeded by end FY18, with the relevant number standing at 17. Key pro-competition decisions over this period tackled cartels (or horizontal agreements) in sectors such as fertilizers, pharmaceuticals, health care, poultry, and insurance (both medical and engineering related). They also tackled abuses of dominance in the telecommunications, electricity, media, sports, and textile industries. The ECA has remained proactive since the end of the DPF series with some decisions, such as one involving a merger between two online ride-hailing services (Uber and Careem), having received recognition from the European Commission.

65. **Summary assessment.** The foregoing shows that targeted results were fully achieved in each of the three sub-objectives relating to the business environment. This was accompanied by two positive outcomes relating to overall impact. First, the rate of private investment rose to 9.1 percent of GDP in 2019, after many years of decline (see figure 5). Second, Egypt's ranking improved both in the Global Competitiveness Index (from 115 in 2016–17 to 93 in 2019) and in the World Bank's Ease of Doing Business index (from 126 in 2015 to 114 in 2019). On both specific and general grounds, therefore, it would appear that certain aspects of the private sector environment have improved in Egypt since the onset of the DPF operations. This is encouraging even if one acknowledges that the country has only recovered to rankings that it enjoyed before the onset of the political and economic turmoil of 2011–14, it continues to compare poorly with many middle-income comparators, some of the improvement may be due to factors other than those considered by the DPFs, and much remains to be done in the future. Survey feedback would be needed to get a more granular assessment of impact.

[14] While much progress has been made in the processing of licensing applications, the business of land allocation remains characterized by significant regulator discretion in choosing who to give land to and at what price. The EFF program of the IMF had called for a transparent and competitive bidding process for doing this, but this has not yet been adopted.

Figure 5. Private Investment (% of GDP)



Source: World Bank staff calculations based on data from MoF, Ministry of Planning and Economic Development

Table 3. Key Economic Indicators at Implementation Completion Review

Indicator	FY16	FY17	FY18	FY19
Real GDP growth rate (year-on-year)	4.3	4.2	5.3	5.6
Unemployment rate	12.5	12.0	9.9	8.0
Inflation rate (CPI period average)	10.2	23.3	21.6	13.9
Non-sovereign corporate income + VAT (percent GDP)[a]	6.5	7.4	8.0	8.2
Budget deficit (percent GDP)	12.5	10.9	9.7	8.1
Primary balance (percent GDP)	–3.5	–1.8	0.1	1.9
Wages and salaries (percent GDP)	7.9	6.5	5.4	5.0
Energy subsidies (percent GDP)	2.9	4.1	3.4	1.9
Net international reserves (US$, billions)	17.6	31.3	44.3	44.5
Gross public debt[b] (percent GDP)	102.8	108.0	97.3	90.2

Source: World Bank staff calculations based on data from MoF, Ministry of Planning and Economic Development, Central Bank of Egypt, and Central Agency for Public Mobilization and Statistics.
Note: CPI = Consumer Price Index.

a. Non-sovereign revenues from VAT includes general sales tax on goods, general sales tax on services, excises on domestic commodities (Table 1) and excises on imports (Table 1) and only excludes excises on petroleum products.
b. Gross public debt is defined as gross domestic budget sector debt plus external government debt.

c. Overall Outcome Rating and Justification

Rating: Satisfactory

66. The overall outcome rating is Satisfactory because of (a) a clear results chain linking the prior actions and triggers to the objectives and (b) the achievement of the results and PDOs. The overall outcome rating combines Satisfactory ratings for both relevance of prior actions and efficacy.

III. OTHER OUTCOMES AND IMPACTS

A. Poverty, Gender and Social Impacts

67. Three policy reforms were most relevant to the welfare outcomes experienced in FY16–FY18 over which the DPF series of operations was implemented. The first was the decision to reduce energy subsidies and adopt a cost recovery policy for energy products. The second was the decision to move from a sales tax to a VAT arrangement. The third was the decision to devalue the exchange rate to bring it in line with a market-determined level. All these reforms were considered necessary to take Egypt from a high fiscal deficit, high energy deficit, and low growth trajectory to one with more fiscal consolidation, greater energy supply, and higher income growth. Unless offsetting action was taken, these reforms were also expected to reduce household welfare (over a transition period) by increasing the prices paid by households for energy and other items both directly and indirectly. The first two reforms were connected to the DPF operations. The third was connected to the IMF operation, which ran during 2016–19.

68. Each of the DPF operations was accompanied by poverty and social impact analysis (PSIA) based on the data available at appraisal. The most relevant PSIA for the purposes of this ICR is the one conducted for the final operation based on the 2015 Household Income and Consumption Survey conducted by the National Statistics Office in Egypt.

69. The highlights of the PSIA exercise (see table 11 in DPF3, Program Document, November 2017) were as follows: (a) the welfare loss (direct plus indirect) from price changes for fuel and electricity under DPF3 was estimated to be 5.6 percent of consumption for the average household, (b) the welfare loss was regressively distributed in that it was higher (7.3 percent) for the poorest quintile and lower (4.4 percent) for the richest quintile; and (c) the welfare losses for DPF3 supported actions were higher than those for DPF2 (average loss of 4.2 percent) and for those for DPF1 (0.27 percent). This was mostly because of the impact of inflation brought about by devaluation undertaken in late 2016 and thereafter.

70. The PSIA exercise also showed that mitigation actions taken by the GoE since July 2017, in the form of increases in the food subsidy and cash transfer payments play a significant role in offsetting the negative impact of DPF reforms on the poorest households (see table 13 in DPF3, Program Document, November 2017). However, these mitigation measures were found to be not enough to offset the estimated effects of the purchasing power lost due to inflation in FY16–FY18.

71. Preliminary analysis based on the recently released 2018 Household Income and Consumption Survey shows that the poverty headcount rose from 27.8 percent in FY15 to 32.5 percent in FY18. Given that the FY16–FY18 period saw very high inflation averaging above 21 percent, this outcome is not surprising and is consistent with the PSIA done for DPF3.[15] Regarding prospects for the future, declining inflation since FY18 has likely benefited the poor but the slowdown of economic growth due to the ongoing global coronavirus pandemic will have a negative impact on their income and job prospects.

72. Two lessons may be derived from the above. First, a good PSIA allows for appropriate mitigation actions to be designed and taken. The PSIA of the various DPF operations provided estimates of the

[15] Unemployment and participation data show mixed trends. The formal unemployment rate declined from a high of 13.2 percent in FY13 to 9.9 percent in FY18. However, the labor force participation rate declined over the same period from 48.5 percent to 43.3 percent. This suggests that the unemployment rate declined in part because discouraged workers left the job market and so do not figure in the calculation of unemployment.

nominal increases needed, for example, cash transfers to poor households to offset the impact of the operations themselves. These were incorporated in part within the Government's strategy in FY17 and thereafter. Second, it is difficult to offset the impact of a large adjustment action like a significant devaluation in the short run. The welfare effects of such actions and their impact on the poor can be expected to be offset over a longer period, in part by higher economic growth and job creation, and in part by targeted social protection measures.

B. Environmental, Forests, and Natural Resource Aspects

73. Environmental considerations were reviewed in each DPF operation. In each case, it was concluded that the policies supported by the DPFs were, on balance, likely to have positive impacts on the quality of the environment in Egypt. In particular, the policies that reduce fossil fuel consumption (because of lower subsidies for electricity and higher taxes on fuel) and that increase energy supply from renewables are likely to reduce air pollution in the country.

74. The reforms in the energy sector were closely aligned with Egypt's contribution to the Paris Agreement on climate change. By addressing the security of supply of natural gas and promoting clean energy and energy efficiency, the DPF series has supported all four priority areas of Egypt's Nationally Determined Contribution to global efforts for mitigating greenhouse gas emissions through (a) more efficient use of energy, especially by end users; (b) increased use of renewable energy; (c) use of advanced locally appropriate and more efficient conventional energy technologies; and (d) reformation of energy subsidies.

75. The DPF operations improve the ability of Egypt to meet its global commitment to carry out beneficial climate-related actions. In particular, several of the prior actions and targeted results under Pillar 2 (relating to ensuring sustainable energy supply) map directly to the Multi-lateral Development Bank (MDB) list of eligible mitigation activities. For example, the reduction of energy subsidies maps to 'efficient pricing of fuels and electricity'. Steps to create a transmission system operator independent from the electricity holding company should ensure that procurement will be from the cheapest source (increasingly gas and renewables) with the lowest system losses. This maps to 'improvement in utility scale energy efficiency through efficient energy use and loss reduction'. The promotion of private investments in renewable energy connects with the priority given in the mitigation list to 'renewable energy policies'. On the other hand, policies that promote higher investment and growth may entail environmental and climate risks. However, this is thought to be manageable under the current environmental regulatory framework and institutional capacity.

C. Institutional Change/Strengthening

76. The DPF series entailed a number of institutional changes, ranging from the creation of new units to the strengthening of existing ones. For example, in the energy sector, it was envisaged that a new regulator would be created for gas transmission and distribution operations (Gas Regulatory Authority [GasReg]), while the role of an existing regulatory unit for electricity operations, the Egyptian Electric Utility and Consumer Protection Regulatory Authority (Egypt ERA), would be modified. Similarly, in the domain of private sector development, measures were to be adopted to streamline different investment services and licensing offered by GAFI and IDA, respectively, which required strengthening their capacities

accordingly, and strengthening the ability of the ECA to act against cartelization and anticompetitive practices. These objectives were to be facilitated by TA to the targeted units using one or more of the funds made available to the World Bank by the United Kingdom government, among other donors.[16]

77. With regard to the energy sector, a new Gas Market Activities Regulatory Law was ratified on August 1, 2017, and the executive regulations followed on February 14, 2018. This provided a path for greater private sector participation, allowed for third-party access to gas infrastructure, and created a new regulator (GasReg) to oversee market participants and protect consumer interests. TA was provided to establish GasReg and build the capacity of the staff to carry out their responsibilities including licensing, monitoring market performance, setting the tariff calculation methodologies for the use of gas networks and facilities, and drafting the road map of gas market liberalization. Meetings with senior staff of GasReg confirmed the usefulness of the TA. They noted that because there had been no regulatory agency in the gas area before, there were few experienced professionals available to staff the new agency. The technical needs of the new agency could only be met through special training efforts (including exposure to the practices and experiences of foreign gas regulators through on-site visits) and could not be obtained from local educational programs. An assessment done in July 2019 concluded that the capacity of GasReg staff to perform key regulatory tasks stood at 75 percent.[17]

78. On debt management, the World Bank engaged early on in technical discussions with the Debt Management Unit of the MoF resulting in a multiyear TA funded by Swiss State Secretariat for Economic Affairs (SECO). The TA has focused on several critical issues in debt management including building a strong institution to manage public debt, developing the debt strategy, coordinating and consolidating public debt management, and diversifying and widening the investor base and instruments. TA was also provided on managing contingent liabilities through introducing analytical tools for identifying sources and magnitude of fiscal risks to the Government. The dialogue on the latter contributed to the prior action on establishing the Sovereign Guarantees Committee.

79. A TA project titled Equal Access and Simplified Environment for Investment (EASE) was started in October 2015 just before the approval of the first DPF operation, which laid the foundation for streamlining and simplifying several business processes in GAFI and IDA. The DPF series created momentum for other initiatives. For example, a Competition and Competitiveness Programmatic AAA (P154650) supported the development of a strategy toolkit for industrial zones planning in Egypt; a draft law on industrial parks; and assisted IDA in rebranding itself as an investor-friendly institution. Under the Egypt Competitiveness Program (601070), International Finance Corporation (IFC) supported the Ministry of Investment in an investment competitiveness benchmarking that identifies key strengths and weaknesses of selected sectors, determines Egypt’s competitive position therein, and identifies reforms needed to improve Egypt’s attractiveness for foreign investment in these sectors.

80. Finally, with regard to the objective of strengthening anti-cartel efforts, the World Bank provided TA (through the TA Project [P154650]) to the ECA to help prepare secondary legislation and soft mechanisms to enforce the competition law. The project was built around the pillars of competition enforcement and competition advocacy. Activities under the competition enforcement pillar focused on

[16] These examples illustrate the TA provided in support of the DPF objectives but do not exhaust the full list of relevant activities.

[17] Progress Update Note dated July 2019 for TA project (Advisory Services and Analytics [ASA] P163556) titled Egypt: Strengthening the capacity of the Gas Regulator.

increasing the ECA's ability to tackle anticompetitive behavior. This was achieved through new procedures/guidelines to gather physical and digital evidence of infringements, including leniency applications, and increased predictability for market players regarding both the granting of exemptions to efficiency-enhancing agreements and methodologies to calculate fines, settlements, and civil damages. Activities under the competition advocacy pillar focused on developing a comprehensive methodology for the ECA to identify regulatory restrictions to competition and promote pro-competition reforms in key sectors. These efforts included the joint work of the World Bank Group and the Organisation for Economic Co-operation and Development (OECD) to build Product Market Regulation indicators for Egypt, making it the first country in the region to be added to the OECD Product Market Regulation database. Finally, to ensure effective implementation, these activities were paired with peer-to-peer capacity-building events where experts from the United States of America, the United Kingdom, Australia, Mexico, and Italy shared their national experiences. Interviews with relevant ECA staff suggest that the TA helped build their knowledge, capabilities, and confidence.

81. The overall picture that emerges is one of promising institutional strengthening in some regulatory areas. This was confirmed both by discussions with staff at various TA-receiving institutions as well as by the evidence of progress in meeting performance objectives by the institutions.

D. Other Unintended Outcomes and Impacts

82. When the GoE floated the exchange rate in November 2016, the value of the Egyptian pound depreciated by more than was expected based on the signals given by the parallel market prior to the action. Together with the new VAT and increases in energy prices, this generated a larger-than-expected inflation that reduced the spending power of a wide segment of the population.

IV. BANK PERFORMANCE

Rating: Satisfactory

Preparation

83. The program was well designed and implemented. At the same time, the GoE deserves credit in laying the groundwork even before the World Bank engaged. The World Bank's preparation was strong in each of three relevant areas: analytic underpinnings, risk identification and mitigation, and coordination with development partners.

84. **Analytic underpinnings.** Strong analytic work and good policy dialogue preceded the DPFs. In each of the areas of concern, proposed policy reforms were built on sound analytics and a solid basis of data and evidence. Evidence of this is provided in table 4, which represents a sample of the analytic work drawn upon by the operation. The team preparing DPF1 also had the benefit of a recently completed Strategic Country Diagnostic and an almost-ready CPF for 2015–19. This meant that development priorities and strategies for Egypt were carefully assessed by the World Bank staff in recent months. The proposed DPF series became a vehicle for carrying forward some of the ideas expressed in these guiding documents.

Table 4. Sample List of Analytic Work Conducted before DPF Operations

Reform Category	Analytical Work
Reforming tax system	Promoting Poverty Reduction and Shared Prosperity: A Systematic Country Diagnostic, World Bank 2015. 'Taxes in Practice' Finance and Development, IMF, March 2015
Restraining growth in Central Government's wage bill	Alba, Pedro et al., Fiscal and Public Debt Sustainability in Egypt, MENA Working Paper Series, No. 38, World Bank, 2004
Medium-Term Debt Management Strategy	Medium-term debt strategy (GoE in cooperation with World Bank Treasury Department), 2014
Electricity tariff reform	Five-year Medium-term Action Plan for the Integrated Sustainable Energy Strategy to 2035, European Union, 2015 Egypt Energy Subsidies: Just-in-time Advisory Services to the Ministry of Petroleum and Mineral Resources, World Bank, 2015 Reforming Energy Subsidies in Egypt, AfDB, 2012
Competition in the energy sector	Five-year Medium-term Action Plan for the Integrated Sustainable Energy Strategy to 2035, European Union, 2015
Gas sector regulation and reforms	Egypt's Gas Supply Deficit, Wood McKenzie, 2014 Egypt Energy Subsidies: Just-in-time Advisory Services to the Ministry of Petroleum and Mineral Resources, World Bank, 2015
Promoting investment in renewable energy	Assessment of Private Sector Participation in the Power Sector of Egypt, World Bank, 2014 Five-year Medium-term Action Plan for the Integrated Sustainable Energy Strategy to 2035, European Union, 2015
Improving investment facilitation services	Ongoing Technical Assistance on Investment Policy, World Bank Egypt Investment Climate Assessments and FIAS Reports
Reforming industrial licensing regime	Strategic Assessment and Recommendations: Industrial Licensing in Egypt, International Finance Corporation, 2008. Egypt Investment Climate Assessments and FIAS Reports
Strengthening anti-cartel policy	Ongoing Technical Assistance on Competition, World Bank From Privilege to Competition: Unblocking Private-led Growth in MENA, World Bank, 2014

Source: Selected from table 4 of Program Document of DPF1, World Bank, November 2015.
Note: AfDB = African Development Bank; FIAS = Facility for Investment Climate Advisory Services; MENA = Middle East and North Africa.

85. **Risk identification and mitigation.** The DPF operations were vulnerable to several political, macroeconomic, and institutional capacity risks. These affected all three operations although the nature of individual risks changed somewhat over time.

86. The first operation was negotiated barely a year after the current Government had taken charge following a period (2011–13) of great political instability in the country. The resumption of such instability, whether from local causes or as a spillover from developments in a still-unsettled region, was a risk. The World Bank team's view was that this risk was best mitigated by including measures for citizen information, consultation, and grievance redress in key reform areas. Given the nature of the risk and the instruments available to the World Bank, this was a reasonable approach.

87. By the time of the third operation in November 2017, a new risk had appeared in the form of stress from the high inflation unleashed by the devaluation of the Egyptian pound since late 2016. The

World Bank team provided a good impact analysis of relevant issues in the Program Document. The general sense was that further enhancing social protection measures would help offset the adverse impact of high inflation. Some such measures were being supported through complementary World Bank operations to fund and strengthen the cash transfer schemes known as Takaful and Karama.

88. Macroeconomic risks remained high throughout the operations. Though not all the reforms under way were directly linked to the DPF operations, the nature and scale of the Government's overall reform package was such as to constantly risk stagflation and public unrest. In the short run, massive depreciation and energy price increases raise inflation at the same time as they render some businesses uncompetitive, increase underemployment, and reduce aggregate demand. The mitigation strategy comprised several elements: first, as already noted earlier, the need for more generous social protection was emphasized; second, the energy subsidy reform was designed in such a way to minimize price increases for the poorest segments of the public; third, measures were included to ensure that the public was always well informed about the scope and rationale for the energy subsidy reforms, including the benefits from improved service delivery;[18] and fourth, measures were included to make it easier for small- and medium firms to be formed and function with less red tape and other costs of business. Given the overriding importance of carrying out the exchange rate and energy sector reforms in the first place, the mitigation strategy was appropriate.

89. Risks also resided in the capacity of ministries, authorities, and other implementing agencies to properly carry out their roles in the reforms. The relevant Program Documents noted that these risks were particularly high because of the scale of the reforms, the short duration over which they had to be implemented, and the constant need for cross-agency coordination. The mitigation strategy consisted of an extensive TA effort in areas such as establishing tariff calculation methodologies for electricity and gas; writing new laws to facilitate gas regulation and private sector participation in the gas sector; revising laws to make industrial licensing more efficient and facilitate new firm startup; and strengthening the ability to identify and take actions against anticompetitive practices. The TA programs built on the ongoing efforts and relied on international development partners like the United Kingdom. The Ministry of International Cooperation helped significantly in ensuring cross-agency coordination.

90. **Coordination with development partners.** The operations were marked by good communication and coordination with development partners. In particular, the three-year EFF negotiated with the IMF a year after the first DPF operation covered several complementary areas of policy action and provided positive spillover support to the DPF operations. For example, energy sector reforms included electricity price adjustments (covered by the DPF) and fuel price adjustments (covered by the IMF). The EFF also included some reforms related to industrial licensing and land allocation that complemented the prior actions required by the World Bank to enhance the business environment. In general, the World Bank supported structural reforms, in particular on the energy sector and private sector development agenda, that were not in the areas of IMF expertise. The AfDB carried out three budget support operations in parallel (worth US$1.5 billion) and there was regular coordination (including joint missions) between the World Bank and AfDB teams on relevant matters. Bilateral donors (such as the United Kingdom, France, and Germany) were also pulled into the coordination and financial and technical support effort.

[18] Consultations with civil society representatives during the ICR mission confirmed the importance of the strategy to improve energy supply (reduce power outages) and communicate objectives and benefits of energy sector reforms to the public at large.

91. In addition to the analytical underpinnings, the World Bank multi-sectoral team conducted a total of 13 preparation missions comprising top-notch experts from nine Global Practices and supporting units (such as Treasury and Disbursement), which also explain the cost difference between preparation and implementation (see annex 2).

Implementation

92. The World Bank had a good sense of the Government's commitment from the outset. This was based on a good working relationship with key government ministers and a shared understanding of the severity of the economic challenges facing the country in 2015 and the measures needed to tackle them. Commitment had been shown by the fact that Government had initiated several difficult reforms on its own a year before the first DPF. As an additional test, the World Bank imposed a loan effectiveness condition for the first operation in FY15, the adoption of a VAT. The World Bank also had a realistic appreciation of the political and bureaucratic impediments to sustained implementation of reform in the country. The Program Document for DPF1 noted that "Egypt has a history of policies and laws that have not been implemented well" and subsequent documents continued to note implementation risks. The approach taken by the World Bank was to offer TA to manage these risks at the technical level and maintain a high-level dialogue to manage political hurdles. The formation of an interministerial committee at the time of DPF1 that was headed by the Prime Minister and where the World Bank laid out the entire DPF program ensured ownership and continued cross sectoral collaboration. In addition, structuring the series of operations one year apart meant that a World Bank team was in sustained contact with counterparts on indicative triggers and prior actions for a period of three years. To some extent, this timetable meant that there was constant supervision. Having several members of the preparation and supervision teams based in Cairo enabled constant follow up as well. Implementation Status and Results Reports were filed for the first two operations. Course modifications were inevitable and are noted in section II A. These related to triggers and prior actions and did not substantially affect the overall PDOs.

93. The dialogue with the Government for the DPF was seamless through the three-year process (Board approval in December 2015 for the first operation led to effectiveness in September 2016, followed by Board approval of the second operation in December 2016 and effectiveness in March 2017 with the Project Concept Note for the third DPF of the series in September 2017 leading to Board approval again in December 2017). The nine different World Bank sectors were working together mostly based out of Cairo with task team leaders also based in Cairo.

V. RISK TO SUSTAINABILITY OF DEVELOPMENT OUTCOMES

94. The program appraisal reports for each of the successive DPF operations acknowledged High or Substantial risk ratings for several elements. These risks were managed well during the course of the operations and significant improvements have occurred in some areas. Nevertheless, the development outcomes of the operations remain subject to performance risks in the longer run as discussed in the following paragraphs. In particular, risks have emerged in several areas on account of the local and global spread of COVID-19.

95. **The macroeconomy.** Considerable fiscal consolidation has been achieved, but the deficit level is still comparatively high at over 8.1 percent of GDP and it coexists with a challenging public debt ratio of around 90.3 2 percent of GDP, which entails a large interest burden of 10.0 percent of GDP, and which

eats up 72.4 percent of tax revenues (all end FY19 data). These factors render the economy vulnerable to changes in domestic sentiments and global financial conditions. The onset of the global coronavirus pandemic has introduced a new risk to macroeconomic stability and may affect revenue mobilization.

96. **Despite the strong and bold fiscal consolidation, the overall deficit and debt ratios to GDP remain relatively elevated.** Further, fiscal consolidation may be temporarily interrupted by the COVID-19 crisis. Fiscal consolidation has so far been achieved largely through the reduction of electricity and fuel subsidies, rationalization of the tax system, and moderation of public sector wage growth. There is more scope to mobilize domestic revenues through further tax policy and administration reforms such as broadening VAT coverage (by reducing the number of exempt sectors), increasing the coverage of the personal income tax,[19] rationalizing tax incentives, and strengthening tax administration. This is even more important now as the fiscal consolidation path is expected to be temporarily disrupted by the prospects of slow growth because of the global pandemic which may cut revenue collections while increasing the demand for government spending. Moreover, Egypt has allocated an emergency COVID-19 response package (worth around 1.7 percent of GDP) and has also introduced tax forbearance measures in the form of extensions in tax return filing and installments for payments. While these measures are needed to partially mitigate the negative impact on the economy and alleviate the immediate financial pressures on individuals and businesses, they are expected to further widen the budget deficit. Actual data for the first 10 months of FY20 (July 2019–April 2020) indicate that the overall budget deficit has increased to 5.9 percent, up from 5.6 percent of GDP during the same period a year earlier. The fiscal slippage mainly stemmed from the decline in the revenues-to-GDP ratio, which decreased to 11.8 percent during the first 10 months of FY20, down from 13.0 percent during the same period a year earlier. Despite a sharp decline in recent years, the public debt ratio remains high and risks have recently increased because of the worsening domestic and external environment. The authorities are cognizant of debt risks and are executing a strategy to lengthen the maturity structure of domestic public debt. This would need to be underpinned by updated strategies and strengthened fiscal transparency to safeguard debt sustainability. The World Bank continues to provide TA on debt management and sovereign guarantees, which should help mitigate risks pertaining to debt management.

97. **Energy sector.** On the energy side, there are opportunities and risks. The successful reform of energy subsidies and the comfortable supply of energy at present provides room for further institutional reform to improve competition and transparency. Egypt also has the option of using long-term hedging contracts to lock in the relatively low oil prices that currently exist. Higher and more reliable energy supply helps contain public frustration because electricity outages are rarer, and businesses in particular can plan production and expansion on a firmer basis. Though, the large surplus between installed capacity and peak demand is indicative of over-investment in the generation sector that potentially poses risks to the future financial sustainability of the electricity sector. It further indicates an underinvestment in transmission and distribution networks, which will contribute to poor quality of service and reliability, despite the massive surplus of generation. In other words, too much investment in generation and not enough in networks could result in higher levels of customer interruptions because the networks cannot reliably deliver high quality energy to customers. Despite the COVID-19 pandemic impacts, the authorities remain committed to fully implement the reforms and eliminate electricity subsidies. In July 2020, the implementation of the new electricity bill was announced with electricity price increases. Though, owing

[19] Law no.26 of 2020 has amended certain provisions of the Egyptian Income Tax Law no. 91 of 2005 where Personal Income Tax (PIT) rates have been updated to be more progressive and equal, reaching 25% for the highest income category.

to COVID-19 impacts, the GoE has decided to extend the plan to fully remove electricity subsidies until 2024-25, instead of 2022. Notwithstanding, there are risks of exchange rate changes that could lead to increased cost for the consumers.

98. **Private sector development.** While the business environment has improved in recent years, the considerable challenges that remain create a risk of stagnation if reforms are not further widened and deepened. Egypt's efforts in recent years have concentrated on regulatory reforms which is massive endeavor and requires consistent efforts from the Government for the "mosaic" to be completed. Nevertheless, there has not been enough emphasis on upgrading firm capabilities. Consequently, some of the key drivers of firm capability, such as innovation, are extremely low in Egyptian firms compared to peers. All of this calls for continued efforts to identify and remove constraints to private sector development. Figure 5 illustrates the vulnerable nature of private sector development in Egypt. It shows that private investment rose impressively during 2004–08; this was due in part to policy reforms undertaken in that period and a positive global environment. The international financial crisis of 2008–09 and the Arab spring turmoil of 2010–11 broke this trend, and private investment fell significantly after 2010 (as a share of GDP). The DPF reforms and broader economic recovery have since restored confidence and private investment. Whether this continues will depend in part on whether the country stays on the course of reform and on the economic impact of the ongoing coronavirus pandemic.

99. **Poverty and social trends.** The substantial exchange rate depreciation that occurred after November 2016 generated spikes in inflation that led to a decrease in real per capita consumption and an increase in the national poverty rate. This is a genuine area of concern as prolonged welfare deterioration remains a substantial risk. The Government has made efforts to offset the impact of rising prices on poor households through an increase in the generosity and coverage of social protection programs such as food subsidies, cash transfers, and labor-intensive public works. A little ahead of the first DPF operation, the World Bank designed a US$400 million investment project to strengthen social safety nets. This project helped the Ministry of Social Solidarity expand and roll out the Takaful and Karama cash transfer programs. Initially, the bulk of the financing available for these cash transfers came from the World Bank loan. Within a few years, however, as the fiscal space available to the Government expanded, the bulk of the funding came directly from government revenues. The ongoing global pandemic provides another reason for such efforts to be strengthened as a slowing economy will affect low income and other vulnerable groups the most.

100. **Institutional challenges.** While progress has been made on the legislative side, implementation challenges, arising from capacity, coordination, and resource considerations, continue to pose a risk to sustained performance. This point may be illustrated by reference to two institutions, in particular, that have been strengthened through the DPF operations, the Egypt ERA and the ECA. The former has been given a clearer mandate through a legal commitment to full-cost pricing and a transparent methodology to calculate energy prices. The latter has also been given a clearer mandate to enforce an anti-cartel policy and greater institutional independence. Both institutions have met program expectations so far. Egypt ERA has adjusted energy prices in each of the last three years using full-cost recovery principles. The ECA has taken action against increasingly more anticompetitive practices in the corporate sector. Nevertheless, both must remain wary of certain risks to institutional performance in the future. For example, Egypt ERA must be careful not to sanction the pass-through of technical losses to the final consumer, including losses arising from poor management and maintenance by the main electricity

generators. The ECA must be mindful of legal challenges to the scope and content of their anticompetition actions. Both institutions will need to continue to strengthen the technical and legal skills of their staff to meet such challenges. Both must also be on guard against regulatory capture as there is a possibility that the actors they are supposed to regulate may, over time, acquire great influence over their decisions through political or other means.

101. Finally, leadership continues to be an important determinant of sustainability. Gains achieved under one leadership cohort could be reversed by another. IDA was under a transitional leadership for more than a year which has generated much uncertainty about the direction and sustainability of IDA-related reforms. It is early to assess the impact of the new leadership, but it is important to note that the newly appointed chairman is appointed for the term of one year only or until IDA's board is fully composed, which may not address the uncertainty caused during the transitional period.

VI. LESSONS AND NEXT PHASE

A. Lessons Learned

102. **Government ownership of program.** The most important reason for the success of the DPF series was the ownership of the reform program by the Government.[20] Indeed, the Government initiated reforms relating to energy subsidies and the public sector wage bill (among other actions) even before the World Bank program started. It did not flinch from carrying out strong but necessary actions such as the introduction of the VAT and the devaluation in 2016. The devaluation generated unexpectedly high inflation during the next two years, but the Government continued to stay the course on reform.

103. Strong ownership was also demonstrated in the Government's approach to coordination. The Ministry of Investment and International Cooperation organized an interministerial group through which it coordinated information and actions with the World Bank as well as among relevant ministries that served to resolve many blockages throughout the operation. The complexity and duration of the DPF operations meant that several implementing agencies were involved for a sustained period. Each reform pillar contained several prior actions and each action often involved a different agency, authority, or ministry. The fact that prior actions were completed rapidly enough for three successive operations to be mounted one year apart reflects a high degree of program ownership and coordination success among implementing agencies.

104. An additional aspect of the ownership and coordination efforts of the Government concerns communications. The Government implemented a communications strategy to explain its reform program, and the associated support from international donors, to the Egyptian public. This involved multiple consultations with nongovernmental organizations and citizen groups as well as legislative and regulatory measures to promote transparency with regard to important aspects of the reforms.[21] The World Bank's programmatic support to the GoE in implementing energy reforms helped the Ministry of

[20] Discussions with other donors, such as the AfDB, indicate that this view of the Government's role is widely shared.
[21] For the energy subsidy reform, the communications effort was supported by TA under an Energy Sector Management Assistance Program (ESMAP) grant.

Petroleum and Mineral Resources develop a communication strategy.[22] The World Bank also advised on raising awareness on financial and opportunity costs of energy subsidies and helped to trigger evidence-based public debate about how the rich were benefiting from energy subsidies. The TA also helped the client build coalitions and alliances with potential reform champions and build a multimedia awareness-raising campaign through funding content production (radio message and infographics).

105. **Coordination with IMF and other partners.** Coordinated action with the IMF contributed to the implementation success and impact of the operations. In particular, reforms aimed at increasing energy supply would not have succeeded without a significant devaluation. Foreign investors would not have been attracted in the presence of severe exchange rate misalignment, for example. Furthermore, the fiscal space needed for social protection enhancement would not have been available without a simultaneous reduction in electricity subsidies (World Bank condition) and fuel subsidies (Fund condition) or an improvement in revenue performance through the VAT and, of course, the provision of more than US$12 billion in financing (over three years) by the IMF. Similarly, the IMF program took up some business climate enhancement actions (such as reform of land development allocation principles and laws pertaining to competition) that served to complement the World Bank's work in this area. Coordination with the IMF was conducted through regular meetings among staff and consultations on actions needed for successive phases of the programs of both parties. There was coordination as well with other development partners, such as the AfDB, which extended US$1.5 billion in funds over FY15–FY18 in support of the Government's reform program, paralleling the World Bank's support for the most part but also including complementary items in some cases. The World Bank and the AfDB conducted many preparation and supervision missions jointly. The United Kingdom stepped in with a guarantee for US$150 million to support the third and final DPF, while the French and German authorities extended significant financial assistance over the relevant period as a part of a coordinated donor effort.

106. **Attention to social protection.** Both the Government and the World Bank showed high sensitivity to social outcomes. The Government adopted appropriate social protection measures to offset some of the consequences of rising prices on the poor before and during the DPFs. For example, before the DPF (and IMF) operations started, the Government had already put in place a labor-intensive works program to provide work opportunities to the rural poor and a cash transfer program to provide supplemental incomes to the poor and disabled. Both programs were done with the support of the World Bank. During the DPFs, the Government also increased social spending in general and spending on cash transfers and food subsidies in particular. Indeed, it used the fiscal space provided by the reduction of energy subsidies to spend more on social programs. In the event, the welfare of the poor deteriorated during 2015–18, but this would have been worse had the compensatory social protection measures not been taken.

107. **Prior analytic work.** The World Bank staff were confident in proposing prior actions and triggers because there was background analysis, built up over the past 10 to 15 years, that empirically supported a link between relevant actions and their stated objectives. The existence of such analytic work also helped persuade the Government of the need for reform as well as of specific policy measures to offset the impact of the reform on critical groups such as the poor. Of particular relevance in this regard were

[22] The strategy was based on stakeholder mapping; a survey of 2,000+ households; focus group discussions with small transport operators, small agricultural producers, the 'youth', and, a variety of small-and medium-size enterprises (including energy-intensive SMEs); structured interviews with policy makers, business leaders, and industry representatives to assess the attitude to and appetite for energy subsidy reform and survey of international experience with communication in support of fuel subsidy reform, focusing on Malaysia, Indonesia, and the Islamic Republic of Iran.

studies carried out by the World Bank staff since 2005 on the distributional incidence of different subsidies (fuel, electricity, and food, in particular); formal and informal work done on the energy sector; and insights emerging from the Doing Business and Enterprise Support data projects of the World Bank and IFC. Of course, the analytic work could have been even more powerful had there been more timely data, especially with reference to household incomes and expenditures.

108. **Internal coordination within the World Bank Group.** The DPF series featured early and sustained collaboration among the IBRD, IFC, and MIGA in energy and private sector development issues. This was manifested in coordinated efforts in analytic work, TA, and complementary financing. Relevant examples of analytic work and TA are shown in table 4. Regarding complementary financing, during the period of the DPFs, the IFC arranged (in 2017) a US$653 million debt package for the construction of 13 solar power plants, and MIGA provided US$210 million in political risk insurance to private lenders and investors involved in the solar park. Altogether, IFC and other lenders will mobilize private investments of 1,600 MW involving a total of US$2 billion of private investment in the feed-in-tariff program. Because of these joint and coordinated efforts, the World Bank Group's support enhanced confidence among investors, which led to private sector investments of a total of US$2 billion in Egypt's renewable energy sector.

109. Another example of internal coordination relates to the speed and agility with which various units of the IBRD worked to deliver three DPF operations in three years. This reflected a process whereby nine Global Practices came together with other supporting units (such as Treasury and Disbursements) to cut project processing time significantly. The ability of staff and management to stick to a three-month timeline with a Board approval in the first week of December every year (while each operation passed through the highest corporate scrutiny in form of Operations Committee reviews), deepened credibility with the client.

110. Productive internal coordination also took place through a staffing model centered on field-based task team leaders. Day-to-day engagement and intensive implementation support applied to all phases of the project cycle. Not only did this facilitate the exchange of information within the World Bank Group team, it helped build a strong client relationship and implementation momentum. The ability of field-based staff to produce just-in-time notes helped decision-makers stay on track and was a form of continuous TA.

B. Next Phase

111. Credit is due to the GoE for having carried out a bold and substantive reform program over the last five years. What has been achieved with respect to electricity and fuel pricing reform, the introduction of the VAT, and the realignment of the exchange rate is remarkable. These reforms have enhanced Egypt's macroeconomic resilience in the face of such a severe shock brought about by the COVID-19 crisis (which started intensifying since March 2020). Thanks to the recently implemented fiscal consolidation program, Egypt has generated a primary budget surplus in FY2018 (for the first time in more than 15 years). And while the primary budget balance is expected to deteriorate somewhat due to the COVID-19 shock, it is still expected to remain in surplus. Egypt has undertaken institutional measures in order to ensure the sustainability of reform measures. For instance, Egypt remains committed to streamlining energy subsidies through announcing a plan to gradually raise electricity tariffs over the medium-term. In fact, an electricity tariff increase was implemented in July 2020, despite the challenges posed by the COVID-19 crisis. The fuel price-indexation mechanism is also in place and can be implemented to contain the fuel

subsidies. Further, useful steps have also been taken to enhance the business environment and to lay the ground for more competition and private sector participation in the energy sector. Against this background, the next phase of the World Bank support could usefully emphasize consolidation of the gains achieved so far with respect to private sector development and the energy sector.

112. **Private sector development**. Apart from the areas covered by the DPF series, there are still areas to focus on to improve the private sector environment. To this end, the World Bank has already conducted an additional DPF, titled Private Sector Development for Inclusive Growth (P168630), with consolidation in mind. This operation (approved in late 2018) supported additional reforms in two pillars of the earlier operations, namely, fiscal management and private sector development. For fiscal management, the new operation supported measures to improve tax collections through mandatory electronic filing,[23] further reduction of energy subsidies, an update of the medium-term debt strategy, and introduction of a formula-based capital allocation system for governorates and districts. For private sector development, the new operation supported strengthening of corporate governance and minority shareholder protection; further reduction of the number of steps needed to establish a new company; more investor facilitation services in underserved areas; more scope for the participation of SMEs in public procurement; improved property registration process; and streamlined regulations to promote ride sharing, which has become a growing area of self-employment among urban youth. In addition to these two pillars, the operation also supported reforms aimed at financial inclusion and access to finance. Looking ahead, the World Bank Group is finalizing a Country Private Sector Diagnostic that should highlight other areas for consolidation and deeper reform.

113. Building on the above, IFC's Egypt Private Sector Development Program (603343) addresses, among others, trading across borders, paying taxes, and construction permits. Other initiatives are under way to improve the legal framework for women in business and, thereby, unleashing women's potential in improving business productivity, improving the regulatory environment for the insolvency framework, and improving commercial court's performance.

114. **Energy sector development.** As noted in the ICR, the energy sector in Egypt has benefited from a series of policy reforms aimed at increasing supply, reducing subsidies, enhancing transparency, and promoting private sector participation and competition. While much has been achieved, much remains to be done. In particular, further steps are needed ensure the financial sustainability of energy sector corporates, improve sector governance, and promote market contestability. The power sector needs to (a) improve the quality of services to customers through reducing system costs and eliminating inefficiencies and promoting private sector participation in distribution and retail; (b) create an effective well-regulated transmission system operator/market operator to enable private investment by providing nondiscriminatory third-party access to the grid and the electricity market; and (c) provide robust regulatory framework to enforce and monitor implementation of reforms. Similarly, the gas sector has to advocate liberalizing the gas market by approving a proper market opening plan that sets the principles and requirements of the sector's governance, financial sustainability of state-owned enterprises (Egyptian Natural Gas Holding Company and its subsidiaries), and the regulatory framework.

115. **Social protection.** Some ideas for future priorities emerged in consultations held by the ICR mission with government counterparts and with civil society. From the Government side, there was much

[23] Egypt has introduced mandatory electronic filing for VAT since 2019

interest in continuing with TA support in each of the three reform areas of the completed DPF series. From civil society, there was strong interest in further strengthening of social protection programs, employment-focused programs, and policy reforms to reduce the volatility to which Egypt is now exposed because of its exchange rate management and energy pricing reforms. With regard to social protection, it is worth noting that the World Bank has recently provided substantial additional financing (US$ 500 million) to its ongoing investment project related to the Takaful and Karama social protection programs..

ANNEX 1. RESULTS FRAMEWORK

A. RESULTS INDICATORS

Pillar: Advancing Fiscal Consolidation

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Increased non-sovereign corporate income tax and sales/VAT on goods and services as a percentage of GDP from 5.4% in FY2014/15 to about 6.7% in FY2017/18	Percentage	5.40 17-Dec-2015	6.70 30-Jun-2018	6.60 30-Jun-2019

Comments (achievements against targets):

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Reduction of the ratio of the Central Government's wage and salary bill to nominal GDP, from 8.2% in FY2014/15 to 7.4% of GDP by FY2017/18.	Percentage	8.20 17-Dec-2015	7.40 30-Jun-2018	5.00 30-Jun-2019

Comments (achievements against targets):

Overachieved

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Completion of at least four audits on sectors and entities affiliated with the Ministry of Finance by FY2017/18	Text	No 17-Dec-2015	Yes 30-Jun-2018	No 30-Jun-2019

Comments (achievements against targets):
The target of four internal audits was not met per schedule by end FY18 but met by February 2020. Difficulties faced by the Ministry of Finance in hiring a head for the internal audit unit caused the delay.

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Publication of an updated Medium-term Debt Management Strategy by FY2017/18	Text	No 17-Dec-2015	Yes 30-Jun-2018	Yes 30-Jun-2019

Comments (achievements against targets):
However, the indicator was achieved later than expected due to capacity constraints within the Ministry of Finance and other competing tasks. A satisfactory Medium-term Debt Management Strategy was published in 2019.

Pillar: Ensuring Sustainable Energy Supply

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Reduction of energy subsidies as a percentage of GDP from 6.6% in FY2013/14 to 3.2% in FY2017/18.	Percentage	6.60 17-Dec-2015	3.20 30-Jun-2018	2.00 30-Jun-2018

Comments (achievements against targets):
Overachieved

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Notification and operationalization of supply code transmission tariff by FY2017/18.	Text	No 30-Jun-2015	Yes 30-Jun-2018	Yes 30-Jun-2019

Comments (achievements against targets):
Was achieved by end of FY18.

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Difference between peak electricity demand and then available peak capacity to reduce from deficit of 5,540 MW in FY2014/15 to a surplus of 1,000	Text	-5,540 MW 30-Jun-2015	1,000 MW surplus 30-Jun-2018	24.6 GW 30-Jun-2019

MW by FY2017/18.				

Comments (achievements against targets):
The indicator was achieved by end FY18. 24.6 GW is the difference between **available** peak capacity (56 GW) and the peak electricity demand (31.4 GW). The data is based on Egyptian Energy Holding Company's 2018/19 Annual Report. This surplus was a result of huge investments in building new plants to ensure security of supply in the long term, in addition to the significant decline in demand caused by the increase in electricity prices, particularly the residential that represent around 45 percent of the total demand. However, it is expected that this difference will gradually decrease as industrial and commercial demand pick up.

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Public disclosure of tariff methodology for computation of electricity tariffs.	Text	No 30-Jun-2015	Yes 30-Jun-2018	Yes 30-Jun-2019

Comments (achievements against targets):
Was achieved by end of FY18.

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Publication of a separate gas transmission tariff, transmission code, market rules, and approval procedures by FY2018/19.	Text	No 17-Dec-2015	Yes 30-Jun-2019	Yes 30-Jun-2019

Comments (achievements against targets):

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Launching of dedicated web portal with all gas sector rules and regulations by FY2018/19.	Text	No 07-Nov-2017	Yes 30-Jun-2019	Yes 30-Jun-2019

Comments (achievements against targets):

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Financial closure of private sector-owned renewable energy projects from 0 MW (October 2015) to 1,500 MW (end of FY2017/18).	Megawatt	0.00 17-Dec-2015	1500.00 30-Jun-2018	1500.00 30-Jun-2019

Comments (achievements against targets):

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Increase in the number of energy audits performed for large consumer and government buildings from 134 in FY2014/15 to 234 in FY2018/19.	Number	134.00 17-Dec-2015	234.00 30-Jun-2019	234.00 30-Jun-2019

Comments (achievements against targets):

Pillar: Enhancing the Business Environment

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Increase in business entry, as measured by the average number of company registrations at GAFI Investor Service Centers per month	Number	867.00 17-Dec-2015	1430.00 30-Jun-2018	2027.00 30-Jun-2019

Comments (achievements against targets):
Overachieved

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Increase in the number of GAFI Investor Services Centers offering automated and integrated registration services for companies under both the Investment and Companies Laws	Number	0.00 17-Dec-2015	4.00 30-Jun-2018	11.00 30-Jun-2019

Comments (achievements against targets):
from 0 in FY2014/15 to 4 by the end of FY2017/18. Overachieved.

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Average number of days to issue an industrial license by notification of no more than 7 days by the end of FY2017/18.	Text	N/A 17-Dec-2015	5 30-Jun-2018	5 30-Jun-2019

Comments (achievements against targets):
No baseline was determined because there was no distinction in prior legislation between high and low risk activities. There was only data for high risk industries.

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Reduction in the average number of days to comply with all industrial licensing requirements from 634 days in FY2014/15 to 160 days by the end of FY2017/18.	Number	634.00 17-Dec-2015	160.00 30-Jun-2018	55.00 30-Jun-2019

Comments (achievements against targets):
Overachieved.

Indicator Name	Unit of Measure	Baseline	Target	Actual Achieved at Completion
Increase in the number of anti-competitive practices prevented/eliminated from a baseline of 9 (between FY2012/13 and FY2014/15) to a target of 11 decided during FY16-18 period.	Number	9.00 17-Dec-2015	11.00 30-Jun-2018	17.00 30-Jun-2019

Comments (achievements against targets):
Overachieved.

ANNEX 2. BANK LENDING AND IMPLEMENTATION SUPPORT/SUPERVISION PROCESSES

A. TASK TEAM MEMBERS

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Ashish Khanna (Task Team Leader), Ahmed Ashraf Aly Kouchouk (Task Team Leader), Luis R. Prada Villalobos (Procurement Specialist), Wael Ahmed Elshabrawy (Financial Management Specialist), Tara Vishwanath (Team Member), Auguste Tano Kouame (Team Member), Vivien Foster (Team Member), Gustavo C. Demarco (Team Member), Najy Benhassine (Team Member), Maria Vagliasindi (Team Member), Africa Eshogba Olojoba (Social Specialist), Sherif Bahig Hamdy (Team Member), Mohab Awad Mokhtar Hallouda (Team Member), Bryanne Tait (Team Member), Sara Bahaa Hamed Alnashar (Team Member), Joern Thorsten Huenteler (Team Member), Afrah Alawi Al-Ahmadi (Team Member), Amal Nabil Faltas Bastorous (Team Member), Andreja Marusic (Team Member), Auguste Tano Kouame (Team Member), Angeline Mani (Team Member), Balakrishna Menon Parameswaran (Team Member), Fatma Ibrahim Mohamed Elashma (Team Member), Fatmaelzahraa Ibrahim Khalil Ali (Team Member), Gabriel Lara Ibarra (Team Member), Gerard Joseph Mataban Jumamil (Team Member), Graciela Miralles Murciego (Team Member), Hebatallah Mohamed Mady Abdelz Aboelleil (Team Member), Iman Mohamed Naguib Sadek (Team Member), Ivan Anton Nimac (Team Member), Laila Ashraf AbdelKader Ahmed (Team Member), Lire Ersado (Team Member), Maiada Mahmoud Abdel Fattah (Team Member), Manuel Antonio Vargas Madrigal (Team Member), Martha Martinez Licetti (Team Member), Mark Njore (Team Member), Mohamed Yahia Ahmed Said Abd (Team Member), Nistha Sinha (Team Member), Ola Ahmed Nour (Team Member), Peter Griffin (Team Member), Sahar Sajjad Hussain (Team Member), Santiago Herrera Aguilera (Team Member), Tara Vishwanath (Team Member), Thomas Blatt Laursen (Team Member)

P161228

Ashish Khanna (Task Team Leader), Ibrahim Saeed Chowdhury (Task Team Leader), Luis R. Prada Villalobos (Procurement Specialist), Wael Ahmed Elshabrawy (Financial Management Specialist), Vivien Foster (Team Member), Nabila Assaf (Team Member), Nistha Sinha (Team Member), Mark M. Njore (Team Member), Elisabeth Maier (Team Member), Sherif Bahig Hamdy (Team Member), Sara Bahaa Hamed Alnashar (Team Member), Hebatallah Mohamed Mady Abdelz Aboelleil (Team Member), Joern Thorsten Huenteler (Team Member), Aissatou Diallo (Team Member), Amal Nabil Faltas Bastorous (Team Member), Andreja Marusic (Team Member), Edouard Al-Dahdah (Team Member), Eman Fouad Wahby v, Fatma Ibrahim Mohamed Elashma (Team Member), Gabriel Lara Ibarra (Team Member), Georges Tony Abou Rjaily (Team Member), Graciela Miralles Murciego (Team Member), Gustavo C. Demarco (Team Member), Hoda Youssef (Team Member), Iman Mohamed Naguib Sadek (Team Member), Maha Abdelhamid Mohamid Tawfik (Team Member), Manuel Antonio Vargas Madrigal (Team Member), Martha Martinez Licetti (Team Member), Mohamed Yahia Ahmed Said Abd (Team Member), Nabila Assaf (Team Member), Nahla Ahmed Mohamed Salaheldi (Team Member), Nightingale Rukuba-Ngaiza (Team Member), Peter Griffin (Team Member), Renaud Seligmann (Team Member), Tara Vishwanath (Team Member)

P164079

Ibrahim Saeed Chowdhury (Task Team Leader), Ashish Khanna (Task Team Leader), Luis R. Prada Villalobos (Procurement Specialist), Wael Ahmed Elshabrawy (Financial Management Specialist), Vivien Foster (Team Member), Nabila Assaf (Team Member), Nistha Sinha (Team Member), Mark M. Njore (Team Member), Elisabeth Maier (Team Member), Sherif Bahig Hamdy (Team Member), Sara Bahaa Hamed Alnashar (Team Member), Hebatallah Mohamed Mady Abdelz Aboelleil (Team Member), Joern Thorsten Huenteler (Team Member), Marwa Mostafa Mohamed Mohamed Khalil (Team Member), Amal Nabil Faltas Bastorous (Team Member), Andreja Marusic (Team Member), Andrianirina Michel Eric Ranjeva (Team Member), Benu Bidani (Team Member), Fatma Ibrahim Mohamed Elashma (Team Member), Gabriel Lara Ibarra (Team Member), Georges Tony Abou Rjaily (Team Member), Georgette Mounir Ibrahim (Team Member), Graciela Miralles Murciego (Team Member), Gustavo C. Demarco (Team Member), Hanzada Tohamy Ahmed Aboudoh (Team Member), Hoda Youssef (Team Member), Iman Mohamed Naguib Sadek (Team Member), Jean Denis Pesme (Team Member), Laila Ashraf AbdelKader Ahmed (Team Member), Laurent Gonnet (Team Member), Maha Abdelhamid Mohamid Tawfik (Team Member), Mark Alfy Nagiub Sorial (Team Member), Martha Martinez Licetti (Team Member), Marwa Fattouh Mahgoub Hamdy (Team Member), Mohamed Yahia Ahmed Said Abd (Team Member), Nabila Assaf (Team Member), Nahla Ahmed Mohamed Salaheldin (Team Member), Neha Dhoundiyal Gupta (Team Member), Nermin Ahmed Nour (Team Member), Nightingale Rukuba-Ngaiza (Team Member), Renaud Seligmann (Team Member), Sherif Bahig Hamdy (Team Member), Tu Chi Nguyen (Team Member), Walid Labadi (Team Member)

B. STAFF TIME AND COST

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Stage of Project Cycle	Staff Time and Cost	
	No. of staff weeks	US$ (including travel and consultant costs)
Preparation		
FY16	74.165	354,897.61
FY17	15.544	100,895.35
Total	**89.71**	**455,792.96**
Supervision/ICR		
FY16	0	0.00
FY17	1.625	5,571.61

Total	**1.63**	**5,571.61**

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Stage of Project Cycle	Staff Time and Cost	
	No. of staff weeks	US$ (including travel and consultant costs)
Preparation		
FY16	74.165	354,897.61
FY17	80.217	473,335.08
FY18	.475	12,340.20
Total	**154.86**	**840,572.89**
Supervision/ICR		
FY16	0	0.00
FY17	1.625	5,571.61
Total	**1.63**	**5,571.61**

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Stage of Project Cycle	Staff Time and Cost	
	No. of staff weeks	US$ (including travel and consultant costs)
Preparation		
FY16	74.165	354,897.61
FY17	80.217	473,335.08
FY18	53.139	393,799.16
FY19	0	312.71
Total	**207.52**	**1,222,344.56**
Supervision/ICR		
FY16	0	0.00
FY17	1.625	5,571.61
FY18	0	643.80
FY19	6.250	25,416.69
FY20	15.925	140,609.81
Total	**23.80**	**172,241.91**

The significant difference between staff time and cost between preparation and supervision is mainly because of the following reasons: (a) supervision and preparation of subsequent operations each year were jointly managed because each subsequent operation had Board approval exactly 12 months from previous ones (DPF1 supervision costs were merged with DPF2 preparation cost, that is,. DPF2 charge code was used)—this was the first DPF series of three years in the World Bank's history[24] and (b) missions were organized with big multisectoral teams comprising top-notch experts (one team member spent several months in Cairo as part of the DPF preparation).

[24] Preparation missions were conducted on the following dates: October 14, 2015; November 10, 2015; April 16, 2016; May 28, 2016; August 1, 2016; September 22, 2016; October 30, 2016; November 24, 2016; February 17, 2017; March 10, 2017; November 6, 2017; August 19, 2017; and October 30, 2017.

ANNEX 3. BORROWER, CO-FINANCIERS, AND OTHER DEVELOPMENT PARTNERS'/STAKEHOLDERS' COMMENTS

The Ministry of International Cooperation has included consolidated comments directly in the ICR document which were received on July 29, 2020.

ANNEX 4. SECTORS AND THEMES

SECTORS AND THEMES

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Sectors

Major Sector/Sector	(%)	Mitigation Co-benefits (%)	Adaptation Co-benefits (%)
Public Administration	**30**	**0.00**	**0.00**
Central Government (Central Agencies)	30	0	0
Energy and Extractives	**42**	**20.00**	**0.00**
Renewable Energy Biomass	3	100	0
Oil and Gas	10	0	0
Renewable Energy Geothermal	3	100	0
Renewable Energy Solar	3	100	0
Renewable Energy Wind	3	100	0
Other Energy and Extractives	20	40	0
Industry, Trade and Services	**28**	**0.00**	**0.00**
Other Industry, Trade and Services	28	0	0

Themes

Major Theme/ Theme (Level 2)/ Theme (Level 3)	(%)
Economic Policy	**15**
Fiscal Policy	15
Fiscal sustainability	10
Tax policy	5
Private Sector Development	**40**
Business Enabling Environment	40
Regulation and Competition Policy	40
Public Sector Management	**45**

Public Finance Management	20
Public Expenditure Management	5
Domestic Revenue Administration	5
Debt Management	10
Public Administration	25
Transparency, Accountability and Good Governance	25
Environment and Natural Resource Management	**20**
Climate change	20
Mitigation	20

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Sectors

Major Sector/Sector	(%)	Mitigation Co-benefits (%)	Adaptation Co-benefits (%)
Public Administration	**30**	**0.00**	**0.00**
Central Government (Central Agencies)	30	0	0
Energy and Extractives	**40**	**30.10**	**0.00**
Renewable Energy Solar	5	100	0
Renewable Energy Wind	5	100	0
Other Energy and Extractives	30	67	0
Industry, Trade and Services	**30**	**0.00**	**0.00**
Other Industry, Trade and Services	30	0	0

Themes

Major Theme/ Theme (Level 2)/ Theme (Level 3)	(%)
Economic Policy	**10**
Fiscal Policy	10
Tax policy	10

Private Sector Development	**40**
Business Enabling Environment	40
Investment and Business Climate	40
Public Sector Management	**10**
Public Finance Management	10
Debt Management	10
Public Administration	10
Administrative and Civil Service Reform	10
Environment and Natural Resource Management	**40**
Climate change	30
Mitigation	30
Energy	40
Energy Efficiency	20
Energy Policies & Reform	30

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Sectors

Major Sector/Sector	(%)	Mitigation Co-benefits (%)	Adaptation Co-benefits (%)
Public Administration	**25**	**4.25**	**0.00**
Central Government (Central Agencies)	25	17	0
Energy and Extractives	**51**	**38.00**	**0.00**
Oil and Gas	13	0	0
Renewable Energy Solar	13	100	0
Other Energy and Extractives	25	100	0
Industry, Trade and Services	**24**	**0.00**	**0.00**
Other Industry, Trade and Services	24	0	0

Themes

Major Theme/ Theme (Level 2)/ Theme (Level 3)	(%)
Private Sector Development	**25**
Business Enabling Environment	25
Investment and Business Climate	13
Regulation and Competition Policy	13
Enterprise Development	13
MSME Development	13
Public Sector Management	**25**
Public Finance Management	25
Public Expenditure Management	25
Public Administration	13
Administrative and Civil Service Reform	13
Human Development and Gender	**13**
Gender	13
Environment and Natural Resource Management	**50**
Climate change	42
Mitigation	42
Energy	50
Energy Efficiency	25
Energy Policies & Reform	38
Access to Energy	13

ANNEX 5. STAKEHOLDER CONSULTATION MEETING

Views Emerging from Stakeholder Consultation on March 4, 2020

Suddenness and scale of post 2014 reforms. The reforms may have been too rapid and on too large a scale for the good of the country. Inflation soared and people suffered. Consumption is now considerably depressed. Is this a good thing?

Lack of protest during period of removal of energy subsidies and high inflation. While energy prices were rising, the reliability of service increased as power outages, common during 2011–14, declined. It is possible that the rising quality of service delivery helped contain public protest over rising prices. Measures taken to enhance social protection payments were also helpful.

Wisdom of sharp devaluation. Was it wise to carry out such a sharp devaluation? Given Egyptian conditions, this has a very limited effect on production and exports. There may have been an increase in foreign investment as a result, but this has mostly come in the extractive sector and not in labor-intensive manufacturing exports. Furthermore, the sharp devaluation had a big effect on inflation and led to falling consumption, leading to household-level distress.

Impact of removal of energy subsidies on production. Was it wise to reduce energy subsidies? Egypt is not globally competitive to begin with. With higher costs for energy, it will become even less competitive. It is likely that many SMEs have shut down because of the higher costs and lower demand brought about by devaluation.

Price reforms versus non-price reforms in the energy sector. Price reforms in energy have not yet been accompanied by non-price reforms such as better management of line losses in electricity transmission and distribution and reduction of administrative personnel and costs in state-owned companies.

Business environment reforms. Streamlining and facilitation of services delivery in GAFI was felt by businesses; further efforts remain desired to improve the overall business environment. The attendees were not in a position to comment on reforms by IDA.

Gas sector reforms. The passage of a new gas law is a great achievement. The real impact, however, will come from implementation to get more competition into the sector. Managing the transition from a single buyer to multiple buyers will be a challenge.

Priorities for the future. (a) Set up a managed floating system, rather than one that exposes economy to large movements in the exchange rate; (b) intervene to manage the capital account and reduce hot money flows through a tax on foreign portfolio investment earnings and withdrawals; (c) help the agricultural sector, it is still the most important sector from an economic and social perspective; (d) increase the coverage and generosity of the cash transfer-based social protection system; (e) moderate sales taxes and improve the collection from direct taxes, such as income taxes; and (f) pay more attention to dismantling domestic cartels in different sectors.

Government response to comments (made by Ahmed Reda from the Ministry of International Cooperation): The scale of the reform program was necessitated by the scale of the problem facing the country in 2013–14: high fiscal deficit, energy deficit, and dangerously low international reserves. The extent of the inflation spike was unforeseen. However, the country is now in a much better position because of the reforms though some areas of concern have emerged. Regarding social impact, there are plans to help SMEs through a new US$300 million fund and to help poor households through additional funds for the Takaful and Karama programs. Additional funds have also been allocated to the education sector. Hopefully, these will improve education quality in the long run. Regarding energy supply, the cost of renewable energy is coming down over time and it makes sense for Egypt to add more capacity here.

ANNEX 6. PRIOR ACTIONS, INDICATIVE TRIGGERS, AND RESULTS INDICATORS

Pillar 1: Advancing Fiscal Consolidation

Prior Actions for DPF1	Indicative Triggers (from DPF1) and Prior Actions for DPF2	Indicative Triggers (from DPF2) and Prior Actions for DPF3	Results Indicators (original (DPF1) and revised)
Objective 1.1: Enhancing Government Revenues			
Prior Action 1: The decree promulgating Law No. 96 of 2015 has been issued which amends the Income Tax Law by unifying the top income tax rate for all economic actors operating in the Borrower's territory. The amendments unify the top income tax rate at twenty-two- and one-half percent (22.5%) for all economic actors operating in the Borrower's territory, including those operating in special economic zones formerly subject to a lower rate of ten percent (10%). Law no.26 of 2020 has amended certain provisions of the Egyptian Income Tax Law no. 91 of 2005 where Personal Income Tax (PIT) rates have been updated to be more progressive, reaching 25% for the highest income	**Trigger 1.1:** The Government has done an initial assessment of the implementation of the proposed Value Added Tax law which introduces the following features of the value added tax regime: (i) a single unified tax rate for all goods and services; (ii) a clearly stated table detailing excise taxes; (iii) a well-identified list of exempted goods and services; (iv) a full-fledged tax credit system for direct and indirect inputs; and (v) a tax refund system for expenses related to the purchase of equipment and machinery. The assessment includes the initial revenue effect of the VAT as well as the adequacy of the institutional capacity to implement the VAT, along with recommendations for institutional capacity strengthening. **Prior Action 2.1:** The Borrower enacted Law No. 79 of 2016 Finalization of Taxation Disputes and published said law in its Official Gazette, which has been renewed through Law No. 16 of 2020 that was issued in March 2020.	**Trigger 3.1:** The Ministry of Finance of the Borrower issues a decree that introduces a harmonized and simplified tax regime for micro and small businesses based on turnover.[25]	**Increased proceeds from non-sovereign corporate income tax and sales tax on goods and services as percent of GDP from 5.4% in FY15 to 6.7% in FY18.** The FY18 target was changed to 'about 6.7 percent' in DPF2 and DPF3. *Baseline: 5.4 percent (FY15)* *Target: 6.7 percent (FY18)* ***Current status: 6.6 percent (FY19)***

[25] Decree was not issued as a law was issued. The Small and Medium Enterprises (SMEs) Law No. 152 of 2020 was issued in July 2020.

Prior Actions for DPF1	Indicative Triggers (from DPF1) and Prior Actions for DPF2	Indicative Triggers (from DPF2) and Prior Actions for DPF3	Results Indicators (original (DPF1) and revised)
category.			
Objective 1.2 Containing the Wage Bill			
Prior Action 2: The decree promulgating Law No. 32 of 2015, endorsing the national budget for FY16, has been issued which includes administrative instructions to all government budgetary entities to contain the wage bill. The administrative instructions are to (i) cap bonuses and rewards of their respective employees in FY16 at the level of FY15; and (ii) delink the variable portion of government employees' salaries from the basic salary component.	**Trigger 2.1:** The Ministry of Finance publishes a time-bound plan with procedures and measures that facilitate and enforce the automation of wages and salaries payments for all government employees to: (i) enable the Government to have a reliable database to guide a more informed decision-making process, (ii) enhance financial inclusion by requiring all employees to have bank accounts, and (iii) reduce cost of managing the Government's payroll system **Prior Action 2.2:** (i) The Borrower enacted Law No. 8 of 2016 *Assessing the Public Budget of the State*, endorsing the national budget for FY17, which contains administrative instructions to all government budgetary entities to contain the wage bill, including provision for delinking bonuses and rewards of their respective employees' salaries from the basic salary component and published said law in its Official Gazette. (ii) The Ministry of Finance of the Borrower issued a wage bill report entitled Government Wages, Key Reforms dated November 2016 notifying that at least forty-five percent (45%) of the wage bill is automated.	**Trigger 3.2:** (i)The Cabinet approves a medium-term plan/rule that sets a cap on the number of new recruits in the public sector relative to the total number of retirees. (ii) The Ministry of Finance of the Borrower issues a wage bill report notifying that at least 75 percent of the wage bill is automated and develops an action plan for the completion of the automation process. **Prior Action 3.1:** The Borrower, through its Ministry of Finance, has issued a wage bill report entitled Note on Key Reforms and Development of Wages dated August 2017 notifying that at least seventy percent (70%) of the wage bill is automated and that an action plan for the completion of the automation process has been developed.	**Reduction of the ratio of the Central Government's wage and salary bill to nominal GDP.** *Baseline: 8.2 percent (FY15)* *Target: 7.4 percent (FY18)* ***Current status: 5.0 percent (FY19)***
Objective 1.3 Strengthening Debt Management and Aspects of Public Financial Management			
Prior Action 1.3: The Ministerial Decree No. 515/2015 has been issued which	**Trigger 3.1:** The Ministry of Finance establishes and operationalizes an internal audit function within the ministry, with	**Trigger 3.3:** The Ministry of Finance(i) establishes the internal audit	**Completion of at least four audits on sectors and entities affiliated with the Ministry of Finance by**

Prior Actions for DPF1	Indicative Triggers (from DPF1) and Prior Actions for DPF2	Indicative Triggers (from DPF2) and Prior Actions for DPF3	Results Indicators (original (DPF1) and revised)
mandates the publication of the Medium-term Debt Management Strategy.	adequate budget and staff and a mandate aligned with international standards. **Prior Action 2.3:** The Ministry of Finance of the Borrower issued Decree No. 247/2016 to establish and operationalize a Public Finance Management Unit with the following mandates: (a) setting up an internal audit function; (b) monitoring fiscal risks of Economic Authorities and SOEs, including their contingent liabilities, and (c) enhancing government accounting and financial control.	dedicated unit with adequate staffing, staffing and procedures aligned with international standards and (ii) sets up a comprehensive administrative system including a dedicated unit, manuals, and standard reports, which identifies, monitors, and facilitates the management of contingent liabilities and sovereign guaranteed liabilities. **Prior Action 3.2:** The Borrower, through its Ministry of Finance, has (i) issued Ministerial Decree No. 290/2017, to establish an internal audit unit with dedicated staffing, budget and procedures aligned with international guidance related to independence, audit planning, risk assessment, and periodic reporting; (ii) issued Ministerial Decree No. 201/2017, which establishes a Sovereign Committee entrusted to develop policies for issuing sovereign guarantees, review the applications for such guarantees, and evaluate periodically	**FY17–FY18**; *Baseline: No (FY15)* *Target: Yes (FY18)* *Current: Yes (FY20)* **Publication of an updated Medium-Term Debt Management Strategy by FY17–FY18** *Baseline: No (FY15)* *Target: Yes (FY18)* *Current: Yes (FY19)* *(However, the indicator was achieved later than expected due to capacity constraints within the Ministry of Finance and other competing tasks. An expanded Medium-term Debt Management Strategy was published in 2019 that was deemed satisfactory by the World Bank.)*

Prior Actions for DPF1	Indicative Triggers (from DPF1) and Prior Actions for DPF2	Indicative Triggers (from DPF2) and Prior Actions for DPF3	Results Indicators (original (DPF1) and revised)
		the financial stability of the recipients of the guarantees; and (iii) begun publishing a section in FY17/18 budget statement on economic risks to implementation of the national budget.	

Pillar 2: Ensuring Sustainable Energy Supply

Prior Actions for DPF1	Indicative Triggers (from DPF1) and Prior Actions for DPF2	Indicative Triggers (from DPF2) and Prior Actions for DPF3	Results Indicators (original (DPF1) and revised)
Objective 2.1 Reforming Energy Subsidies			
Prior Action 4: The Prime Ministerial Decree No. 2259 of 2015 has been issued for implementing the second annual electricity tariff adjustment as part of a five-year tariff reform plan outlined in the Prime Ministerial Decree No. 1257 of 2014 to reform the gas and electricity subsidy.	**Trigger 4.1:** (i) The Egyptian Electric Utility and Consumer Protection Regulatory Agency issues an order for implementing the third annual electricity tariff adjustment as part of a five-year tariff increase plan outlined in the Prime Minister's Decree No. 1257/2014 to reform the gas and electricity subsidy and (ii) The Cabinet formulates and implements the policy for financing variations in actual fuel costs, compared to budgeted estimates. **Prior Action 2.4:** Substantially accomplished the objectives of Trigger 4.1 above.	**Trigger 3.4:** (i)The Borrower's Cabinet implements the annual energy price adjustment for FY17–FY18 consistent with passing through unanticipated changes in the cost of energy to achieve subsidy ceilings set in the Medium-term Fiscal Framework 2016–19, pursuant to the Supreme Energy Council Policy Decision of 2016 and (ii) The Supreme Energy Council adopts a policy for automatic periodic indexation of energy prices. **Prior Action 3.3:** Substantially accomplished the objectives of Trigger 3.4 above.	**(a) (DPF1) Reduction of energy subsidies as a percentage of GDP from 6.6% in FY14 to 3.3% in FY18**. The target was changed to 1.5% in DPF2 and then again to 3.2% in DPF3. *Baseline: 6.6 percent (FY14)* *Target: 3.2 percent (FY18)* ***Current status: 2.0 percent (FY19)*** **(b) Increase in the average electricity tariff across all consumer groups from EGP 0.226 per kWh in FY14 to EGP 0.451 per kWh in FY18.** This was dropped in DPF2. The following was added: **(c) Increase in the cost recovery level of electricity tariffs from 50% in FY14 to 70% in FY18.** This was then dropped in DPF3.
Objective 2.2 Improving Energy Governance			
Prior Action 5: The decree	**Trigger 5.1:** (i) The Ministry of Electricity	**Trigger 3.5:** (i) The Ministry of	**Results Indicators**:

Prior Actions for DPF1	**Indicative Triggers (from DPF1) and Prior Actions for DPF2**	**Indicative Triggers (from DPF2) and Prior Actions for DPF3**	**Results Indicators (original (DPF1) and revised)**
promulgating Law No. 87 of 2015 has been issued mandating the promotion of competition in the electricity sector and the separation of the Egyptian Electricity Transmission Company. Specifically, the law mandates (i) the creation of a competitive wholesale electricity market providing direct access between generation companies and eligible large consumers; (ii) the separation of the Egyptian Electricity Transmission Company as an entity independent from the generation and distribution sectors; and (iii) the institutionalization of energy efficiency audits across all major consumers	and Renewable Energy issues executive regulations implementing the *Electricity Law*. (ii) The Ministry of Electricity and Renewable Energy reestablishes the Egyptian Electricity Transmission Company as a functionally independent utility in compliance with the *Electricity Law* and the above executive regulations. (ii) The Ministry of Electricity and Renewable Energy re-establishes the Egyptian Electricity Transmission Company as a functionally independent utility in compliance with the *Electricity Law* and the above executive regulations. (iii) The Egyptian Electric Utility and Consumer Protection Regulatory Agency issues guidelines for the implementation of the measures to improve energy efficiency for consumers above 500 kW and distribution licensees, in compliance with Articles 48 and 49 of the *Electricity Law* **Prior Action 2.5:** The Ministry of Electricity and Renewable Energy of the Borrower issued Decree No. 230/2016 notifying the Executive Regulations of Electricity Law of the Borrower that, among others, include measures to improve the energy efficiency of large electricity consumers and published	Electricity and Renewable Energy re-establishes the Egyptian Electricity Transmission Company as a functionally independent utility in compliance with the *Electricity Law* and the above executive regulations. (ii) The Egyptian Electric Utility and Consumer Protection Regulatory Agency issues regulations on methodology for public hearings and consultations on important regulatory decisions. **Prior Action 3.4:** The Borrower, through: (i) its Prime Minister has issued Prime Ministerial Decree No. 1959/2017, which establishes the new General Assembly of Egyptian Electricity Transmission Company, in compliance with the Electricity Law and the Executive Regulations of the Electricity Law. (ii) the Egyptian Electric Utility and Consumer Protection Regulatory Agency, has issued the regulations on the methodology for public hearings on	From DPF1 **(a) decrease in the market share of the EEHC (by MW of nameplate capacity), from more than 92% in FY15 to 85% in FY18.** **(b) Notification and operationalization of the power supply code and power market rules by FY18**. **(c) Difference between peak electricity demand and then available peak capacity to reduce from deficit of 5,540 MW in FY15 to a surplus of 1,000 MW by FY18** **Comment:** (a) was dropped in DPF2 but following was added: (d) **Public disclosure of tariff methodology for computation of electricity tariffs** **By the end of FY18, results (b), (c) and (d) had been achieved.**

Prior Actions for DPF1	Indicative Triggers (from DPF1) and Prior Actions for DPF2	Indicative Triggers (from DPF2) and Prior Actions for DPF3	Results Indicators (original (DPF1) and revised)
	said Regulations in the official Gazette of the Borrower.	important regulatory decisions entitled *Public Hearing Regulation of the Egyptian Electric Utility and Consumer Protection Regulatory Agency, July 2017*.	
Objective 2.3 Accelerating the Low Carbon Energy Transition (The title of this objective was changed from Enabling Private Sector Investments in Renewable Energy in DPF1 to Enabling Private Energy Investment in DPF2 to its final title as shown in DPF3)			

Prior Action 6: The Cabinet has endorsed a draft gas law that provides for open access to the gas infrastructure and the establishment of an independent gas sector regulator.	**Trigger 6.1:** (i) The President/Parliament enacts the new gas law, and the Ministry of Petroleum and Mineral Resources issues the executive regulations implementing the new gas law. (ii) The Ministry of Petroleum and Mineral Resources establishes a new independent gas sector regulator pursuant to the new gas law. **Prior Action 2.6:** (i) The Borrower's Cabinet approved the draft Gas Activities Regulatory Law and submitted it to the Borrower's Parliament for consideration. (ii) The Ministry of Petroleum and Mineral Resources of the Borrower issued Decree No. 1631/2016 to establish a new Policy and Strategy Unit detailing the charter, functions and authority to spearhead the modernization of the petroleum sector.	**Trigger 3.6:** (i) The Ministry of Petroleum and Mineral Resources of the Borrower issues the executive regulations implementing the new Gas Activities Regulatory Law pursuant to its approval by the parliament. (ii) The Ministry of Petroleum and Mineral Resources of the Borrower establishes a new independent gas sector regulator pursuant to the new Gas Activities Regulatory Law. (iii) The Ministry of Petroleum and Mineral Resources of the Borrower nominates the independent transmission system operator in compliance with the requirements set by the gas sector regulator **Prior Action 3.5:** The Borrower, through its President, has assented to the *Gas Market Activities Regulatory Law* No. 196/2017, which opens the downstream gas sector to private investors, introduces third-party access to the network, and legally establishes the independent gas sector regulator as evidenced in its official Gazette dated August	From DPF1: **(a) A separate gas transmission tariff, transmission code, market rules, and approval procedures are available by FY18.** **(b) A dedicated web portal with all regulations and rules is operationalized by FY18.** These were modified slightly in DPF3 to read: **(a) Publication of a separate gas transmission tariff, transmission code, market rules, and approval procedures by FY19**. **(b) Launching of a dedicated web portal with all gas sector rules and regulations and rules by FY19** In addition, in DPF2, the following result indicator was included: **(c) Increased domestic gas production from 4,020 MMSCFD in FY16 to 4,700 MMSCFD by FY18**. This was not included in DPF3.

Prior Actions for DPF1	Indicative Triggers (from DPF1) and Prior Actions for DPF2	Indicative Triggers (from DPF2) and Prior Actions for DPF3	Results Indicators (original (DPF1) and revised)
		1, 2017.	
Prior Action 7: The decree promulgating Law No. 203 of 2014 has been issued for the stimulation of producing electricity from renewable energy sources. (b) The Egyptian Electric Utility and Consumer Protection Regulatory Agency has issued interim licenses to ten (10) private developers pursuant to Law No. 203/214	**Trigger 7.1:** The Ministry of Petroleum and Mineral Resources and the Ministry of Electricity and Renewable Energy set up energy efficiency units with dedicated staff within their respective ministries. **Prior Action 2.7:** (i) The Ministry of Electricity and Renewable Energy of the Borrower has issued Decree No. 244 of 2016 to set up an energy efficiency unit with dedicated staff to lead the implementation of the Borrower's National Energy Efficiency Action Plan. (ii) The Borrower's Cabinet issued Decree No. 2533 of 2016 announcing the revised Feed-in-Tariff policy for renewable energy.	**Trigger 3.7:** The Ministry of Electricity and Renewable Energy of the Borrower announces new policy measures for promoting private investments in clean energy. **Prior Action 3.6:** The Borrower, through (i) its Cabinet, has issued Cabinet Letters No. 13181-5 dated June 12, 2017, and 13182-5 dated June 13, 2017, which approve the use of competitive auctions to procure the next round of private-sector-owned renewable energy capacity and (ii) the Egyptian Electric Utility and Consumer Protection Regulatory Agency, has issued Circular No. 01/2017 (as amended by Circular No. 04/2017) notifying the public of the revised net metering regulations that allow consumers to sell excess electricity to a third party, or to the distribution company at a price equivalent to the cost of service.	From DPF1: **(a) increase in commissioned private sector-owned renewable energy projects from 0 MW (October 2015) to 1,500 MW (end of FY18).** This was clarified in DPF2 to read: **Financial closure of private sector-owned renewable energy projects from 0 MW (October 2015) to 1,500 MW (end of FY18)** *Baseline (2015)*: 0 MW *Target (2018):* 1,500 ***Current status (2019):* 1,500 MW** The following was added in DPF3: **(b) increase in the number of energy audits performed for large consumer and government buildings from 134 in FY14–FY15 to 234 in FY18–FY19.** Baseline (FY15): 134 Target (FY19): 234 **Current status: 234**

Pillar 3: Enhancing the Business Environment

Prior Actions for DPF1	Indicative Triggers (from DPF1) and Prior Actions for DPF2	Indicative Triggers (from DPF2) and Prior Actions for DPF3	Results Indicators (original (DPF1) and revised)
***Objective* 3.1 Improving the Investment Regime and its Transparency, Particularly for MSMEs** (title changed from that in DPF1 which read Improving Investment Regime and Facilitation)			
Prior Action 8: The decree promulgating Law No. 17 of 2015 and the Prime Ministerial Decree No. 1820 of 2015 have been issued which, respectively, introduced and implemented amendments to the Investment Guarantees and Incentives Law defining investor rights and improving investment facilitation services. This includes (i) defining conditions and procedures for non-approval of licenses; (ii) designating GAFI as the sole interface with investors for certain investment activities; (iii) explicitly granting investor rights to establish and expand investment projects and to gain and transfer profits; and (iv)	**Trigger 8.1:** (i) extend GAFI's Cairo one-stop shop capabilities beyond registration to licensing and other investment services in at least one sector. (ii) In order to enhance transparency and access to information for investors and the general public: (a) the Ministry of Investment/General Authority for Investment and Free Zones publishes a complete inventory of available investment incentives and eligibility criteria; (b) the Ministry of Investment/General Authority for Investment and Free Zones publishes all licensing and permits procedures and requirements for all activities and sectors. **Prior Action 2.8:** The Borrower's Cabinet approved the draft Single-person Company Law that includes limited liability protection, and submitted it to the Borrower's Parliament for consideration	**Trigger 3.8:** (i) Executive regulations of the Single-Person Company Law issued. (ii) The General Authority for Investment and Free Zones of the Borrower registers single-person companies. (iii) The General Authority for Investment and Free Zones of the Borrower publishes all licensing and permits procedures and requirements for all activities and sectors. (iv) The General Authority for Investment and Free Zones of the Borrower publishes a complete inventory of available investment incentives and eligibility criteria. **Prior Action 3.7:** The Borrower, through its (i) President, assented to Investment Law No. 72/2017 and, through its Prime Minister, issued Prime Ministerial Decree 2310/2017, approving the associated Executive Regulations, which enhance certain protections for investors. (ii) Cabinet has issued Cabinet Letter No. 133253 dated June 14, 2017, approving the amendments to the Companies Law, which provide liability protection	**(a) Increase in the number of GAFI one-stop shops registering single-person companies from 0 in FY15 to 4 by the end of FY18.** DPF2 added: **(b) Increase in business entry, including small businesses, as measured by the number of single-person companies registered from 0 in FY15 to 500 in FY18.** DPF3 modified (b) as follows: **Increase in business entry, as measured by the average number of company registrations at GAFI Investor Service Centers per month, of 65% in FY17–FY18 over the baseline of 867 average registrations per month in FY14–FY15.** (a) *Baseline (FY15)*: 0 *Target (FY18)*: 4 ***Current (FY19)*: 11** (b) *Baseline (FY15)*: 867 *Target (FY18)*: 1,430 ***Current (FY19)*: 2,027**

Prior Actions for DPF1	Indicative Triggers (from DPF1) and Prior Actions for DPF2	Indicative Triggers (from DPF2) and Prior Actions for DPF3	Results Indicators (original (DPF1) and revised)
streamlining dispute resolution and liquidation mechanisms.		for single-person companies, and submitted said amendments to its Parliament. (iii) Ministry of Investment and International Cooperation, has implemented institutional reforms in the Investment Law, including improving services to investors such as (a) publication of licensing and permits procedures/requirements for all activities and sectors and an inventory of available investment incentives and eligibility criteria and (b) introduction of online automated and integrated registration services, including company incorporation and registration services provided by other agencies, as evidenced by publication of said measures on the GAFI website.	
Objective 3.2 Reforming Industrial Licensing			
Prior Action 1.9: The Prime Ministerial Decree No. 2807 of 2015 has been issued launching the reform of the industrial licensing regime, including setting the principles of the reform. Specifically (i) limiting the scope of industrial licensing to risk	**Trigger 9.1:** (i) Industrial licensing reform action plan, consistent with the reform principles laid down in the Prime Minister Decree has been endorsed by the Cabinet. (ii) The Government has started implementation of the industrial licensing reform by simplifying at least one regulatory area in a manner that significantly reduces compliance requirements.	**The trigger was dropped** **Trigger 3.9:** Trigger 3.9 (i)Issuance of the executive regulations of the *Law on Streamlining Procedures of Granting Licenses for Industrial Establishments*, including regulations for implementation of simplified licensing by notification for low risk industrial activities. (ii) The Licensing Prerequisites Committee, provided for under the	DPF1 specified: **(a) Average number of days to comply with all industrial licensing requirements is reduced from 634 days in FY15 to 160 days by end of FY18** DPF2 added: **(b) Average number of days to issue license by notification for low-risk industrial activities not to exceed 7 days by the end of FY18.** These two indicators were maintained in DPF3.

Prior Actions for DPF1	**Indicative Triggers (from DPF1) and Prior Actions for DPF2**	**Indicative Triggers (from DPF2) and Prior Actions for DPF3**	**Results Indicators (original (DPF1) and revised)**
based enforcement of health, safety, security, environment, and land use requirements by responsible agencies; (ii) separating policy making, regulation and facilitation functions; and (iii) further decentralizing the provision of licensing services, beginning with the establishment of an interministerial committee mandated to prepare and submit to the Cabinet a comprehensive reform plan.	**Prior Action 2.9:** The Borrower' Cabinet approved the draft Law on Streamlining Procedures of Granting Licenses for Industrial Establishments that includes measures for simplified licensing by notification for low-risk industrial activities and submitted it to the Borrower's Parliament for consideration. (ii) The Borrower's Minister of the Ministry of Trade and Industry issued Ministerial Decree number 1071 of 2016 approving the implementation plan of the Borrower's Industrial Licensing Reform Program.	Law on Streamlining the Procedures of Granting Licenses for Industrial Establishments, makes available online all requirements related to establishment, operation, and termination of industrial activities	(a) *Baseline (FY15)*: 634 days *Target (FY18)*: 160 days ***Current (FY19)*: 55** (b) *Baseline*: Unknown *Target (FY18)*: 7 or below ***Current (FY19)*: 5**
Objective 3.3 Strengthening the Competition Framework			
Prior Action 1.10: Draft executive regulations have been submitted to the Prime Minister to implement Law No. 56 of 2014 which introduced amendments to the Competition Law to enhance anti-cartel policy to prosecute the most harmful competition offences.	**Trigger 10.1:** The Cabinet approves the executive regulations on anti-cartel policy implementation and ECA institutional independence and adoption of administrative regulations to further strengthen anti-cartel enforcement policy. **Prior Action 2.10:** The Borrower's Cabinet issued Decree No. 2509/2016 notifying the Executive Regulations of Protection of Competition and	**Trigger 3.10:** The ECA adopts Secondary legislation to further strengthen anti-cartel enforcement policy by (i) clarifying the procedures and conditions to receive exemptions from the prohibitions of the competition law, (ii) developing a full-fledged leniency program, and (iii) adopting guidelines for antitrust fines and settlements. **Prior Action 3.8:** The	**Increased number of anticompetitive practices prevented/ eliminated from a baseline of 9 (between FY13 and FY15) to a target of 11 decided during FY16–FY18**. *Baseline (FY13–FY15)*: 9 *Target (FY16–FY18)*: 11 ***Current status* (FY19): 17**

Prior Actions for DPF1	Indicative Triggers (from DPF1) and Prior Actions for DPF2	Indicative Triggers (from DPF2) and Prior Actions for DPF3	Results Indicators (original (DPF1) and revised)
	Prohibition of Monopolistic Practices Law 1316/2005 for implementing the Borrower's anti-cartel policy and strengthening the institutional independence of ECA. (ii) The ECA adopted administrative regulations dated December 2015 to further strengthen anti-cartel enforcement policy.	Borrower, through the ECA, in its Board session no. 113 on September 12, 2017, approved the adoption of the following secondary legislation to implement the Competition Law, namely, (a) Regulation Relating to Exemptions, under Articles 6 and 9 of the Competition Law; (b) Leniency Guidelines, under Article 26 of the Competition Law; (c) Guidelines on Fines, Settlements, and Damages; and (d) Quick Guide for Competition Impact Assessment of Laws and Regulations.	

ANNEX 7. SUPPORTING DOCUMENTS

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