Public Disclosure Authorized

Public Disclosure Authorized

Document of

The World Bank

FOR OFFICIAL USE ONLY

Report No: PGD164

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF US$360 MILLION TO

ARAB REPUBLIC OF EGYPT
FOR THE

INCLUSIVE GROWTH FOR SUSTAINABLE RECOVERY
DEVELOPMENT POLICY FINANCING

September 27, 2021

Macroeconomics, Trade and Investment Global Practice
Middle East and North Africa Region

This document has a restricted distribution and may be used by recipients only in the performance of their official duties. Its contents may not otherwise be disclosed without World Bank authorization.

Arab Republic of Egypt

GOVERNMENT FISCAL YEAR

July 1 – June 30

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of September 22, 2021)

Currency Unit

EGP 15.74 = US$1.00

ABBREVIATIONS AND ACRONYMS

ACI	Advance Cargo Information
AIIB	Asian Infrastructure and Investment Bank
ASA	Advisory Services and Analytics
ATM	Average Time to Maturity
AVATT	Africa Vaccine Acquisition Task Team
BCBS	Basel Committee for Bank Supervision
BOP	Balance of Payments
BPR	Business Process Re-engineering
CAWTAR	Center of Arab Women for Training and Research
CBE	Central Bank of Egypt
COVID	Coronavirus Disease
CPF	Country Partnership Framework
CPMI	Committee on Payments and Market Infrastructure
CSO	Civil Society Organizations
DPF	Development Policy Financing
DFS	Digital Financial Services
DMFAS	Debt Management and Financial Analysis System
DSA	Debt Sustainability Analysis
EBRD	European Bank for Reconstruction and Development
ECA	Egyptian Customs Authority
EEAA	Egyptian Environmental Affairs Agency
EFF	Extended Fund Facility
EIA	Environment Impact Assessment
EBRD	European Bank for Reconstruction and Development
FGM	Female Genital Mutilation
FIGI	Financial Inclusion Global Initiative
FRA	Financial Regulatory Authority
GBV	Gender Based Violence
GHG	Greenhouse Gas
GoE	Government of Egypt
GRS	Grievance Redress Service
HCWW	Holding Company for Water and Wastewater
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IFI	International Financial Institutions
IMF	International Monetary Fund
ILO	International Labour Organization
ICR	Insolvency Creditor/ Debtor Regimes
LES	Low Emission Strategy
JET	Jobs and Economic Transformation
LFP	Labor Force Participation
MENA	Middle East and North Africa
MHUUC	Ministry of Housing Utilities and Urban Communities
MOF	Ministry of Finance
MOIC	Ministry of International Cooperation
MOJ	Ministry of Justice
MOP	Ministry of Petroleum and Mineral Resources

MOSS	Ministry of Social Solidarity	RKC	Revised Kyoto Convention
MOTI	Ministry of Trade and Industry	SBA	Stand-By-Agreement
MOT	Ministry of Transport	SCD	Systematic Country Diagnostic
MPBS	Ministry of Public Business Sector	SDG	Sustainable Development Goals
MRV	Monitoring, Reporting and Verification	SLA	Service Level Agreement
MSME	Micro, Small, and Medium Enterprise	SME	Small and Medium Enterprise
MTDS	Medium-Term Debt Management Strategy	SSN	Social Safety Net
MTS	Misr Technology Services	SOE	State-Owned Enterprise
NGFS	Network of Central Banks and Supervisors for Greening the Financial System	SOP	Standard Operating Procedures
NCW	National Council of Women	SWM	Solid Waste Management
NSRP	National Structural Reform Program		
ODA	Official Development Assistance	TA	Technical Assistance
OECD	Organization for Economic Cooperation and Development	TFA	Trade Facilitation Agreement
PCR	Polymerase Chain Reaction		
PCM	Private Capital Mobilization	TRS	Time Release Study
PA	Prior Action		
PDO	Program Development Objective	UNCTAD	United Nations Conference on Trade and Development
		WB	World Bank
PFM	Public Financial Management		
PPP	Public Private Partnership		
PSIA	Poverty and Social Impact Analysis		

Regional Vice President:	Ferid Belhaj
Country Director:	Marina Wes
Regional Director:	Nadir Mohammed
Practice Manager (s):	Eric Le Borgne, Djibrilla Issa
Task Team Leader (s):	Mark Ahern, Mohamed Hisham El-Shiaty

ARAB REPUBLIC OF EGYPT

EGYPT INCLUSIVE GROWTH FOR SUSTAINABLE RECOVERY DPF

TABLE OF CONTENTS

SUMMARY OF PROPOSED FINANCING AND PROGRAM 4

1. INTRODUCTION AND COUNTRY CONTEXT 6

2. MACROECONOMIC POLICY FRAMEWORK 10

2.1. RECENT ECONOMIC DEVELOPMENTS 10

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY 13

2.3. IMF RELATIONS 19

3. GOVERNMENT PROGRAM 20

4. PROPOSED OPERATION 21

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION 21

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS 24

4.3. LINK TO COUNTRY PARTNERSHIP FRAMEWORK, OTHER BANK OPERATIONS AND THE WBG STRATEGY 47

4.4. CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS 49

5. OTHER DESIGN AND APPRAISAL ISSUES 49

5.1. POVERTY AND SOCIAL IMPACT 49

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS 51

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS 54

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY 55

6. SUMMARY OF RISKS AND MITIGATION 56

ANNEX 1: POLICY AND RESULTS MATRIX 59

ANNEX 2: FUND RELATIONS ANNEX 61

ANNEX 3: LETTER OF DEVELOPMENT POLICY 65

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE 73

ANNEX 5: DEBT SUSTAINABILITY ANALYSIS 75

ANNEX 6: DETAILED POVERTY ANALYSIS 79

FIGURES

Figure 1. Egypt's government debt trajectory 18

TABLES

Table 1. Key Economic Indicators 13
Table 2: The impact of COVID-19: A comparison of FY2019/20 outturns and current FY2020/21 forecasts against their pre-pandemic forecasts....15
Table 3. Egypt's Balance of Payments, External Financing Requirements, and Sources, FY2018/2019-21 15
Table 4. Key Fiscal Aggregates....16
Table 5: Gross fiscal financing requirements and sources (FY2018/2019—2024)....17
Table 6. Contribution of DPF Prior Actions to the Government's Reform Program 23
Table 7. DPF Prior Actions, Analytical Underpinnings and Supporting World Bank Group Instruments 45
Table 8. Summary of Risk Ratings 58

BOXES

Box 1. Egypt COVID-19 Crisis Response 9
Box 2. SOE Landscape in Egypt....26
Box 3. Egypt CPSD: Key policy recommendations 31
Box 4. Women Economic Empowerment: From Diagnostic to Policy Actions 39
Box 5. Government Steps for Green and Climate-Friendly Recovery....48

ANNEX FIGURES

Figure A 1. Egypt's Debt Dynamics: Contributions to Debt-to-GDP Ratio....76
Figure A 2. Real GDP Growth Shock Trajectory....76
Figure A 3. Primary Balance Shock Trajectory....77
Figure A 4. Exchange Rate Shock Trajectory....77
Figure A 5. Contingent Liability Shock Trajectory 78
Figure A 6. Comb. Macro-Fiscal Shock Trajectory 78
Figure A 7. Incidence of public sector pensions (including SOEs ex-employees) and contributory pensions for private sector. 80

ANNEX TABLES

Table A 1. Egypt Budget Sector DSA - Baseline Scenario....75
Table A 2. Real GDP Growth Shock Assumptions 76
Table A 3. Primary Balance Shock Assumptions 77
Table A 4. Exchange Rate Shock Assumptions 77
Table A 5. Contingent Liability Shock Assumptions....78
Table A 6. Combined Macro-Fiscal Shock Assumptions....78

The operation was prepared by the World Bank Group. The overall operation was co-led by Mark Ahern (Lead Country Economist, EMNDR) and Mohamed Hisham El-Shiaty (Senior Private Sector Specialist, EMNF1). The operation was prepared under the guidance of Kevin Carey and Eric Le Borgne (Practice Managers, EMNDR) and Djibrilla Issa (Practice Manager, EMNF1).

The team includes Oliver Braedt, Program Leader; Maria Sanchez Laura Puerta, Program Leader; Paul Brenton, Lead Economist; Arturo Gomez, Lead Transport Specialist; Dahlia Lotayef, Lead Environmental Specialist; Lars Jessen, Lead Debt Specialist; Peter Ladegaard, Lead Private Sector Development Specialist; Aminur Rahman, Lead Economist; Eric Dunand, Senior Digital Development Specialist; Sherif Hamdy, Senior Operations Officer; Graciela Miralles Murciego, Senior Economist; Alina Monica Antoci, Senior Private Sector Specialist; Leandro Puccini Secunho, Senior Debt Specialist; William Gain, Senior Private Sector Specialist; Rajesh Balasubramanian, Senior Water Specialist; Nina Mocheva, Senior Financial Sector Specialist; Hoda Youssef, Senior Economist; Oya Alper, Senior Financial Sector Specialist; Tatiana Alonso Gispert, Senior Financial Sector Specialist; Nahla Zeitoun, Senior Social Protection Specialist; Philippe Marie Aguera, Senior Financial Sector Specialist; Richard Mark Davis; Senior Financial Sector Specialist; Natalya Biletska, Senior Public Sector Specialist; Ivor Istuk, Senior Financial Sector Specialist; Hosam Hassan, Senior Financial Management Specialist; Mohamed Yehia, Senior Financial Management Specialist; Amal Faltas, Senior Social Development Specialist; Niyati Shah, Senior Social Development Specialist; Damien Brett, Senior Mining Specialist; Iva Hamel, Senior Private Sector Specialist; Martijn Gert Jan Regelink, Senior Financial Sector Specialist; Ashok Sarkar, Senior Energy Specialist; Sameh Mobarek, Senior Energy Specialist; Alexander Huurdeman, Senior Gas Specialist; Klaus Decker, Senior Public Sector Specialist; Oleksiy A. Sluchynskyy, Senior Economist; Ehab Mohamed Shaalan, Senior Environmental Specialist; Mark Sorial, Senior Investment Officer; Nistha Sinha, Senior Poverty Economist; Federica Marzo, Senior Poverty Economist ; Martin Heger, Senior Environmental Economist; Syed Adeel Abbas, Senior Climate Change Specialist; Jonna Maria Lundvall, Senior Social Scientist; Sara Alnashar, Economist; Laila Abdelkader, Financial Sector Specialist; Ghada Ismail, Financial Sector Specialist; Cindy Paladines, Financial Sector Specialist; Gharam Dexter, Private Sector Specialist; Ghassan Al-Akwaa, Energy Specialist; Laila Elrefai, Associated Operations Officer; Malak Draz, Investment Specialist; Marwa Hamdy Mahgoub, Operations Officer; Marwa Khalil, Operations Officer; Salma Abdelfattah, Transport Specialist; Heba Yaken, Operation Analyst; Menan Omar, Operations Analyst; Yosra Bedair, Fatma El Ashmawy, Souraya El Assiouty, Dalya Ashour, Frederic Aubery, Consultants and Heba Abuelleil, Program Assistant.

The team is grateful for the support and guidance from Marina Wes (Country Director, MNC03) and Nadir Mohammed (Regional Director, EMNDR), and for the close and productive cooperation with the IFC team led by Beatrice Maser (Regional Director), Walid Labadi (Country Manager), and with the IMF team. The team is also appreciative of the excellent collaboration with the Government of Egypt throughout various stages of this operation. The team acknowledges the leadership of Her Excellency the Minister of International Cooperation and the cooperation of the Ministry of Finance, the Financial Regulatory Authority, the Ministry of Public Business Sector, the Ministry of Justice, the Ministry of Trade and Industry, the Ministry of Environment, the Ministry of Transport and the National Council for Women, that all contributed to the reform agenda supported by the DPF. The team would also like to thank the Ministry of Information Communication and Technology, the Ministry of Irrigation and Water Resources, the Ministry of Housing Utilities and Urban Communities, and the Ministry of Petroleum and Mineral Resources for the fruitful exchange on important reforms that were eventually not captured by this DPF operation.

SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic
P171311	No

Proposed Development Objective(s)

To (a) enhance macro-fiscal sustainability, (b) enable private sector development, and (c) foster women's economic inclusion.

Organizations

Borrower:	ARAB REPUBLIC OF EGYPT
Implementing Agency:	MINISTRY OF INTERNATIONAL COOPERATION

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**360.00**

DETAILS

International Bank for Reconstruction and Development (IBRD)	360.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

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

Overall Risk Rating

High

Results[1]

Indicator Name	Baseline	Target by March 2023
Pillar 1: Enhancing Macro-Fiscal Sustainability		
PA 1: Percentage of SOEs under the MPBS whose boards were reconfigured in accordance with requirements in Law No. 185 of 2020	[Zero] [April 2021]	[75 percent] [March 2023]
PA 2: Regular publication of annual debt reports and semi-annual debt bulletins	[Zero] [April 2021]	[Two annual debt reports and two semi-annual debt bulletins] [March 2023]
PA 3: Percentage of green public investment projects out of total public investment projects to facilitate the transition to low carbon economy and implementation of NDCs	[14 percent] [FY 20/21]	[20 percent] [FY 22/23]
Pillar 2: Enabling Private Sector Participation		
PA 4: Publication of FRA Board decisions detailing the secondary regulations stipulated by the law	[Not published] [April 2021]	[Published] [March 2023]
PA 5: The insolvency law is consistent with the accepted international standard on creditor eligibility to file for both reorganization and liquidation (WB ICR Principle C4.2); on creditors' effective participation in insolvency proceedings and access to information (WB ICR Principle C7.1), and on availability and priority for post commencement finance (WB ICR Principle C9.2).	[No] [April 2021]	[Yes] [March 2023]
PA 6: Cargo inspections at the Port of Alexandria by the Egyptian Customs Authority	[100 percent] [April 2021]	[80 percent] [March 2023]
PA 7: Amount invested by the private sector in waste management	[Zero] [April 2021]	[US$100 million] [March 2023]
Pillar 3: Fostering Women's Economic Inclusion		
PA 8: Nationwide awareness of the regulatory changes to increase female labor force participation incentives	[No campaign] [April 2021]	[Campaign executed] [March 2023]
PA 9: (i) Development and implementation of GBV SOPs for the Code of Conduct based on global best practices and including grievance redress mechanism and evaluation mechanisms for reporting violations	[No SOPs] [April 2021]	[SOPs are developed and implemented] [March 2023]
PA 9: (ii) Development and Implementation of GBV SOPs for One Stop Centers including clear referral path based on global best practices and including grievance redress mechanisms and evaluation framework	[No SOPs] [April 2021]	[SOPs are developed and implemented] [March 2023]
PA 10: (i) Number of women benefiting from available NBFI financing	[2.07 million] [March 2021]	[2.2 million] [March 2023]
PA 10: (ii) Amount of loans available for women	[EGP 11.8 billion] [March 2021]	[EGP 12.5 billion] [March 2023]

[1] Operation closing date is March 2023

1. INTRODUCTION AND COUNTRY CONTEXT

1. **Following a reform program that helped address a number of pressing macroeconomic challenges Egypt's medium-term growth performance was interrupted by the COVID-19 pandemic; however, Egypt remains one of the few countries that has maintained positive annual growth during the crisis.** The pandemic resulted in a slump in demand, disruptions to supply chains and trade both domestically and abroad, reduction in Suez Canal revenues and contraction in multiple sectors including the tourism sector. The reform program implemented between FY2015/2016-FY2018/2019, and the quick response measures undertaken by the Government, helped it weather the crisis thus far. Growth for FY2019/2020 was 3.6 percent and is estimated at 3.3 percent for FY2020/2021, and growth is also positive on a calendar year basis. Growth is projected to rebound to its pre-COVID-19 range in FY2022/2023. The Government's evolving response to the COVID-19 pandemic, from a health and economic perspective, and the progress on the rollout of vaccinations is outlined in Box 1 below.

2. **In addition to the COVID-19 pandemic "scarring" impact on growth prospects, Egypt needs to address longstanding structural challenges facing its long-term growth model.** Egypt managed to boost real GDP growth over the past five years and achieve a considerable improvement in fiscal and external balances. For this to be sustainable, growth needs to be less based on public debt accumulation and state-led economic activity, with more efficient utilization of resources within state-owned enterprises (SOE) and better allocation of financial sector resources to the private sector. Households should also be able to participate more effectively in job-rich growth, so that the capacity to cope with shocks is not so dependent on the budget. This agenda motivates the proposed development policy financing (DPF) operation, by accentuating government reform momentum in the areas of debt management, SOE reform, private sector participation in "traditional" public activities, financial sector deepening, and gender inclusion.

3. **The country faces significant human development needs and environmental challenges, and the growth model is still skewed towards consumption, debt-financed non-traded investment, and public megaprojects.** With the population having recently crossed 100 million and growing at a pace of around 2 percent annually, as well as an imminent labor market entry bulge, and despite multiple government reform efforts, per capita growth does not sufficiently meet the aspiring needs of Egypt's youth. A target growth rate of around 6 percent annually would be at the low end of what is needed to help the Egyptian economy approach the per capita income growth performance of middle-income peers over the medium to long term. Furthermore, economic transformation – i.e., growth associated with a transition to higher value-added activities, more connected and more traded sectors – will be crucial to pull workers out of low-productivity occupations and absorb new youth and female labor force entrants.

4. **Further efforts are also needed to enhance inclusion and reduce inequality.** Despite efforts to strengthen social protection through various programs, poverty and inequality remain persistent. Although the Government recently reported the first improvement in the national poverty rate since 2000, the poverty rate remains close to 30 percent.[2] Based on World Bank (WB) estimates, poverty at US$3.20 a day rose from 23.7 percent in 2010 to 28.9 percent in 2017. Shared prosperity – measured by annual average growth in per capita consumption for the poorest 40 percent (the bottom 40) does not show progress over time with consumption growth negative between 2012-17, and lower than the average for all the population (*World Bank, Poverty and Equity Brief, Egypt, April 2020*). This worrying result highlights the need for policies that aim to make growth more inclusive.

[2] The national poverty estimates are calculated using a new poverty line set each survey year, which has the disadvantage of producing not strictly comparable results. These poverty lines can be considered to be relative poverty lines with the real value of the lines rising over time and reflecting the most recent consumption patterns of the population. As the most recent data is not available to WB staff, comparability still needs to be investigated.

5. **There is a need for a realigned role of the state to enhance competition.** There are a range of factors affecting the performance of the private sector, including trade barriers due to policy and facilitation gaps, and business exit and business restructuring limitations that increase investment risks. A particular challenge concerns the large role played by state-owned and state-connected enterprises in the economy.[3] Perceptions of a privileged role of the state in economic activities and concerns around competition in an uneven playing field have deterred private and foreign investment. Transforming the role of the state from actor to steward is essential in order to establish a level playing field that encourages vibrant competition, sustainable private sector investment, firm growth, and job creation.

6. **A much more rapid pace of productive job creation is needed.** An estimated 800,000 graduates enter the job market every year. While the unemployment rate recently improved to 7.3 percent during the second quarter of 2021 (April-June 2021), the labor force participation and employment rates remained at an estimated 41.9 percent and 39 percent of the working-age population - according to the CAPMAS Quarterly Labour Force Survey results released on August 15, 2021. This is well below the country's potential and these ratios have exhibited a general declining trend over the past decade. Most jobs created in recent years were in the low productivity informal sector (See *Egypt Economic Monitor, November 2020* and *Assaad, 2019*).

7. **Addressing the gender gap by enabling women's effective economic participation is an urgent priority.** Female labor force participation is particularly low in Egypt (recorded at 14.5 percent during April-June 2021 according to the CAPMAS Quarterly Labour Force Survey results) and remains concentrated in a few sectors, leaving a huge untapped potential out of the labor market. Nearly 10 percent of women have been harassed in public streets, 7 percent in public transportation and 18 percent were subjected to domestic violence[4]. In addition to the need for a shift in the mindset and behaviors of individuals and communities, better-crafted regulatory and legislative reforms are necessary to remove legal restrictions and reduce gender legal gaps in order to boost women's participation in the workplace and to enhance female access to finance. In 2021, Egypt received score of 45 out of 100 in the World Bank's Women Business and the Law.

8. **Responding to the above challenges is an essential element of the Government Program "Egypt Takes Off" (FY2018/2019 to FY2021/2022) and the newly launched National Structural Reform Program (NSRP) (FY2021/2022-FY2023/2024).** The Government Programs aim to build on the earlier "State Stabilization Phase" moving toward a "Reaping of the Fruits Phase" anchored in a framework that focuses on improving the standards of life for citizens and service delivery to all Egyptians without discrimination. It seeks to implement a package of structural policies to address existing imbalances; strengthen and better target social safety nets; and develop human capital.

9. **The main aim of this standalone DPF is to help the Government in the restructuring and recovery phases of the COVID-19 pandemic while addressing some of the long-term structural challenges impacting its growth model.** The DPF's objective is to: (a) enhance macro-fiscal sustainability, (b) enable private sector development, and (c) foster women's economic inclusion. The DPF-supported program includes important governance reforms, such as SOE reforms and debt transparency, which complement an existing analytical and advisory engagement on governance challenges that are key to Egypt's development (such as fiscal transparency, tax reform, and support in the budget dissemination work related to Citizen Budget and pre-budget statements which feeds into the Open Budget Index scoring of Egypt and other general governance indicators). The choice of a standalone operation reflects the difficulties associated with planning a programmatic operation in the middle of the pandemic, as well as the need for a further assessment of priorities post-COVID. The Government's commitment to reform and the World Bank's policy dialogue and engagement with Egypt extend to the medium term. The reforms supported by the operation will benefit from substantive engagement with the World

[3] Egypt CPSD, Creating Markets in Egypt, Realizing the Full Potential of a Productive Private Sector, August 2020.
[4] ECGBV Survey, By CAPMAS, NCW & UNFPA

Bank including through technical assistance that will ensure implementation and sustainability of the reforms beyond the timeframe of the standalone operation.

10. **The operation is in line with the World Bank Group's Middle East and North Africa (MENA) enlarged strategy.** It focuses on responding to the immediate COVID-19 challenge through a strategy of Relief, Restructuring and Resilient Recovery. It also aims to create opportunities through building trust, protecting human capital, supporting private sector transformation for job creation, and advancing gender equity. At the same time, it supports Government reform efforts to enable green growth and foster resilience in line with the World Bank Group's (WBG) Climate Change Action Plan. The operation is aligned with the WBG Gender Strategy FY2015/2016-FY2022/2023 and the MENA Regional Gender Action Plan.

11. **The operation is also aligned with the WBG's integrated approach to promoting a strong and durable recovery in the face of the compounding impacts of cascading short and longer-term crises through green, resilient, and inclusive development (GRID).** The DPF-supported program lays the basis for a green and climate-friendly recovery of the economy by catalyzing further green capital market activity and improving solid waste management sector governance. The DPF prior actions also support the resilience of the Egyptian economy for future shocks, including through enhancing digital delivery, debt management and business restructuring. The measures under the gender pillar will help mitigate the uneven impact of the pandemic and inequalities that existed long before the pandemic to enable more inclusive growth. As such, the program expands opportunities to rebuild in a greener, more inclusive and resilient way in the wake of the COVID-19.

12. **The DPF is beneficial to the government's debt management strategy from a financing perspective and for the reforms which it supports.** The operation is designed to support the authorities in further strengthening macroeconomic institutions, which have seen significant increases in capacity in recent years – but with an ambitious macro-fiscal agenda still ahead. Ongoing efforts to improve debt management include a focus on the pricing, currency, and maturity of debt through broadening of the investor base and expanded variety of instruments, notably green bonds. The DPF will provide a timely signal of support for the second-generation structural reforms that the Government is undertaking. Debt sustainability therefore benefits from gains in the numerator, e.g., risk reduction in overall debt profile, and the denominator, through needed acceleration in private sector-led growth.

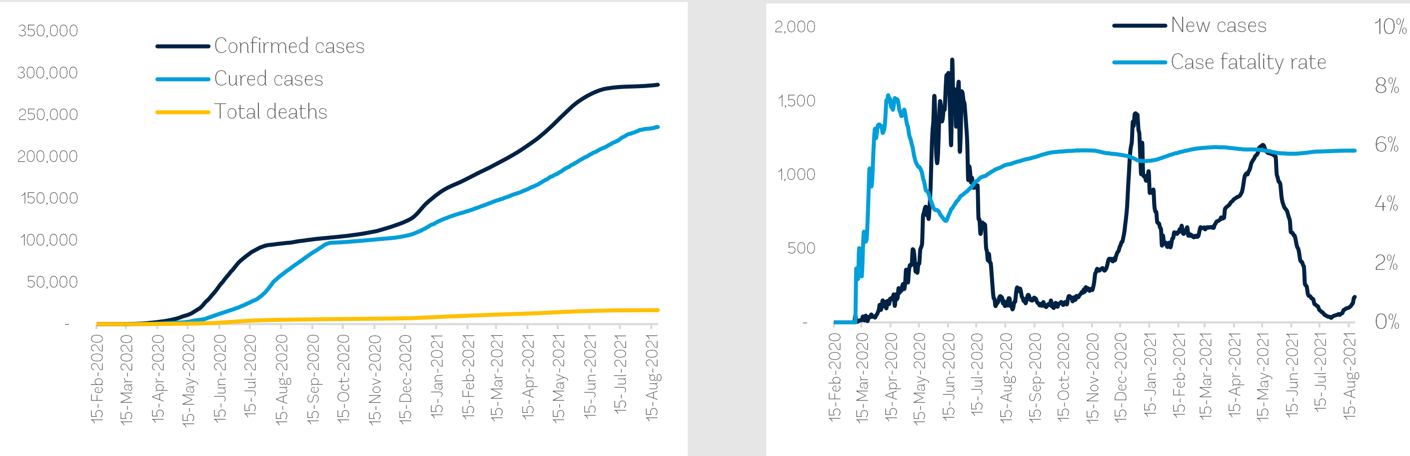
13. **The government is focused on ensuring that steady progress in reduction of the public debt ratio is not undone by the materialization of contingent liabilities**. Recently, these efforts have included formalizing the process for the issuance of explicit sovereign guarantees and proactive treatment of arrears to off-budget entities so that they do not eventually emerge as sizable below-the-line transactions once settled. Various sources of implicit contingent liabilities remain, notably from SOEs and megaprojects. The amount of information about SOE balance sheets and their fiscal implications has been rapidly improving, but substantial work is still needed to integrate this non-standardized information into management of public debt and fiscal risks. Estimates of the size of contingent liabilities and proxies for the risk they represent are discussed in more detail in the debt sustainability section below.

14. **This US$360 million operation has benefited from extensive technical support from the IFC, and the Bank's convening power has helped complement this loan through parallel financing from the Asian Infrastructure Investment Bank (AIIB) through its COVID-19 Crisis Recovery Facility (CRF).** The IFC has been heavily involved in the preparation of the operation, playing a key role in supporting the reform agenda and ensuring implementation follow-up. Leveraging the Bank's convenorship role, and government coordinating role under the Egypt country platform, active consultations with development partners took place during the preparation of this operation. AIIB intends to provide US$360 million in parallel financing linked to the same reform matrix, as part of its COVID-19 recovery facility.

Box 1. Egypt COVID-19 Crisis Response

Egypt looks to be at the onset of the fourth wave of the pandemic. Official COVID-19 related statistics in Egypt are relatively low compared to global averages. As of August 21, 2021, official statistics show a total of 286,168 confirmed cases, 235,635 discharges and 16,663 deaths, with a crude case fatality rate of 5.8 percent. Since the level of testing is low in Egypt, case and death statistics are likely to be underestimated. Among all governorates, Cairo, Giza, Qalioubiya and Alexandria have the highest numbers of cases. Males make up 55.3 percent of confirmed cases and more than 63 percent of COVID-19 deaths.

Figure 1: COVID-19 Cases, Deaths and Case Fatality Rate from first reported case on March 14, 2020 till August 21,2021



Source: WHO - Coronavirus disease (COVID-2019) situation reports and MoHP official statistics

In January 2021, Egypt launched its COVID-19 vaccination program. The Ministry of Health and Population has prepared a National Vaccine Deployment Plan (NVDP) with the support of WHO, UNICEF and the World Bank. The COVAX Regional Review Committee approved the NVDP in February 2021 and is committed to supply Egypt with free vaccines for up to 20 percent of its population or 40 million doses. On February 28, the Government launched the COVID-19 vaccine online registration system for all citizens and residents alike. The Government rolled out the vaccination program with the 4.8 million AstraZeneca doses provided by COVAX Facility as the first batch delivery, followed by two batches of 1.77 and 1.76 million doses delivered on May 13 and August 14, 2021, respectively.

The Government has also purchased 261,000 doses of Johnson & Johnson vaccine through the Africa Vaccine Acquisition Task Team (AVATT) facility and has bilaterally procured vaccines from different suppliers, including four million doses of Sinopharm vaccine, three million doses of Sinovac vaccine, as well as an undetermined number of doses of Sputnik V.

Vaccine hesitancy remains an issue in Egypt. As of late August 2021, only 10 million residents have registered (10 percent of the total population) and 6.47 million doses have been administered such that at least 5.1 percent of the population received a single dose and 2.5 percent are fully vaccinated. There is an indication of vaccine hesitancy even among healthcare workers. Only 50 percent of healthcare workers have registered for the vaccine and as high as 40 percent of those who registered did not show up to receive the vaccine. However, the Government has augmented its efforts to boost vaccination by: i) increasing the number of vaccination centers from 580 to 678 in addition to mobile vaccination centers in Matrouh, Qalioubiya, Menouifya, Sharqiya and Suez; ii) dedicating an additional 145 centers for travelers; and iii) announcing mandatory vaccination for 5.5 million employees of the public administrative system (including public schools and banks) by early October.

Egypt has started local manufacturing of vaccines as a sustainable means to meet future demand. Egypt's Holding Company for Biological Products and Vaccines (VACSERA, a state-owned enterprise) and Chinese biopharmaceutical company Sinovac signed agreements in April 2021 to manufacture the Sinovac vaccine. The Egyptian Drug Authority (EDA) approved the Sinovac/VACSERA for emergency use on August 23, 2021 and a first batch of 1 million doses has been dispatched. Egypt has received shipments of raw materials from China with an initial production capacity of 14 million Sinovac doses. Production of vaccines is initially targeted at 15 million doses per month and is expected to ramp up to 80 million doses by the end of 2021 to meet local and potentially regional demand.

Since the onset of the COVID-19 pandemic, the Government enacted measures to mitigate the socioeconomic impact of the crisis using a combination of fiscal and monetary tools and help rebuild the economy through its "protect, provide and progress" immediate COVID-19 response strategy. An emergency response package of EGP 100 billion (about US$6 billion, or 1.6 percent of GDP) was announced, geared toward supporting the health sector, covering additional needs of wheat and food commodities, paying the government arrears to contractors and suppliers, providing immediate relief to seasonal workers which are predominantly female and supporting sectors severely hit by the pandemic through tax and credit forbearance measures or additional financing. The Central Bank of Egypt cut key policy rates successively by a cumulative 400 basis points, to help firms weather the storm with easier borrowing terms, and announced support programs for the manufacturing, agriculture, construction, social housing, and tourism sectors. The Ministry of Finance postponed Personal Income Tax and Corporate Income Tax collection from June 2020 to December 2020. Similarly, to relieve businesses, the deadline for the collection of property tax payments for factories and touristic establishments was postponed for three months. The Government also announced the intention to promote clean and inclusive transport and the renewable energy sectors for a green recovery. As a result of the solid macroeconomic reforms conducted in prior years and the mitigation measures described above, Egypt has been one of the few countries that has maintained a positive growth rate despite the COVID-19 crisis. The strategy therefore aims to protect the population from the spread of the virus, provide easier access to credit to help households smooth consumption and provide liquidity for firms to survive the disruption, and progress by expediting structural reforms to ensure the sustainable recovery from and beyond the COVID-19 crisis.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

15. **Egypt's post-stabilization growth performance was interrupted by the COVID-19 pandemic.** Real growth declined from 5.6 percent in FY2018/2019 to 3.6 percent during FY2019/2020 and is estimated at 3.3 percent in FY2020/2021. Economic activity slowly resumed with the lifting of the night-time curfew and easing of social distancing measures, especially during the last quarter of the previous fiscal year (Q4-FY2020/2021) which marked a year since the intensification of the COVID-19 crisis, and thus benefited also from strong annual base effects. The nascent uptick was mainly driven by private consumption, which was in turn partially supported by the increase in remittances, expanded social mitigation measures, the steep decline in inflation rates (favorable for households' purchasing power) as well as the monetary easing. Gross value added (i.e., sectoral growth) on the other hand remained subdued posting a contraction for two consecutive quarters at the outset of COVID-19.[5] The tourism sector has contracted by more than 70 percent during Q4-FY2019/2020 and Q1-FY2020/2021, due to restrictions on international travel and social distancing measures but has started rebounding gradually since Q4-FY2020/2021. Other key sectors such as manufacturing, oil and gas extractives, construction and revenues from the Suez Canal have also been severely hit by the slump in demand and the disruptions to supply chains and trade both domestically and abroad.

16. **Unemployment declined after initially spiking at the outset of the COVID-19 shock, although job creation especially in the formal sector remains a challenge.** During April-June 2020 (Q4-FY2019/2020), the number of employed individuals decreased by 2.7 million (almost 10 percent of total employment), pushing the unemployment rate to

[5] While GDP growth witnessed an uptick (from -1.7 percent in April—June 2020 (Q4-FY2019/20) to 0.7 percent in July—September 2020 (Q1-FY2020/21) as mentioned above), it is worth noting that gross value added measured at basic prices (sectoral growth) has continued to be negative, registering a growth rate of -3.1 percent in April—June 2020 and -1.3 percent in July- September 2020 (Q1-2020/21) as key sectors continue to be severely affected by the crisis.
'Net indirect taxes' (which is the balance between 'GDP at market prices' and 'gross value added at basic prices') increased at a pace that compensated for the contraction in gross value-added at basic prices.
Preliminary data indicates that gross value added also inched up and posted 'positive' growth during October—December 2020 (Q2-FY2020/21), albeit remaining low at 0.4 percent.

9.6 percent (from 7.7 percent in the previous quarter), with job losses mainly reported among the informal sector, in addition to dropouts from the labor market, especially by females. However, with the easing of mobility restrictions and gradual lifting of social distancing measures, unemployment declined to 7.3 percent by April-June 2021 (Q4-FY2020/2021), as the initial drop in total employment at the outset of the COVID-19 crisis was reversed. Both labor force participation and employment rates also rebounded from their large initial dip with the gradual resumption of economic activity, albeit remaining below-potential at 41.9 percent and around 39 percent of the working-age population.

17. **The Central Bank of Egypt (CBE) eased monetary policy significantly and private sector credit has picked up pace, albeit from a low base.** Between March and November 2020, the CBE cut key policy rates successively by a cumulative 400 basis points, allowing individuals and businesses to access credit at more favorable terms and ameliorating the cost of domestic financing for the Government during the COVID-19 crisis. This monetary easing was enabled by the decrease in inflation, which was registered at 5.7 percent during FY2019/2020 and that continued to decline thereafter, averaging 4.5 percent during FY2020/2021. The relatively lower inflation reflects the lackluster demand, and contained supply-side pressures supported by government measures to mitigate potential supply shortages in the market. Meanwhile, the expansionary monetary policy reflected on domestic liquidity growth which increased to 19.7 percent in end-2020, from 13.3 percent a year earlier; mainly driven by the spike in credit extended to the Government (which constitutes 60 percent of total domestic credit). Credit extended to the private sector (31.6 percent of total domestic credit) also accelerated by 24 percent at end-2020, almost double its pace a year earlier, although its share to GDP is yet to rise back to its pre-2016 levels.

18. **Despite the substantial pressures on external accounts due to the COVID-19 crisis, foreign reserves remain adequate as Egypt continues to receive sizeable remittances, portfolio inflows, and foreign financing from international financial institutions (IFIs).** Reserves started to decline, due to large-scale portfolio outflows during March—April 2020, in addition to the sharp drop in other key foreign income sources, including tourism, Suez Canal revenues, and merchandise exports, especially from oil and gas extractives. Following this initial slump, Egypt has mobilized substantial external financing, including a US$2.8 billion stopgap loan under the IMF's Rapid Financing Instrument, a US$5.4 billion Stand-by Arrangement (SBA), as well as two sovereign Eurobond issuances worth US$5 billion and US$3.75 billion, a US$0.75 billion sovereign green-bond issuance and a US$2 billion loan from a consortium of UAE banks, in addition to a US$0.6 billion loan from the Arab Monetary Fund. Portfolio inflows have also rebounded consistently since May 2020, and remittances also continued to provide an important source of foreign income. Reserves hence remained at relatively comfortable levels at US$40.6 billion at end-FY2020/2021 (covering just above 7 months of merchandise imports), albeit still below the pre-crisis peak of US$45.5 billion in end-February 2020. The exchange rate depreciated marginally with the COVID-19 shock but strengthened once again to EGP 15.7/US$ as of early-2021, returning to its pre-pandemic level.

19. **The fiscal consolidation program is gradually improving public finances, yet the budget structure remains skewed by interest payments, and domestic revenue mobilization is below potential.** Egypt brought down the overall budget deficit and turned the primary deficit into a solid surplus since FY2017/2018. In FY2019/2020 the overall budget deficit was 8 percent with a primary surplus of 1.8 percent of GDP, in line with their ratios a year earlier. The government debt-to-GDP ratio also decreased to 87.5 percent in end-FY2019/2020, after peaking at 108 percent three years earlier (although this in part reflected the one-off cancellation of debt owed by the Treasury to the Social Insurance Funds (SIFs), in return for larger annual transfers from the Treasury to the SIFs). This improvement in the public finance stance up until FY2019/2020 was primarily driven by the containment of government expenditure-to-GDP ratio. The government revenue-to-GDP ratio, especially from taxes, continues to fall below potential and has declined further in recent years. Moreover, the structure of the budget remains unfavorable, with interest payments (9.8 percent of GDP; 39.6 percent of total expenditures in FY2019/2020) standing out as the single largest expenditure item, crowding out important

productive and social spending, and posing risks to fiscal sustainability. Recently published preliminary estimates for FY2020/2021 indicate that the overall budget deficit continued to decline despite the challenges imposed by the COVID-19 crisis. The deficit is expected to have reached 7.5 percent of GDP, with the improvement mainly driven by an uptick in the revenue-to-GDP ratio. Expenditures on the health and education sector in FY2020/2021 were scaled up (compared to their initial pre-crisis levels). Notwithstanding, the sectoral breakdown of spending shows that limited resources are allocated to key sectors that have an important impact on human development, such as health, education, and scientific research, despite the country's aspirations stipulated in the Constitution.[6]

20. **While there has been progress in fiscal and debt reporting, the complex administrative structure within the general government necessitates further clarity about the stock of arrears, deficit financing and the drivers of debt accumulation**. In order to render the government debt path more predictable, additional fiscal and debt transparency is warranted. This entails the publication of information on payment arrears and of further details on gross financing needs and sources, in addition to unbundling the complex financial interlinkages between the Treasury and other public sector entities that are not part of the central government budget (such as public economic authorities and the broad range of state-owned enterprises).

21. **Notwithstanding the steadily improving fiscal position, gross fiscal financing requirements remain elevated, which makes the fiscal-monetary policy mix more challenging and contributes to the subdued level of credit intermediation to the private sector**. In addition to the financing requirements to cover Egypt's overall budget deficit, the proportion of government debt that needs to be paid down or rolled over annually remains quite substantial (*see details in Section 2.2 below*). Despite the recent prolongation of the Average Time to Maturity of Egypt's government debt, as of end-June 2020, 52 percent of the total outstanding government securities remain short-term (matures within one year). The roll-over and interest rate risks associated with this challenging maturity structure become relatively higher, especially during episodes of high inflation when monetary tightening becomes warranted. Similarly, the recent uptick in the portion of government debt that is denominated in foreign currency means that exchange rate risks have also increased and may raise financing needs further in the event of an exchange rate depreciation. While the Central Bank of Egypt maintains independence, the relatively high financing needs contribute to the growth of domestic liquidity. Indeed, the credit extended to the Government remains the largest driver of domestic credit; in turn contributing to inflationary pressures, which eventually have implications for monetary policy. Furthermore, while the banking sector maintains relatively ample liquidity, the large public financing needs affect the incentives of commercial banks to lend to the private sector (especially the relatively riskier small businesses).

22. **While the banking sector continues to display strong financial soundness indicators even after the COVID-19 shock, it faces limited financial stability risks due to large exposure to sovereign debt**. The banking system is the largest holder of government securities. As of end-2020, commercial banks alone held around half of the total outstanding stock of Treasury bills. Thus, the banking sector can be considered over-exposed to sovereign debt. In addition, contingent liabilities and financial interlinkages between the Treasury and extra-budgetary public entities may pose further risks. Meanwhile, the sector enjoys favorable financial soundness indicators, as it maintains an average capital adequacy ratio of 19.5 percent, a non-performing loan ratio of 3.6 percent of total loans, and loan provisioning coverage of 96 percent, as of December 2020[7]. The CBE's credit forbearance measures (as part of its response to the COVID-19 crisis) in the form of 6-month moratorium for personal loans, mortgages, and bank loans to businesses (including SMEs), which ended in

[6] According to articles 18, 19, 21 and 23 from the 2019 Egyptian Constitution, the government spending on education, health and scientific research should be at least 6 percent, 3 percent and 1 percent of the gross national product, respectively. These allocations are to gradually increase to comply with international standards.

[7] The CBE conducts stress tests (including credit, concentration, liquidity and market) on banks' sovereign exposure, and the results show the resilience of the banks solvency and liquidity to different scenarios.

September 2020, has temporarily helped in alleviating immediate financial pressure for individuals and businesses. The non-bank sector is still characterized by relatively underdeveloped capital, bond, leasing, micro-finance and mortgage markets, and thin trading in equities. Risks however are deemed quite limited as none of these components constitute a systemic risk in the financial sector.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

Macroeconomic Outlook

23. **While the recently achieved macroeconomic gains are expected to be temporarily undermined by the pandemic, the macroeconomic outlook is expected to revert gradually to its pre-COVID growth path over the medium term.** As with other countries, Egypt's outlook depends in large part on the containment of the COVID-19 pandemic, such that social distancing measures would be subsequently lifted, and thus disruptions to production, international trade and tourism would gradually subside. This includes unwinding the various mitigation measures such as tax and loan payment deferments and working with key tourism origin markets to reopen travel (as has just occurred with Russia). Egypt is also expected to continue pushing ahead with debt reduction, inflation targeting, a flexible exchange rate, and structural reforms – notably those supported by this DPF as well as the recent IMF SBA – which would lay the foundations for a strong recovery and further bolster confidence in the economy.

Table 1. Key Economic Indicators

	FY2016	FY2017	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast
Real Sector and Prices									
GDP at market prices (Current prices, EGP bn)	2,709	3470.0	4,437.4	5,322.1	5,820.0	6,291.4	7,109.3	8,104.6	9,320.3
GDP growth rate (Constant prices)	4.3	4.2	5.3	5.6	3.6	3.3	5.0	5.5	5.6
GDP deflator growth	6.2	22.9	21.4	13.6	5.6	4.7	7.6	8.0	8.9
Population (in millions)	91.0	95.2	97.1	98.9	100.5	102.0	103.7	105.6	107.5
Unemployment rate (last quarter in fiscal year)	12.5	12.0	9.9	7.5	9.6	7.5	7.4	7.2	7.0
CPI inflation, (Urban, Period average)	10.2	23.3	21.6	13.9	5.7	4.5	7.0	8.0	8.5
Public Finance (% of GDP)									
Total Revenues	18.1	19.0	18.5	17.7	16.8	17.3	17.3	17.7	17.8
Tax revenues	*13.0*	*13.3*	*14.2*	*13.8*	*12.7*	*13.2*	*13.3*	*13.7*	*14.0*
Grants	*0.1*	*0.5*	*0.1*	*0.0*	*0.1*	*0.01*	*0.0*	*0.0*	*0.0*
Other non-tax revenues	*5.0*	*5.2*	*4.3*	*3.8*	*4.0*	*4.1*	*4.0*	*4.0*	*3.8*
Total Expenditures (excl. NAFA)	30.2	29.7	28.0	25.7	24.7	24.8	24.5	24.4	24.5
Current expenditures	*27.6*	*26.6*	*25.6*	*23.0*	*21.4*	*20.9*	*21.1*	*20.9*	*20.8*
Capital expenditures	*2.6*	*3.1*	*2.5*	*2.7*	*3.3*	*3.8*	*3.5*	*3.5*	*3.6*
Net Acquisition of Financial Assets (NAFA)	0.5	0.2	0.2	0.0	0.1	0.04	0.0	0.1	0.1
Overall Budget Balance	-12.5	-10.9	-9.7	-8.1	-8.0	-7.5	-7.2	-6.8	-6.8
Primary Balance	-3.5	-1.8	0.1	1.9	1.8	1.5	1.8	2.0	2.0
Gross Domestic Budget Sector Debt	94.9	90.0	78.2	72.5	68.6	70.8	70.2	68.1	65.4
Gross Budget Sector Debt (Domestic + External)	102.8	108.0	97.3	90.2	87.5	91.4	89.8	86.7	83.3

External Sector	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Actual	FY2020 Actual	FY2021 Forecast	FY2022 Forecast	FY2023 Forecast	FY2024 Forecast
Trade Balance (% of GDP)	-11.6	-15.8	-14.9	-12.5	-10.0	-10.0	-9.4	-8.6	-8.2
Current Account Balance (% of GDP)	-6.0	-6.1	-2.4	-3.6	-3.1	-4.1	-3.8	-2.8	-2.5
Net Foreign Direct Investment Inflows (% of GDP)	2.1	3.4	3.1	2.7	2.1	1.6	1.7	1.9	2.0
Capital and Financial Account Balance (% of GDP) (excludes errors & omissions)	6.4	13.2	8.8	3.6	1.5	4.7	3.8	2.9	2.8
Overall Balance of Payments (% of GDP)	-0.8	5.8	5.1	0.0	-2.4	0.6	0.0	0.2	0.2
Net International Reserves (NIR) (end of period, US$ bn)	17.5	31.3	44.3	44.5	38.2	40.6	40.4	41.2	42.4
NIR in months of same year's merchandise imports	3.7	6.4	8.4	8.0	7.3	7.2	6.8	6.6	6.4
External Debt (% of GDP)	18.3	41.1	37.2	34.0	34.1	34.6	32.7	30.4	28.8
External Government Debt (% of GDP) (serviced by MoF)	7.9	18.0	19.0	17.8	19.0	20.5	19.7	18.6	17.9
Monetary Sector									
Domestic Liquidity (M2) annual growth rate	18.6	39.3	18.4	11.8	17.5	18.1	17.0	15.0	15.0
Private Sector Credit annual growth rate	14.2	38.0	10.1	12.4	19.5	21.2	17.0	16.0	15.0
Private Sector Credit annual **real** growth rate	4.0	14.7	-11.4	-1.5	13.8	16.7	10.0	8.0	6.5

Source: World Bank staff calculations. Historical data through FY2019/2020 are based on official data from the Ministry of Planning and Economic Development, Ministry of Finance, CAPMAS, and CBE. Starting FY2020/2021, data represent World Bank projections. Pre-actual fiscal outturns for FY2020/2021 are reflected in this table but are presented in percent of the World Bank forecast GDP.

24. **The pre-pandemic growth momentum of 5.5-5.6 percent is expected to be reached by FY2022/23.** This compares to a pre-pandemic growth forecast of 6 percent for FY2020/2021—22 (*see Table 2*), and remains relatively moderate growth, especially when considered in per capita terms. It also means that the COVID-19 shock will have caused at least a 3-year shortfall from the pre-pandemic growth rates, and that Egypt's recovery trajectory can be considered rather conservative, compared to the post-pandemic booms that are projected in several high-income countries.[8] A downside scenario for growth over the forecast horizon assumes that the vaccination process is more protracted and that the pandemic persists for longer, or that the disease variants cause renewed global and domestic disruptions.

25. **Increased stress on the balance of payments (BoP) is expected to be offset by bond issuance and official financing.** Notwithstanding the projected amelioration in the merchandise trade balance-to-GDP ratio due to the expected containment of imports, the current account deficit is still forecast to widen from 3.1 percent of GDP in FY2019/2020 to 4.1 percent in FY2020/2021, mainly on the back of a drop in revenues from key services exports (such as tourism and the Suez Canal), as well as a decline in merchandise exports, especially petroleum. This compares to the pre-pandemic current account deficit initially projected at 2.6 percent of GDP (Table 2). The pressures imposed by the pandemic on the external accounts are expected to raise external financing requirements. This is at a time when important financing sources, such as FDI inflows are projected to decline from their already low levels of 2.1 percent of GDP in FY2019/2020 to around 1.6 percent of GDP by FY2020/2021, amidst the global economic slowdown and uncertainty due to the pandemic. While there are some indications of small-scale *unregistered* capital outflows (captured in 'net errors and omissions' in the BoP), the domestic bond market continues to attract foreign flows because of the sizable interest differential. This has given the authorities space to target an accumulation of foreign reserves in order to provide a cushion for any future external shocks, and to compensate for the decline in reserves that took place at the outset of the crisis.

[8] Please see Introduction and Country Context section above for a discussion on the level and patten of growth needed for Egypt to achieve convergence and economic transformation.

Table 2: The impact of COVID-19: A comparison of FY2019/20 outturns and current FY2020/21 forecasts against their pre-pandemic forecasts

(In percent of GDP, unless otherwise indicated)	FY2019/20 Actuals	Pre-COVID FY2019/20 Forecast (MPO, October 2019)	Current FY2020/21 Forecast	Pre-COVID FY2020/21 Forecast (MPO, October 2019)
Real GDP Growth (in percent)	**3.6**	**5.8**	**3.3**	**6.0**
Current Account Balance	-3.1	-2.6	-4.1	-2.6
FDI	2.1	2.3	1.6	2.7
Overall Budget Balance	-8.0	-7.5	-7.5	-7.0
Primary Balance	1.8	1.8	1.5	1.8
Gross Budget Sector Debt (Domestic + External)	87.5*	87.2	91.4	85.1

Source: World Bank staff compilation, based on Macroeconomic Framework presented in Table 1 above. Pre-pandemic forecasts are obtained from the 2019 Annual Meetings edition of the World Bank's Macro-Poverty Outlook (MPO) issued in October 2019. Pre-actual fiscal outturns for FY2020/2021 are reflected in this table but are presented in percent of the World Bank forecast GDP.
**Note: The gross budget sector debt of 87.5 percent of GDP in FY2019/20 in part reflect the one-off cancellation of debt owed by the Treasury to the Social Insurance Fund. This debt cancellation was not foreseen at the time of projecting the debt ratio in October 2019.*

26. **External financing requirements for FY2021/2022 are substantial but are expected to be met.** Gross external financing requirements (including the current account deficit and debt amortization) are projected at US$30 billion (7 percent of GDP) in FY2021/2022. Portfolio investment (including the projected sovereign issuances) and – to a lesser extent FDI - are expected to cover around US$20 billion of these financing requirements, whereas the remaining US$10 billion are expected to be covered by the loans from international financial institutions and bilaterals, among others. Over the medium term, the current account deficit is forecast to narrow gradually to around US$13 billion, equivalent to 2.5 percent of GDP in FY2023/2024, notably with the rollout of vaccines both domestically and globally, and the gradual return of tourism and the improvement in Suez Canal revenues as global trade continues to pick up pace. The capital and financial account is expected to remain buoyed despite the projected phasing-out of borrowing from IFIs towards the end of the forecast horizon. Portfolio inflows in fixed income government securities may continue, and FDI inflows are expected to start to rebound as the global economy recovers, in addition to an expected continuation of sovereign issuances over the medium term (including innovative instruments such as green bonds and Sukuk).

Table 3. Egypt's Balance of Payments, External Financing Requirements, and Sources, FY2018/2019-24

in USD billion	FY2019 Actual	FY2020 Actual	FY2021 Forecast	FY2022 Forecast	FY2023 Forecast	FY2024 Forecast
Gross external financing requirements	**25.4**	**24.3**	**29.1**	**30.0**	**26.8**	**26.7**
External Current Account Deficit	10.9	11.2	16.2	16.4	13.2	13.2
External Debt Amortization	14.5	13.1	12.9	13.6	13.6	13.5
Available financing	**25.4**	**24.3**	**29.1**	**30.0**	**26.8**	**26.7**
Foreign Direct Investment (net)	7.9	7.1	6.4	7.5	9.0	10.5
Portfolio Investment (net)	4.1	(8.1)	21.3	12.5	8.0	8.8
Eurobonds			*3.8*			
Green-bond			*0.8*			
Other portfolio investment			*16.8*			
Medium and Long Term Disbursement	5.5	9.3	5.6	5.9	5.7	5.7

	FY2019 Actual	FY2020 Actual	FY2021 Forecast	FY2022 Forecast	FY2023 Forecast	FY2024 Forecast
World Bank			*0.9*			
IMF			*3.2*			
UAE-banks loan			*2.0*			
Other MLT Disbursement			*(0.5)*			
Change in reserves ('-' indicates an increase)	0.1	8.6	(2.4)	0.2	(0.8)	(1.2)
Other (*includes other borrowing to roll-over maturing debt, in addition to BoP 'net errors and omissions'*)	7.7	7.4	(1.8)	3.9	4.9	2.9

Source: World Bank staff calculations. Historical data through FY2019/2020 are based on official data from the CBE and the Ministry of Finance. Starting FY2020/2021, data represent World Bank projections.

27. **Egypt remains committed to fiscal consolidation over the medium term.** The overall budget deficit-to-GDP ratio is projected to continue inching downwards over the medium term, from 8 percent in FY2019/2020 and an estimated 7.5 percent in FY2020/2021 to around 6.8 percent by FY2022/2023. The primary surplus-to-GDP ratio is also projected to improve from an estimated 1.5 percent in FY2020/2021 to almost 2 percent over the medium term. Fiscal consolidation is expected to be supported by the gradual rise in the revenue-to-GDP ratio, as tax revenues start recovering, notably with the phasing out of the tax forbearance measures that were introduced during FY2019/2020—21, in addition to the implementation of the recently approved Medium-Term Revenue Strategy. Expenditure containment measures are also expected to kick in again, in particular those stemming from subsidies (including from better targeting).

Table 4. Key Fiscal Aggregates

In Percent of GDP	FY2016 Actual	FY2017 Actual	FY2018 Actual	FY2019 Actual	FY2020 Actual	FY2021 Forecast	FY2022 Forecast	FY2023 Forecast	FY2024 Forecast
Total Revenues	**18.1%**	**19.0%**	**18.5%**	**17.7%**	**16.8%**	**17.3%**	**17.3%**	**17.7%**	**17.8%**
Tax Revenues	13.0%	13.3%	14.2%	13.8%	12.7%	13.2%	13.3%	13.7%	14.0%
Grants	0.1%	0.5%	0.1%	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%
Non-Tax Revenues	5.0%	5.2%	4.3%	3.8%	4.0%	4.1%	4.0%	4.0%	3.8%
Total Expenditures	**30.2%**	**29.7%**	**28.0%**	**25.7%**	**24.7%**	**24.8%**	**24.5%**	**24.4%**	**24.5%**
Wages and Salaries	7.9%	6.5%	5.4%	5.0%	5.0%	5.1%	5.1%	5.0%	4.9%
Purchase of Goods and Services	1.3%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%	1.2%
Interest Payments	9.0%	9.1%	9.9%	10.0%	9.8%	9.0%	9.0%	8.9%	8.8%
Subsidies, Grants and Social Benefits	7.4%	8.0%	7.4%	5.4%	3.9%	4.1%	4.4%	4.4%	4.3%
Energy Subsidies	*2.9%*	*4.1%*	*3.4%*	*1.9%*	*0.3%*	*0.3%*	*0.4%*	*0.3%*	*0.3%*
Fuel Subsidies	*1.9%*	*3.3%*	*2.7%*	*1.6%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*	*0.3%*
Electricity Subsidies	*1.1%*	*0.8%*	*0.6%*	*0.3%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Other Expenditures	2.0%	1.8%	1.7%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%
Investments	2.6%	3.1%	2.5%	2.7%	3.3%	3.8%	3.5%	3.5%	3.6%
Cash Deficit	**12.0%**	**10.7%**	**9.5%**	**8.0%**	**7.9%**	**7.5%**	**7.2%**	**6.7%**	**6.7%**
Net Acquisition of Financial Assets	0.5%	0.2%	0.2%	0.0%	0.1%	0.0%	0.0%	0.1%	0.1%
Overall Deficit	**12.5%**	**10.9%**	**9.7%**	**8.1%**	**8.0%**	**7.5%**	**7.2%**	**6.8%**	**6.8%**
Primary Balance	**-3.5%**	**-1.8%**	**0.1%**	**1.9%**	**1.8%**	**1.5%**	**1.8%**	**2.0%**	**2.0%**

Source: World Bank staff calculations. Historical data through FY2019/2020 are based on official data from the Ministry of Finance. Starting FY2020/2021, data represent World Bank projections. Pre-actual fiscal outturns for FY2020/2021 are reflected in this table but are presented in percent of the World Bank forecast GDP.

28. **The gross fiscal financing requirements for FY2020/2021 are expected to be covered through a combination of domestic issuances and foreign financing**. Gross fiscal financing requirements (which include covering the overall budget deficit as well as maturing government debt) is forecast at EGP 2.7 trillion (42 percent of GDP) in FY2020/2021. These large financing needs are projected to be met through domestic issuances to roll over the maturing debt (notably Treasury bills), and to a lesser extent through the sovereign issuances made earlier this fiscal year and from IFIs, as well as the ongoing IMF SBA. Beyond FY2020/21, gross fiscal financing requirements are forecast to remain relatively elevated, albeit declining as a percent of GDP (Table 5 and Table A 1 in Annex 5).

Debt Sustainability

29. **The government debt-to-GDP ratio is projected to rise in FY2020/2021, but under the baseline scenario where growth and fiscal consolidation are resumed as the COVID-19 crisis abates, government debt is deemed sustainable over the medium term.** A Debt Sustainability Analysis (DSA) conducted by the World Bank shows that the government debt-to-GDP ratio is projected to initially increase from an estimated 87.5 percent in end-FY2019/2020 to 91.4 percent at end-FY2020/2021, on the back of the projected decline in growth as well as a temporary uptick in external borrowing to support the BoP during the COVID-19 crisis. However, as the pace of growth and fiscal consolidation gradually accelerate and foreign income-earning activities start to rebound, the government debt-to-GDP ratio is projected to decline to 86.7 percent by end-FY2022/2023 and further to 83.3 percent and 79.2 percent by end-FY2023/24 and end-FY2024/2025, respectively.

Table 5: Gross fiscal financing requirements and sources (FY2018/2019—2024)

in EGP billion	FY2019 Actual	FY2020 Actual	FY2021 Forecast	FY2022 Forecast	FY2023 Forecast	FY2024 Forecast
Fiscal Financing Requirements	**2,022.4**	**2,404.6**	**2,654.7**	**2,894.5**	**3,173.9**	**3,513.7**
Overall deficit	430.0	462.8	472.3	511.9	553.0	630.7
Domestic and foreign loans repayment	242.6	455.5	555.6	593.0	652.3	717.5
Roll-over of outstanding short-term domestic debt (T-bills)	1,349.8	1,486.3	1,626.9	1,789.6	1,968.5	2,165.4
Fiscal (budget) Financing Sources	**2,022.4**	**2,404.6**	**2,654.7**	**2,894.5**	**3,173.9**	**3,513.7**
Foreign Financing, of which	**149.6**	**188.7**	**166.4**	**120.0**	**100.0**	**100.0**
World Bank			14.1			
IMF		76.5	50.2			
UAE-banks consortium loan			31.4			
Eurobond issuances		112.2	58.9			
Green-bond issuance			11.8			
Domestic Financing	**1,872.8**	**2,215.9**	**2,488.3**	**2,774.5**	**3,073.9**	**3,413.7**

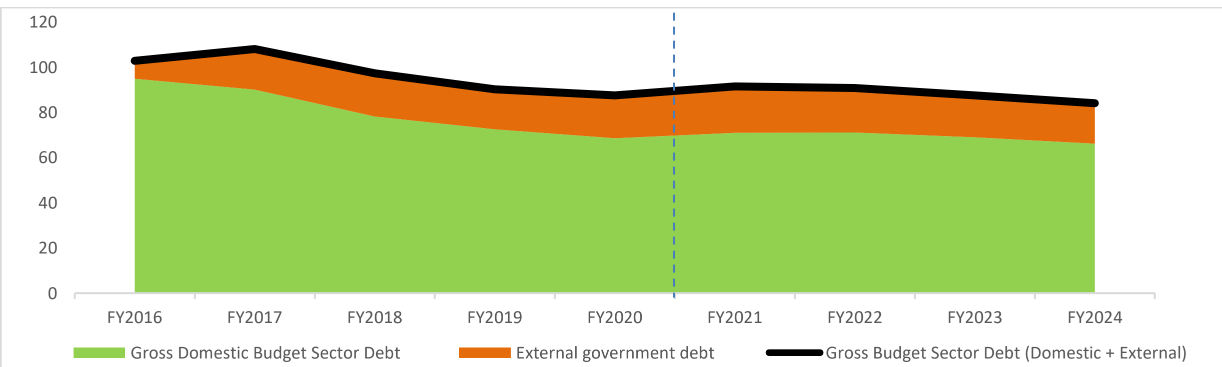
Source: World Bank staff calculations. Historical data through FY2019/2020 are based on official data from the Ministry of Finance, and CBE. Starting FY2020/2021, data represent World Bank projections.

30. **The high risks to the debt outlook arise from the maturity and currency structure, the elevated debt servicing cost and financial interlinkages with extra-budgetary entities.** Despite the improved government debt trajectory over the medium term, the debt-to-GDP ratio remains elevated, and its servicing is quite costly and remains susceptible to tightening global financial conditions as well as the uncertainty surrounding the pandemic. The average time-to-maturity of total (tradable) government debt has increased in recent years, yet the domestic portion of debt remains predominantly short-term, making it subject to refinancing and interest rate risks. External debt on the other hand is mostly medium- to long-term and remains largely on concessional terms. However, the recent increase in the share of foreign currency-

denominated debt (last estimated at 28.2 percent of total government debt) is raising exchange rate risks. Another source of fiscal risk stems from contingent liabilities (sovereign guarantees were last estimated at 18.4 percent of GDP in end-June 2020) as they may push up government financing needs if they materialize and become direct liabilities. Further, financial interlinkages between the Treasury and other extra-budgetary public entities entail debt issuance that exceeds the budget financing needs. Therefore, enhancing debt transparency is warranted in order to render the government debt path more predictable and to ensure its sustainability. Additional details about the DSA and stress tests to the baseline scenario are presented in Annex 5.

31. **Both domestic and foreign portions of government debt as a percentage of GDP are projected to decline over the medium term, after the initial uptick due to the COVID-19 shock.** Domestic debt – last reported at 68.6 percent of GDP at end-FY2019/2020 – is forecast to increase initially to around 70 percent in FY2020/2021—2022, and decrease thereafter. Domestic debt is expected to decline at a higher pace over the forecast horizon, as the government replaces part of the costly short-term domestic debt (less than one-year maturity), with longer maturities and more favorable terms (albeit with foreign exchange risk). This will in addition lead to an expected improvement in the overall maturity structure of total government debt, and thus ameliorate its risk profile over the medium term. Similarly, external government debt is forecast to rise from 19 percent of GDP at end-FY2019/2020 to 20.5 percent of GDP at end-FY2020/2021 before starting to decline thereafter (Figure 1).

Figure 1. Egypt's government debt trajectory



Source: World Bank staff.

32. **This baseline DSA reflects the central government (budget sector) debt and does not reflect extra-budgetary and/or contingent liabilities**. Government debt included in the DSA analysis covers the budget sector government debt statistics, which consists of three entities: the Central Administration, Local Governments, and Public Service Authorities. Other liabilities that are not covered here include debt contracted by economic authorities or state-owned enterprises, commitments that have been signed but are not disbursing, sovereign guarantees, and potential obligations of the state (e.g., contractual take or pay clauses) whose manifestation may not be apparent for many years. Examples of debt that may potentially be incurred outside of the budget sector include debt related to projects such as the electric rail (Red Sea to North Coast) project, the New Administrative Capital, and the prospective nuclear power project at Dabaa, among others. The Government has been publishing sovereign guarantees in recent years and has disclosed certain details of these projects that may incur debt, but more information would be needed to integrate them in the DSA. This area would need to be the subject of technical assistance and policy dialogue well into the medium term. Therefore, the World Bank has undertaken substantial shock scenario analysis in Annex 5, including a large contingent liabilities shock worth 10 percent of GDP.

33. **Egypt's macroeconomic policy framework is adequate under the baseline scenario projected in this operation.** Despite the severity of the COVID-19 crisis, headline macroeconomic indicators have so far shown relative resilience. Mobilization of foreign financing, including from the IMF and sovereign Eurobond and innovative green bond issuances have helped support reserves. Resilient formal channel remittances and foreign portfolio investments in government securities have also boosted reserves and banks' net foreign assets (NFA), with the latter continuing to accumulate a surplus amounting to EGP 59.2 billion by end-December 2020. Furthermore, the overall budget deficit-to-GDP ratio in FY2019/2020 remained largely in line with its level a year earlier, benefiting from the lower international oil prices and (to a lesser extent) the decline in interest rates. Egypt also displays sound financial indicators, as detailed earlier in section 2.1. As such, international rating agencies (Moody's, S&P and Fitch) have not undertaken sovereign rate cuts since the onset of the COVID-19 crisis and have been maintaining Egypt's credit outlook as 'stable'.

34. **While the outlook is uncertain as a result of the pandemic, gradual improvement in the macroeconomic environment can be achieved over the medium term as Egypt pushes ahead with key structural reforms**. The baseline scenario assumes that the macroeconomic stability gains that were achieved in recent years will be *temporarily* undermined by the challenges posed by the COVID-19 pandemic. Nevertheless, under the baseline scenario as reflected in the macroeconomic framework (Table 1 above), growth is expected to slowly rebound, the budget deficit- and the government debt-to-GDP ratios are expected to resume their downward paths and external account pressures would gradually subside over the forecast horizon. This DPF (as well as the ongoing IMF post-program monitoring) will also boost confidence and help preserve macro-fiscal stability gains, while continuing to advance key structural reforms.

2.3. IMF RELATIONS

35. **Egypt has completed the second and final review of the Stand-By Arrangement with the IMF through the IMF's Executive Board approval on June 23, 2021.** On June 26, 2020, the IMF's Executive Board approved a 12-month SBA with total access of about US$5.4 billion. The Board approval allowed the immediate disbursement of the first tranche of the SBA worth US$2 billion. On December 18, 2020, the IMF's Executive Board completed the first review of the economic reform program supported by the SBA which allowed for the disbursement of the second tranche of the SBA worth about US$1.67 billion, bringing total disbursements under the SBA to about US$3.6 billion. The second and final review was presented to the IMF Board on June 23, 2021. The Fund's Board approval of the second review has released around US$1.6 billion, resulting in total IMF assistance from the Rapid Finance Instrument (RFI) and SBA over the last 14 months of US$8 billion. The program has overachieved on macroeconomic outcomes (primary surplus, reserves, inflation); the Fund emphasized the importance of exchange rate flexibility as a shock-absorber and follow-through on the NSRP with deepening and broadening reforms critical for a sustained recovery. It is worth noting that the SBA is part of a two-stage engagement following Egypt's access to the RFI worth US$2.77 billion, disbursed in May 2020.

36. **The SBA was aimed at addressing balance of payments financing needs arising from COVID-19 and supported Egypt's efforts to preserve the macroeconomic achievements made over the past four years, and advance key structural reforms,** including strengthening the framework for public finances, improving governance and transparency, and reducing barriers to competition to ensure a path towards sustainable and inclusive private sector-led growth.

37. **The focus of the reviews of the SBA was on key reforms**, including those that would secure more inclusive and greener growth, in addition to key governance issues, such as the transparency of state-owned enterprises, ensuring a level playing field for all economic agents, and removing bureaucratic obstacles to private sector development.

38. **This DPF complements the reforms supported by the IMF through its program with the Government of Egypt in a number of areas.** The IMF program's structural benchmarks have drawn heavily on the Bank engagement in areas such as customs, debt management, competition policy, and social assistance. Building on the IMF support for the enactment of the new customs law, this DPF ensures the effective implementation of the customs law by supporting the issuance of its executive regulations in line with international good practice. Similarly, this DPF complements the one-off Medium-Term Debt Strategy – a reform supported by the IMF - by introducing more systematic annual and semi-annual reporting on debt.

3. GOVERNMENT PROGRAM

39. **With the aim of achieving its Egypt 2030 vision, the Government adopted the second phase of its program "Egypt Takes Off" (FY2018/2019 to FY2021/2022).** The program builds on the achievements of an earlier "State Stabilization Phase" moving toward a "Reaping of the Fruits Phase" and focuses on improving the standards of living for citizens and service delivery to all Egyptians without discrimination. It states that Egypt will achieve a competitive, balanced, and diversified economy through innovation and knowledge development. It will be based on justice, social integrity, participation and investment in the ingenuity of the Egyptian people to achieve sustainable development and improve the quality of life. Implementing agencies are required to follow regular performance-based monitoring.

40. **The three relevant pillars of the program include: (i) Economic Development and Improving Government Performance, (ii) Job Creation, and (iii) Improvement of Standards of Living.** The **economic development and improving government performance pillar** aims to enhance tax administration and efficiency of tax collection, fund development projects using public-private partnerships (PPP), develop and restructure state-owned enterprises, simplify licensing procedures and reduce the cost of doing business, save distressed businesses and move toward a greener economy, among others. The ultimate objective of the **job creation pillar** is to create about 900,000 jobs annually with a special focus on Upper Egypt, including by focusing on micro, small, and medium enterprise (MSME) development, implementing legal and regulatory reforms to encourage entrepreneurship, integrating the informal sector into the formal economy, and developing tailored programs to boost female labor force participation. For the **improvement of standards of living**, the government aims to provide social housing units, improve the quality of portable water services, eliminate gender-based discrimination and activate social and economic empowerment for women, and promote recycling and environmental projects that improve air and water quality and proper disposal of solid waste.

41. **In April 2021, the Government announced the National Structural Reform Program, which is a three-year program through FY2023/2024 focusing specifically on structural reforms to overcome the shock of the pandemic by achieving one of the key objectives of the "Egypt Takes Off" program: supporting private sector-led economic growth.** The homegrown program is viewed as an update to "Egypt Takes Off" and will also contribute to the implementation of the Egypt 2030 vision. Its strategic objectives are enhancing the adaptability, flexibility, resilience, and productivity of the Egyptian economy. To do so, the NSRP aims to push structural reforms that would develop the manufacturing, telecommunication, and agriculture sectors and bring their combined contribution to GDP to 30-35 percent by FY2023/2024, up from 26 percent in FY2019/2020. This package of structural reforms includes four policy areas: (i) **enhancing labor market efficiency** and improving technical education and vocational training, including by establishing an institutional framework to activate the role of the private sector in this field as well as supporting women and youth empowerment; (ii) **improving the business environment** by enhancing competition, trading across borders and supporting the transition to a green and sustainable economy; (iii) **raising the efficiency of public institutions through digital transformation and governance**, among others by improving the governance of SOEs; (iv) **advancing financial inclusion and access to finance,** including by activating the money market and preparing a national financial inclusion strategy; and

(v) **human capital development**, which would raise the efficiency and scope of public health services and upgrade the education system. Reforms under the announced program would be achieved either over the short term within 18 months or within the medium term between 18 and 36 months. The implementation of the program will be monitored through quantitative and qualitative performance indicators by a Prime Minister-headed higher level committee.

42. **With respect to development partners, the Ministry of International Cooperation (MoIC) developed a framework to strengthen economic diplomacy through three key principles:** (a) creating a multi-stakeholder country platform to ensure that all projects with development partners are streamlined and effectively coordinated; (b) mapping official development assistance (ODA) to the UN Sustainable Development Goals (SDGs) for all projects with multilateral and bilateral development partners; and (c) adopting a consistent global partnerships narrative around "People" at the core, "Projects" in action, and "Purpose" as the driver (P&P&P). Also, the governance process of soliciting and approving development finance has improved with the establishment of the External Debt Management Committee under Prime Minister Decree 2003/2018, headed by the Prime Minister and with the membership of MoIC, Ministry of Finance (MoF), the Ministry of Planning and Economic Development, and the CBE. The Committee sets an annual ceiling of external borrowing, receives reports on the financing needs of national entities accompanied with feasibility studies, examines project consistency with national objectives, and identifies appropriate sources of finance through ODA or commercial loans. Upon the Committee's approval of financing a project through ODA, MoIC is approached to secure the funding, identify the suitable development partner, and negotiate the financing terms or the technical support needed to accompany the project. In the case of this DPF, MoIC played a crucial role in coordinating across many ministries in the development of the reforms supported by the operation to represent a comprehensive "whole of government" reform agenda.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

43. **The development objective of the operation is to: (a) enhance macro-fiscal sustainability, (b) enable private sector development, and (c) foster women's economic inclusion.** The operation aims to support more inclusive economic growth for a sustainable recovery at a time of COVID-related turbulence. At the request of the Government, the operation takes a multisectoral approach. The intervention logic of the DPF is to build on the macro-fiscal gains achieved during the previous "State Stabilization phase" and support reforms that will improve the enabling environment for the private sector, open new sectors for investment, and encourage a transparent and level playing field, to boost employment and welfare outcomes, while also addressing external financing needs and safeguarding the recent reform efforts. The DPF focuses on ensuring macro-fiscal sustainability by improving debt and SOE management and expanding green finance investments. This is complemented with reforms to enable private sector development by strengthening financial sector stability; promoting digital financial services; enhancing commercial justice and trade facilitation systems; and expanding opportunities for private sector participation in waste management. Women's inclusion and enhanced economic opportunities are also central to the program by removing regulatory barriers hindering female labor participation, preventing, addressing and responding to gender-based violence, improving female access to finance and thus promoting women's economic empowerment.

44. **While this standalone operation focuses on an immediate set of prior actions, the discussions with the Government also encompassed proposed medium-term reforms on which there is an active dialogue.** Section 4.2 discusses the DPF prior actions and the intended follow-on steps that will help the Government meet its reform objectives. This recognizes the need for continued Government commitment to the reform agenda and persistent implementation

effort. The standalone operation reflects the need for a further assessment of priorities post-COVID that would inform a new Country Partnership Framework (CPF) under preparation. The policy dialogue with the authorities has a clear line of sight on reforms needed in the medium term, and the reforms supported by the operation will benefit from substantive technical assistance that will ensure implementation and sustainability of the reforms beyond the timeframe of the standalone operation. More details on the broader Bank's programmatic engagement and how the DPF contributes to the implementation of the WBG MENA enlarged strategy and the CPF are described in Section 4.3.

45. **The pillars of the operation mainly align with three pillars of the overarching Government program "Egypt Takes Off": Economic Development and Improving Government Performance, Job Creation, and Improving Standards of Living, as well as four of the more specific policy areas identified under the NSRP: labor market efficiency, improving the business environment, improving the performance of public institutions through improved governance, and enhancing access to finance**. As such, the pillars of the operation are interlinked, and the operation contributes directly to the Government's overall vision, its short-term and medium-term objectives to place inclusive growth, job creation, and gender equality at the center of the development agenda, and the achievement of United Nations SDGs as illustrated in Table 4 below.

46. **The DPF design is backed by development partners.** Following extensive technical discussions on program design and development objectives, the AIIB expressed an interest to match the World Bank financing with parallel support of US$360 million. Early on in the preparation, the World Bank has reached out to the development partners active in Egypt to ensure close coordination, and MoIC will be actively leveraging its newly launched multi-stakeholder platform to complement support of the reform program in line with the Government program.

47. **The DPF design incorporates the lessons learned from the Implementation Completion and Results Report of the previous DPF series in Egypt and recognizes the indicative findings of the Implementation Completion and Results Report of the latest DPF (Loan 8915-EG) which is due later in 2021**:

i. **Government ownership of program.** The most important reason for the success of the DPF is the strong ownership of the reform program by the Government which is also demonstrated in the Government's approach to coordination. MoIC adopted a strong "whole of government" approach, engaging directly with the Prime Minister and a large number of Ministers to ensure buy-in of the multisector reform program, including the results framework and timeframe for implementation. An additional aspect of the ownership and coordination efforts of the Government concerns communication. The Government plans to implement a communication strategy to raise awareness of its reform program, and the associated support from international donors, among the Egyptian public. This involves multiple consultations with non-governmental organizations and citizen groups as well as legislative and regulatory measures to promote transparency with regard to important aspects of the reforms.

ii. **Coordination with IMF.** Close collaboration with the IMF is conducted through regular meetings among staff and consultations on actions needed for successive phases of the programs of both parties. The DPF builds on some of the structural benchmarks identified in the IMF SBA, including debt management, competition policy, and customs. Given the short duration of the IMF SBA, there is a sizable macroeconomic policy implementation agenda beyond the horizon of the SBA, notably to reduce risks to debt sustainability and increase domestic revenue mobilization, and also to support the implementation of SOE and trade facilitation reforms. The Fund will remain engaged in active post-program monitoring. The World Bank has undertaken a sector-focused Public Expenditure Review on human development - social protection, health and education - which is one of the structural benchmarks of the IMF SBA.

iii. **Attention to social protection.** The Government adopted social protection measures to offset some of the consequences of COVID-19 and to cushion the impact of some of reforms on the most needy. For example, the Government has put in place a labor-intensive works program, increased social spending in general, expanded existing cash transfers and food subsidy programs and introduced new programs focused on irregular and seasonal workers. The Ministry of Social Solidarity (MoSS) added 60,000 families to the Takaful and Karama social assistance programs and hiked payments to women leaders in rural areas to EGP 900 per month from EGP 350. An exceptional grant of EGP 500 has been distributed to irregular workers registered by the Ministry of Manpower through post offices, banks and digital channels which also fostered financial inclusion. In total, 1.5 million workers have been registered and will receive the stipend from the Government. The Tahya Masr Fund has also allocated EGP 50 million for seasonal workers who lost their jobs due to the pandemic.

iv. **Prior analytical work and parallel technical assistance.** The DPF prior actions build on the underpinning analysis that empirically supports the link between relevant actions and their stated objectives, especially the Country Private Sector Diagnostic (CPSD) and the Systematic Country Diagnostic (SCD) (under preparation). The existence of such analytical work also informed the Government reform program. Most of the reforms benefit from parallel technical assistance which will ensure the sustainability of reforms and provide capacity building to support implementation. Relevant examples of analytical underpinnings and parallel technical assistance (TA) are shown in Table 5.

v. **Internal coordination within the World Bank Group.** The DPF preparation has involved strong collaboration between the Bank and IFC on infrastructure, private sector development and gender issues. This was manifested in the active IFC contribution throughout the DPF preparation and coordinated efforts in analytical work and technical assistance related to solid waste and infrastructure sectors, and topics supported by the IFC Creating Markets Advisory services (trade facilitation, Women Business and the Law Advisory etc.).

Table 6. Contribution of DPF Prior Actions to the Government's Reform Program

DPF Pillars and Prior Actions	GoE Program Pillars			Contribution to SDGs*
	Economic Development and Improving Government Performance	Job Creation	Improvement of Standards of Living	
Enhancing Macro-Fiscal Sustainability				
Prior Action 1: SOE Governance and Transparency	✓			8,16
Prior Action 2: Debt Management	✓			16,17
Prior Action 3: Green Finance	✓	✓	✓	7, 12, 16,17
Enabling Private Sector Development				
Prior Action 4: Financial Inclusion	✓	✓	✓	8, 16
Prior Action 5: Business Exit and Business Restructuring	✓		✓	8, 16
Prior Action 6: Trade Facilitation	✓	✓		8, 16, 17
Prior Action 7: Solid Waste Management	✓	✓	✓	16, 17
Fostering Women's Economic Inclusion				
Prior Action 8: Female Labor Force Participation	✓	✓	✓	5, 8, 10
Prior Action 9: Gender-Based Violence	✓	✓	✓	5, 8, 10
Prior Action 10: Female Access to Finance	✓	✓	✓	5, 8, 10

** SDGs: (1) No Poverty, (2) Zero Hunger, (3) Good Health and Well-being, (4) Quality Education, (5) Gender Equality, (6) Clean Water and Sanitation, (7) Affordable and Clean Energy, (8) Decent Work and Economic Growth, (9) Industry, Innovation and Infrastructure, (10) Reducing Inequality, (11) Sustainable Cities and Communities, (12) Responsible Consumption and Production, (13) Climate Action, (14) Life Below Water, (15) Life on Land, (16) Peace and Justice Strong Institutions, (17) Partnerships to achieve the Goal*

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

PILLAR 1: ENHANCING MACRO-FISCAL SUSTAINABILITY

48. **Reinforcing the sustainability of the recent fiscal gains from Egypt's structural reform program is crucial for long-term overall macroeconomic stability and for the economy's resilience against severe shocks such as that imposed by COVID-19.** Beyond FY2020/2021, fiscal consolidation will be resumed, as tax revenues start recovering, notably with the phasing out of the tax forbearance measures that were introduced during FY2019/2020—21. Fiscal consolidation will further be supported through the implementation of the recently approved Medium-Term Revenue Strategy, in addition to the expenditure containment measures that are expected to kick in again, in particular those stemming from the civil service wage bill and energy subsidies. This program builds on this effort by encouraging a more predictable and open environment for private investment. The reforms supported under this pillar of the DPF aim to strengthen debt and SOE management in addition to catalyzing the adoption of green finance instruments for public investment projects. In particular, the debt management reform under this DPF builds on previous Bank support for the initiation and expansion of the scope of the medium-term debt strategy (MTDS), including SOE debt, and the current Fund program.[9] The latter had structural benchmarks for a MTDS (supported by Bank TA) and expanded SOE financial information—including to SOEs not covered in 2019.

SOE Governance and Transparency

Prior Action 1: The Borrower, through its Presidency, has promulgated Law No. 185 of the Year 2020 (Amending Some Provisions of Public Business Sector Companies Law, Promulgated by Law No. 203 of the Year 1991).

49. **Current status.** State-owned enterprises, defined as entities where the state exercises control through full or majority ownership, play a significant role in the economy due to their large number and presence in most sectors. The SOEs vary significantly in terms of their size, strategic importance, and profitability. Many SOEs are unprofitable (106 SOEs out of 297 reported net losses in FY2016/2017), many are insolvent or highly leveraged, and many are facing challenges in managing their assets. SOEs are also characterized by complex legal and fragmented ownership structures. The country's legal framework for SOEs includes three different laws which apply to different SOEs—Public Sector Authorities and Companies Law No. 97 of 1983, Public Business Sector Companies Law No. 203 of 1991, and general Companies Law No. 159 for 1981. More than one third of the companies included in MOF 2019 SOE portfolio report incurred net losses and are often perceived as operating with an unfair advantage against private competitors. Many of the largest loss-making SOEs are those governed by Law No. 203/1991. In terms of financial disclosure, until now only SOEs that were listed on the stock exchange had a requirement for public disclosure of financial reports[10].

50. **Rationale.** In addition to a range of efficiency and market-neutrality reforms, improved corporate governance and transparency of SOEs is needed to support optimal value creation for the economy and effective public service delivery. These improvements include the development of an overarching SOE ownership policy, fostering competitive neutrality between SOEs and the private sector, stronger separation of regulatory and ownership functions, strengthening of oversight functions and aggregate SOE portfolio reporting including more scrutiny to enforce fiscal discipline, as well as

[9] Governance Reforms of State-Owned Enterprises (SOEs) - Lessons from four case studies (Egypt, Iraq, Morocco and Tunisia). World Bank. 2015. https://mcas-proxyweb.mcas.ms/certificate-checker?login=false&originalUrl=http%3A%2F%2Fdocuments1.worldbank.org.mcas.ms%2Fcurated%2Fen%2F829511468279359781%2Fpdf%2FP143247-AAA-Final-Output.pdf
[10] The MoF did publish summary financial information for a wide range of SOEs in 2020 as a one-off measure, and in recent years the MPBS has been publishing financial information for the various SOEs within the Holding Companies for which it has responsibility.

further professionalization and autonomy of boards. A first step towards these improvements is strengthening of the legal framework for SOE governance.

51. **Policy reform.** Given the multiplicity of laws governing SOEs, the Government reform efforts have first targeted the Public Business Sector Companies Law No. 203 of 1991 which applies to approximately 130 SOEs under Ministry of Public Business Sector (MPBS) and approximately 80 SOEs under other ministries to which the Law No. 203/1991 also applies, together employing 350,950 employees, more than half of people employed by all SOEs.[11] The recently introduced amendments to the Law No. 203/1991 and other administrative reform decisions issued through Ministerial Decrees mainly aimed to enhance corporate governance principles and bring them closer to principles stated under the Companies Law 159 of 1981, which covers private sector corporations. Most notably, the amendments to the Law No. 203/1991 require: (i) separating the positions of a chairman and a CEO; (ii) limiting the labor representative seats on the board of directors of subsidiary companies to two members only, down from a current 50 percent share of labor representatives on boards; (iii) providing additional financial benefits for employees by removing the cap on employees' share of profit which can be paid in cash; (iv) as a general rule, discontinuing post-retirement age employment of SOE employees other than those holding leadership positions to support the rightsizing of SOE staff; (v) requiring SOEs that are not listed in the Egyptian stock exchanges to publish semi-annual performance reports; and (vi) subjecting SOEs with 25 percent or more of their shares offered on the Egyptian stock exchanges to Law No. 159 of 1981, governing private sector corporations. The new law permits the inclusion of two independent board members, and boards will proportionately reflect the ownership of share capital (down from a current 50 percent share of labor representatives on boards). In addition, this law includes an automatic liquidation and/or merging rule if the accumulated losses of any SOEs exceed shareholder liabilities for a number of years and supports the independent oversight role of boards of directors operating under strengthened governance rules.

52. **The adoption of the executive regulations of the Law in May 2021 provided more specificity on the improvements in transparency.** All SOE holding companies and the underlying SOEs covered by the law are now subject to disclosure requirements – with the supporting executive regulations setting out the timeframe for publication of the semi-annual reports and annual audited statements, along with some of the internal procedures for their approval. This new requirement provides a precedent for enhanced reporting of SOEs generally and will facilitate better financial reporting by the Ministry of Finance on aggregate SOE performance.

53. **Expected results.** The amendments to Law No. 203 of 1991, enacted through Law No. 185 of 2020, with the supporting Executive Regulations are the first but important step towards a more transparent, market-oriented, and professional management of SOEs. The reform is expected to contribute to more profitable and efficient SOEs, and over time to increase the attractiveness of relevant SOEs to private investors. MPBS's current strategy is to discontinue the operations of loss-making and insolvent SOEs where turnaround is unlikely. The decision made in January 2021 to liquidate the steel company which incurred the highest net loss among SOEs in FY2018/19 was made possible due to the enactment of the new law. Winding up of this type of SOEs would relieve holding companies and the state Treasury from futile cash outflows to support loss-making enterprises and create a more level playing field with the private sector since the state is no longer expected to subsidize unprofitable commercial SOEs.

54. The provision of Law No. 185 of 2020 that limits the number of labor representatives on boards of SOEs to one to two would significantly enhance the quality and professionalism of the boards. Law No. 185 of 2020 mandates changing the current SOE boards within one year, with exception for the labor representative who got the highest vote that will remain on the board until the end of his/her term. The results indicator for the DPF is the percentage of SOEs under the

[11] Ministry of Finance

MPBS whose boards were reconfigured in accordance with requirements in Law No. 185 of 2020. (baseline: zero, target: 75 percent in March 2023).

55. **Medium-term reforms.** The implementation of the enhanced SOE corporate governance will provide a basis for additional reforms such as the execution, organization, and transparency of the government's enterprise ownership policy. A higher-level engagement with the Prime Minister is needed to widen the scope of SOE reforms beyond the purview of MPBS. The medium-term agenda is that the good practices introduced by the new law and other administrative reforms will be used as a platform and model for other SOEs and Economic Authorities. A committee for that purpose has already been formed by Prime Minister, for knowledge transfer from MPBS to eleven other ministries, with the first meeting already covering the amendments in Law No. 203 and its executive regulations.

Box 2. SOE Landscape in Egypt

According to the OECD, any corporate entity recognized by national law as an enterprise, and in which the state exercises ownership, should be considered an SOE. This includes joint stock companies, limited liability companies and partnerships limited by shares. Moreover, statutory corporations, with their legal personality established through specific legislation, are considered SOEs if their purpose and activities, or parts of their activities, are of a largely economic nature.[12]

Egypt is an outlier on the international stage in terms of the magnitude of SOE presence in the economy. SOEs were mostly accumulated during the 1960s central planning era mainly by nationalizing foreign and domestic private businesses. Despite several privatization waves before 2011, the state still owns hundreds of enterprises involved in almost all business sectors. These SOEs vary significantly in terms of strategic importance and size ranging from large utility companies such as electricity (generation, transmission, and distribution) and water and sanitation, where prices are regulated to small corporations working in the downstream textile sector.

From a legal perspective, corporatized SOEs fall under one of the following three laws:

i) Public Business Sector Companies Law No. 203 of 1991, which was amended by Law No. 185 of 2020 (the majority of commercial SOEs are subject to this law).
ii) General Joint Stock and Limited Liability Companies Law No. 159 of 1981 under which private sector companies are incorporated. (Most of the non-civilian SOEs are subject to this law).
iii) Public Sector Authorities and Companies Law No. 97 of 1983 (only limited number of SOEs are still subject to this legacy law).

In addition, there are more than 50 unincorporated entities called Economic Authorities (EAs) established by other special laws, presidential or Prime Ministerial decrees. Some of these authorities should also be considered as SOEs as they operate in markets for goods or services that could be provided by private companies and are not covered by the public budget. Many EAs are large employers and play significant roles in the economy, such as the National Railway Authority and Egyptian Post.

SOEs' fragmented affiliation to numerous ministries and authorities, as well as their direct governance by the ministry/entity which regulates the sector create significant challenges as seen for example in the case of Telecom Egypt under Ministry of ICT and state-owned banks under Central Bank of Egypt. Furthermore, absent of a clear ownership policy to guide decisions on the state's participation in corporate activities, there is a risk of an inconsistent conduct of ownership functions, leading either to overly passive or conversely excessive interventions in matters or decisions which should be left to the enterprise and its governance organs. Another important feature of the SOE landscape in Egypt – as in many other countries – is that some SOEs and EAs perform both commercial activities and noncommercial or public service activities, with no requirement to separate the two.[13] Without this separation, the provision of public service obligations can be over or undercompensated. Both can create problems, but the private sector is particularly affected when SOEs are overcompensated, because this could cross-subsidize commercial activities with public resources.

[12] OECD (2015): OECD Guidelines on Corporate Governance of State-Owned Enterprises.
[13] World Bank Group (2020): Creating Markets in Egypt.

Debt Management

Prior Action 2: The Borrower, through its Ministry of Finance, has adopted and published Decree No. 229/2021 (Decree on Debt Reporting) in the National Gazette mandating: (i) the publication of semiannual public debt bulletins with detailed central government domestic and external debt data, including non-tradable debt; and (ii) the publication of an annual debt management report on the Ministry of Finance website, in light of the objectives and targets defined in the Medium-term Debt Management Strategy, and including detailed information on existing guarantees, not later than 6 months after the end of the previous fiscal year.

56. **Current status.** Notwithstanding the adverse impact of the COVID-19 crisis, Central Government debt declined from 90.2 percent of GDP in June 2019 to 87.5 percent in June 2020. A larger reduction can be observed when compared to the debt size in June 2017, which had peaked at 108 percent of GDP[14]. Cost and risk indicators were also improved in FY2019/2020. Total Average Time to Maturity (ATM) increased from 2.74 years to 3.2 years, and average interest rates in the domestic market went down from 18 percent to 14.8 percent, according to the MTDS 2021-2024.

57. After the publication of a medium-term debt strategy for FY2018/2019-FY2020/2021 in May 2019, an update of the MTDS was published in December 2020 to cover FY2020/2021-FY2023/2024, which was supported under the previous DPF. Coverage of the MTDS has improved with the inclusion of external bilateral and multilateral debt, however, more detailed information on the terms and conditions of the debt is needed for an improved cost and risk assessment. The expanded MTDS also included references to the overall financial situation of commercial SOEs, building on information that was published to meet a structural benchmark under the IMF Standby Arrangement (SBA) program. It also referenced abridged balance sheets for some SOEs, including total assets and liabilities, as published on the website of the Ministry of Finance. Electricity and water utilities are included in the publication. The Government is committed to continue strengthening the quality of debt disclosure of SOEs and the audit procedures of the accounts, including introducing corporate governance principles in all SOEs.[15] In this regard it is worth mentioning the reform introduced to the chart of accounts of SOEs, in coordination with the government auditor, to further enable the consideration of cost accounting basics. Inclusion of non-tradable debt is also a missing step to be pursued.

58. **Rationale**. Timely, reliable, and comprehensive data on the level and composition of debt are key to the effective management of public liabilities and to the proper identification and prevention of the risk of a debt crisis. This is best achieved through adequate reporting and the disclosure of comprehensive, reliable, and timely debt data. The Ministry of Finance website hosts a significant amount of information about the debt portfolio and transactions, yet a large part of this data is not regularly updated to reflect the latest debt position. While the annual update and publication of the MTDS documents is an important first step, consolidation of all debt outstanding and transactions information in periodical reports would also be of great value. This would enable foreign and domestic investors to have more clarity on the characteristics of the existing portfolio, recent trends and strategy implementation, potentially increasing demand for government securities and lowering the refinancing cost.

59. The publication of more frequent, comprehensive and timely debt data requires effective debt recording. At present, information needed for debt reporting is dispersed across three institutions (CBE, MoF and MoIC), is reported on an infrequent basis, and the scope does not cover sovereign guarantees. The MoF uses a DMFAS debt recording system, which hosts only domestic debt data. External debt data is managed by the Central Bank of Egypt. The expected

[14] Part of the decline was achieved through the cancellation of debt owed from the Treasury to the Social Insurance Fund, in an amount close to 6-7 percent of GDP.
[15] It is noteworthy that SOE debt has significantly decreased, due to the settlement of more than EGP 33 Billion of historical debts to various governmental and non-governmental entities, via debt/asset swaps.

solution to enable MoF immediate access to external debt data is through creating a direct link between the systems hosted by the Ministry and by CBE along with a Memorandum of Understanding between the institutions to enable them to access (but not edit) each other's data.

60. **Policy reform.** The above Decree reflects a formal government commitment to publish semi-annual public debt and annual debt reports encompassing comprehensive and timely data, under a specified timeframe. The disclosure of debt data would encompass aggregate central government domestic and external debt, including information on tradable and non-tradable debt. The Annual Debt Report will also include detailed information on existing guarantees by debtor and major creditors. Cost and risk indicators defined in the MTDS and/or in the Annual Borrowing Plan will be closely monitored and any deviation explained. Transactions in the domestic and external markets and their results will be explored, clarifying the reasons for the chosen implementation strategy. Market and fiscal conditions faced throughout the assessed year will also underpin the analysis.

61. **Expected results.** The DPF will contribute to greater debt transparency ensured by timely and consolidated government debt information published on MoF's website on a semi-annual and annual basis. Availability of information about debt stock, transactions and practices would facilitate access to markets, avoid higher cost of borrowing that comes with uncertainty, and strengthen government credibility. It would also improve overall fiscal management and help prevent episodes of debt distress. This reform consolidates the debt information in one report, extends the scope to sovereign guarantees, and provides an assessment of the performance against the objectives set out in the MTDS, which would pave the way to increase the effectiveness of planned reforms such as the establishment of a bridge with Euroclear that will enable non-resident investors to clear and settle Egypt government securities under the international clearing, settlement and depository system. Euroclearability would be a relevant market infrastructure milestone, however, greater participation of non-resident investor in the domestic market needs to be supported by enlarged debt data transparency. The results indicator for this policy reform is the regular publication of semi-annual debt bulletins and annual debt reports (baseline: 0, target: two semi-annual debt bulletins and two annual debt reports, March 2023).

62. **WBG technical assistance**. Technical assistance for MoF on debt reporting and investor relations practices is one of the agreed components of the World Bank Government Debt and Risk Management (GDRM) program that has provided debt management technical assistance to the Ministry since 2015. Besides the TA to be provided under the GDRM program, MoF is engaged in an ongoing project with UNCTAD for the upgrade of the current DMFAS system. This upgrade will be followed by a focused TA also provided by UNCTAD on how to extract standard debt statistics data from the DMFAS system. Coordinated efforts from the WB and UNCTAD significantly increase the chances of success of the envisaged reform seeking greater debt transparency.

63. **Medium-term reforms**. MoF is considering establishing an Investor Relations Unit to be responsible for developing and updating debt-related materials amongst others related to MoF responsibilities. From an institutional perspective, MoF also aims to develop a full-fledged Debt Management Unit, under a back-middle-front office arrangement[6]. Moving beyond semiannual publication to the reporting of monthly debt bulletins and the timely update of debt-related information on the MoF's website would bring Egypt towards best practices.

64. It is also key to improve reporting around the deficit-debt reconciliation to identify the sources of unexpected debt hits that need to be brought within the scope of regular reporting. In recent years, debt accumulation (i.e., the change in the stock of debt) was considerably larger than the overall deficit; around a third of debt accumulation remains unexplained - suggesting below-the-line spending or debt issuance. Further debt transparency is warranted in order to render the debt path more predictable and to ensure its sustainability. The medium-term objective to introduce more

systematic reporting of SOE performance, referenced in prior action 1, would also provide a basis through which the scope of government debt reporting could be further enhanced. While the immediate priority was to introduce a more systematic approach to debt reporting, these remain priority areas for the medium-term policy dialogue.

Green Finance

Prior Action 3: The Borrower, through its Ministry of Finance, has adopted and published the Sovereign Green Financing Framework on its website[16].

65. **Current status.** The Egyptian economy will likely experience broad structural changes due to decarbonization in line with the Paris Agreement. All this comes at a time when distressed economic conditions due to the COVID-19 pandemic have exacerbated the large public debt and tight external financing conditions. To facilitate climate adaptation and mitigation, while also assuring a sustainable recovery, the financial sector can play a key role to better allocate capital, access new sources of funding, and mitigate/transfer climate-related financial risks.

66. In recent years, sovereign green bond programs have grown in popularity as global investors increasingly seek to increase their exposure to certifiably 'green' assets and sovereigns seek new funding streams to speed up their transition to a low carbon economy. As the largest issuers of debt in an economy, many sovereign issuers are beginning to consider sovereign green bond instruments as a way to raise dedicated funding for green projects and to provide a green benchmark to catalyze further growth in the domestic green capital market. Green bond issuance is also used to potentially diversify the investor base. Accordingly, the global green bond market has been rapidly growing in depth and breadth. In 2019 alone, issuances from eight new countries emerged bringing the total number of sovereign green bond issuers to 62[17] . Similarly, sovereign green bond issuance grew globally from US$10.7 billion in 2017 to US$40.5 billion in 2020[18].

67. **Policy reform.** In September 2020, the Government issued a Sovereign Green Financing Framework aligned with international best practice (2018 Green Bond Principles) to define and specify the governance arrangements for the issuance of sovereign green bonds. The framework identifies the eligible project and expenditure categories in line with the government's environmental objectives, including implementation of their Nationally Determined Contributions (NDC) under the Paris Agreement.[19] As per global best practice, the Sovereign Green Financing Framework dictates use of proceeds; project evaluation and selection process; management of proceeds; and reporting parameters for any sovereign green bond offering. Per the guidance of the International Capital Markets Association (ICMA), issuers who intend to launch a green bond are required to develop a Green Bond Framework. The Sovereign Green Financing Framework is key for marketing a green bond to investors as credible labeled green bond. The framework is in line with the objectives of the WBG's Climate Change Action Plan 2021-2025 and the Country Climate and Development Framework.

68. In line with the Sovereign Green Financing Framework, and as part of the investor prospectus, the Government issued a US dollar-denominated 5-year, US$750 million green bond on September 29, 2020. Demand was strong, with purchase orders surpassing the targeted issue size by more than 7 times. The bond joins a small but growing asset class of emerging market sovereign green bonds, including issuances from Fiji, Poland, Nigeria, Indonesia, Hungary, and Chile. Egypt is the first country in the MENA region to issue a sovereign green bond.

[16] https://www.mof.gov.eg/en/posts/publicDept/601ace3810ca760007b20d2c/Green-Bond%20Documentation
[17] Green Bonds: Global State of the Market 2019. Climate Bonds Initiative
[18] Moody's: Trends in sustainable bonds issuance and a look ahead to 2021. 22 February 2021
[19] The first NDC was issued in 2015, with an update in 2019. Egypt's NDC focuses on several strategic sectors, including water, transport, coastal zones and agriculture. https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Egypt%20First/Egyptian%20INDC.pdf

69. **Expected results.** The Sovereign Green Financing Framework is expected to contribute to Egypt's implementation of its NDCs by supporting inter-ministerial coordination, green project tagging, and developing a sovereign green benchmark to catalyze further green capital market activity either in local or foreign currency. The Sovereign Green Financing Framework also supports a key aim of the country's debt management strategy goal of diversifying its investor base while helping to shift the government debt portfolio to longer-term borrowing. The framework will allow the Government to finance up to US$1.95 billion identified green public investment projects, and signals Egypt's commitment to debt transparency. Expected results include continued identification and prioritization of green projects within the budget rather than increasing gross debt. The indicator is the percentage of green public investment projects out of total public investment projects to facilitate the transition to low carbon economy and implementation of NDCs (baseline: 14 percent in FY2020/2021; target: 20 percent in FY2022/23).

70. **WBG technical assistance.** The World Bank Treasury Department provided technical assistance to the Ministry of Finance in the preparation phase of the Framework. In addition, the Bank will provide technical assistance in the preparation and issuance of annual reports regarding the utilization of Egypt's green bond proceeds and the expected developmental and environmental outcomes of approved projects to maintain credibility and good standing as an issuer of labeled green bond. Most recently, the Central PPP Unit in the MoF also requested TA support from the WBG to help in updating guidance and tools to tag PPP and private capital mobilization (PCM) early on and develop them in a way that enables access to green financing downstream.

71. **Medium-term reforms.** Further sovereign debt issuances, potentially through the issuance of a sovereign green *sukuk*, might also serve as a benchmark for growth in the corporate green and *sukuk* markets. Future sovereign debt issuances could be tailored to projects in other 'green areas', including energy efficiency and climate change adaptation, to add depth to the government's capacity to implement their NDC agenda.

72. **In parallel to sovereign efforts, both financial sector regulators, the Central Bank of Egypt and the Financial Regulatory Authority (FRA) are making efforts to green the financial sector.** They have become members of the Network of Central Banks and Supervisors for Greening the Financial System (NGFS); the CBE is also a member of the Sustainable Banking Network. The FRA has already issued green bond guidelines in alignment with the International Capital Market Association's Green Bond Principles. These guidelines have supported market participants to begin working towards bringing green instruments to market, including Egypt's Commercial International Bank**.** The FRA has also committed to issue guidelines for domestic institutional investors to develop their capacity to integrate environmental, social, and governance (ESG) criteria into investment decision-making. In addition, the FRA has committed to issue guidelines for the annual voluntary disclosure of ESG/climate related risks for listed firms. The CBE is also committed to strengthen climate and environmental risk management in the financial sector, with the objective of making banks and other financial institutions more resilient to the consequences of climate change (i.e., physical risk) and the expected decarbonization of the economy in line with the 2015 Paris Agreement (i.e., transition risk). The CBE and FRA reforms would be supported by technical assistance provided by the WBG under the '30 by 30 zero'[20] program which began in 2021. In July 2021, the CBE issued the "Sustainable Finance Guiding Principles", which are intended to plan and set the general framework for the adoption of sustainable finance in the Egyptian banking sector, building capacities and allocating the necessary resources to implement these guidelines. The issuance of the "Sustainable Finance Guiding Principles" is an essential step towards supporting the development efforts and the national plans to achieve sustainable growth, and to secure the

[20] The '30 by 30 zero' program is a joint initiative of the WB-IFC-GIZ, among other partners. The program aims to increase the banking sector's exposure to climate-related lending to at least 30 percent by 2030. The program aims to further support greening of the financial sector as whole by enhancing the climate risk management capacity of supervisors and regulators.

finance required for projects that contributes to achieving the sustainable development goals SDG's and Egypt Vision 2030.

PILLAR 2: ENABLING PRIVATE SECTOR DEVELOPMENT

73. **This pillar of the DPF supports a more transparent and inclusive enabling environment for private sector development and expanding opportunities for private sector participation**. Thus, the measures envisaged under this pillar include strengthening financial inclusion; promoting digital financial services; enhancing the commercial justice; and supporting trade facilitation. This pillar builds on relevant reforms supported under the previous DPF which focused on improving access to finance, promoting cashless transactions, facilitating investment entry, promoting SME participating in public procurement and promoting entrepreneurship. The Bank and IFC are closely working with the government on supporting the reform implementation through the ongoing projects and technical assistance. In addition, the reforms supported by this DPF build on the recommendations of recent WBG analytics (CPSD, Investment Climate Assessments, Enterprise Surveys, SCD, etc.). The CPSD has identified trade facilitation, contract enforcement, commercial justice and barriers facing digital financial development as important impediments for private sector growth (see Box 3 for more details on the interlinkages between the CPSD and the DPF prior actions). The reforms supported by the DPF will contribute to improving the investment climate and the competitiveness of the private sector. Moreover, the promotion of digital financial services and bankruptcy/restructuring reforms are expected to support the recovery of the economy from the COVID-19 shock.

74. **This pillar also focuses on solid waste management as an example of a sector where the Government is taking important steps toward increasing private sector participation and private capital mobilization.** Efforts made in solid waste management can have a demonstration effect and once successful, would be replicated in other sectors.

Box 3. Egypt CPSD: Key policy recommendations

In 2020, the WBG completed a comprehensive Country Private Sector Diagnostic which identified five overarching priority areas and respective actions to help promote private sector development. Three out of the five policy recommendations helped inform the DPF program design.

1. **Transparency and participatory approach in policy making:** To signal ownership for the second wave of reforms, the report proposes that the Government put in place a reform committee with inclusive participation from the public and private sector. Such a committee appears to be instrumental in advancing the regulatory reform agenda.

2. **Trade facilitation and trade policy:** To help enhance Egypt’s export competitiveness, reforms to streamline tariff and nontariff measures, modernize customs and improve transport connectivity need to be implemented. Among other recommendations, the CPSD specifies the modernization of customs by: (a) enacting a new customs law and executive regulations aligned with the Revised Kyoto Convention and World Trade Organization Trade Facilitation Agreement (WTO TFA); (b) automating customs, simplifying procedures, and fully implementing an electronic single-window system; (c) introducing a risk-based inspection system; (d) improving human resource capacity; and (e) establishing modern inspection facilities.

✓ *This area is directly addressed by this DPF under PA 6 which supports adoption and publication of the executive regulations of the new customs law that aim to facilitate the modernization of customs practices and to enable the implementation of the WTO TFA and the World Customs Organization Revised Kyoto Convention.*

3. **Connectivity and logistics:** To improve transport connectivity the report suggests: (a) implementing a performance scorecard with associated accountability for port efficiency; (b) attracting private investment by reducing regulatory uncertainty and clearly separating the roles of public agencies as regulators versus operators in ports and other related logistical services, introducing transparent bidding processes for concessions, and setting up an independent dispute resolution system; (c) accelerating the

design and implementation of an integrated multimodal transport strategy; and (d) improving the efficiency and quality of road transport services.

4. **Fostering domestic competition and levelling the playing field:** In revisiting the role of the state as an enabler of private sector development, an overarching state ownership policy could usefully complement legal reforms and improve the SOE governance framework. In the multitude of laws governing public enterprises, these legal reforms can first be applied to Law No. 203 of 1991, which governs a large number of SOEs.

✓ *A first step to address SOE reform is reflected under PA 1 of the DPF which supports the amendments to the Public Business Sector Companies Law No. 203 of 1991 which aims to enhance corporate governance principles and bring them closer to principles stated under the Companies Law 159 of 1981 covering private sector corporations. In parallel, the draft competition law currently being reviewed by the Parliament benefited from World Bank technical assistance and is part of the IMF SBA program.*

5. **Improve commercial judicial system through automation and transparency.** An efficient and effective commercial judicial system is important to create a conducive business climate. Achieving such a system requires speeding up the processing of civil and commercial cases by improving judicial workload management, streamlining business processes, enhancing case management, and supporting enhanced business processes through automation, which will also increase transparency.

✓ *Building on the government's implemented reform to publish court statistics, PA 5 takes this policy priority one step further by supporting amendment to the bankruptcy law to increase creditor participation during reorganization, improve debtor's prospects for reorganization, as well as to improve the efficiency of insolvency proceedings.*

The diagnostic also provides sector-specific policy recommendations to priority sectors including among others the ICT sector, highlighting Egypt's potential to leverage its ICT sector as the nucleus of a diverse digital economy to respond to the increased needs, especially following COVID-19 pandemic, and for the long-term benefit of the population.

✓ *PA 4 supports the draft Fintech law which will directly help catalyze tech adoption by creating the regulatory framework.*

Financial Inclusion

Prior Action 4: The Borrower, through its Cabinet, has approved and submitted to Parliament the draft Fintech Law for non-bank financial institutions.

75. **Current status.** The last two to three years have witnessed several positive developments in the Egyptian fintech industry, including the launch of dedicated fintech accelerators and the emergence of new fintech-focused venture capital funds. In Egypt, fintech accounted for more deals than any other industry in 2019. Startups focusing on payments and remittances have raised the highest amount of funding in 2019, and Fawry has become the first Egyptian unicorn in 2020. Similarly, innovations across a wider range of fintech segments have emerged including consumer financing, credit solutions for businesses as well as the rise in the number of 'RegTech' startups. COVID-19 has also become an unexpected catalyst for tech adoption. In 2019, the CBE announced its fintech innovation strategy, with the vision of positioning Egypt as a fintech hub in the Arab world and Africa, home to next generation financial services, talent and innovative development. On the regulatory front more attention was required from CBE and FRA to create a conducive regulatory framework which helps unlock the potential of digital financial services. In September 2020, the new Banking Law No. 194 of 2020 was enacted to promote financial inclusion and encourage the usage of digital financial services, giving the CBE explicit responsibility for: (i) the oversight of payment systems, payment service providers and associated licensing requirements; (ii) financial consumer protection supervision of banks and payment service providers including competition protection and an Ombudsman scheme; and (iii) fintech and 'RegTech', directing CBE to establish a test environment and to grant temporary exemptions from the general rules on payments for startups[21].

[21] In addition to these reforms, the CBE also enacted in April 2019 Law 18/2019 regulating the use of non-cash payment to improve financial inclusion and promote the development of digital economy. The law is considered an important milestone in regulating the use of non-cash payment (e-payment law), which enhances financial inclusion and boosts the integration and formalization of the informal sector through cashless payments and digitization.

76. **Rationale**. A new Fintech Law for Non-Bank Financial Institutions (NBFI) will complement the chapter on fintech in the new Banking Law. It aims at promoting financial inclusion, increasing the number of beneficiaries of NBFIs, improving the efficiency, and reducing the costs of fintech services. The draft law has been developed by FRA and benefited from extensive consultations with the private sector, CBE, and relevant stakeholders.

77. **Policy reform.** The main reforms envisaged by the draft law are: (i) setting out a general framework for fintech startups operating in certain segments of NBFIs (Insurance, Consumer Finance, Robo Advisory, Nano-finance); (ii) allowing the FRA to create a regulatory sandbox for the digital NBFI activities covered in the law; (iii) clarifying that digital non-banking financial activities not having a FRA license must apply for one; and (iv) clarifying that non-banking financial activities already holding a license from the FRA still need to request approval from the FRA to undertake their activities digitally. In addition, the draft law provides the framework for using artificial intelligence and gives the FRA the power to use it in deciphering data and combatting money laundering. The draft law further establishes a legal framework for robo-advisory, electronic nano-finance, and electronic consumer finance. Additionally, it introduces the terms 'Smart Contracts', 'RegTech', 'Digital Identity' and 'Digital Register' into the Egyptian legal system.

78. **Expected results.** The new law is expected to enhance the supervisory capacity and efficiency of FRA, improve financial consumer protection, improve access to and usage of electronic payment methods and other digital financial services thus strengthening public confidence in digital financial services which will lead to a more inclusive and effective access to finance contributing to private sector-led growth. The reform will support climate mitigation and adaptation in multiple ways. Households and farmers will be better able to invest in equipment and technologies that are more efficient and renewable, e.g., solar irrigation systems, efficient harvesting tools. By improving access to borrowing and saving products in rural areas as well as insurance, the reform will help households and businesses to improve housing and micro entrepreneurship. Increased connection to the financial system will also help to identify targeted beneficiaries for cash transfers in post natural disaster scenarios or extreme climate impacts. This type of financial access increases resilience to the relative impact of adverse climate impact on livelihoods. The beneficiaries of the law will include farmers who would be able to borrow against inventory or future crops to secure gap financing, access microinsurance against crop failures (e.g., weather insurance), and benefit from savings products, which increase their adaptation capacities in case of natural disasters. This applies not only to farmers but to most other small business owners – and women – in the subsistence economy. In the context of the DPF, the result indicator is the publication of FRA Board decisions detailing the secondary regulations stipulated by the law (baseline: not published; target: published by March 2023).

79. **Medium-term reforms and WBG technical assistance.** The World Bank has provided comments to chapters of the new Banking Law and the draft FRA Fintech Law under the Financial Inclusion Global Initiative (FIGI), a three-year program implemented in partnership with the Committee on Payments and Market Infrastructure (CPMI), and the International Telecommunications Union (ITU) funded by the Bill and Melinda Gates Foundation to support and accelerate the implementation of country-led reform actions to meet national financial inclusion targets. In the medium term, the World Bank will continue working with the FRA to provide technical assistance in drafting secondary regulations in the form of FRA Board Decisions. The World Bank will also provide technical assistance to the legislation jointly prepared by CBE and FRA regarding crowd funding, peer-to-peer lending and other newly developed digital finance activities. Special attention will be given to address specific barriers or challenges faced by women.

Business Exit and Business Restructuring

Prior Action 5: The Borrower, through its Presidency, has promulgated Law No. 11 of the Year 2021 (Amending some provisions of the Restructuring, Preventive Composition and Bankruptcy Law No. 11 of the Year 2018)

80. **Current status and rationale.** In March 2018, Egypt modernized its insolvency regime with a new law, which was an important step in the right direction by introducing a more creditor-friendly approach, streamlining restructuring and mediation procedures, and modernizing the existing preventive composition proceeding. However, the new insolvency regime continued many of the practices under the old legislation, with respect to judicial reorganization ("preventive composition" procedure) and did not produce the intended effect of incentivizing early debtor filing for reorganization and successful restructuring through the new procedure ("restructuring" procedure). According to statistics provided by the Ministry of Justice (MoJ), there were no filings for preventive composition at the newly established bankruptcy departments of the Economic Courts between 2018-2020, following the adoption of the new regime. The court received under 50 bankruptcy applications per year during the same period, and only one restructuring application per year was filed, based on the statistics (two were successfully finalized and one was rejected by the court in 2020). The COVID-19 pandemic has exacerbated vulnerabilities related to private sector debt, financial institutions, international capital markets and corporate insolvency frameworks, making it more important to incentivize reorganizations and restructurings.

81. **Policy reform.** MoJ has introduced amendments to the Bankruptcy Law in the area of preventive composition, restructuring and bankruptcy, inspired by the World Bank's Principles for Effective Insolvency and Creditor/Debtor Regimes ("the ICR Principles") and the UNCITRAL Legislative Guide for Insolvency Law and building on WBG technical assistance. The law has been ratified and enacted by the President in April 2021. The amendments aim to address limitations in the 2018 law and increase creditor participation during reorganization (and ultimately, creditor recovery), to improve debtor's prospects for reorganization, as well as to improve the efficiency of insolvency proceedings by: (i) allowing creditors to file for debtor's reorganization (in preventive composition proceedings) and to propose a competing reorganization plan; (ii) allowing creditors with accepted claims to have full access to the debtor's financial information and business plan, to increase transparency, avoid asymmetry of information, and provide the banks/participating creditors with updated and reliable data; (iii) providing for creditor voting in classes for purposes of adopting a reorganization plan; (iv) explicitly providing for post-commencement financing of the debtor under restructuring proceedings and priority of repayment for such financing in case of subsequent liquidation; and (v) automatic conversion of reorganization proceedings (preventive composition) to bankruptcy proceedings in the event reorganization efforts fail.

82. **Expected results.** As a result of enhanced reorganization options (in restructuring and preventive composition proceedings, as well as within bankruptcy), the reform would contribute to increased stakeholder confidence in the insolvency regime and incentivize debtors – be it large firms or SMEs - to file for restructuring/composition early, in order to have better prospects for successful reorganization. Creditors would have a more meaningful participation in the procedures, and stronger incentives to negotiate a restructuring settlement, ultimately increasing their recovery rate from distressed loans. Creditors will more likely extend credit knowing there is an updated resolution system in place, and thus the reform will have an impact on new firms and SMEs seeking to access credit. The result indicator in the DPF context is the consistency of the Insolvency Law with the accepted international standard on creditor eligibility to file for both reorganization and liquidation (WB ICR Principle C4.2); on creditors' effective participation in insolvency proceedings and access to information (WB ICR Principle C7.1), and on availability and priority for post commencement finance (WB ICR Principle C9.2)[22]. (baseline: No; target: Yes by March 2023).

[22] WB ICR Principle C4.2: "*Access to the system should be efficient and cost-effective. Both debtors and creditors should be entitled to apply for insolvency proceedings*."; WB ICR Principle C7.1 "*The role, rights, and governance of creditors in proceedings should be clearly defined. Creditor interests should be safeguarded by appropriate means that enable creditors to effectively monitor and participate in insolvency proceedings to ensure fairness and integrity, including by creation of a creditors' committee as a preferred mechanism, especially in cases involving numerous creditors*."; WB ICR Principle C9.2 "*Subject to appropriate safeguards, the business should have access to commercially sound forms of financing, including on terms that afford a repayment priority under exceptional circumstances, to enable*

83. **WBG technical assistance.** MoJ will be focusing on implementation, capacity building and public awareness efforts. The current WBG TA to the MOJ will provide the technical support to help implement the amended law through the training of relevant stakeholders, i.e., judges, insolvency trustees and banks, and designing tools to enhance the skills of the trustees, such as a manual on managing restructurings, standardized forms and mediation training.

84. **Medium-term reforms.** In parallel to the bankruptcy reforms, MOJ has issued Decree 241/2021 to enforce the development and publication of courts' performance reports provided a "Data Collection Practice, and a Guide" to assist with the development of enhanced data collection practice for the commercial courts, which are all steps that are expected to improve the efficiency of commercial and economic courts. In the medium term, the MoJ is expected to conduct a comprehensive overhaul of the Code of Civil Procedures, which is the core law regulating the functioning of the courts. The current code is outdated and has not been substantially updated since the 1960s. Since it affects literally every single case processed by the courts, it is a major impediment to much needed introduction of effective case management and business process reengineering enabled and supported by ICT. This overhaul will provide a legal basis for the modernization of the system and enable the Government to improve judicial service delivery by streamlining business processes in the system, enabling automation to support the new business processes, and providing for a more conducive legal framework for the settling of small claims, among other things.

Trade Facilitation

Prior Action 6: The Borrower, through its Ministry of Finance, has adopted and published Decree No. 430/2021 (Decree on Issuance of the Executive Regulations of Customs Law No. 207/2020) in the National Gazette.

85. **Current status and rationale.** Egypt suffers from challenges in border management and cumbersome customs clearance processes. Customs authorities and trade regulations have been identified as a significant constraint to business by 13.5 percent of firms in the World Bank Enterprise Survey 2020. Egypt's Customs Law, which dated from 1963, fell short of modern international standards and practices, particularly those of World Customs Organization Revised Kyoto Convention (WCO RKC) and WTO Trade Facilitation Agreement (TFA). The new Customs Law (Law No. 207/2020) was promulgated in November 2020. The new law is a framework law which sets out general principles and delegates authority to the Minister of Finance to implement the customs regime through Executive Regulations. In June 2019, Egypt ratified the WTO Trade Facilitation Agreement. TFA implementation falls under the responsibility of the Government of Egypt and the customs administration is responsible for the implementation of over 80 percent of the technical provisions, therefore the enactment of the new Customs Law and the adoption of its Executive Regulations are required to enable full and effective implementation of these TFA provisions and the development of a modernized customs administration consistent with international standards.

86. **Policy reform.** The Executive Regulations of the new Customs Law aim to facilitate the modernization of customs practices and enable the implementation of the WTO TFA and the WCO RKC. The Executive Regulations contain provisions for simplified or expedited declaration and release processes and procedures, including specific provisions such as separation of release from final determination of duty and tax and expedited release of perishable goods (TFA Art. 7.8) and simplified declaration and local clearance procedures for authorized persons (RKC 3.32 and TFA Art. 7.7), risk-based

the debtor to meet its ongoing business needs." For the full text of the WB ICR Principles, last updated in 2021, see *https://documents.worldbank.org/en/publication/documents-reports/documentdetail/391341619072648570/principles-for-effective-insolvency-and-creditor-and-debtor-regimes*.

border clearance (TFA Art 7.4). Departing from the current practice of inspecting all incoming cargo, the Executive Regulations allow for the release of goods without document or physical controls if justified by risk.

87. In March and June 2021, the draft Executive Regulations were released for consultations with relevant stakeholders including the private sector and the donor community. The World Bank has reviewed the draft regulations and provided feedback to MoF, which was largely incorporated in the final version. The Executive Regulations put into effect important changes contained in the primary law that will have the potential to enhance the border clearance process, increase transparency and predictability for the traders and ensure international standards relating to modernizing customs procedures and trade facilitation. While these changes are an important step, it is recognized that over time more reforms are needed to further enhance trade facilitation border management including further reduction of manual processes, elimination of document verification for low-risk cargo, ensuring fees and charges are based on recovery of costs and enhanced benefits for compliant traders.

88. **Expected results.** An effective implementation of the Executive Regulations of the new Customs Law are expected to have a direct impact on the efficiency of cross-border trade, increase transparency and predictability of regulatory requirements for traders, which will improve the investment climate, improve the competitiveness of Egyptian imports and exports and facilitate the integration of Egyptian goods into global value chains. The results indicator is the reduction in cargo inspections at the Port of Alexandria by the Egyptian Customs Authority (baseline: 100 percent; target: 80 percent by March 2023). This is expected as a result of the improved risk-based system introduced under the Executive Regulations.

89. **WBG technical assistance.** As part of its technical assistance engagement, the WBG will support the development of a TFA implementation strategy and support the implementation of agreed priority actions. An important next step under the technical assistance is to carry out a "Time Release Study" (TRS) to validate the current baseline and measure the time to trade, based on both Egyptian Customs Authority (ECA) and other border agencies and identify procedural inefficiencies. Furthermore, the TRS process provides an opportunity to kick start a comprehensive stakeholder engagement. The study will also provide a Business Process Re-engineering (BPR) report, with the aim of simplifying the documents and import and export procedures.

90. **Medium-term reforms.** In the medium term, the Government will focus on reforms to improve and strengthen the governance structure and performance of the national single window (NSW), "*Nafeza*" and provide guarantees of service by the Operating Entity of *Nafeza* to both private and public sector users. These could include: (i) amendment to Prime Minister Decree 20/2019 to strengthen the governance and oversight of NSW; (ii) amendment of Prime Minister Decree 74/2019 to expand Protocols of Agreement between Misr Technology Services (MTS) as the operator for the NSW and participating government agencies to include Service Level Agreements (SLAs) and put in place operating contracts with SLAs between MTS and private sector users of NSW; and (iii) MoF publication of the NSW implementation roadmap.

Solid Waste Management

Prior Action 7: The Borrower, through its Presidency, has promulgated Law No. 202 of the Year 2020 (Waste Management Law).

91. **Current status.** In Egypt, as in many low- and middle-income countries, collecting, sorting, and recycling provides income to hundreds of thousands of people, mainly working in the informal sector. A National Solid Waste Management (SWM) Strategy was developed, and a National SWM Program was initiated with support from a number of technical and financial partners. SWM Master Plans were prepared for all twenty-seven governorates in the country. In addition, over

the last two decades, the Government has implemented a number of private sector-based initiatives in solid waste management, with participation from both national and international parties. Domestic private sector capacity has also been increasing over the last decade and private firms have been providing services in the municipal solid waste management sector as well as other special types of waste (eWaste, healthcare waste, etc.), not only in Egypt but also in neighboring countries. This, the promulgation of the new law and its executive regulations would lead to a shift in their role in waste management from operators to long-term investors. Moreover, the Ministry of Environment, in its capacity as the legally mandated authority for the enforcement of Law No. 202/2020, together with the Ministry of Finance, are currently working on adopting economic instruments to attract and provide more confidence to the private sector in order to secure the sustainability of such business venue to the integrated municipal solid waste management system.

92. **Rationale and policy reform.** The above actions, however, needed enabling institutional and legal frameworks, through a comprehensive waste management law. The Government embarked almost two years ago on the preparation and consultation process for a solid waste management framework law. The law was presented and commented on by the specialized committees of the Parliament, which endorsed the final revised version. It was concurred on October 13, 2020, by all concerned parties, including the Ministry of Local Development whose role is to implement the programs of the integrated municipal solid waste in the different governorates based on the strategies and action plans developed by the Waste Management Regulatory Agency (WMRA) of the Ministry of Environment.

93. The new law sets the general framework for planning and preparing strategies related to waste management and ensuring that planning is linked to financing. It does, inter alia, also: (i) call for the application of an extended liability policy to deal with some special types of waste, including healthcare waste; (ii) set clear roles and responsibilities of entities for integrated waste management; (iii) put in place the procedures to ensure the financial sustainability of waste management systems; and (iv) provide incentives for private sector investments in the entire waste management. Reforms in solid waste management would have demonstration effect in increasing the role of the private sector and introducing viable public private partnerships. Once successful, reforms would be replicated in other sectors.

94. **Expected results.** The promulgation of the SWM Law will provide the framework for the subsequent operationalization of the national strategy and the master plans, starting with the establishment of a new Waste Management Regulatory Authority, replacing the existing one. Most importantly, the new law formally introduces important principles that mainstream informal waste pickers, encourages waste minimization and recycling, and sets the basis for circular economy initiatives, advanced treatment and disposal technologies, including waste to energy. It will also encourage a climate resilient design in all infrastructure projects for sustainable waste management, including energy efficiency guidelines and use of renewables, methane emissions capture and combustion when possible to further improve climate change preparedness, greenhouse gas (GHG) reduction and sustainability of the sector. The proposed result indicator is the amount invested by the private sector in waste management after the promulgation of the 2020 Waste Management Regulatory Law, with a target of US$100 million by March 2023. This target is based on the expected number and average size of private sector transactions that the Ministry of Environment is currently working on. The prior action together with the proposed economic instruments being considered by MoF is also expected to help generate a pipeline of waste management projects (especially from waste treatment and disposal perspective) for Green Finance (see prior action 3) over a medium to longer term.

95. **Climate co-benefits**. Implementation of the SWM Law through an enabling regulatory framework and private sector participation is expected to bring substantial climate co-benefits through recovering materials from waste streams and reducing organic fraction of waste discharged in landfills with positive contribution to the reduction of GHG emissions. As demonstrated by the recently approved WB-financed Greater Cairo Air Pollution and Climate Change

Project, about a 51 percent reduction in GHG emissions could be expected from better waste management, including sorting and recovering of useful fractions, and disposal. These benefits are contingent on the actual treatment and disposal technology adopted, and the gains could be even higher for 'Waste to Energy' plants associated to the fraction of waste that is not recoverable. In addition, the regulatory framework will promote gender equality in the waste management sector, as studies show that women play an important role in waste separation and collection services, and have limited access to safety gear, and technical and business training making them more vulnerable to employment opportunities and impacts of climate change[23].

96. **Medium-term reforms**. The adoption of the executive regulations by the Cabinet of Ministers is the most important and final step for the enforcement of the law and its implementation. The Government has mobilized resources and partnered with several donors, including GIZ, KfW, the EU, and the World Bank (through the recently approved Greater Cairo Air Pollution and Climate Change Project) to support the reform and to develop the necessary tools, guidelines and standards as specified in the law and as will be determined in the executive regulations. These regulations will also provide an enabling framework for private sector participation in waste management and restructuring the 'Waste Management Regulatory Authority' for the better management of the solid waste sector. The Ministry of Environment has started drafting the executive regulations which are expected to be ready in three to four months, after comprehensive consultations with stakeholders.

PILLAR 3: FOSTERING WOMEN'S ECONOMIC INCLUSION

97. Women in Egypt have been increasingly achieving higher rates of educational attainment yet economic opportunities for women remain limited. In order to promote higher female participation in the labor market and improve the overall socio-economic conditions for women, the measures under this pillar aim to: (i) remove regulatory barriers hindering female labor force participation; (ii) prevent and address gender-based violence, and (iii) enhance access to finance for women. This effort will also be complemented with the other reforms supported by this DPF, which are envisaged to help create jobs for both men and women, especially under Pillar 2 which will, among others, enhance access to finance to informal firms through the new fintech legislation and improve resource allocation through the new bankruptcy law.

98. Reforms under this pillar emanate from Egypt's Gender Economic Empowerment Report issued in 2019 and are fully aligned with the Government's National Strategy for the Empowerment of Egyptian Women 2017-2030 (for more details, see Box 4). More generally, the reforms are aligned with WBG Gender Strategy (FY2015/2016- FY2022/2023) and contribute to two of its four strategic objectives: "removing constraints for more and better jobs", and "enhancing women's voice and agency and engaging men and boys"[24]. The strategic objectives are strongly interconnected: Ministerial Decree No. 43 removed female job restrictions on many of the previously prohibited sectors, while Ministerial Decree No. 44 allows women to work during night hours. Both of these decrees open more economic opportunities for women. Gender-based violence (GBV) is a constraint to women's voice and agency and it also directly affects economic opportunities as a result of work absenteeism for both men and women, and mental and physical health which in turn affects the next generation. Emerging evidence further underlines the impact of the COVID-19 pandemic on violence against women and girls in Egypt and globally, which has particularly affected girls schooling and women employment.

[23] CID Consulting, 2008. The informal sector in waste recycling in Egypt. GIZ. CWG, GIZ 2011. The Economics of the Informal Sector in Solid Waste Management. GIZ, 2011. Recovering resources, creating opportunities. Integrating the informal sector into solid waste management. This is in line with data on labor force participation in Egypt, with female rate at 21.9 percent compared to male rate at 70.8 percent (International Labor Organization, ILOSTAT database. Data retrieved on June 21, 2020.)
[24] WBG Gender Strategy (FY2015/2016-2022/2023)

The reforms under this pillar are viewed as complementary steps to what the Egyptian Government has been doing towards mitigating these negative repercussions.

Box 4. Women Economic Empowerment: From Diagnostic to Policy Actions

The National Council of Women (NCW) *National Strategy for the Empowerment of Egyptian Women* was launched for the first time in 2017 and identified four key pillars to realize its vision and objectives, namely: **(1) Women's political empowerment and promoting their leadership roles; (2) Women's economic empowerment; (3) Women's social empowerment; and (4) Women's protection**. This strategy, which followed a participatory and consultative approach including with the WBG experts, as well as extensive local consultations across various governorates, fully complies with the spirit and direction of Egypt's Vision 2030 and its Sustainable Development Strategy and is also in line with the United Nations' 2030 Sustainable Development Goals (SDGs). The strategy is also results-oriented putting in place baseline and target values for 2030 to ensure a proper monitoring framework.

A key input to the second pillar of the strategy is the WBG's analytical work on women economic empowerment - later synthesized in the 2019 *Egypt: Women Economic Empowerment Study* - which directly links to the reforms supported under the pillar of this DPF. The WBG study provides an assessment of the factors contributing to the persistently low labor force participation of Egyptian women and identifies six "gender smart" policy recommendations to be achieved over the short to medium term to help boost economic growth, while at the same time narrowing relevant gender gaps. These could be largely grouped under: (i) **decent work and safe working environment** including by promoting the Government's gender equity seal; (ii) **legislative reforms**, primarily revising the labor law and related decrees to amend articles/stipulations that constrain women's work; (iii) **provision of safe transportation** by effectively enforcing legislation and protocols that would help promote access to quality, safe, respectful and confidential GBV services when needed, and would help encourage more women to be active in the public space; (iv) **financial inclusion and entrepreneurship** by expanding female entrepreneurs' access to information technology, including mobile phone banking and other financial technologies and encouraging non-bank intermediaries to provide financial packages not offered by commercial banks and tailored to the needs of different sectors; (v) **addressing social norms and values** through campaigns, including those related to violence against women while citing economic cost of gender-based violence; and (vi) **expanding access to formal childcare facilities** to guarantee women's retention and thus better opportunities at moving to managerial levels.

To address the most binding constraints to enabling women's effective economic participation, four out of these six policy areas are supported by this DPF (PA 4, 7, 8, and 9(i)). In addition, PA 9(ii) directly supports pillar 4 of the NCW strategy: women protection which establishes and operationalizes the first one-stop center in Egypt to holistically address the cases of GBV survivors following a survivor-centered approach.

Female Labor Force Participation[25]

Prior Action 8: The Borrower, through its Ministry of Manpower, has issued and published Decree No. 43/2021 (Decree on Defining Job Restrictions for Women Employment) and Decree No. 44/2021 (Decree on Regulating the Employment of Women at Night), respectively, in the National Gazette (amending Decree No. 155 of 2003 and Decree No. 183 of 2003, respectively, to remove job and hour restrictions on women's work in certain sectors/jobs).

99. **Current status.** Female labor force participation in Egypt was 21.9 percent in early 2020, significantly lower than male labor force participation of 70.8 percent. The female labor force participation rate declined further in the wake of COVID-19 to only 15.9 percent in September 2020. Egyptian women's employment, as in other MENA economies, is concentrated in the public sector. The female unemployment rate at 21.4 percent in 2019 is triple that of men. In specific cases, women's access to economic opportunities is restricted by the Labor Law No. 12/2003 whereby articles 89 and 90 prohibit women from working in morally inappropriate jobs and jobs deemed harmful to the health of women as well as working during certain hours (7pm to 7am), with the authority granted to the Minister of Manpower to determine such

[25] The implementation of this reform will benefit from lessons learned from the WB's prior engagement in East Asia Pacific, where the Vietnamese Labor Code was amended to remove restrictions to jobs that can be held by women, alongside other specific recommendations such as reducing the pension age gender gap and promoting redistribution of childcare responsibilities.

jobs in a ministerial decree. Furthermore, and based on the Labor Law, Decrees No. 183/2003 and 155/2003 of the Minister of Manpower and Immigration restrict women's participation in night shifts and in certain sectors and tasks, such as mining, fertilizers, and construction. In addition, the Labor Law does not mandate the principle of equal renumeration for work of equal value, and limits the support provided to women's reproductive role, which contributes to pushing them to withdraw from the labor market. For example, childcare excludes the father and is limited to the mother only, and the law provides no incentive/burden sharing mechanisms to business owners during maternity leave. In 2017, the National Council for Women (NCW) issued a National Strategy for Egyptian Women Empowerment 2030, aligned with the SDGs and committed to the advancement of women along four main pillars: social, economic, political/leadership promotion and protection. The strategy included a strong commitment to women's legal empowerment and mentioned the need to revisit the labor law and associated decrees.

100. **Rationale and policy reform**. The reforms supported by the DPF include the publication of Decrees No. 43/2021 and 44/2021, amending Decrees No. 183/2003 and Decree No. 155/2003, which will open the door to women's participation in a wider set of economic activities through removal of hour and sector restrictions, including in sectors where women were previously prohibited to work. Decree No. 43/2021 allows women to work in all sectors except quarrying and mining. This will legally enable female participation in sectors that were considered hazardous like construction, fertilizers, glass, and metallurgical industries, etc., which were all prohibited for women before the enactment of the new decree. Restrictions are still retained in these sectors for pregnant women, upon their request, and during the period of breastfeeding in line with International Labour Organization (ILO) convention. On the other hand, Decree No. 44/2021 allows women to work night shifts. The decision to work at night is left to the woman's choice to make sure that business owners do not force women to either work at night or leave the job. The decree emphasizes safety requirements (including safe transport) to reassure women and their families and encourage them to accept work at night hours.

101. To support reform implementation, NCW and MoIC launched "Closing the Gender Gap Accelerator", a national public-private collaboration, supported by the World Economic Forum platform, which enables governments and businesses to take decisive action on closing economic gender gaps. Egypt is the first country in Africa and the Middle East to launch this unique public-private collaboration model supported by the World Economic Forum platform. The Accelerator focuses on four key objectives: preparing women for the post COVID-19 world of work, closing gender gaps in remuneration between and within sectors, enabling women's participation in the labor force, and advancing more women into management and leadership roles. The platform involves high level policymakers and CEOs representing the Egyptian private sector to develop local needs-based action plans and to drive their execution, in addition to global learning networks for knowledge and experience sharing.

102. **Expected results.** The removal of regulatory barriers to female labor force participation is a crucial step toward improving women's access to economic opportunities. In the context of the DPF, the result indicator is the nationwide awareness of the regulatory changes to increase female labor force participation incentives (baseline: no campaign; target: campaign executed by March 2023). NCW with the Ministry of Planning and Economic Development will propose to CAPMAS adding questions to the Labor Force Survey to measure the change in behavior and attitude and the actual change in female labor force participation over the medium term in coordination with CAPMAS and WBG TA.

103. **WBG technical assistance.** There is strong Government commitment to improving economic opportunities for women. In support of this agenda the WBG is engaging with NCW and relevant parties to provide technical assistance to contribute to an enhanced gender legal framework in accordance with the "Women, Business and the Law (WBL) Index" methodology. The TA builds on previous studies by the ILO, OECD, CAWTAR and GIZ analyzing the shortcomings of the

current labor law from a gender lens. In parallel, the World Bank will also aim to conduct a complementary technical assistance including an evidence-based study assessing the impact of gender social norms on women's access to economic opportunities. Work on laws needs to be complemented with underpinning analytical work that addresses behaviors and social norms to ensure a full understanding of challenges and barriers to women's access to economic opportunities and help identify appropriate policies - legislative as well as working on changing behavior and mindset. The World Bank has done similar work in Jordan and other countries.

104. **Medium-term reforms.** Discussions with private sector players indicate that there is pent up demand to hire women. The decree regulating the employment of women at night has put in place a governance mechanism with a clear role for the Directorate of Manpower in the different governorates to ensure that the different facilities are providing the necessary enabling environment for women work at night (during work and to/from work). It will be important to monitor uptake by the private sector and adjust the governance mechanism if needed to balance the creation of a safe environment for women with incentives to encourage the private sector to hire women. The two decrees are incremental reform measures. The amendment of the Labor Law, including the amendment of articles 89 and 90, will be the natural subsequent step in the medium term. For the regulatory reforms to be meaningful, they need to be coupled with efforts to change social norms and stereotypes and strengthening enforcement mechanisms. In the long term, the reforms would contribute to increased women's participation in the labor market. NCW is considering presenting proposals on other amendments to the Labor Law like mandating equal remuneration for men and women for work of equal value (addressing situations where men and women perform different jobs, using different skills and involving different working conditions, but which are nevertheless jobs of equal value). In addition to the amendments of the Labor Law which is planned to be submitted to the Parliament in the medium term, another important reform is the review and simplification of licensing procedures of nurseries and the issuance of quality assurance criteria and evaluating nurseries according to accreditation system. The Ministry of Social Solidarity (MoSS) is actively working on improving access to childcare facilities. The Prime Minister has established an inter-ministerial committee to review and simplify licensing procedures.

Gender-Based Violence

Prior Action 9: The Borrower, (i) through its Ministry of Transport, has adopted and published Decree No. 237/2021 (on a national Code of Conduct to promote safe transport in the railway sub-sector with phased rollout to other sub-sectors) in the National Gazette; and (ii) through its Prime Minister, has adopted Prime Minister Decree No. 827/2021 (to establish a one-stop center for survivors of gender-based violence in Greater Cairo).

105. **Current status.** Gender inequality, access to opportunities and cultural norms are among the key reasons for the different forms of GBV that Egyptian women and girls suffer from at the social, political, and economic levels. Statistics indicate nearly 10 percent of women have been harassed in public streets, 7 percent in public transportation, and 18 percent were subjected to domestic violence.[26] In 2014, only one third of female GBV survivors sought some kind of help, and in the great majority of the cases the help is sought from family and friends, not from existing protection services (less than one percent of women who asked for help sought assistance from the police or a social service organization)[27]. The different forms of GBV that Egyptian women encounter are considered among the main reasons for women's limited participation in the labor force (22 percent) as well as limited women political empowerment.[28]

106. In recent years, the Government has demonstrated increased commitment to address different forms of GBV and there has been remarkable progress in the area of penalizing and criminalizing crimes of violence against women. The

[26] ECGBV Survey, By CAPMAS, NCW & UNFPA
[27] Egypt Demographic and Health Survey, 2014
[28] Egypt Health Issues Survey, Ministry of Health and Population and ICF International, 2015

2014 Constitution has over 20 articles guaranteeing women's rights, providing protection for women, and imposing a punishment for crimes that constitute a violation against them, which include laws to protect women from harassment, rape, and indecent assault. In June 2014, the Presidential Decree No. 50 of 2014 set provisions for criminalizing sexual harassment for the first time in Egyptian legislation through introducing amendments to the Criminal Code. In July 2020, a legal reform allowed the identities of the survivors of sexual harassment, rape, and sexual assault to be concealed as part of investigations. In January 2021, a law introducing harsher punishment for female genital mutilation (FGM) was also introduced.

107. The National Council for Women focuses on GBV prevention, primarily through promoting legal reform and addressing norms, as well as on protection through service provision for the survivors of GBV. In April 2015, the NCW launched a National Strategy to Combat Violence Against Women 2015-2020. Egypt’s National Strategy for Women Empowerment 2030 includes a pillar on protection from all forms of violence and discrimination against women. With support from the NCW and the European Bank for Reconstruction and Development (EBRD), the Egyptian National Railway (ENR) recently launched a pilot program to address issues of sexual harassment in public transport in selected railway stations. To improve the support services for GBV survivors, and with support from the United Nations Population Fund (UNFPA), the NCW established units to address sexual harassment in 24 government universities and several private universities. These units process confidential complaints, monitor violations, raise awareness, and ensure a safe university environment for female students, professors, and employees. Medical response units were also introduced in 4 different hospital universities to receive women subjected to violence.

108. **Rationale**. A comprehensive gender-based violence law is required to prevent, mitigate, and respond to violence in a way that prioritizes survivor’s dignity, safety and well-being as well as ensuring that the system is accountable in managing those that commit violence across sectors. There is also room to improve service provision for survivors of GBV. Survivors of violence still need to visit a number of establishments to receive life-saving support in the event of violence. Coordination among those establishments and the speed of provision of psychological and clinical services need to be improved to mitigate the adverse effects of social stigma and fear of blame that in many cases leads to survivors’ inability and reluctance to use the existing services.

109. **Policy reform.** The reforms supported by the DPF focus on improving GBV prevention and service provision in the short term:

- *In terms of prevention,* providing safe transport is a crucial prerequisite for women’s access to decent work and other essential services. It is also vitally important to reduce violence and harassment against women, particularly as women are more likely to depend on public transport than men and face greater risks when they have to travel late at night. The DPF supports the adoption by the Ministry of Transport of a national Code of Conduct (COC) for promoting safe transport in the railway and metro sub-sectors with a comprehensive implementation mechanism and a timebound strategy for scaling up to other transport sub-sectors, establishing an institutional setup that will support the implementation of the code. The code includes clear reference to penalties to the public and/or civil servants who do not abide by it. The implementation of the reform will include building the capacity of the relevant staff and conducting public awareness campaigns. Ensuring the application of the COC is one of the mandatory tasks of the supervisory authorities. By promoting safe rail and metro travel the measure would also be encouraging the use of a cost effective and environmentally friendly mode of transport.
- *In terms of protection and service provision,* despite significant efforts, more needs to be done to achieve a survivor-centered approach in the service provision process. The DPF supports the issuance of a Prime Minister’s Decree to establish a one-stop center for the survivors of violence in Greater Cairo region[29] with a commitment to roll out to all

[29] A copy of the decree has been published on NCW website (http://ncw.gov.eg/Page/986/%D9%82%D8%B1%D8%A7%D8%B1%D8%AA/).

governorates as per the National Strategy for Combating Violence against Women. The Decree will entail the issuance, enforcement, and monitoring of protection orders for survivors of gender-based violence. Through the power and enforcement of a Prime Minister's Decree, the qualified trained cadres in different entities (e.g., health, police, etc.) will be mobilized to serve in the center that will be established. The one-stop center will offer a model that allows women who have experienced sexual violence to receive quality and integrated physiological, medical, and legal support from trained personnel following a survivor-centered approach that treats the interest and the confidentiality of the survivor as central. The objective of the one-stop center is "to collect and coordinate the services of the authorities and ministries concerned with dealing with cases of violence against women in one place in order to facilitate procedures and facilitate the access of those services to women subjected to violence. This will be achieved within a framework of a strong coordination among the various ministries and standard operating procedures (SOP) of assistance and referral paths for the survivor.

110. **Expected results.** The adoption of the national Code of Conduct for promoting safe transport will contribute to GBV prevention, and the establishment of one-stop centers for the survivors of violence will improve and facilitate the service delivery for survivors of GBV. In the long term, effectively addressing GBV will improve society's ability to thrive by improving women's overall wellbeing, their access to work and basic services and encourage female labor force participation. The Code of Conduct reform will promote the modal shift from personal motorized transport to public transport, directly reducing emissions. Women's trips tend to be more complex (e.g., when employment activities are added to the family care activities). In addition, safer public transport would also increase women's resilience to climate change impacts. Global examples from *Sorensen et al. 2018* show that: (i) women are disproportionately affected by heat stress and related morbidity – in part due to poor access to healthcare and cooling facilities due to personal safety concerns and lack of access to convenient, safe and reliable transportation; and (ii) poor air quality exacerbated by elevated temperature can affect maternal and child health – this can be lessened through access to better/safer transport. In the context of the DPF, since the outcomes and impacts of the reform will take a long period to materialize, the proposed indicators are the following:

- Development and implementation of GBV SOPs for the Code of Conduct based on global best practices and including grievance redress mechanism for reporting violations and evaluation mechanisms (baseline: No SOPs; target: SOPs developed and implemented by March 2023).
- Development and implementation of GBV SOPs for one-stop centers including clear referral path based on global best practices and including grievance redress mechanisms and evaluation framework (baseline: no SOPs; target: SOPs are developed and implemented by March 2023).

The SOPs will monitor case management, the different services provided and monitor the quality of services provided/referred to.

111. **WBG technical assistance**. The design of the model for enforcing the Code of Conduct is currently underway in collaboration between the NCW and Ministry of Transport (MoT). NCW and MoT will support safe transportation and design of the system needed to achieve the expected results with close technical assistance and support from the Bank.

112. NCW is working in parallel on the operationalization of the one-stop center, including in coordination with the Ministries of Health and Population, Justice and Interiors, among others. The Bank will provide technical assistance to incorporate international best practices in developing survivor-centered provision of services, both for Cairo and as the rollout takes shape.

113. **Medium-term reforms.** Based on an evaluation of the outcomes of the GBV one-stop center, and contextual analysis of survivors' needs in other locations outside of Cairo, a refined model of the center would be rolled out to other

locations. Similarly, the Ministry of Transport will be gradually scaling up the Code of Conduct for safe transport beyond railway to other transport sub-sectors. The Government represented by NCW and the Ministry of Justice also intends to review the legal framework that regulates and addresses violence against women and girls across sectors.

114. **It is important to note that this contribution to improve the legislative framework and service provision to GBV survivors will have a limited impact if not coupled with a change in some deep-rooted social norms.** The challenges related to accepting and justifying violence, judging and blaming the survivors need to be systematically addressed to ensure better application for the reforms underway. The Bank will support the Government in exploring different options for addressing those challenges in collaboration with other development partners. As needed, support in the form of technical assistance will be offered to the relevant government stakeholders with a leading role for the NCW.

Female Access to Finance

Prior Action 10: The Borrower, through its Financial Regulatory Authority, (i) has adopted and issued Board Decree No. 204/2020 prohibiting gender-based discrimination in access to non-banking financial services and activities; and (ii) adopted and issued Board Decree No. 187/2020 mandating, inter alia, the collection and quarterly reporting of disaggregated data by gender.

115. **Current status.** While significant progress has been made in recent years in raising financial inclusion levels of men and women, 45.5 percent of the adult population remains financially excluded. The percentage of adult Egyptians (16 years and older) who own a transaction account increased to 54.5 percent in June 2021[30], up from 33 percent in 2017 according to the World Bank Global Findex report of 2017, signifying that Egypt has made significant progress towards advancing financial inclusion in the past years. With respect to women's financial inclusion, the financial inclusion gap for women decreased in recent years from 12 percent in 2017 to 8.2 percent in 2020[31], however a gap still persists. The progress made on closing the gender gap is the result of multiple CBE and FRA initiatives to support the economic empowerment of women, increase their access to formal financial services and promote financial inclusion and literacy of women, through such initiatives as "Digital Saving Groups" and "Remittances Project", and dedicated on-the-ground activation campaigns.

116. Egyptian laws do not distinguish between males and females in terms of access to financial services. However, the laws and related legal instruments neither prohibit gender-based discrimination nor do they mandate equality in access to financial services between women and men, leaving an opportunity for discriminatory practices on women's access to loans and other financial services. Studies show that laws prohibiting gender-based discrimination by creditors are positively associated with female business ownership across 94 economies. In parallel, a monitoring system to help track progress is needed. A key step to address this gap is for policy makers to better collect and monitor gender-disaggregated data among financial service providers in the market. While CBE initiated a process for the banking sector to report gender-disaggregated data by its Board Decision No. 18/2018, the Decision does not extend to non-bank financial institutions supervised by the Financial Regulatory Authority (microfinance institutions, insurance, factoring, leasing companies, etc.). This reform also complements prior action 4 (Financial Inclusion) in closing the gender gap in access to financial services.

[30] Transaction account is based on the universal definition by WB, which includes in the context of Egypt accounts held at deposit taking institutions (banks and Egypt Post), mobile wallets and prepaid cards (open loop). The source of 2021 data is derived from the CBE Financial Inclusion Datahub using the unique identifier of the National ID (supply-side data for individuals)
[31] 2020 data is based on demand-side survey conducted by CAPMAS on behalf of CBE in November 2020. 2017 data is based on latest Findex survey.

117. **Policy reform.** FRA Board Decision No. 204/2020 issued in December 2020 explicitly prohibits gender-based discrimination in access to financial services. This Decision establishes an efficient complaint mechanism and an independent structure/team to examine such complaints, as well as ensures that the decisions of the committees are enforceable in courts. Moreover, FRA Board Decision No. 187/2020 adopted in December 2020 makes it mandatory for NBFIs to report gender-disaggregated data which will allow to better monitor gender gaps in access and use of the formal financial system.

118. **Expected results.** The explicit prohibition of gender-based discrimination and the mandatory reporting of gender-disaggregated data are important steps toward improving female access to finance. Explicit prohibition of gender-based discrimination provides a strong signal to women as clients and workers in the financial sector as service providers and thus contributes to closing gender gaps in financial inclusion and increases their adaptation capacities in case of natural disasters or climate change impacts. It will allow beneficiaries to shield their income and savings in a manner that does not automatically bring an end to their livelihood in case of a natural disaster or extreme climate change effects. It will also increase better financial and business planning, improved capital efficiency, reduced transaction costs, and connections to transfer schemes in case of emergencies. It will contribute to improved perception and willingness to apply for loans. It also offers a clear grievance redress mechanism that women can use when needed. Mandatory reporting of data will improve data quality and depth of data sources, and once transmitted back to financial institutions, will enhance their capacity to make credit and product allocation decisions to women and female-headed small businesses. In the context of the DPF, the results indicator is: (a) the number of women benefiting from available NBFI financing (baseline: 2.07 million women; target: 2.2 million women in March 2023); and (b) amount of loans available for women (baseline: EGP 11.8 billion; target: EGP 12.5 billion in March 2023). FRA will be tracking the actual gender gap to ensure that the reforms will help close the gap over time.

119. **WBG technical assistance.** Ongoing technical assistance under Bank MSME 2.0 and IFC Advisory Services (“Women, Business and the Law”, and “Banking on Women”) will help with the implementation of the reforms, in terms of capacity building for banks and NBFIs to properly capture gender-disaggregated data according to WBG definition, training for CBE/FRA staff and putting in place mechanisms to address complaints related to gender discrimination.

Table 7. DPF Prior Actions, Analytical Underpinnings and Supporting World Bank Group Instruments

Prior Actions	Analytical Underpinnings and Supporting World Bank Group Instruments
PILLAR 1: ENHANCING MACRO-FISCAL SUSTAINABILITY	
PA 1: SOE Governance and Transparency	Egypt Country Private Sector Diagnostic, World Bank Group 2020; Egypt Public Financial Management ASA (P172505); Unlocking Egypt’s Potential for Poverty Reduction and Inclusive Growth: Egypt Systemic Country Diagnostic Draft, WBG 2021; Egypt: Investment Climate Assessment for a Productive Private Sector, World Bank Group 2019. Egypt InfraSAP: Enabling Private Investment and Commercial Financing in Infrastructure, World Bank Group 2018; MENA Governance Reforms of State-Owned Enterprise: Lessons from four case studies (Egypt, Iraq, Morocco and Tunisia). *Effectively implementing the competitive neutrality principle is important to ensure that SOEs work under the same conditions that govern private sector firms. Having SOEs operate with open-ended financial support from the Government creates a fiscal challenge and affects competition with the private sector.*
PA 2: Debt Management	Egypt Government Debt and Risk Management (P156756); Medium Term Debt Strategy, MoF (completed in cooperation with the World Bank), December 2020; Debt Transparency: Debt Reporting Heat Map, World Bank 2020; Egypt Economic Monitor, World Bank 2019 and World Bank 2020. *Apart from the elevated level and risky structure of Egypt’s government debt, there are challenges pertaining to its*

	management. The institutional setup is dispersed across the MoF, CBE and MoIC. Despite the presence of formal coordination and communication channels among them (such as the External Debt Committee), there is room for a more structured and comprehensive debt coordination process, which would cover all aspects of government debt, automated data sharing, unified definitions and reporting rules, and importantly linking the process of debt management to the implementation of the debt strategy. Enhanced reporting on both debt stocks and progress in achieving the objectives in the debt strategy would enhance debt management.
PA3: Green Finance.	30by30 Zero Program, IFC/Bank/GIZ TA program expected to start in FY2020/2021; Harnessing Innovative Financial Products for Sustainable Development: The Case of Egypt's Sovereign Green Bond, World Bank 2020; PMEH - Egypt Air Quality Management (P164419); Greater Cairo Air Pollution Management and Climate Change Project (P172548); Wealth Accounting and Valuation of Ecosystem Services- WAVES Egypt (P171196); Egypt Government Debt and Risk Management (P156756) ; Unlocking Egypt's Potential for Poverty Reduction and Inclusive Growth: Egypt Systemic Country Diagnostic Draft, WBG 2021. *Green bonds play a very important role by expanding the markets for raising the capital needed by the Government at the same time as helping to mitigate the impact of environmental challenges, such as worsening air quality, soil degradation and water scarcity — all important challenges for Egypt, affecting health as well as economic growth.*
PILLAR 2: ENABLING PRIVATE SECTOR DEVELOPMENT	
PA 4: Financial Inclusion	Financial Inclusion Global Initiative – Egypt (P167204); Possible Policy Responses to COVID-19 to Facilitate Access to Essential Services Via Digital Payments, World Bank 2020; Potential Impact of the COVID-19 Pandemic on the Banking Sector of Egypt: A Financial Stability Perspective, World Bank 2020. *Recent evidence points out to the extent of the financial inclusion challenge in Egypt. According to the World Bank's Global Findex database, in 2017, only 32 percent of Egyptian adults had an account at a regulated financial institution. Furthermore, there is a gender gap: 27 percent of women aged 16 and above have such accounts compared to 39 percent of men. Expanding electronic payment services is important as the economy responds to COVID-19.*
PA 5: Business Exit and Business Restructuring	Commercial Justice Diagnostic, World Bank 2020; Resolving Insolvency in Egypt: Report on Recommended Reforms to Improve Egypt's Law on Restructuring, Preventive Composition and Bankruptcy 2018, World Bank 2019; Competition and Competitiveness AAA (P154650); Doing Business Report, World Bank 2020; The Need to Reform Corporate Insolvency in Egypt in Response to COVID19, World Bank 2020; Egypt Country Private Sector Diagnostic, World Bank Group 2020; Enterprise Survey, World Bank Group 2020; Egypt: Investment Climate Assessment for a Productive Private Sector, World Bank Group 2019. *In the case of Egypt, it is essential to assess the readiness of the existing insolvency system to deal with the inevitable widespread default across sectors, in order to identify areas in the regime where reform is most urgently needed to reduce the amount of COVID-19 related bankruptcies, especially with respect to SMEs.*
PA 6: Trade Facilitation	Enhancing Egypt Accessibility to Regional and Global Markets IFC AS (605391); Egypt Country Private Sector Diagnostic, World Bank Group, 2020; Doing Business Report, World Bank 2020; IFC Country Strategy; Egypt Economic Monitor, World Bank 2019 and WB 2020; From Currency Depreciation to Trade Reform: How to Take Egyptian Exports to New Levels, World Bank Working Paper 2019; Unlocking Egypt's Potential for Poverty Reduction and Inclusive Growth: Egypt Systemic Country Diagnostic Draft, WBG 2021; Enterprise Survey, World Bank Group 2020; Egypt: Investment Climate Assessment for a Productive Private Sector, World Bank Group 2019. *The value of goods and services exports from Egypt (17.5 percent of GDP in 2019) compares poorly to peer economies. This limited performance is attributed to several factors including institutional and operational inefficiencies, which led to cumbersome regulatory requirements, redundant cross border procedures, and limited transparency.*
PA 7: Solid Waste Management	Greater Cairo Air Pollution Management and Climate Change Project (P172548). *Global experience shows that private sector participation in solid waste infrastructure and service provision, if handled properly, can leverage investments, and greatly improve service provision.*

PILLAR 3: FOSTERING WOMEN'S ECONOMIC INCLUSION	
PA 8: Female Labor Force Participation	Egypt - Women Business and the Law IFC AS (605118); Women Economic Empowerment Study, World Bank 2019; Gender Assessment for Egypt (P161286); Unlocking Egypt's Potential for Poverty Reduction and Inclusive Growth: Egypt Systemic Country Diagnostic Draft, World Bank Group 2021; Enterprise Survey, World Bank Group 2020; Egypt: Investment Climate Assessment for a Productive Private Sector, World Bank Group 2019. *Egypt's overall unemployment stands at 9.6 percent but is particularly higher among women at 21 percent - more than double that of men. Enabling women's effective economic participation is an urgent priority on the national agenda, which requires better-crafted legislation and policies, as well as innovative solutions and viable public-private partnerships.*
PA 9: Gender-Based Violence	Engaging Men and Boys to Reduce Fertility Rates and Preventing Gender Based Violence in Egypt (P170299); Gender Dimensions of the COVID19 Pandemic, World Bank 2020; Unlocking Egypt's Potential for Poverty Reduction and Inclusive Growth: Egypt Systemic Country Diagnostic Draft, WBG 2021. *The survey estimated that 7.9 million Egyptian women experience violence yearly, perpetrated by spouses, close relatives, and/or strangers in public spaces, including on public transport. Egypt is the leading Arab country to provide reliable evidence confirming that combatting gender-based violence is a priority that is inexorably linked to addressing both women's disempowerment and stagnant economic participation and financial growth.*
PA 10: Female Access to Finance	Egypt - Women Business and the Law IFC AS (605118); Financial Inclusion Global Initiative- Egypt (P167204); Gender Dimensions of the COVID19 Pandemic, World Bank 2020; Women Economic Empowerment Study, World Bank 2019; Enterprise Survey, World Bank Group 2020; Egypt: Investment Climate Assessment for a Productive Private Sector, World Bank Group 2019. *Women's access to finance is curtailed by the institutional bias of service providers against women. Various Investment Climate Assessment Surveys confirm that banks request stricter collateral requirements from women than men, and that the rejection is higher among women (6 percent) in comparison to men (4.5 percent).*

4.3. LINK TO COUNTRY PARTNERSHIP FRAMEWORK, OTHER BANK OPERATIONS AND THE WBG STRATEGY

120. **The program's focus is fully aligned with the World Bank Group's twin goals of eliminating extreme poverty and boosting shared prosperity in a sustainable manner.** It is also aligned with the current Egypt CPF (2015–2019, extended to 2021). The CPF is organized under three interdependent focus areas: (a) improving governance, (b) private sector job creation, and (c) social inclusion. The reforms supported by this operation will contribute to achieving key goals identified in the CPF. These include supporting macroeconomic stability; improving the transparency and efficiency of public administration through strengthening citizens' ability to hold the state accountable through improved access to information and improving the business climate for private investors. By targeting the social and economic inclusion agenda, social safety nets, basic services, social housing, financial inclusion, and agriculture, the investment projects under the CPF are complementing the DPF's focus on transparency, fiscal resilience, and private sector-led growth.

121. **The DPF also contributes directly to the implementation of the World Bank Group's MENA enlarged strategy, the WBG Gender Strategy, the MENA Regional Gender Action Plan, and the MENA Climate Action Plan.** The operation supports the renewing social contract pillar of the MENA regional strategy, by pursuing reforms to enhance debt transparency as well as business exit and business restructuring reforms that contribute to greater levels of accountability. Similarly, the reform program 'supports the jobs and economic transformation (JET)' agenda by improving SOE governance and transparency, focusing on digital financial services, and improving trade facilitation. Aligned with the WBG Gender Strategy pillars 2 ("Removing Constraints to More and Better Jobs") and 4 ("Enhancing Women's Voice and Agency"), and aligned with the MENA Regional Gender Action Plan, the operation contributes to advancing gender equality and women's empowerment by removing regulatory barriers to female labor force participation and addressing

gender-based violence. Finally, the DPF focuses on enabling green growth by implementing reforms to expand green finance and solid waste management. The DPF-supported program also contributes to the WBG PCM agenda by supporting the reforms under solid waste management. Finally, the operation contributes to two of three MENA Climate Action Plan priority areas of engagement, including supporting sustainable, resilient and connected cities and encouraging the low carbon transition. A Climate Change and Development Report is currently being prepared for Egypt.

122. **Several reform actions are also particularly timely to address spillover effects of COVID-19 and are consistent with the WBG COVID-19 Crisis Response Approach Paper.** The operation specifically addresses the 'restructuring stage' which focuses among others on the recapitalization of firms and financial institutions, as well as the 'resilient recovery' stage which entails taking advantage of new opportunities to build a more sustainable, inclusive and resilient future in a world transformed by the pandemic. The prior action on business exit and business restructuring will serve the former, while the financial inclusion prior action, through the promotion of digital financial services, will serve the latter stage. Improved debt management and sustainability as well as higher female labor force participation are also likely to enhance the recovery of the Egyptian economy over the medium term.

123. While not included in the operation, several other reforms that are important for a green recovery were discussed with the Government during the DPF preparation and are outlined in Box 5 below. These include recent Government measures to encourage energy efficient motors in the manufacturing sector, to support the transition to the use of cleaner fuels in vehicles through expanded infrastructure of compressed natural gas (CNG), and to adopt a comprehensive Measurement, Reporting and Verification (MRV) system to better track national GHG emission levels.

Box 5. Government Steps for Green and Climate-Friendly Recovery

Completed Government actions where implementation is underway include:
Promoting Energy Efficiency in Manufacturing Sector. Electric motor systems contribute to over half of electricity consumption in Egypt's manufacturing sector. In order to increase the deployment of energy efficient motors in the industry, the Ministry of Trade and Industry (MoTI) adopted Decree No. 463/2020 in September 2020 to enforce labeling of motors and implementation of high efficiency standards motors,[32] and is currently working on integrated approach to support reform implementation with capacity building and consumer awareness campaigns and finance and financial delivery mechanisms that address upfront costs of energy efficient motors.

Transition to the use of cleaner fuels in vehicles. The Government is now taking steps to expand domestic energy access and further green its energy mix by stimulating the use of CNG in vehicles. A comprehensive Vehicle CNG Expansion Plan, led by Ministry of Petroleum and Mineral Resources (MoPMR), has been endorsed by the Cabinet by end-2020, ranging from gas supply to retail stations and the manufacturing of equipment for vehicle adjustment. CBE also issued an initiative regarding substituting cars to work with dual fuel in coordination with the Ministry of Trade and Industry. In the medium term, the Government plans to expand CNG use to heavy vehicles and move toward low-carbon fuels such as hydrogen and ammonia combined with carbon capture and storage.

In the medium term, the Government has more ambitious and holistic plans:
Development of Low Emissions Strategy (LES). Under the leadership of the Ministry of Environment, the Government is currently developing a comprehensive LES which covers electric power generation, petroleum, manufacturing, waste, transport, agriculture, tourism and building sectors. The strategy will present suggested mitigation actions and emission reduction benefits of applying the mitigation. It will quantify mitigation scenarios and develop the economic feasibility of the different mitigation actions and will play a central to effectively implement the NDCs submitted under the Paris Agreement, which describe Egypt's mitigation goals and policy actions.

[32] The decree was supported by IFC's Smart Technology and Energy Efficient Production (STEP) Program, which was launched in 2015 to enhance the competitiveness of Egyptian industries through improved access to energy efficient technology.

Adoption of monitoring, reporting and verification system for reporting GHG emissions. The Ministry of Environment is working on the necessary procedures to establish an MRV system of all the state sectors, including the energy sector. The MRV system will allow Egypt to: (a) monitor emissions in Egypt systematically, (b) evaluate whether the actions that the country will have put forward in the LES and its NDCs are effective, and (c) track overall progress towards any quantifiable goals that the country may articulate in the next iteration of NDCs. Once the MRV decree is issued, it is important to build capacity within the Ministry of Environment and the relevant stakeholders from other ministries to build and monitor the system and produce high quality data.

4.4. CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

124. **The pillars and prior actions of the DPF have been developed based on a consultative process through the Government's own engagement with the population around its reform program.** This included consultations across different ministries and agencies of the Government of Egypt (GoE), as well as wider stakeholder groups within the country. The draft laws supported by the DPF have undergone Parliamentary consultations, including debate within the specific committees of the Parliament, and multiple deliberations with major industry chambers, think tanks, the private sector and civil society organizations (CSOs). Bankruptcy Law, Fintech Law, Customs Law Executive Regulations, Solid Waste Management Law, and Amendments to Public Business Sector Companies Law, each had multiple rounds of consultations with different arms of the Government, the private sector, and CSOs. The draft Executive Regulations of the Customs Law were disseminated through the MoF website in March and June 2021 inviting comments and discussions.

125. **To share the economic reform program of the Government supported by the DPF, MoIC organized a consultation meeting with all development partners in Egypt and the WBG held consultations with key relevant private sector and civil society representatives.** The meetings with the private sector, civil society representatives and development partners were held on April 18-19, 2021. The meetings endorsed the reform program and acknowledged its potential to address some of the chronic challenges in the Egyptian economy. While recognizing the limited number of reforms that a DPF operation can cover, development partners also raised other policy areas, where more needs to be done to untap Egypt's full potential and ultimately help the country meet the UN SDGs. These include labor market reforms, agribusiness, and manufacturing sector reforms. The focus on women's economic inclusion was particularly encouraged by both groups due to its critical role in promoting inclusion and in helping the Egyptian economy recover from the pandemic and beyond. The importance of following up on the proper implementation of reforms and monitoring possible risks arising from implementation, mostly through existing technical assistance programs, was also highlighted by the private sector.

126. **The program also reflects the views and corporate priorities of the AIIB,** including close cooperation and collaboration across management and staff of both institutions at various stages of preparation.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

127. **The reform program supported by this operation, aiming at strengthening the foundations for inclusive growth for a sustainable recovery, is not expected to have significant adverse poverty and social effects, and would contribute to poverty reduction in Egypt in the medium to long term.** The prior actions of this DPF are expected to help increase the macro-fiscal resilience of the economy, while enabling private sector growth and gender inclusion. As highlighted by the SCD for Egypt (under preparation), inclusive growth in the country is hampered by poor learning outcomes and low

labor productivity. Together with constraints related to the business environment and growing informality, low labor productivity limit firms' potential to growth and wealth-generating structural transformation, while spatial inequalities persist. This includes youth, whose inactivity and long-term unemployment rates are increasing, and women, whose labor force participation has historically been low, as is access to higher education. The reforms are likely to address part of these constraints, resulting in more dynamic, more sustainable and better distributed growth. More importantly, the prior actions do not have significant impoverishing effects, although the subsequent operationalization of the Solid Waste Management Framework law, raises some questions as discussed below and in the full PSIA (in Annex 6).

128. **Measures included under Pillar One are not expected to have direct effects on poverty, although sound and more transparent macro-fiscal management has the potential to impact poverty indirectly via additional financing of pro-poor expenditure and stronger systemic resilience.** A sound and sustainable macro-fiscal framework is an essential precondition to inclusive growth and poverty reduction, while it also contributes to build the resilience of the system. Evidence from past crises has shown that macroeconomic preparation can shield economies from negative effects, with well-prepared countries experiencing smaller declines in growth rates in the aftermath of the 2008 international crisis than they did following the 1997 East Asian crisis. The same beneficial effect of macroeconomic preparation seems to have occurred in many other low- and middle-income countries (World Development Report 2014). Besides, on top of sustainably financing necessary social spending in normal times, sufficient fiscal space allows for countercyclical policies and for the expansion/maintaining of social expenditure to protect those hit by crisis. So, while prior actions 1 through 3 are unlikely to have a direct impact on poverty as the vulnerable are not directly impacted, they will contribute to strengthening the country's foundations and its financing capacity to support or even increase necessary productive investment, including environmentally sustainable ones, and poverty reducing expenditure, including in human capital. In particular, prior action 1 will help improve governance and financial sustainability of SOEs, including by downsizing and avoiding the (often) nontransparent hiring of formerly employed individuals. Considering the small number of individuals currently benefitting from re-employment after retirement age and their belonging to the top quintile of the income distribution, the impact of poverty of this measure is not expected to be significant. It is also plausible that the termination of contracts in existence would trigger the compensatory measures currently in place for all employees. In this regard, it is worth mentioning that a large portion of the administrative and managerial reforms adopted by MPBS are related to managerial and manpower reform, starting by assessment and selection criteria for CEOs of the portfolio companies, basis for selection of public money representatives on the boards of joint venture companies, and trickling down to the revisiting of organizational structures of companies (to ensure certain functions such as audit committee), and the assessment of C-1 managerial level by independent consultants, to ensure proper implementation of corporate restructuring plans. This extends to putting proper procedures for new hiring to ensure a focus on competence and limiting overemployment.

129. **Prior actions supported under Pillar Two may contribute to poverty reduction in the medium to long term, as they address several aspects of the business environment favoring the expansion of the private sector, job creation, and possibly per capita welfare growth**. Despite being a growing economy, Egypt experienced an increase in its national poverty rate, from 27.8 percent in 2015 to 32.5 percent in 2017-18 Household Income, Expenditure and Consumption Survey (HIECS). According to the Egyptian Central Agency for Public Mobilization and Statistics estimates from the 2019 HIECS, the national poverty rate is slightly down to 29.7, but remains higher than in 2015, prior to the introduction of ambitious structural reforms. Analyzing the interaction between growth and distribution, the latest SCD for Egypt (under preparation) has unveiled a close link between the increase in poverty since 2015 and deteriorating labor indicators, with labor participation going down, rising unemployment, and increasing wage inequalities. The report suggests that both supply (skills) and demand side factors (business environment) are at the root of insufficient job creation, while informality and low productivity harm the capacity of labor income to lift people out of poverty. In light of the above, it

is clear that improving the business environment is an important factor to generate more and better jobs and absorb the rising labor force. Access to finance/financial inclusion (prior action 4), improved business exit and business restructuring (prior action 5), and trade facilitation (prior action 6) are all key ingredients. Pillar Two addresses these constraints and supports private sector-led growth and job creation in the medium to long term.

130. **A framework law for Solid Waste Management, supported by prior action 7 under Pillar Two, is expected upon subsequent operationalization of the law to generate positive direct and indirect welfare impacts, once potential social vulnerabilities have been mitigated.** By reducing air pollution, the reform is likely to bear long-term welfare gains, due to improved solid waste management and resource use efficiency, and better-quality services. Additionally, more direct effects are expected in terms of new employment opportunities for skilled and non-skilled labor due to the entry of new private sector actors in the sector. As the new framework law (202/2020) for Solid Waste Management aims to improve the commercial sustainability of the sector there is a risk that once subsequently operationalized several thousand people currently informally employed in the sector will be somehow affected by the possible loss of their livelihoods. According to the State of Environment report of 2016[33], about 12 percent of the waste generated in all governorates per year is recycled through the informal sector. Over the period 2015-2018, according to the Egyptian Labor Force Survey there were almost 60,000 workers operating in waste management, approximately half of them were informal. Although the DPF only supports the framework law, the World Bank-financed Greater Cairo Air Pollution Management and Climate Change Project (P172548), which aims to operationalize the law, assessed the risks and developed a mitigation response. Several rounds of consultations concluded that there were net benefits of improvement in solid waste management while the risk to affect informal workers was also considered. In light of this, dedicated activities to mitigate the potential negative impacts have been integrated in the above-mentioned project design and in the TA provided to support the proposed reform.

131. **Finally, actions to support women's empowerment, such as those included under Pillar Three, would increase resilience of Egyptian women and their families, and also boost productivity, economic growth, and contribute to poverty reduction.** One important ingredient for women's economic inclusion is access to the labor market. In turn, the more efficient allocation of labor and capital is a precondition for economic growth, poverty reduction, and shared prosperity. In addition, ensuring access to high quality jobs and productive assets (such as financial sector products) are key drivers of socioeconomic progress among women, their families, their communities, and the national economy. By addressing several of the existing constraints to female labor force participation such as legal restrictions to employment at certain hours or in certain sectors in Egypt, prior actions 8 through 10 favor the productive employment of women. Ensuring the principle of eliminating any kind of discrimination based on gender with respect to access to financial services is a key asset to encourage more women to use such services. Complementary to the proposed reforms, several technical assistance activities compose the current engagement of the WBG on gender issues in the country and address additional constraints to female labor force participation, both in the formal and informal labor markets (namely to further improve the working environment and identify future reforms based on a better understanding of existing social norms), therefore increasing the impact of the proposed reform program.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

132. **Egypt faces strong vulnerability to climate change impacts.** Climate change models project Egypt's mean annual temperature to increase between 2C and 3C by 2050 and an increase in the duration of long-lasting heatwaves, as well

[33] State of the Environment 2016: Arab Republic of Egypt, Ministry of Environment. https://www.eeaa.gov.eg/portals/0/eeaaReports/SoE2017AR/Egypt-SOE-2016-FINAL.pdf

as the frequency and intensity of droughts. This phenomenon of a changing climate will increase natural dust and fine particles in the atmosphere, and together with more frequent sandstorms, increase pressures on citizens' health through the prevalence and severity of cardiopulmonary conditions, among other health issues. It will also contribute to more favorable conditions for self-incineration and spread of solid waste fires. Extreme heat and low humidity from waste in unregulated dumpsites, increases the likelihood of self-combustion of dried out organic matter. Moreover, the common practice of burning waste releases a mix of greenhouse gases (GHGs) and particular matter (PM), as well as toxic gases, that exacerbates air pollution and poses a health hazard, particularly to people with respiratory conditions. In addition, Egypt faces significant SWM challenges with respect to waste collection, transfer and final disposal, many of which are exacerbated by the increasing levels of waste generation, the changing waste characteristics, lack of sufficient infrastructure, uncontrolled spread of urban development and inappropriate disposal practices by communities and individuals. As a result, uncollected waste and poorly treated waste such as unrecycled plastic (which is more than half) are dumped in open sites and are subject to open burning or end up contaminating water bodies. Poor SWM, especially in terms of organic treatment, recycling, and disposal is responsible for human-made or self-igniting waste burning in dumps and contributes to about one-third of GC air pollution in terms of PM10.

133. **Over the past two decades, Egypt has continuously updated its environmental policy and regulatory framework with provisions to integrate environmental concerns with national development plans and ensure the protection of human health and the sustainability of natural resources. The most recent "Sustainable Development Strategy: Egypt Vision 2030"** is putting equal emphasis on its three pivotal dimensions: the economic, social and environmental dimensions. Egypt is currently embarking on integrating the green agenda into the country's development goals. The ministries of environment and planning and economic development have agreed on implementing 30 percent of investment projects enrolled in Egypt's plans for environmental development and green economy. This will increase to 100 percent over the coming three years and contribute to achieving the national agenda for sustainable development in light of Vision 2030. EGP 36.7 billion have been allocated in FY2020/2021 budget to implement 691 green projects, accounting for 14 percent of the total public investment allocation.

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

135. **The current legal environmental framework in Egypt has adequate requirements to address the moderate potential environmental impacts associated with the prior actions of this DPF**. As per the Law No. 4/1994 amended by Law No. 9/2009 for Protection of the Environment and the executive regulations, it requires the preparation of environmental impact assessment (EIA) for all investment projects depending on its impact classification. A specialized directorate under the environmental management directorate and the Central Department for Environmental Inspection and Environmental Compliance (CDEIEC) have been established and are both following up on the implementation of mitigating measures during the construction and operation phases of projects.

136. **Under Pillar Two, there is an opportunity to promote green recovery and the green agenda under prior action 7.** It is expected that the engagement of private sector will improve the overall solid waste management. The ratification of the Solid Waste Management Law- (202/2020) has created sufficient enabling environment to engage with the private sector in addressing historical challenges faced by the sector. The current engagement of the World Bank with the Ministry of Environment under the Greater Cairo Air Pollution Management and Climate Change Project (P172548) will provide the necessary technical support for the enactment of the executive regulations of the new SWM Law which is

crucial for the scaling up and sustainability of the SWM system. The prior action and the Government's medium-term reforms are considered to have significant environmental benefits.

137. **The new Solid Waste Management Law No. 202/2020 is a clear indication of Egypt's commitment towards a greener economy and sustainable growth.** The law regulates the collection, storage, and disposal of waste from municipal, construction, agricultural, and industrial areas, among many other types. The law identifies and categorizes waste types into two main categories: hazardous and non-hazardous. It also established a regulatory public authority, namely, the Waste Management Regulatory Authority (the "Regulator") to oversee and monitor all types of waste management.

138. The Waste Management Regulatory Authority has been established as an independent public entity which is governed by a Management Board, headed by the Minister of Environment as the "CEO" and composed of twelve members representing relevant ministries and experts in the field. The Board has the ultimate and sole authority over WMRA's policies, plans, activities, and financial affairs.[34]

139. **The Regulator (WMRA) will have regulatory powers over the concerned and competent authorities and regulatory bodies in order to organize, follow up, monitor, and evaluate everything related to the activities of integrated waste management to ensure sustainable development and follow up on the plans necessary to organize waste management in cooperation with public and private organizations.** WMRA is also responsible for encouraging industrial growth and outlining a national strategy for waste management as well as the regulations, forms and guidelines for all such activities (including industrial and hazardous wastes). WMRA will have the sole permitting and licensing authority over any activities related to management of non-hazardous integrated waste management[35] whereas the permits issued for the industrial and hazardous wastes, as classified by WMRA, will remain with the competent authorities issuing the operating licenses for the subject establishment generating such types of wastes.[36] WMRA, in coordination with the relevant competent licensing authorities, will follow up, monitor and evaluate the implementation of the standards, forms and guidelines concerned with the hazardous and industrial wastes.

140. Among its legal mandates, WMRA will regulate and determine the roles and responsibilities of all stakeholders in waste management in Egypt, propose and update relevant legislations, laws and regulations, propose economic and financial mechanisms to create investment opportunities in the arena of waste management, issue guidelines on the implementation of waste management strategies and strategic plans at the Governorate levels (including industrial and hazardous wastes), and develop performance indicators for monitoring and evaluation of waste management activities. All controls, standards and guiding forms developed by WMRA will be utilized at the national and subnational levels to achieve the national waste management strategic goals.[37]

141. The designated officers within WMRA are provided with legal powers to enforce articles and legal requirements determined in the Law No. 202/2020.[38]

[34] (SWML202/2020 - Articles 3-14).
[35] (SWML202/2020 - Article 5 – item 19)
[36] (SWML 202/2020 – Articles 47 – 64)
[37] (SWML202/2020 - Article 5)
[38] (SWML202/2020 - Article 79)

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

142. The Constitution provides the legal basis for the budget, for appropriating and spending public funds, and for preparing and approving the final accounts of the state budget. A range of laws deals with specific aspects of financial management. In addition, there are specific laws for entities such as economic authorities and special funds. On October 28, 2020, a new unified PFM law was approved by the Cabinet for further submission to the parliament. The new bill combines the Budget law and the Government Accounting law into a unified law that also requires the implementation of "Program-based Budgeting".

143. **The state budget covers the activities of the central government, governorates, and public service authorities.** The budget is made publicly available annually on the MoF website. Forecasts of fiscal aggregates on the basis of main categories of economic classification are prepared and included in budget documentation (the fiscal statement) for one year beyond the budget year. However, a large number of special accounts and funds, while nominally in-budget, function under separate provisions with limited transparency. A pre-budget statement has been issued annually in the past few years including the general framework for fiscal policy, budget aggregates, and the related priorities. Simplified citizen budget has been also issued on annual basis. The introduction of program budgeting was piloted in some ministries, but its full implementation will need considerable time and capacity building. As noted above, the new PFM bill will officially adopt Program-based Budgeting.

144. **An ex-ante control system is implemented by the MoF through its representative financial controllers in all accounting units.** The system applies transaction-based compliance controls that cover payments, recording of transactions, and production of accounts at a unit level. The extent of control procedures is perceived to be a bit cumbersome. The MoF's financial inspection directorate carries out ex-post reviews of compliance in accounting units, but no risk-based approach is used for formulating the annual work program. The MoF has also launched a risk-based ex-post internal audit function following the establishment of an Internal Audit Unit by a ministerial decree in October 2017.

145. **The MoF exercises monitoring of cash transactions and balances of the accounting units included in the state budget and maintained in the CBE**. The adoption of the Treasury single account and the centralized e-payments have strengthened cash management. The Ministry of Finance announced stopping the use of paper checks since November 2017 and moved to e-payments for staff salaries as well as payments to suppliers and contractors.

146. **Egypt is taking steps to align its public procurement system with international standards, as evidenced by the new Public Procurement Law and its implementing regulations.** Key developments of the law include limiting informal exclusions of competitive and transparent procurement procedures, introduction of framework agreements and provisions on institutional arrangements in procuring entities, a Code of Conduct for public officials and employees and private sector participants, steps to address conflicts of interest in public procurement, and the establishment of an office and procedures for the review of complaints from bidders, among other developments. The law also mandates the application and full rollout of e-procurement (the initial stages of the process have begun) and an SME-friendly tool that is going to facilitate participation of SMEs in public procurement. The existing electronic procurement system serves to promote access to public procurement opportunities and includes features such as the advertising of opportunities and the current status of procurement transactions and reports. The Bank is supporting the development of key technical tools and building the capacity of procuring entities in the government and the private sector.

147. **The Supreme Audit Institution (SAI) has a comprehensive scope of coverage and consistently issues annual audit reports on the government final accounts.** The 2014 Constitution provides that the annual reports of the regulatory and

oversight bodies (including the SAI) are made publicly available. However, the audit reports' public availability provision has not been enforced to date and these reports remain undisclosed.

148. **The latest IMF Safeguard Assessment of the CBE will be requested for internal review.** The CBE has been publishing its annual audit reports over the past several years. The latest audit report was published for the year ended June 30, 2020, with an unmodified (clean) audit report.

149. **Disbursement procedures for single-tranche DPFs are envisaged to be applied to this operation.** Once the loan becomes effective, the World Bank will disburse the loan proceeds into a deposit account in currency of Borrower's choice (foreign currency deposit account) that forms part of the country's official foreign exchange reserves held by the CBE. An amount equivalent to the loan proceeds will be immediately credited in local currency to an account of the MoF's Treasury single account, thus becoming available to finance state budget expenditures. The Loan Agreement will indicate the Borrower commitment not to use the loan proceeds to finance excluded expenditures (negative list). The Government will confirm the loan deposit and credit through written confirmation within 30 days of disbursement.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

150. **MoIC continues to be the main coordinating agency for monitoring and evaluation among the ten other participating agencies.** The prior actions detailed in this operation are the prime responsibility of eleven agencies: MoIC, Ministry of Finance, Ministry of Public Business Sector, Ministry of Planning and Economic Development, Ministry of Justice, Ministry of Transport, Ministry of Environment, Ministry of Manpower, the Egyptian Customs Authority, the National Council for Women, and the Financial Regulatory Authority. The inter-ministerial Economic Cabinet will remain functional during the course of the DPF framework where the MoIC will be the coordinator with other ministries on monitoring of the results indicators, which are based on routinely published sector indicators, custom reports and/or surveys developed and agreed with the aforementioned agencies.

151. **The program outcomes will be monitored through monitoring progress toward the achievement of results indicators included in the policy and results matrix (Annex 1).** These indicators seek to assess progress toward the implementation of the policy and institutional measures supported by the DPF. The MoIC has the responsibility of presenting the information related to the reform implementation and progress made toward results on time and in a format satisfactory to the World Bank. The progress report will be made public.

152. **Grievance redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of the World Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

153. **The overall risk rating of this operation is high.** The major risks to the operation's ability to achieve its development objective include: (a) macroeconomic challenges associated with uncertainty surrounding the recovery from the Covid-19 crisis, higher global volatility around emerging markets, high inflation, high interest rates, and the large public debt-to-GDP ratio; (b) challenging social conditions on the ground; (c) governance and institutional challenges that may impede the continued implementation of structural reforms; (d) the high degree of cross-sectoral coordination needed for implementation of private sector-led job creation; and (e) the potential spillover effects of regional and geopolitical challenges. These risks, if materialized, could affect the Government's ability to implement the reforms or make development outcomes less successful.

154. **The risk that the macroeconomic policy framework will come under stress during program duration remains high.** Risks to the macroeconomic outlook can be bundled under three broad groups: those directly arising from the pandemic impact, pre-existing structural challenges which can now be aggravated, and specific risks to debt sustainability (discussed above in paragraph 30). Risks that stem from the pandemic: under a dismal scenario where this health crisis becomes further protracted, the recovery (which is assumed to kick-off starting FY2021/2022 in the baseline scenario) will be delayed, which may thus lead to a lower growth outlook, deteriorating fiscal and external accounts and rising social hardship. In particular, a deteriorating fiscal performance will entail relatively higher financing needs and the debt servicing burden will rise subsequently. More broadly, uncertainty associated with the pandemic can be especially disruptive. For instance, a sudden stop or reversal in portfolio investments in fixed income securities (similar to the shock at the outset of the pandemic) can undermine the stability of external accounts and the level of foreign reserves. Risks that emanate from the longstanding challenges, which may be aggravated by the COVID-19 crisis: these risks would entail a more dismal performance of non-oil private sector activity, further challenges to job-creation especially in the formal sector, and loss of export markets and potential FDI inflows (which may not be easily restored following the disruption of global trade and subdued global growth due to the pandemic), in addition to a decline in potential output and productivity. Financial stability risks (albeit moderate) arise from the over-exposure of the banking system to sovereign debt (as commercial banks are the largest holders of government securities). This can be further exacerbated by the uptick in fiscal financing requirements due to the COVID-19 shock.

155. **Risk mitigation factors include:** (a) the availability of an adequate level of foreign reserves (at US$40.6 billion at end-June 2021) that can act as a cushion against shocks; (b) this DPF, the ongoing IMF SBA, and future close IMF engagement would support the continuation of key structural reforms and boost confidence in the economy. Egypt's access to international markets further underpins external account stability; (c) the general decline in the inflation rate can pave the way for further monetary easing, and is helping preserve households' purchasing power; (d) the government's commitment to fiscal consolidation to ensure fiscal and debt sustainability; (e) towards boosting revenue-mobilization, Egypt has recently adopted the MTRS (supported by the IMF), and a World Bank TA is underway to improve the efficiency of tax administration and assess tax expenditures; (f) the recently published MTDS outlines key reform steps to prolong the debt maturity, diversify sources of financing and widen the investor base; (g) Egypt is taking steps towards monitoring and controlling sovereign guarantees to reduce fiscal risks associated with them; and (h) the banking sector continues to display favorable financial soundness indicators and the CBE conducts stress tests (including credit, concentration, liquidity and market) on banks' sovereign exposure, and the results show the resilience of the banks solvency and liquidity to different scenarios.

156. **The political and governance risk is rated high.** Several prior actions supported by the operation are high-profile reforms that could face significant pushback during implementation due to political or governance issues. For example,

changing the configuration of SOE boards is expected to lead to a change in the operations of many SOEs that may face resistance from stakeholders with consequent political repercussions. Also, the new customs executive regulations are an important step toward customs modernization that will likely be resisted by vested interests and parts of the administration. Moreover, the solid waste management regulatory reforms could have implications for the informal workers in the sector as described in Section 5.1. All the above reforms benefited from consultations with the private sector and relevant stakeholders. Empowering civil society and supporting its role as an important partner behind reforms is key to mitigate such risks, together with technical assistance to the relevant institutions - MPBS, MoF / Customs Authority and MoE / WRMA - to ensure effective implementation of the reforms.

157. **The sector strategies and stakeholder risks are substantial.** The long-term and structural nature of the reforms means that challenges with cross-ministerial coordination, collaboration across agencies, and continued focus on implementation remain substantial. The risk is mitigated through having the Prime Minister's leadership and inter-ministerial Economic Cabinet endorsement of the reforms in this operation, which has been used in prior DPFs. Beyond the Government, there are various stakeholders like the NCW, the CBE, the FRA and the WMRA etc.; industry associations; SMEs and informal workers who would need to be involved for successful implementation of the program. To mitigate these risks, the World Bank Group provides technical assistance under each of the three program pillars ensuring continued dialogue and support. This is particularly relevant in areas such as the gender-related reforms, changes to the regulatory system for green finance, judicial reform, and trade facilitation. The structural reform program in the areas of debt management, trade facilitation and SOE corporate governance in select sectors, is also well aligned to the ongoing IMF program.

158. **The institutional capacity for implementation and sustainability risk is substantial**. The reform program is progressing well on the legislative side, with many important laws adopted to foster private sector contributions to growth and job creation. Enacting good laws is an important and necessary first step, but consistent implementation is required for their provisions to translate into effective change. Several reforms require a strong institutional set-up to support implementation, for example, court/insolvency practitioner reforms to support business exit, customs administration reforms, development of the new one stop centers for GBV survivors, etc. Incomplete implementation due to capacity constraints could undermine the impact of this operation. To mitigate these risks and ensure an efficient implementation of the legislation, there is an urgent need to enhance institutional capacity. This is supported by the WBG technical assistance mentioned above. Wider consultations and effective staff and citizen engagement will also help provide feedback on implementation bottlenecks and inform decisions.

159. **The fiduciary risk is rated substantial in light of the assessment of the overall PFM aspects.** Although an Internal Audit unit was created at MoF by a ministerial decree in late 2017, its staffing and launching of operations has taken some time and its scope of coverage to date is yet to be assessed. A new Decree No. 54 of year 2020 was issued by the Central Agency for Organization and Administration (CAOA) requiring organizational classification of "Internal Audit and Governance" in the organizational structure of each ministry, public agency and local administration unit. However, its operationalization has not witnessed significant progress to date. The Government has achieved some notable progress in fiscal transparency, with consistent issuance of the pre-budget statement, citizen budget and in-year budget execution reports. On the other hand, the stock of payment arrears cannot be determined from the data available in the public domain. In addition, the annual audit reports by the SAI are not made publicly available although this is mandated by the Constitution. No executive regulations were issued to operationalize the Conflict of Interest Law although the respective law was enacted since 2013. Public oversight is not adequately enabled in the absence of a Right to Information Act, and the absence of elected local councils given the stagnant local administration bill to date. To mitigate these risks, MoF initiated a PFM reform program with the support of development partners to improve the fiduciary integrity of

government finances. The Government Financial Management Information System (GFMIS) has helped timely issuance of in-year and periodic financial reports. Annual budgets and final accounts are made publicly available through the MoF website.

160. **The risk of not engaging and supporting the Government reform program outweighs the risks outlined above.** Egypt has taken bold steps in its reform program to restore confidence and macroeconomic stability, namely the "Egypt Takes Off" Program that was launched in 2018 aiming to boost job creation, improve living standards, enhance government efficiency, and help achieve Egypt's 2030 Vision, as well as the National Structural Reform Program formed to build a more resilient, private sector growth-led economy. Further efforts are still needed to build on such important achievements to unleash the potential of the country and to foster a sustainable private-sector-led growth that is focused on job creation. With Egypt's large demographics and pivotal economic and political weight in the region, the World Bank Group has a unique opportunity to support the country as an element of stability in a turmoiled region, by encouraging the continuation of reforms and facilitating the implementation of the program.

Table 8. Summary of Risk Ratings

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

ANNEX 1: POLICY AND RESULTS MATRIX

The PDO is to (a) enhance macro-fiscal sustainability, (b) enable private sector development, and (c) foster women's economic inclusion.	
Prior Action	**Prior Action Results**
PILLAR 1: ENHANCING MACRO-FISCAL SUSTAINABILITY	
SOE Governance and Transparency	
Prior Action 1: The Borrower, through its Presidency, has promulgated Law No. 185 of the Year 2020 (Amending Some Provisions of Public Business Sector Companies Law, Promulgated by Law No. 203 of the Year 1991).	Percentage of SOEs under the MPBS whose boards were reconfigured in accordance with requirements in Law No. 185 of 2020. (Baseline: zero; Target: 75 percent in March 2023).
Debt Management	
Prior Action 2: The Borrower, through its Ministry of Finance, has adopted and published Decree No. 229/2021 (Decree on Debt Reporting) in the National Gazette mandating: (i) the publication of semiannual public debt bulletins with detailed central government domestic and external debt data, including non-tradable debt, and (ii) the publication of an annual debt management report on the Ministry of Finance website, in light of the objectives and targets defined in the Medium-term Debt Management Strategy, and including detailed information on existing guarantees, not later than 6 months after the end of the previous fiscal year.	Regular publication of annual debt reports and semi-annual debt bulletins (Baseline: zero; Target: two annual debt reports and two semi-annual debt bulletins, March 2023).
Green Finance	
Prior Action 3: The Borrower, through its Ministry of Finance, has adopted and published the Sovereign Green Financing Framework on its website.	Percentage of green public investment projects out of total public investment projects to facilitate the transition to low carbon economy and implementation of NDCs (Baseline: 14 percent in FY20/21; Target: 20 percent in FY22/23).
PILLAR 2: ENABLING PRIVATE SECTOR DEVELOPMENT	
Financial Inclusion	
Prior Action 4: The Borrower, through its Cabinet, has approved and submitted to Parliament the draft Fintech Law for non-bank financial institutions.	Publication of FRA Board decisions detailing the secondary regulations stipulated by the law (Baseline: not published; Target: published by March 2023).
Business Exit and Business Restructuring	
Prior Action 5: The Borrower, through its Presidency, has promulgated Law No. 11 of the Year 2021 (Amending some provisions of the Restructuring, Preventive Composition and Bankruptcy Law No. 11 of the Year 2018).	The insolvency law is consistent with the accepted international standard on creditor eligibility to file for both reorganization and liquidation (WB ICR Principle C4.2); on creditors' effective participation in insolvency proceedings and access to information (WB ICR Principle C7.1), and on availability and priority for post commencement finance (WB ICR Principle C9.2) (baseline: No; target: Yes (Baseline: No; Yes, March 2023)
Trade Facilitation	
Prior Action 6: The Borrower, through its Ministry of Finance, has adopted and published Decree No. 430/2021 (Decree on Issuance of the Executive Regulations of Customs Law No. 207/2020) in the National Gazette.	Cargo inspections at the Port of Alexandria by the Egyptian Customs Authority (Baseline: 100 percent; Target: 80 percent by March 2023)

Solid Waste Management	
Prior Action 7: The Borrower, through its Presidency, has promulgated Law No. 202 of the Year 2020 (Waste Management Law).	Amount invested by private sector in waste management (Baseline: zero; Target: US$100 million, March 2023)
PILLAR 3: FOSTERING WOMEN'S ECONOMIC INCLUSION	
Female Labor Force Participation	
Prior Action 8: The Borrower, through its Ministry of Manpower, has issued and published Decree No. 43/2021 (Decree on Defining Job Restrictions for Women Employment) and Decree No. 44/2021 (Decree on Regulating the Employment of Women at Night), respectively, in the National Gazette (amending Decree No. 155 of 2003 and Decree No. 183 of 2003, respectively, to remove job and hour restrictions on women's work in certain sectors/jobs).	Nationwide awareness of the regulatory changes to increase female labor force participation incentives (Baseline: no campaign; Target: campaign executed by March 2023)
Gender Based Violence	
Prior Action 9: The Borrower, (i) through its Ministry of Transport, has adopted and published Decree No. 237/2021 (on a national Code of Conduct to promote safe transport in the railway sub-sector with phased rollout to other sub-sectors) in the National Gazette; and (ii) through its Prime Minister, has adopted Prime Minister Decree No. 827/2021(to establish a one-stop center for survivors of gender-based violence in Greater Cairo).	Development and implementation of GBV SOPs for the Code of Conduct based on global best practices and including grievance redress mechanism and evaluation mechanisms for reporting violations. (Baseline: no SOPs; Target: SOPs are developed and implemented by March 2023). Development and Implementation of GBV SOPs for one-stop centers including clear referral path based on global best practices and including grievance redress mechanisms and evaluation framework. (Baseline: no SOPs; Target: SOPs are developed and implemented by March 2023)
Female Access to Finance	
Prior Action 10: The Borrower, through its Financial Regulatory Authority, has (i) adopted and issued Board Decree No. 204/2020 prohibiting gender-based discrimination in access to non-banking financial services and activities; and (ii) adopted and issued Board Decree No. 187/2020 mandating, inter alia, the collection and quarterly reporting of disaggregated data by gender.	Number of women benefiting from available NBFI financing (Baseline: 2.07 million women in March 2021; Target: 2.2 million women in March 2023) Amount of loans available for women (Baseline: EGP 11.8 billion in March 2021; Target: EGP 12.5 billion in March 2023).

ANNEX 2: FUND RELATIONS ANNEX

Press Release No 21/193: IMF Executive Board Completes the Second Review under the Stand-By Arrangement (SBA) for the Arab Republic of Egypt and Concludes 2021 Article IV Consultation

June 23, 2021

- The Executive Board of the International Monetary Fund (IMF) completed the second and final review of Egypt's economic reform program supported by a 12-month Stand-By Arrangement (SBA), allowing the authorities to draw SDR 1,158.04 million (about US$ 1.7billion. This brings total purchases to SDR 3,763.64 million (about US$ 5.4 billion or 184.8 percent of quota).
- Egypt responded to the COVID-19 crisis with timely and prudent fiscal and monetary easing, which helped mitigate the health and social impact while safeguarding economic stability, debt sustainability, and investor confidence. With remaining risks to the outlook stemming from global uncertainty and Egypt's high public debt and gross financing needs, near-term fiscal and monetary policies should continue to support the recovery while continuing to preserve macroeconomic stability.
- Deepening and broadening structural reforms will be essential to address post-pandemic challenges, strengthen buffers and unleash Egypt's enormous growth potential with benefits for all Egyptians.

Washington, DC: The Executive Board of the International Monetary Fund (IMF) completed today the second and final review of Egypt's economic reform program supported by a 12-month Stand-By Arrangement (SBA). The completion of the review allows the authorities to draw the equivalent of SDR 1,158.04 million (about US$1.7 billion), bringing total purchases under the SBA to SDR 3,763.64 million (about US$ 5.4 billion, 184.8 percent of quota). The arrangement was approved by the Executive Board on June 26, 2020 (Press Release No. 20/248) to support the authorities' economic reform program during the COVID-19 crisis. The program aimed to address balance of payments needs arising from the pandemic, support the authorities' efforts to maintain macroeconomic stability while preserving achievements made over the prior years, and advance key structural reforms.

The Executive Board also concluded today the 2021 Article IV consultation [39] with Egypt.

Egypt entered the COVID-19 crisis with sizable buffers, thanks to reforms implemented since 2016. Faced with unprecedented domestic and global uncertainty, the authorities' policies struck a balance between ensuring targeted spending to protect necessary health and social expenditures and preserving fiscal sustainability while rebuilding international reserves. Growth is expected to reach 2.8 percent in FY2020/21 and rebound strongly to 5.2 percent in FY2021/22, but the outlook remains clouded by uncertainty while Egypt remains vulnerable to shocks due to its high public debt and gross financing needs.

In that context, the authorities' near-term fiscal and monetary policies aim to support the recovery while continuing to preserve macroeconomic stability. With the immediate crisis subsidizing, deepening and broadening structural reforms will be essential to help unleash Egypt's enormous growth potential. The authorities' structural reform agenda aims at more inclusive and sustainable private sector-led growth to create durable jobs and improve external resilience. This will require sustained efforts to improve resource allocation by reducing the role of the state and enhancing governance, strengthening social protection, improving the business environment, deepening financial markets, and increasing integration into global trade. The IMF will remain closely engaged with the Egyptian authorities and continue supporting their reform agenda.

Following the Executive Board's discussion on Egypt, Ms. Antoinette Sayeh, Deputy Managing Director and Acting Chair, issued the following statement:

"The Egyptian authorities have managed well the economic and social impact of the COVID-19 pandemic. Proactive economic policies shielded the economy from the full brunt of the crisis, alleviating the health and social impact of the

[39] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members on the country's economic developments and policies. Following the mission, the staff prepares a report which forms the basis for discussion by the Executive Board.

shock while maintaining macroeconomic stability and investor confidence. The economic recovery is underway, but the outlook is still clouded by uncertainty related to the pandemic. High public debt and large gross financing needs leave Egypt vulnerable to shocks or changes in financial market conditions for emerging markets.

"The budget target for FY2021/22 strikes an appropriate balance between supporting the recovery and keeping public debt on the projected path. The envisaged pickup in growth should allow a return to the pre-crisis primary surplus from FY2022/23 to put public debt back on a firmly downward trajectory. Continued progress on fiscal structural reforms is critical to ensure additional space for high priority spending on health, education, and social protection.

"The Central Bank of Egypt's (CBE) data driven approach to monetary policy has helped anchor inflation expectations. Inflation remains below the CBE's target range, providing scope for monetary policy to further support the recovery as warranted by inflation and economic developments. Continued progress on strengthening the monetary framework will also support monetary transmission. Two-sided exchange rate flexibility is essential to absorb external shocks and maintain competitiveness.

"The banking system remains resilient, having entered the crisis well-capitalized and with ample liquidity. As crisis-related measures are unwound, continued supervisory vigilance will be needed to closely monitor lending standards.

"The authorities' national structural reform plan aims to achieve strong private sector-led growth to create durable employment and improve external resilience. This will require sustained efforts to improve resource allocation by reducing the role of the state in the economy, enhancing governance and transparency, improving the business environment, deepening financial markets, and increasing integration into global trade."

Executive Board Assessment [40]

Executive Directors agreed with the thrust of the staff appraisal. They commended Egypt's strong performance under the Stand-by Arrangement, a result of timely policy response to the crisis and steadfast implementation of the program with overperformance in key program targets. At the same time, Directors cautioned that global uncertainty remains high and encouraged continued efforts to safeguard debt sustainability, strengthen transparency and governance, and undertake structural reforms to build a greener, digital, and more inclusive economy.

Directors lauded the satisfactory performance against the fiscal targets, including spending on health and social protection. Noting the still-high uncertainty, they agreed with the more gradual fiscal consolidation to support the economic recovery. However, given significant risks to debt sustainability, they emphasized the importance of returning to the pre-COVID-19 primary surplus from FY2022/23 onwards. Directors welcomed the medium-term revenue strategy and the medium-term debt strategy. They stressed that strong implementation of these strategies, including enhanced revenue mobilization, will be key for lowering the high public debt and gross financing needs while creating space for priority spending. They also underscored the need for continued progress toward greater fiscal transparency, including for state-owned enterprises.

Directors commended the Central Bank of Egypt (CBE) for the monetary policy support to the economy thus far and supported a data-driven approach to monetary policy. Given available policy space and below-target inflation outturns, Directors broadly encouraged the CBE to consider easing if warranted by inflation and economic developments. They emphasized that the monetary policy framework could be further strengthened to support monetary policy transmission. They considered that if subsidized lending facilities were considered necessary for social objectives, they should be defined and supported in the budget rather than implemented through the CBE. Directors noted the strong capital inflows and underscored the importance of exchange rate flexibility as a defense against potential volatility in these flows, and more broadly against external shocks.

Directors noted the resilience of the banking system but observed that continued vigilance was warranted. Noting the system's high exposure to the sovereign, they welcomed efforts to help diversify banks' revenue streams and enhance financial inclusion through digital financial technologies and a focus on underserved groups. Directors also welcomed the

[40] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

completion of the restructuring plan for the National Investment Bank, which will reduce fiscal and financial stability risks.

Directors emphasized the importance of deepening and broadening structural reforms to maintain strong medium-term growth. They urged continued efforts to foster private-sector-led growth—including reducing the role of the state in the economy and leveling the playing field—improving the governance of public institutions, fostering labor market participation of women and youth, and encouraging exports. They also supported ongoing plans to transition to a greener, more digital economy. Directors commended Egypt's commitment to reach the Sustainable Development Goals by 2030.

It is expected that the next Article IV consultation with the Arab Republic of Egypt will be held on the standard 12-month cycle.

Egypt: Selected Macroeconomic Indicators[41]

Population (2019): 98.9 million					Per capita GDP (2019/20, US$): 3,057
Quota (3/31/2018): SDR 2,037.1 million/100 percent of quota					Literacy rate: 71 (2017)
Main exports: Petroleum (crude oil and refined products), gold					Poverty rate: 29.7 (2020)
Key export markets: UAE, Saudi Arabia, Italy					
	2018/19	2019/20	2020/21	2021/22	2022/23
Output					
Real GDP growth (%)	5.6	3.6	2.8	5.2	5.6
Employment					
Unemployment (%)	8.6	8.3	--	--	--
Prices					
Inflation (%, end of period)	9.4	5.7	5.7	6.8	6.9
Inflation (%, period average)	13.9	5.7	4.6	6.6	6.8
Budget sector[2]					
Revenue and grants (% GDP)	17.7	16.7	17.9	18.6	18.7
Expenditure (% GDP)	25.8	24.7	26.1	25.6	24.9
Overall balance (% GDP)	-8.1	-7.9	-8.2	-7.0	-6.2
Primary balance (% GDP)	1.9	1.8	0.9	1.5	2.0
Public debt (% GDP)	84.2	90.0	92.0	89.8	87.0

[41] Fiscal year ends June 30.

Money and credit	2018/19	2019/20	2020/21	2021/22	2022/23
Broad money (M2, % change)	11.8	17.5	16.5	12.7	12.0
Credit to the private sector (% change)	12.4	19.5	20.1	18.0	16.0
Treasury bill rate, 3 month (average, in percent)	18.6	14.7	--	--	--
Balance of payments					
Current account (% GDP)	-3.6	-3.1	-3.9	-3.6	-2.6
FDI, net (% GDP)	2.6	2.0	1.4	2.0	2.5
Reserves (months imports)	7.0	5.9	6.0	6.0	5.9
External debt (% GDP)	34.1	34.2	36.1	33.0	29.1
Exchange rate					
REER (% change; + means appreciation)	17.9	14.3	--	--	--
Exchange rate (EGP/$, end-period)	16.7	16.2			
Sources: Egyptian authorities; and IMF staff estimates and projections.					

Source: IMF Communications Department

ANNEX 3: LETTER OF DEVELOPMENT POLICY

وزارة التعاون الدولى
الـــوزيـــر

٧٤٤٢
٦ سبتمبر ٢٠٢١
وزارة التعاون الدولى
صادر
مركزي

September 5, 2021

Mr. David Malpass
President
World Bank Group
Washington, D.C

The Arab Republic of Egypt
Inclusive Growth for Sustainable Recovery
Letter of Development Policy

Dear President Malpass,

Despite an unprecedented dual shock to the global economy, Egypt has continued to move forward on the implementation of its Economic Reform Program ("Egypt Takes Off"), which was launched in 2018 and aims to boost job creation, improve living standards, and enhance government efficiency, and ultimately help achieve Egypt's ambitious 2030 vision. The "Egypt Takes Off" program builds on the resultsof the first comprehensive economic stabilization program (2014/2015-2017/2018) supported by the World Bank and the International Monetary Fund (IMF). The program has successfully restored confidence in the economy, achieved macroeconomic stability and relocated Egypt on the global investment map by boldly addressing fiscal and external sector imbalances, and implementing key legal and regulatory reforms to improve the business climate, alongside sharpening the focus on social programs to protect the most vulnerable from the impact of the reforms. Furthermore, the Executive Board of the IMF approved a 12-month Stand-by Arrangement for Egypt in June 2020 that helped Egypt cope with challenges posed by the COVID-19 pandemic (Pandemic) and supported preservation of the achievements made over the past four years. In 2019 and 2020, Egypt remained the largest recipient and most attractive of foreign direct investments in Africa despite the Pandemic. Egypt was one of the highest growing countries globally.[1]

The "Egypt Takes Off" Program rests on five strategic pillars, namely: 1) Protecting national security and Egypt's foreign policy 2) Building the Egyptian human capital; 3) Increasing the government performance and economic development; 4) Job creation, and 5) Improving the quality of life and standard of living of the Egyptian people. Egypt Takes Off Program aims to build further a competitive and diversified knowledge-based economy. This would be achieved by promoting private sector participation and boosting investment, both foreign and domestic. To ensure credibility and commitment, the Government announced concrete targets for key macro indicators to be achieved by the Program's final year, following the implementation of reforms. Pillars 3, 4 and 5 are relevant to this DPF operation.

[1] United Nations Conference on Trade and Development

وزارة التعاون الدولي
الـــوزيـــر

Indeed, since 2018, the Government has moved ahead on a long list of reforms under each of these Pillars. For instance, to enhance resource mobilization under Pillar 3 of the program, the Government unified and modernized the Egyptian Tax Authority and gradually rolled out the electronic payment of Corporate Income Tax, Personal Income Tax and Value Added Tax. Similarly, the newly adopted Customs Law No.207/2020 will help modernize customs administration. The introduction of the National Single Window (Nafeza) in Egypt's busiest ports will help facilitate and reduce trade costs. Meanwhile, the Government also launched an online portal for Egypt's investment map, which includes both lands and industrial zones, to promote the manufacturing sector as a key driver of the economy. Further, the Government invested in national infrastructure projects to improve public service delivery. According to the World Economic Forum, Egypt's road quality index ranking jumped from 76 in 2017 to 29 in 2019 due to these investments. This pillar also encompassed the launch of the fourth phase of Cairo's third metro line, expanded provision of social housing units, as well as Takaful and Karama cash transfers (beneficiaries nearly doubled from 1.7 million families in FY2017/2018 to 3.2 million in FY2019/2020), improved water and sanitation services in urban areas (96 percent sanitation coverage) and rural areas (38 percent sanitation coverage) and continued to prioritize Upper Egypt's local development, by directing an increasing amount of public investments to Egypt's poorest villages. As a result of these policy reforms, real growth increased from 5.3 percent FY2017/2018 to 5.6 percent in FY 2018/2019, chronic primary deficit reversed into a surplus and increased from 0.1 percent of GDP in FY2017/2018 to 1.8 percent in FY2019/2020, while inflation subsided to its lowest in July 2020. Moreover, unemployment rates declined from 9.9 percent in 2018 to 7.2 percent in October—December 2020, and poverty rates declined for the first time in more than two decades from 32.5 percent to 29.7 percent in 2019/2020. The implemented policy reforms were critical to helping Egypt build buffers and weather the Pandemic.

While the vision, strategic objectives and commitment to reform still hold, the Pandemic posed a crisis of unprecedented scope and scale. Still, Egypt is one of the countries where a silver lining of the COVID- 19 shock is an acceleration of progress on many of the planned structural reforms. To mitigate the socioeconomic challenges of the Pandemic, Egypt immediately adopted its "Respond and Rebuild" strategy (Strategy). This Strategy aims to protect the population from the spread of the COVID-19 virus, provide easier access to credit to help households smooth consumption and provide liquidity for firms to survive the disruption, and progress by expediting structural reforms through and beyond the Pandemic. Virus containment measures and global demand shortfall created financial stress for both individuals and businesses. The resulting major supply and demand shocks required the Government to execute a comprehensive crisis response package of coordinated reforms to enhance social protection, financial inclusion, and women inclusion. Most notably, the Central Bank of Egypt (CBE) cut interest rates by 400 bps over the nine months following the Pandemic and extended customer and Small and Medium-Sized Enterprises (SME) loan maturities for six months. In parallel, the Ministry of Finance (MOF) delayed tax collection for individuals and businesses for six months

وزارة التعاون الدولى
الـــوزيـــر

and announced EGP 100 billion stimulus package (2 percent of GDP) to mitigate the impact on the poor, seasonal workers (mainly female), the tourism sector and the stock market. To alleviate the hardship on the manufacturing sector, the prices of natural gas and electricity for industrial use were reduced. Property tax payments for factories and touristic establishments were postponed for three months, and arrears under the export subsidy scheme were paid in full. The Government was cognizant that women are shouldering the burden of the crisis and has therefore designed the policy package to address the needs of women in health, social protection, and economic measures. [2]

As a result of this concerted, balanced, and inclusive crisis response, Egypt's economic performance in 2019/2020 stood out with one of the highest real growth rates globally of 3.6 percent. The Egyptian economy was the only one in MENA to show positive growth figures during 2020. Enhanced confidence in the Egyptian economy was also reflected in the sharp rebound of short-term capital inflows, which have almost returned to their pre-Pandemic levels, recording more than US$ 13 billion in August 2020, a much faster and more robust recovery than in most other emerging markets. On the gender equity front, Egypt was the first country to provide a women-specific response during COVID-19 launched by the National Council for Women. The country scored first place in the Middle East and West Asia regions with 21 policy measures according to the UNDP COVID-19 Global Gender Response Tracker.

Still, the Government is aware that more needs to be done to address the Egyptian economy's structural challenges and has therefore embarked on a second wave of reforms to build a more resilient economy by supporting private sector-led economic growth under the newly launched "National Structural Reform Program (NSRP)" which covers the period from FY2021/2022 to FY2023/2024. To support the Egyptian government endeavors in the ongoing recovery in the short term, three thematic pillars were identified: (1) Enhancing Macro-Fiscal Sustainability; (2) Enabling Private sector development; and (3) Fostering Women Economic Inclusion.

Enhancing Macro-Fiscal Sustainability

1. **At the heart of Egypt's economic reform program lies the continued commitment to fiscal consolidation and debt sustainability.** Despite the severe challenges of the Pandemic demand and supply crisis, resulting in higher emergency-related expenditures and constrained revenue mobilization, the Government still maintained a positive primary balance (of 0.2 percent of GDP) during the first half of FY2020/2021. There was a reduction in the overall fiscal deficit from 4.1 per cent of GDP in July-December 2019/2020 to 3.6 percent during the same period in 2020/2021. This occurred while meeting the financial needs of the healthcare and education

[2] For further details on Egypt's Covid19 response strategy: https://www.moic.gov.eg/en-US/News/GetNewsDetails?na=3144

وزارة التعاون الدولى
الـــوزيــر

sectors and expanding the public investment envelope by almost 60 percent to reach EGP 102 billion during the first half of the fiscal year 2020/2021.

2. **Debt metrics** have also improved considerably over the past three years, with gross debt declining to 87.5 percent of GDP at end-2019/2020, after peaking at 108 percent of GDP in 2016/2017. To enhance debt sustainability, the Government also continued to update the Medium-Term Debt Strategy (MTDS), with the latest published in December 2020. The MDTS reflects clear objectives to extend the average time to maturity of the debt portfolio to five years by 2023/2024 and diversify the sources of financing between domestic and external debt while introducing new instruments such as the green sovereign bonds. The Government will also enhance debt transparency management by publishing a semiannual public debt bulletin with detailed central government domestic and external debt data, including non-tradable debt and an Annual Debt Management Report, in light of the objectives and targets defined in the MTDS and including, to the extent possible, detailed information on existing sovereign guarantees at the level of the borrowing entity. In the medium term, the Government intends to include in the Annual Debt Management Report, to the extent practicable, a full reconciliation between the fiscal balance and movements in the debt position to support ongoing improvements in the coverage of the report.

3. **To improve fiscal risk management,** the Government program includes a comprehensive reform plan to restructure public enterprises by: restructuring companies and rehabilitating of factories; strengthening public enterprises business models and reducing their debt levels where possible; and undertaking regulatory, managerial and governance reforms to level the playing field. As a first step, law No. 203/1991 was amended by law No.185/2020 to enhance state-owned enterprises (SOE) management by introducing more professional, market-oriented corporate governance principles. Law No.185.2020 introduces a requirement for the regular publication of financial information. The Government's objective is to establish a system of SOE-by-SOE and aggregated financial reporting and monitoring on SOE performance and financial position. Assuming smooth implementation, it aims to have this new reporting system in place by 2023/24.

4. **Unlock a Green Recovery.** COVID-19 highlighted the global vulnerabilities related to climate change and the urgent need to focus on a greener and more sustainable economic recovery. For this purpose, the Government developed a "Green Recovery Plan" encompassing a wide range of reforms, programs, and initiatives, which will help accelerate Egypt's transition to a green economy, in line with the 2030 national vision, in addition to strengthening the resilience of the Egyptian economy and protecting the health of the people. This Government commitment to 'build back greener' combined with excellent wind and solar resources offers Egypt a superb opportunity to become a regional green pioneer. In September 2020, through the Ministry of Finance, Egypt issued and published the sovereign green finance framework. In October 2020,

وزارة التعاون الدولي
الـــوزيــر

Egypt was the first country in the Middle East to issue a sovereign green bond of US$750 million, based on the sovereign green finance framework. The green bond was almost five times oversubscribed. Egypt aims to encourage the private sector also to start using sustainable finance instruments. In October 2020, the Government also launched a reform process to increase the deployment of energy-efficient motors through the Ministry of Trade and Industry's adoption of Decree 463/2020 to enforce labeling of motors and implementation of high-efficiency standards motors. Furthermore, to modernize Egypt's air quality management system and strengthen the ability of Greater Cairo's population to cope with high pollution events, the Government will implement the Greater Cairo Air Pollution Management and Climate Change Project, funded by a World Bank loan.

ENABLING PRIVATE SECTOR DEVELOPMENT

5. **Structural reforms to boost private sector development are needed to stimulate economic recovery and firm and financial sector resilience to future outbreaks.** Private-sector job creation can play a transformational role in sustainably addressing the world's most pressing humanitarian challenges. In the past year, the Government has taken important steps to ensure financial stability and advance financial inclusion through major regulatory and structural reforms. Most importantly, the new Banking Law No.194/2020 was adopted after extensive consultations, bringing the norms and practices of the Egyptian banking sector to global standards, and promoting critical rules of governance, independence, transparency, and equity, which will help increase the competitiveness of the sector. The Government also pushed forward several financial inclusion and fintech reforms to leverage the new reality created by the Pandemic. This included automatic enrollment for customers to internet banking services, an increase in the daily limits of the value transacted via mobile wallets, an expansion in banking products to include the issuance of near field communication and contactless pre-paid cards, and the regulation of the fintech space by finalizing the Fintech law for Non-Bank Financial Institutions (NBFIs), approving it by Cabinet and submitting it for parliamentary review. Going forward, the Government will prioritize the issuance of the secondary regulations of the banking law to ensure effective and smooth implementation of these key legislations.

6. **Particularly relevant for the recovery from the Pandemic shock are the bankruptcy and economic justice reforms.** In March 2018, Egypt adopted law No.11/2018, revoking an outdated bankruptcy procedure set out in the Commercial Code No.17/1999. This was an important step towards promoting a restructuring culture in Egypt, creating a more creditor friendly approach to insolvency and modernizing the preventive composition proceeding. In April 2021, the President ratified a revised bankruptcy Law No.11/2021 (Amending some provisions of the Restructuring, Preventive Composition and Bankruptcy Law No. 11 of the Year 2018). To promote more

وزارة التعاون الدولى
الـــوزيـــر

effective operation of the Economic Court, the Government also issued Ministry of Justice Decree 241/2021 to enforce the collection and publication of commercial and economic court statistics and enhance the transparency of this sector. In the medium term, further reforms are envisioned to improve judicial service delivery by adopting a revised Code of Civil Procedures, including re-engineered business processes that create an enabling environment for automation and the simplification of small claims procedures.

7. **In terms of trade facilitation,** the Government undertook legislative reforms to modernize and automate customs administration, intending to reduce the time and cost of trade, lower commodity prices in local markets and improve Egypt's ranking in key business climate reports. Most importantly, Customs Law No.207/2020 was promulgated in November 2020 to modernize border management and bring Egypt's customs administration in line with international best practices. Between 2019 and 2020, the National Single Window was gradually rolled out in Cairo Airport, Port Said, Ain Sokhna, Alexandria, and Damietta ports, streamlining the import and export of goods. In addition, joint inspection committees comprising the main port authorities and agencies[3] were established in ports and customs offices, and the reduction of a number of customs clearance documents. In April 2021, the Advance Cargo Information (ACI) pre-registration system was introduced in seaports, which is expected to streamline further traders' procedures. To ensure smooth implementation of the Customs Law and its Executive Regulations following extensive consultations with Egypt's development partners and private sector, the Executive Regulations were developed to facilitate electronic processing; set customs fees to provide cost-recovery; and apply a risk-based approach to customs management. Over the next year, the Government will be working on enhancing the governance structure, performance, and oversight of the National Single Window. This will include issuing an implementation roadmap, expanding Protocols of Agreement between Misr Technology Services (the operator) and Government Agencies to include Service Level Agreements (SLAs), and put in place operating contracts with SLAs between MTS and private sector users of the National Single Window.

8. **As for Solid Waste Management,** to strengthen the regulatory framework for waste management and encourage private sector participation in the sector, ensuring technical and financial sustainability, promoting integrated solid waste management, and reducing GHG emissions, Waste Management Law no 202/2020 was promulgated in October 2020. The law requires that 25 percent of mortgage tax revenues by governorates shall be directed to waste management and that illegal landfills be closed in two years. The Government will be working on the Executive Regulations, as well as the necessary tools and guidelines stipulated in Law 202/2020 to facilitate

[3] This includes the Egyptian Customs Authority, the General Organization for Exports and Imports Control, the National Authority for Food Safety, Agricultural and veterinary Quarantine, and the other relevant authorities or agencies

وزارة التعاون الدولى
الـــوزيـــر

its enforcement and ensure private sector participation in waste management (particularly through the setting of tariffs, standard bidding documents, and performance-based contracts).

FOSTERING WOMEN'S ECONOMIC INCLUSION

9. **Addressing gender equality and women's economic empowerment** is at the heart of Egypt's program as the Government sees its quantifiable impact on livelihoods. Female labor force participation is only 22 percent in Egypt, significantly lower than that of men at 67 percent. The situation is expected to have been further exacerbated by the Pandemic.

10. **For this purpose, the Government of Egypt, launched the "Closing the Gender Gap Accelerator" in July 2020 together with the World Economic Forum.** This was the first accelerator in Africa and the Middle East. The accelerator is a three-year innovative public-private collaboration model, built to advance women's economic empowerment. It emphasizes the importance of collaboration between policymakers and the private sector to take decisive actions on closing economic gender gaps, fostering inclusion, and deepening the engagement on the advancement of women. The action plan of the accelerator, which started to be implemented in February 2021 aims to boost women's representation and leadership in the corporate world, promote career-family balance and encourage private investment in elder and childcare, in addition to offering training programs in sectors in which women are underrepresented.

11. **Towards these ambitious gender objectives, the Government has already implemented a fully- fledged legislative and regulatory reform package.** To enhance female empowerment and labor force participation, the Government issued Decree No. 43/2021 and Decree No. 44/2021 amending the Minister of Manpower and Immigration Decrees Nos. 155 and 183 of 2003 to remove restrictions on women's work in certain sectors, as well as working during certain night hours. With safe and decent transport being among the key enablers of female labor participation, the Government adopted a national code of conduct to promote safe transport in the railway sub-sector with a phased roll out to other sub-sectors. Serious steps were also taken to help bridge the gender gap in access to opportunities and services provided by the financial sector. FRA decree No. 204/2020 mandating nondiscrimination based on gender in access to finance in both the banking and non-banking financial sectors was issued. To complement this effort and better inform relevant policymaking going forward, the Government has adopted FRA Board decision No.187/2020, which mandates collecting and reporting sex-disaggregated data by NBFI.

وزارة التعاون الدولي
الـــوزيـــر

12. **The Government also acknowledges the reality of gender-based violence (GBV) in Egypt** and its intersection with women's economic empowerment. Building on the "National Strategy to Combat Violence Against Women" launched by the National Council for Women in 2015, the Government has adopted Decree No. 827/2021 to establish a one-stop center for the survivors of violence in Greater Cairo as a first step to national coverage. The initiative adopts a survivor-centered approach aiming to provide coordinated and holistic psychological, medical, health and legal support to GBV survivors. The interest and confidentiality of the survivor come as a priority in this code. In addition, in July 2020, legislative amendments to the Criminal Law were passed to enable legal prosecutors to conceal victims' data coming forward with their reports to protect them from perpetrators or external parties. The Government is continuing its efforts to address the drivers of GBV and track the outcomes and impact of the reforms related to female labor force participation (FLFP) and GBV beyond the indicators in the DPF results framework and beyond the DPF timeframe (for example, FLFP rate in certain sectors, satisfaction surveys of transport users or GBV survivors supported by the center, etc.)

In conclusion, Egypt expresses its strong commitment to the reform program outlined in this letter and requests the World Bank support in the Egyptian government recovery endeavors through a Development Policy Financing. We, therefore, appreciate your positive response to our request for support and look forward to working with you as a critical partner in Egypt's development agenda.

Sincerely,

Dr. Rania A. Al-Mashat
Minister of International Cooperation
The Arab Republic of Egypt

ANNEX 4: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
PILLAR 1: ENHANCING MACRO FISCAL RESILIENCE		
PA 1: The Borrower, through its Presidency, has promulgated Law No. 185 of the Year 2020 (Amending Some Provisions of Public Business Sector Companies Law, Promulgated by Law No. 203 of the Year 1991)	No environment effects expected.	No direct impact on poverty
PA 2: The Borrower, through its Ministry of Finance, has adopted and published Decree No. 229/2021 (Decree on Debt Reporting) in the National Gazette mandating: (i) the publication of semiannual public debt bulletins with detailed central government domestic and external debt data, including non-tradable debt, and (ii) the publication of an annual debt management report on the Ministry of Finance website, in light of the objectives and targets defined in the Medium-term Debt Management Strategy, and including detailed information on existing guarantees, not later than 6 months after the end of the previous fiscal year.	No environment effects expected.	No direct impact on poverty
PA 3: The Borrower, through its Ministry of Finance, has adopted and published the Sovereign Green Financing Framework on its website.	Yes (positive)	No direct impact on poverty
PILLAR 2: ENABLING PRIVATE SECTOR DEVELOPMENT		
PA 4: The Borrower, through its Cabinet, has approved and submitted to Parliament the draft Fintech Law for non-bank financial institutions.	No environment effects expected.	Yes; potential poverty and inequality reducing in the long term, for those who gain new access or increase adoption of digital financial services. Regulation needs to favor inclusion.
PA 5: The Borrower, through its Presidency, has promulgated Law No. 11 of the Year 2021 (Amending some provisions of the Restructuring, Preventive Composition and Bankruptcy Law No. 11 of the Year 2018)	No environment effects expected.	No direct impact on poverty. Potential positive indirect effect (poverty reducing) in the long term via improved institutions and business and investment friendly environment.
PA 6: The Borrower, through its Ministry of Finance, has adopted and published Decree No. 430/2021 (Decree on Issuance of the Executive Regulations of Customs Law No. 207/2020) in the National Gazette.	No environment effects expected.	Yes, potentially poverty reducing, if leading to price reduction for imported goods. To have broader effects on labor market other measures need to be implemented to diversify export basket, among other things.
PA 7: The Borrower, through its Presidency, has promulgated Law No. 202 of the Year 2020 (Waste Management Law).	Yes (positive)	Possible positive impact on non-monetary welfare via better service delivery and lower solid waste related pollution, and monetary effects, via employment creation. Possible negative impacts via livelihood losses among informal workers in the sector.
PILLAR 3: FOSTERING WOMEN'S ECONOMIC INCLUSION		
PA 8: The Borrower, through its Ministry of Manpower, has issued and published Decree No. 43/2021 (Decree on Defining Job Restrictions for Women Employment) and Decree No. 44/2021 (Decree on Regulating the Employment of Women at Night), respectively, in the National Gazette (amending Decree No. 155 of 2003 and Decree No. 183 of 2003, respectively, to remove job and hour restrictions on women's work in certain sectors/jobs).	No environment effects expected.	Yes; potential poverty reduction via increased female labor participation and employment in sectors previously forbidden to women.

PA9: The Borrower, (i) through its Ministry of Transport, has adopted and published Decree No. 237/2021 (on a national Code of Conduct to promote safe transport in the railway sub-sector with phased rollout to other sub-sectors) in the National Gazette; and (ii) through its Prime Minister, has adopted Prime Minister Decree No. 827/2021(to establish a one-stop center for survivors of gender-based violence in Greater Cairo).	No environment effects expected.	Yes; potential poverty reduction via increased female labor participation and employment, particularly among young, unmarried and unemployed/ inactive women.
PA 10: The Borrower, through its Financial Regulatory Authority (FRA), has (i) adopted and issued Board Decree 204/2020 prohibiting gender-based discrimination in access to non-banking financial services and activities; and (ii) has adopted and issued Board Decree No. 187/2020 mandating, inter alia, the collection and quarterly reporting of disaggregated data by gender.	No environment effects expected.	Yes; potential poverty reduction via increased earnings for female entrepreneurs.

ANNEX 5: DEBT SUSTAINABILITY ANALYSIS

1. **The World Bank conducted a DSA to assess the trajectory of the budget sector debt-to-GDP ratio between FY2020/2021—FY2024/2025.** The baseline scenario assumes: (a) Economic growth to initially decrease from 3.6 percent in FY2019/2020 to 3.3 percent in FY2020/2021 due to the ongoing impact of the pandemic before starting to rebound to reach 5 percent in FY2021/2022 and then increase gradually to 5.7 percent towards the end of the forecast horizon; (b) The fiscal consolidation plan to resume after a temporary disruption in FY2020/2021, with the overall deficit returning to its downward trajectory over the forecast horizon. The primary balance is expected to remain in surplus; albeit declining to around 1.5 percent of GDP in FY2020/2021 before rebounding to 2 percent of GDP over the medium term; and (c) The interest burden however is expected to remain non-decreasing throughout the forecast horizon (despite the declining debt-to-GDP ratio) as global financial conditions are expected to tighten affecting domestic interest rates (Table A 1).

2. **Under these baseline scenario assumptions, the debt-to GDP ratio is projected to initially rise due to the COVID-19 crisis, and then decline gradually over the forecast horizon**. The debt-to-GDP ratio is projected to increase from 87.5 percent in FY2019/2020 to 91.4 percent in FY2020/2021, and then decline gradually to reach 79.2 percent by FY2024/25, supported by the projected path of fiscal consolidation, along with the improving growth outlook. Extra-budgetary financing or debt issuance that exceeds the budget financing needs are expected to continue to have implications for the debt trajectory going forward (Figure A 1).

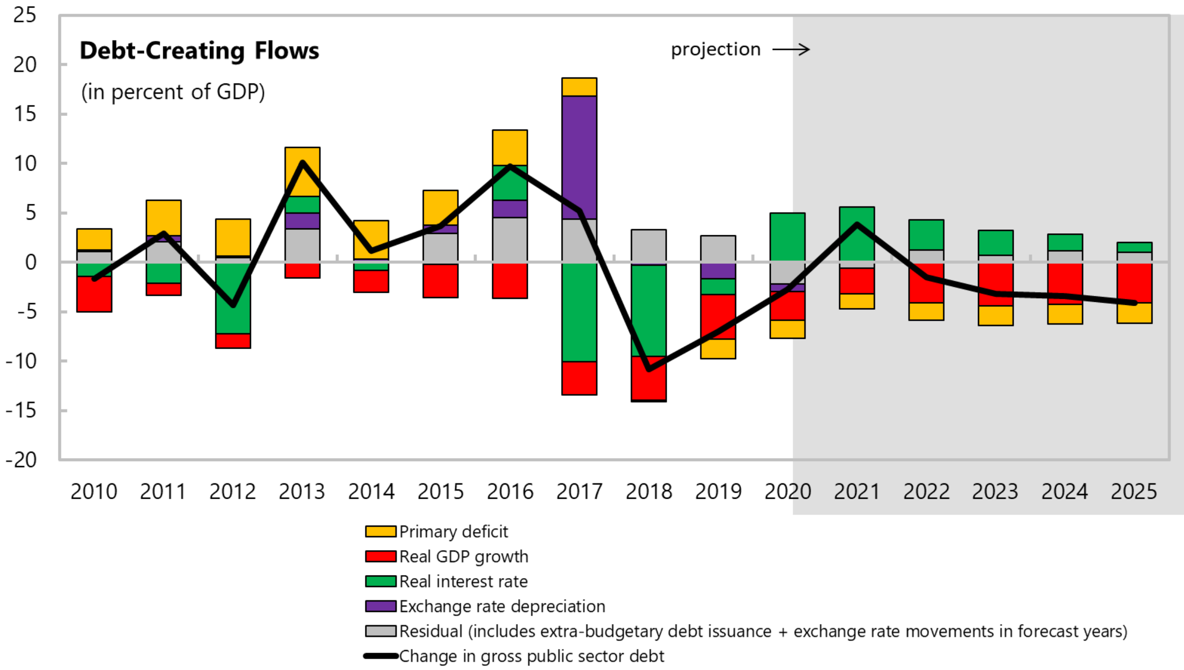
Table A 1. Egypt Budget Sector DSA - Baseline Scenario

Debt, Economic and Market Indicators [1/]

(in percent of GDP unless otherwise indicated)	Actual			Projections					As of June 07, 2021		
	2010-2018 [2/]	2019	2020	2021	2022	2023	2024	2025	Sovereign Spreads		
Nominal gross public debt	90.9	90.2	87.5	91.4	89.8	86.7	83.3	79.2	Bond Spread (bp) 3/		517
Public gross financing requirements	30.6	36.5	38.0	42.2	40.7	39.2	37.7	36.3	5Y CDS (bp)		331
Real GDP growth (in percent)	3.6	5.6	3.6	3.3	5.0	5.5	5.6	5.7	Ratings	Foreign	Local
Inflation (GDP deflator, in percent)	13.5	13.6	5.6	4.7	7.6	8.0	8.9	9.3	Moody's	B2	B2
Nominal GDP growth (in percent)	17.6	19.9	9.4	8.1	13.0	14.0	15.0	15.5	S&Ps	B	B
Effective interest rate (in percent) [4/]	10.3	12.4	11.8	11.7	11.8	11.7	11.7	11.2	Fitch	B+	B+
Primary Balance	-3.0	1.9	1.8	1.5	1.8	2.0	2.0	2.0			

Source: WB staff; Generated using the IMF MAC DSA template.
1/ Government debt data refer to the total budget sector debt, including central administration, local governments and public service authorities. External government debt refers to that serviced by the Ministry of Finance (MoF).
2/ World Bank Staff calculations based on MoF and CBE data.
3/ Emerging Market Bond Index Global (EMBIG) bp).
4/ Defined as interest payments divided by debt stock at the end of previous year.

Figure A 1. Egypt's Debt Dynamics: Contributions to Debt-to-GDP Ratio



Note: 'Residual' turned negative in FY2019/20 to reflect the one-off cancellation of debt owed by the Treasury to the Social Insurance Funds.
Source: WB staff; Generated using the IMF MAC DSA template.

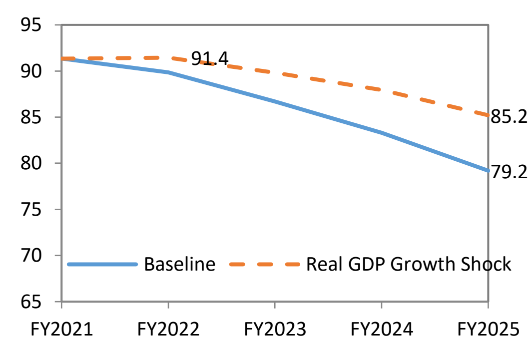
DSA Stress Tests

3. **A real GDP growth shock scenario** assumes a 1 percentage point drop in the real growth rate, compared to the baseline scenario. Slower growth will be associated with a lower momentum of fiscal consolidation, with the adverse implications mainly stemming from the lower government revenues. Under this scenario, the debt-to-GDP ratio would only start decreasing by FY2022/2023, and at a slower pace, reaching 85.2 percent by FY2024/2025 compared to 79.2 percent under the baseline.

Table A 2. Real GDP Growth Shock Assumptions

Real GDP Growth Shock	FY2021	FY2022	FY2023	FY2024	FY2025
Real GDP growth	3.3%	4.0%	4.5%	4.6%	4.7%
Inflation (GDP Deflator change)	4.7%	7.3%	7.8%	8.6%	9.0%
Non-interest revenue-to-GDP ratio	17.5%	16.8%	17.2%	17.3%	17.3%
Non-interest expenditure-to-GDP ratio	16.0%	15.6%	15.7%	15.8%	15.8%
Primary Balance	1.5%	1.3%	1.5%	2.0%	2.0%
Interest rate shock (bps) compared to baseline	0	0	0	0	0

Figure A 2. Real GDP Growth Shock Trajectory



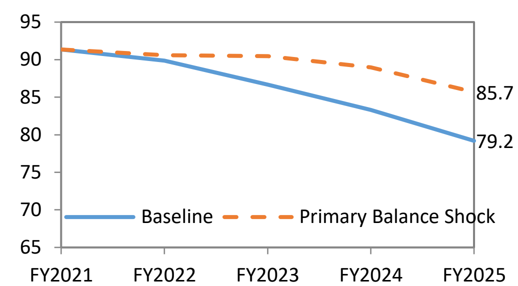
4. **A primary balance shock** assumes a slowdown in fiscal consolidation efforts, primarily stemming from a more sluggish revenue-generation path over the medium-term (compared to that of the baseline scenario). Under this shock, the primary balance would reverse into the negative territory, posting a deficit of 1 percent of GDP in FY2022/2023 before starting to balance again and then rebound to a surplus of 1 percent of GDP through FY2024/2025. The debt-to-GDP ratio

declines over the forecast horizon, but (similar to the GDP shock scenario), the pace of the reduction in the debt-to-GDP ratio is slower, reaching 85.7 percent by FY2024/2025, 6.5 percentage points higher than its ratio under the baseline scenario.

Table A 3. Primary Balance Shock Assumptions

Primary Balance Shock	FY2021	FY2022	FY2023	FY2024	FY2025
Real GDP growth	3.3%	5.0%	5.5%	5.6%	5.7%
Inflation (GDP Deflator change)	4.7%	7.6%	8.0%	8.9%	9.3%
Non-interest revenue-to-GDP ratio	17.5%	16.6%	14.7%	15.8%	16.8%
Non-interest expenditure-to-GDP ratio	16.0%	15.6%	15.7%	15.8%	15.8%
Primary Balance	1.5%	1.0%	-1.0%	0.0%	1.0%
Interest rate shock (bps) compared to baseline	0	0	0	0	0

Figure A 3. Primary Balance Shock Trajectory

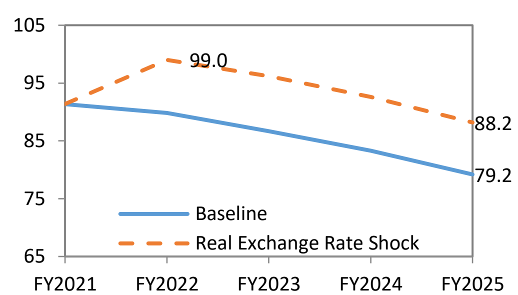


5. **An exchange rate shock** assumes a 50 percent depreciation by end-FY2021/2022, which would lead to a rise in inflation, and subsequently interest rates will increase as monetary policy will be tightened to contain the shock. The depreciation would also have negative valuation effects and would lead to an uptick in the expenditures-to-GDP ratio, and thus would reduce the primary surplus inFY2022/2023. Under this exchange rate shock, the debt-to-GDP ratio would initially increase to 99 percent at end-FY2021/2022 (compared to 89.8 percent under baseline), and then would eventually decline, albeit at a more gradual pace to 88.2 percent by FY2024/2025; 9 percentage points higher than the projection under the baseline scenario.

Table A 4. Exchange Rate Shock Assumptions

Exchange Rate Shock	FY2021	FY2022	FY2023	FY2024	FY2025
Real GDP growth	3.3%	5.0%	5.5%	5.6%	5.7%
Inflation (GDP Deflator change)	4.7%	13.1%	8.0%	8.9%	9.3%
Non-interest revenue-to-GDP ratio	17.5%	17.3%	17.7%	17.8%	17.8%
Non-interest expenditure-to-GDP ratio	16.0%	15.6%	16.7%	15.8%	15.8%
Primary Balance	1.5%	1.8%	1.0%	2.0%	2.0%
Interest rate shock (bps) compared to baseline	0	300	200	100	0

Figure A 4. Exchange Rate Shock Trajectory

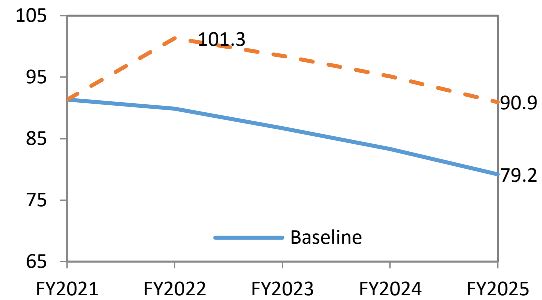


6. **A contingent liability shock** assumes that non-interest expenditures would increase (in comparison to the forecast in the baseline scenario) with the realization of a contingent liability worth 10 percent of GDP in FY20221/2022. This would entail higher financing needs, and thus a relatively higher interest burden. And while all other assumptions remain unchanged (as presented in the baseline scenario), yet the debt-to-GDP ratio would be projected to initially rise to surpass 100 percent in end-FY20221/2022 (instead of 89.8 percent in the baseline scenario), before resuming the downward path, with the debt-to-GDP ratio reaching 90.9 percent in FY2024/2025; 11. 7 percentage points higher than the baseline projection.

Table A 5. Contingent Liability Shock Assumptions

Contingent Liability Shock	FY2021	FY2022	FY2023	FY2024	FY2025
Real GDP growth	3.3%	5.0%	5.5%	5.6%	5.7%
Inflation (GDP Deflator change)	4.7%	7.6%	8.0%	8.9%	9.3%
Non-interest revenue-to-GDP ratio	17.5%	17.3%	17.7%	17.8%	17.8%
Non-interest expenditure-to-GDP ratio	16.0%	25.6%	15.7%	15.8%	15.8%
Primary Balance	1.5%	-8.3%	2.0%	2.0%	2.0%
Interest rate shock (bps) compared to baseline	0	300	125	100	100

Figure A 5. Contingent Liability Shock Trajectory

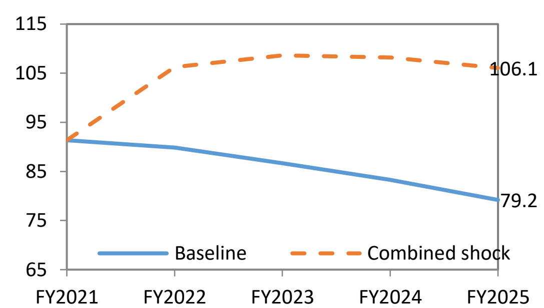


7. **A combined macro-fiscal shock** assumes that growth would be consistently 1 percentage point lower than the rates projected under the baseline scenario throughout the whole forecast horizon. The shock to growth under this scenario is compounded by a disruption of fiscal consolidation, such that the primary balance deteriorates, and turns into a deficit in FY2022/2023 before slowly rebounding over the forecast horizon, but remaining well below the primary surplus assumed in the baseline scenario. The deteriorated fiscal accounts would thus entail relatively higher financing needs, and the interest burden would also rise subsequently. Under the combined macro-fiscal shock, the debt-to-GDP ratio becomes unsustainable, as the debt-to-GDP ratio would be projected to surpass 106 percent by end FY2022/2023, and remain close to this ratio through FY2024/2025

Table A 6. Combined Macro-Fiscal Shock Assumptions

Combined Macro-Fiscal Shock	FY2021	FY2022	FY2023	FY2024	FY2025
Real GDP growth	3.3%	4.0%	3.5%	4.6%	4.7%
Inflation (GDP Deflator change)	4.7%	7.3%	7.8%	8.6%	9.0%
Non-interest revenue-to-GDP ratio	17.5%	16.6%	14.7%	15.8%	16.8%
Non-interest expenditure-to-GDP ratio	16.0%	15.6%	16.7%	15.8%	15.8%
Primary Balance	1.5%	1.0%	-2.0%	0.0%	1.0%
Interest rate shock (bps) compared to baseline	0	300	221	221	221

Figure A 6. Comb. Macro-Fiscal Shock Trajectory



ANNEX 6: DETAILED POVERTY ANALYSIS

1. **The reform program supported by this operation, aiming at strengthening the foundations for inclusive growth for a sustainable recovery, is not expected to have significant negative poverty effects, and would contribute to poverty reduction in Egypt in the medium to long term.** The policy measures supported under this DPF series are expected to increase the macro-fiscal resilience of the economy, while enabling private sector growth and gender inclusion. As highlighted by the SCD for Egypt (under preparation), inclusive growth in the country is hampered by poor learning outcomes and low labor productivity. Together with constraints related to the business environment and growing informality, low labor productivity limits firms' potential to grow and wealth-generating structural transformation, while spatial inequalities persist. This includes youth, whose inactivity and long-term unemployment rates are increasing, and women, whose labor force participation has historically been low, as is access to higher education. The DPF-supported reforms are likely to address part of these constraints, resulting in more dynamic, more sustainable and better distributed growth. More importantly, the prior actions are not likely to have significant impoverishing effects, although the subsequent operationalization of the Solid Waste Management Framework law raises some questions as discussed below.

2. **Measures included under Pillar One are not expected to have direct effects on poverty, although sound and more transparent macro-fiscal management has the potential to impact poverty indirectly via additional financing of pro-poor expenditure and stronger systemic resilience.** A sound and sustainable macro-fiscal framework is an essential precondition to inclusive growth and poverty reduction, while it also contributes to building the resilience of the system. Evidence from past crises has shown that macroeconomic preparation can shield economies from negative effects, with well-prepared countries experiencing smaller declines in growth rates in the aftermath of the 2008 international crisis than they did following the 1997 East Asian crisis. The same beneficial effect of macroeconomic preparation seems to have occurred in many other low- and middle-income countries (World Development Report 2014). Besides, on top of sustainably financing necessary social spending in normal times, sufficient fiscal space allows for countercyclical policies, allowing for the expansion/maintaining of social expenditure to protect those hit by crisis. So, while Prior Actions 1 through 3 are unlikely to have a direct impact on poverty, they will contribute to strengthening the country's foundations and its financing capacity to support or even increase necessary productive investment, including environmentally sustainable ones, and poverty reducing expenditure, including in human capital.

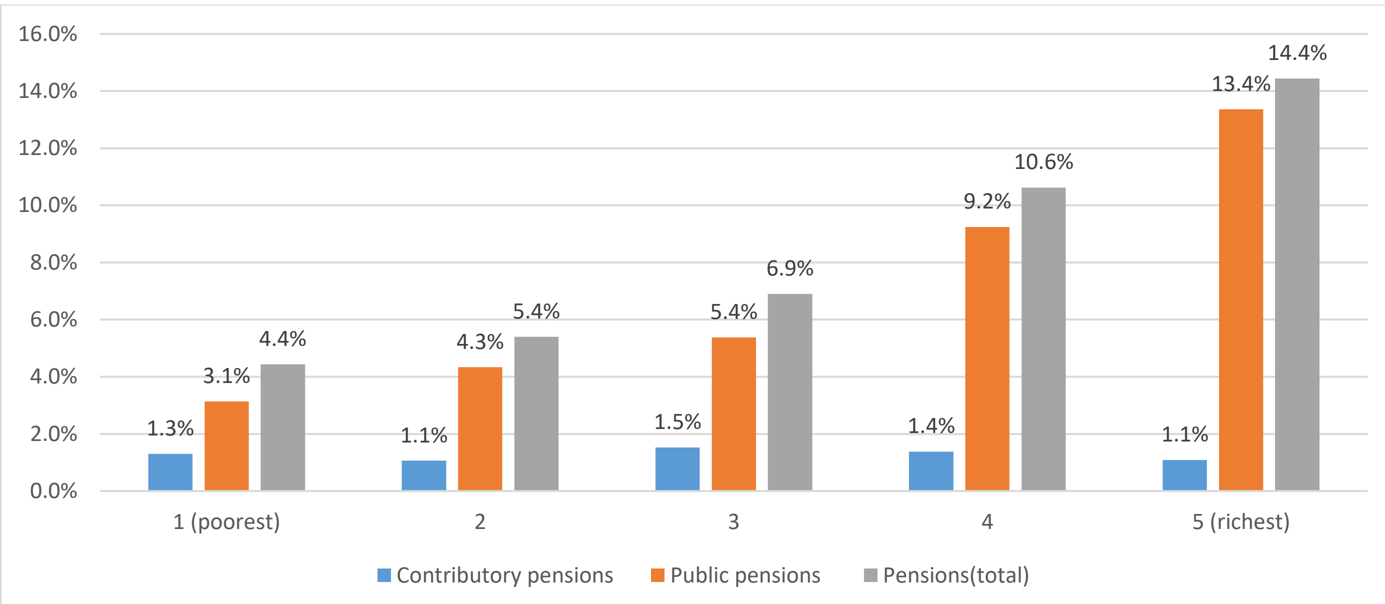
3. **Prior Action 1 will likely result in improved efficiency and performance for SOEs, thanks to improved management and boards professionalization, outweighing the limited negative welfare effects on impacted SOEs employees, few in numbers and belonging to the top of the welfare distribution.** SOE reform would encompass a broad range of possibilities, from improving corporate governance and accountability, to privatization. In the case of this operation, the reform is a step towards the creation of a more transparent, market-oriented and professional management of SOEs, and a more professional boards. Such action would contribute to increased efficiency and profitability of SOEs[42]. The literature also finds that this type of reform would contribute to increase total factor productivity (TF) and output per worker. The impact on equity of such reform could pass through three different channels: the fiscal, employment and consumer channels[43]. Fiscal and consumer channels are expected to generate positive direct and extended welfare impacts. Additional fiscal revenues due to improved efficiency would result in changes in taxes and direct transfers to households, while lower prices[44] and better quality for SOEs provided services

---

[42] Galal, A. et al. 1994. *Welfare Consequences of Selling Public Enterprises: An Empirical Analysis*. New York: Oxford University Press.
[43] The Poverty and Equity GP of the WorldBank. A conceptual framework to study the distributional impact of SOEs reform. PPT presentation.
[44] The direct change in prices may affect prices of other commodities and products as often SOEs provide services or inputs to other sectors.

and goods may be expected thanks to higher profitability and investments[45]. On the other hand, the employment channel may generate limited negative welfare effects. In the framework of this reform, the elimination of the possibility for retirees from non-managerial positions to be re-hired may impact negatively this group of people, particularly in the short term. However, the available data suggest that the number of such individuals (over 60 y/o currently employed in SOEs) among the approximately 150,000 professionals is extremely limited (ELMP 2018), of which only 9 percent are women. From a welfare distributional perspective, these individuals mostly belong to the top 2 deciles, therefore not vulnerable groups. Figure A 7 below shows how individuals benefitting from pensions from the public sector, including ex-SOEs employees, belong to the top of the distribution, even more so than private sectors retirees (contributory pensions). Finally, SOEs currently have dismissal plans for employees, that entail generous compensatory packages upon the termination of contracts: it is plausible to assume that such arrangements will be applied to support dismissed workers affected by the reform in the short term.

Figure A 7. Incidence of public sector pensions (including SOEs ex-employees) and contributory pensions for private sector.



Source: HICS 2017/18

4. **Prior actions supported under Pillar Two may result in poverty reduction in the medium to long term, as they address several aspects of the business environment favoring the expansion of the private sector, employment creation, and possibly per capita welfare growth**. Despite a growing economy, Egypt experienced an increase in its national poverty rate, from 27.8 percent in 2015 to 32.5 percent in FY2017/18 (Household Income, Expenditure and Consumption Survey (HIECS)). According to the Egyptian Central Agency for Public Mobilization and Statistics estimates

[45] The case of Argentina, Mexico, Bolivia and Nicaragua offer evidence of such impacts. While prices decreases took place in half of the cases and rose in the other half, as a result in changes in efficiency and competition, quality consistently increased. Estache, A.; Foster, V.; & Wodon, Q. 2002. Accounting for Poverty in Infrastructure Reform: Learning from Latin America's Experience. World Bank Institute Development Studies 23950. Washington DC: The World Bank. Musacchio, A., Pineda Ayerbe, E.I., & García, G. 2015. State-Owned Enterprise Reform in Latin America: Issues and Possible Solutions. IDB Discussion Paper no. IDB-DP-401. Washington, DC: Interamerican Development Bank. The World Bank. 1999. Reforming Bolivia's Power Sector. Précis World Bank Operations Evaluation Department, No. 192. Washington DC: The World Bank. Weiner, F. (2015, September 8). 4 Key challenges for reforming state-owned enterprises: Lessons from Latin America. The World Bank, Governance for Development Blog

from the 2019 HIECS, the national poverty rate is slightly down to 29.7, but remains higher than in 2015, prior to the introduction of a broad range of structural reforms. Analyzing the interaction between growth and distribution, the SCD for Egypt (under preparation) has unveiled a close link between the increase in poverty since 2015 and deteriorating labor indicators, with labor participation going down, rising unemployment, and increasing wage inequalities. The report suggests that both supply (skills) and demand side factors (business environment) are at the root of insufficient job creation, while informality and low productivity harm the capacity of labor income to lift people out of poverty. In light of the above, it is clear that improving the business environment is an important factor to generate more and better jobs and absorb the rising labor force. Access to finance/financial inclusion, Prior Action 4, improved business exit and business restructuring, Prior Action 5, and trade facilitation, Prior Action 6, are all key ingredients. Pillar Two addresses these constraints and in the medium to long term supports private sector-led growth and job creation.

5. **Financial inclusion is rather low and heterogeneous in Egypt, suggesting that there is scope to expand access to (digital) financial services, including from non-banking financial institutions.** In Egypt, the Global Findex Database for 2017 reveals that the share of adults (15 years and older) holding an account in a financial institution is rather low at 32 percent and unequal across gender (37 percent among men, 27 percent among women) and age groups (12 percent among youth aged 14-24). While the level of education does not seem to matter much, welfare does, as the top 60 percent by income are twice as likely to have an account (40 percent) when compared to the bottom 40 percent (with only 20 percent having an account). While the main reason for not having an account is insufficient funds (for 83 percent of individuals), distance from the financing institutions is the second one (at 18 percent), suggesting that improved digital access may lift this constraint. On the other hand, the share of population having a mobile money account is only 2-3 percent among men and 1 percent among women. Differences across education levels and age are marginal, while here again welfare seems to matter more (0 percent among bottom 40 versus, 3 percent among top 60). These figures illustrate limited financial inclusion in the country, and suggest that there is scope for expanding access to digital financial services - that can have significant positive impacts on an array of welfare indicators such as income and consumption, poverty reduction, and food security.

6. **If conditions are met, expanding access to digital financial services via NBFIs – Prior Action 4 - would result in more financial inclusion, which is not only a relevant result in itself, but could also lead to positive welfare effects among the poor.** Digital technology is increasing the speed, security and transparency of transactions and allowing for the development of sustainable financial products tailored to the needs of people with very low, erratic incomes. In addition, it is removing important barriers to providing financial services to the poor, such as the lack of identification and formal income, and geographic distance (Pazarbasioglu et al, 2020). The expected impact of the reform is an increase in the number of beneficiaries of NBFIs, improving the efficiency, and reducing the costs of fintech services while promoting financial consumer protection. Besides making services more affordable and therefore more accessible, such results are expected to lead to increased trust in financial institutions and an increased appetite for digital financial services, favoring adoption of electronic payment methods and other digital financial services, including payments, credit, savings, remittances and insurance. In fact, the existence of strong consumer protection frameworks, which apply to digital financial services has proved to be critical in building the necessary trust and confidence that customers need (Malady, 2016, Ozili 2018), and this can also help reduce the level of voluntary financial exclusion.

7. **The literature has found that when people are part of the financial system, they are better able to start a business, invest in health and education or manage risk better when facing unexpected financial shocks**[46]. For instance, digital financial services can facilitate and increase transactions, such as remittances, which, evidence shows, could be

[46] See Burguess and Pande (2005), Karlan and Zinman (2010) Dupas and Robinson (2013), Kast and Pomenraz (2014), and Brune et. al (2016)

beneficial for off-farm economic activities. They can also facilitate other forms of payment/transfers, generating important money and time savings, particularly among women. Currently, only 27 percent of adult women save any money during the year, against 34 percent of males (4 percent using a financial institution (9 percent among men): however, such gender gaps disappear for informal saving mechanisms (17 and 16 percent, respectively), suggesting that different access modalities may lead to a reduced gap. Both savings and diversification of activities can also lead to an expansion of per capita consumption in the long term and, potentially, to a reduction in the incidence of extreme poverty and/or food insecurity, with the additional effect of benefitting typically women who own business or who benefit from increased labor participation and shifts in intra-household bargaining power. Furthermore, digital financial services contribute to building resilience against aggregate and idiosyncratic shocks by allowing individuals and households the receipt of financial support from distant friends and relatives in a secure and transparent way, as evidenced in countries like Kenya, Uganda, and Bangladesh[47.] And lastly, research shows that the digital delivery of government payments can reduce corruption (Muralidharan et al (2016),) and crime (Wright, R. et Al. (2017)), lower administration costs, and reduce travel and waiting costs of recipients. The COVID-19 pandemic and the need for social distancing have put a spotlight on digital financial services: they allow for social distancing when making or receiving a payment; they allow governments to disburse funds to those in need quickly and effectively; and allow many households and firms to rapidly access online payments and financing; they also allow to receive remittances from abroad in a secure and transparent way.

8. **With a view to avoid increased inequalities and digital divide, the World Bank plans on providing additional technical assistance to make sure equity considerations are central in the formulation of the appropriate regulations and safeguards.** If part of the population is excluded, because of socioeconomic or geographic reasons, typically the expansion of the digital economy can lead to an increase in the digital divide and of inequality in general. In other words, differences in income level can lead to disproportionate benefits of financial inclusion across the population, favoring the wealthier and more educated groups (Demirguç-Kunt and Klapper (2013) and Allet et Al. (2016)). As of 2017, in Egypt only a minority of the population had access to the internet at home (29 percent) and only half were living in a household that owns a smartphone (HIECS 2017). Those averages hide a large digital divide within the population: only 20 percent of rural households and 11 percent of the poor (bottom 40) have access to internet at home. In light of these significant inequalities, the ongoing and forthcoming technical assistance from the WBG has the objective to ensure that access and adoption growth is equitable and that the regulations issued following the adoption of the new Fintech Law include specific rules to increase access and adoption in currently excluded areas and social groups.

9. **Improved custom regulations and trade costs reduction, coupled with recent trade liberalization agreements and other complementary measures improving the local business environment may lead to welfare gains, both in terms of price reduction and improved labor market outcome, including for women.** Since the 1990s, the economic literature analyzing the link between trade and local labor market outcome has bloomed (McCaig and Pavcnik, 2018; Erten and Leight, 2017; Robertson et al., 2020 and more). Results vary greatly across countries, suggesting that specific characteristics may influence the result and that country-analysis is necessary. In the case of Egypt, free trade agreements alone do not seem to bring positive effects on the local labor market, in term of wage raises and lower informality, in the same way it does in other countries, as illustrated by a recent study (Robertson et al, 2021). Importantly, the study argues that the broken link between trade and labor markets can be explained by the composition of Egypt's export basket and by the fact that wage levels are among the highest of those countries that export the same goods as Egypt. This will not be addressed by the reforms supported by the DPF. While no negative effects on poverty are expected, trade costs reduction and improved regulation supported by Prior Action 6, may positively affect

[47] Suri and Jack (2016), Jack and Suri (2014), Wieser, C., M. Bruhn, J. Kinzinger, C. Ruckteschler, S. Heitmann. 2019.

household welfare by reducing the prices of imported goods[48] (consumption channel), increasing consumers choices and contributing to improve the business environment. In synergy with the other proposed business environment reforms, competitiveness may be enhanced, exports and investment increased (Iwanow and Kirkpatrick, 2007), with possible positive additional externalities local private sector and welfare. Finally, reducing transaction and red-tape costs for exporters, may have unintended positive consequences on women employment (Ragui Assaad 2019), provided that these measures are compounded with others aiming to facilitate the integration of Egyptian industries into high value added global supply chains as a great deal of evidence shows that the export-oriented manufacturing sector tends to be more female intensive[49].

10. **Under Pillar Two, Prior Action 7 on Solid Waste Management framework law is likely to bear long-term welfare gains, once subsequently operationalized, due to the reduction in air pollution caused by inadequate solid waste management, improved resource use efficiency, and better-quality services.** Improved solid waste management, including waste minimization and recycling, have the medium- to long-term potential to positively impact the sustainability of the development model of Egypt, once subsequently operationalized, although in the process it may cause negative welfare effects in terms of employment losses. The increasing population and changing consumption patterns in urban areas have resulted in the accumulation of large quantities of waste in cities and densely populated places over the past years. It has become source of environmental pollution and imposes great risk on human health and the environment. In particular, the air pollution experienced by Cairo and Qalyoubia governorates is mainly due to inadequate collection and disposal of solid waste and open burning. As a result, although Egypt's Green House Gas (GHG) profile is dominated by the energy sector, solid waste is at the origin of a considerable share of the GHG emissions produced by the country, and better management and disposal may result in a cut of those by 51 percent[50]. Finally, improving social waste management acquires greater relevance due to the COVID-19 pandemic and its implications for the environment. A recent study on the effect of COVID-19 on pollution[51], unveiled that while air pollution and environmental noise decreased significantly in the country during the lockdown period, an increase in medical solid waste (from 70 to 300 ton/day) and municipal solid waste was recorded, as well as a less efficient solid waste recycling process.

11. **The economic costs of air pollution are high and stem from a variety of factors such as causing illness and premature death, loss of productive labor, and challenges to agriculture.** The estimate of welfare losses from air pollution-related premature mortality in Sub-Saharan Africa is close to 4 percent of GDP equivalent[52]. A recent study using data from African firms53 finds that fine particle (PM 2.5) levels are negatively correlated with employment growth rates. Regarding labor productivity, the authors find evidence of an Environmental Kuznets Curve: the effect of PM 2.5 on productivity is positive at low levels of pollution but decreasing as pollution levels rise. The evidence for Africa concurs with the literature for other developing areas[54]. Particulate matter pollution is also found to negatively affect individual's

[48] Suri and Jack (2016), Jack and Suri (2014), Wieser, C., M. Bruhn, J. Kinzinger, C. Ruckteschler, S. Heitmann. 2019
[49] Ozler, Sule. (2000). Export Orientation and Female Share of Employment: Evidence from Turkey", World Development, vol. 28, no.7 (July): 1239---1248.; Başlevent, C., & Onaran, Ö. (2004). The effect of export-oriented growth on female labor market outcomes in Turkey. World Development, 32(8), 1375-1393.
[50] From Greater Cairo Air Pollution Management and Climate Change Project.
[51] Mohamed K. Mostafa, Gamil Gamal, A. Wafiq (2020) "The impact of COVID-19 on air pollution levels and other environmental indicators - A case study of Egypt", J Environ Management 2021 Jan 1;277:111496.
[52] The World Bank and The Institute for Health Metrics and Evaluation. 2016. The Cost of Air Pollution: Strengthening the Economic Case for Action. Report.
[53] Soppelsa, Maria E.; Lozano-Gracia, Nancy; Xu, L. Colin. 2019. The Effects of Pollution and Business Environment on Firm Productivity in Africa. Policy Research Working Paper; No. 8834. World Bank, Washington, DC. *https://openknowledge.worldbank.org/handle/10986/31599*
[54] Chang, Tom Y., Joshua Graff Zivin, Tal Gross, and Matthew Neidell. 2019. "The Effect of Pollution on Worker Productivity: Evidence from Call Center Workers in China." American Economic Journal: Applied Economics, 11 (1): 151-72.

worker productivity for service sector activities that do not involve strenuous physical effort, such as call centers in China.

12. **The subsequent operationalization of the law may nevertheless generate some non-negligible social vulnerabilities that need to be addressed appropriately.** As the new framework law (202/2020) for Solid Waste Management aims to improve the commercial sustainability of the sector, there is a concrete risk that several thousand people currently informally employed in the sector will be somehow affected, due to the possibility of losing their livelihoods once the law is operationalized. According to the State of Environment report of 2016, about 12 percent of the waste generated in all governorates per year is recycled through the informal sector. Over the period 2015-2018, according to the Egyptian Labor Force Survey there were almost 60,000 workers operating in waste management, approximately half of them were informal. Such groups are particularly concentrated in Cairo, Qalyoubeya, Giza (Greater Cairo) and Alexandria. The Environmental and Social Impact Assessment conducted in the context of the ongoing Bank-financed Greater Cairo Air Pollution Management and Climate Change Project (P172548) aiming to improve solid waste management (2020), among other things, describes the social risks related to these vulnerable groups as substantial, and provides details on the characteristics of the informal sector for solid waste collection in Greater Cairo:

- This traditional "Zabbaleen" group, also includes contractors and workers in the field of garbage collection, sorting and utilization. They depend on collecting solid waste from houses and shops, then selling recovered recyclables to factories and workshops after sorting and separating organic waste which is predominantly used in feeding to their livestock (pigs). Garbage collectors' work depends on the family business, and roles are distributed within the family according to age and gender. Women and girls are heavily engaged in this field through participation in the family business - particularly in the recyclables recovering and sorting.
- The non-traditional informal groups, including Street Container Waste Pickers (Al Nabashin), Donkey-carts and Tricycle Operators, and Disposal Sites Full-timer Waste Pickers: members of the first group roam around predominantly in urban area and try to salvage reusable or recyclable materials thrown away by others to sell or to use for personal consumption. Although there is difficulty to have a clear inventory of this groups due to their part time on and off nature of business, observations suggest that they represent the lowest percentage in the informal sector for solid waste management. They work individually (occasionally on a family business mode) and waste picking in most cases is only a partial livelihood for them. Members of the second group likely own donkey carts and/or tricycles that they are using to roam around the street waste piles to recover recyclable materials and/or to pass by households and collect they waste bags. Finally, the members of the last group operate on a fulltime mode in final disposal locations, with some connection to existing street piles and containers.

13. **While this operation focuses only on the framework law, past consultations, held in the context of the ongoing engagement of the World Bank in the sector, favor the positive social and environmental impacts generated by better management of solid waste, and substantial Technical Assistance and financial resources have been allocated to monitor its impact and set up the necessary mitigation measures.** Positive non-monetary effects are expected by the reduction of air pollution and other negative effects of the current mismanagement of solid waste, while more direct effects can be expected in terms of new employment opportunities for skilled and non-skilled labor due to the entry of new private sector actors in the sector. In light of the above, the rounds of consultations conducted in the context of the Greater Cairo Air Pollution Management and Climate Change Project (P172548) concluded that the benefits of improvement in solid waste management will outweigh the negative impacts, although the risk to affected informal workers in the sector was systematically mentioned. This being said, dedicated activities have been integrated in the above-mentioned project design and in the TA provided to support the proposed reform to mitigate the potential negative impacts, not limiting such measures to the scope of the Environmental and Social instruments only, as per

requirements of the Environmental and Social Framework. For instance, concrete measures are envisaged to decrease gender-related risks (as women are disproportionately employed in the sector). Importantly, the existing TA will also focus on making sure that the drafting of the new regulations for private participation in the waste management sector by the Ministry of Environment tackles this issue (for instance by issuing rules for the priority hiring of local population, or previously informally employed workers) and is informed by adequate consultations with key stakeholders including the above-mentioned vulnerable groups.

14. **Finally, women empowerment actions under Pillar Three: Fostering Women's Economic Inclusion, would increase resilience for Egyptian women and their families, but also boost productivity, economic growth, and poverty reduction.** One important ingredient for women's economic empowerment is access to the labor market. In turn, the more efficient allocation of labor and capital is a precondition for economic growth, poverty reduction, and shared prosperity. Not only that: ensuring access to high quality jobs and productive assets (such as financial sector products) are key drivers of socioeconomic progress among women, their families, their communities, and the national economy. In Egypt, only about 3.7 percent of the population lives in a household where only women work, while the typical household has only one breadwinner, and it is a male (Egypt SCD, under preparation). Complementary to this, evidence also shows that women's financial inclusion is particularly low compared to men (as illustrated in this PSIA using Global Fintech data from 2017). Low female labor participation, due to demand side constraints as well as some legal and regulatory frameworks and informal norms impose on women the burden of domestic chores and dependent care, is likely to be costly for the country in terms of missed potential for productivity and economic growth. In the case of financial inclusion for women, there is currently no specific legal provision prohibiting discrimination based on gender or mandating equal access to financial services. Lifting legal and regulatory constraints is a necessary, although not sufficient, intervention to improve economic opportunities and earnings for women. Empirical evidence confirms that legal gender differences reduce the participation of women in the labor market and negatively affect GDP growth[55]. It also suggests that reforms addressing gender inequality via formal law changes have a role in reducing gender gaps[56] and many countries increased their GDP by removing legal barriers to female participation in the labor market[57].

15. **Yet another factor discouraging female work outside the home, particularly in the private sector, is the risk of sexual harassment: Prior Action 9, with the creation of one-stop centers for victims/survivors, and the adoption of a national code of conduct in the transport sector, addresses harassment prevention and support to the victims.** Enhancing labor demand in segments of the economy that disproportionately employ women will not in itself be sufficient to increase women's participation in employment. It is also necessary to promote an environment in which women can feel safe in the public sphere and in the workplace. This clearly includes efforts to reduce widespread sexual harassment, both at the workplace and on the way to work. This will not only be through promulgating stricter laws against harassment, but also by taking practical measures to give women both legal and practical recourse to avail themselves of these laws, and providing more vigorous enforcement of existing laws (World Bank, 2013). In Egypt, the risk of sexual harassment seems to pose a significant obstacle to women, especially to young, unmarried women, to seek and keep employment, specifically in the private sector[58]. In 2014, Egypt made an amendment to the Penal Code criminalizing sexual harassment. In 2015, 13 percent of women between 18 and 64 years of age reported experiencing

---

[55] Christian Gonzales, Sonali Jain-Chandra, Kalpana Kochhar, Monique Newiak, and Tlek Zeinullayev (2015): "Catalyst for Change: Empowering Women and Tackling Income Inequality" IMF Staff Discussion Note.
[56] *https://elibrary.worldbank.org/doi/pdf/10.1093/wbro/lky006*
[57] Cavalcanti and Tavares (2015)"The Output Cost of Gender Discrimination: A Model-based Macroeconomics Estimate" The Economic Journal, Volume126, Issue590 February 2016 Pages 109-134
[58] Amin, S.and Al-Bassusi, N. (2004)."Education, Wage Work and Marriage:Perspectives of Egyptian Working Women." Journal of Marriage and Family 66(5):1287-1299; Barsoum, G.(2010). "When There is No Respect at Work: Job Quality Issues for Women in Egypt's Private Sector." OIDA International Journal of Sustainable Development, 1(1), 67-80; Ragui Assaad (2019) *Op.Cit.*

sexual harassment within the past year in the public space- more than 50 percent of these were in public transport. This high numbers reduces women's capacity to be involved in public activity and ultimately their capacity to participate in the labor market. For example, well to do households may prevent their female members from working as a strategy to avoid public spaces and lower the risk of experience of sexual harassment. Also, women's mobility is constrained as they may need to rely on a male chaperone for night commutes or when travelling between cities. Although addressing social norms remains critical to achieving significant and long-lasting improvements in this domain, Prior Action 9 represents a crucial step, possibly leading to a decrease in harassment and, in the longer term, to an increase in female labor force participation. Gains seems to be concentrated in the segment of women excluded from the labor force, rather than those already working (Chen, Sethi, 2010).

16. **Complementary to the proposed reforms, several technical assistance activities compose the current engagement of the WBG on gender issues in the country and address additional constraints to female labor force participation both in the formal and informal labor markets, therefore increasing the impact of the proposed reform program.** The engagement of the WBG in Egypt in the domain of gender is considerable and spans from technical assistance, investment projects and analytical and advisory activities. The IFC is currently implementing two parallel activities to lift barriers to access to finance by women and to reduce the wage gap. In both cases, the legal framework is to be reformed, a grievance mechanism is to be set up, allowing women to file complaints in case of offence, and awareness campaigns are being implemented to promote the understanding and acceptance of the reforms. Via the Egypt Women Employment program (P603766) the WBG is also working to improve women's working conditions, by awareness campaigns within the private sector and by directly advising a group of private companies supported by the IFC on how to facilitate women's economic inclusion via improvements in the workplace. While the above-mentioned activities mainly benefits women operating in the formal labor market, the ongoing Bank-financed Strengthening Social Safety Net Project (P145699) in particular targets women in need (74 percent of beneficiaries), typically operating in the informal sector and providing them the means to increase their productivity. Finally, an important IBRD stream of work includes the preparation of analytical studies to generate a better understanding of the underlying social norms affecting women agency and empowerment, a critical step towards the identification of impactful future reforms. As an example, an ongoing impact evaluation is informing discussions to simplify licensing and improve oversights of nurseries, which may result in the lifting of additional important constraints to their labor participation.