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Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 08-Nov-2018 | Report No: PIDISDSC23630

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Parent Project ID (if any)	Project Name
Egypt, Arab Republic of	P162835		Catalyzing Entrepreneurship for Job Creation Project (P162835)
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
MIDDLE EAST AND NORTH AFRICA	Nov 21, 2018	Jan 31, 2019	Finance, Competitiveness and Innovation
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Arab Republic of Egypt	Micro, Small, Medium Enterprise Development Agency - MSMEDA	

Proposed Development Objective(s)

The project development objective is to improve jobs creation and other economic opportunities for targeted beneficiaries

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	200.00
Total Financing	200.00
of which IBRD/IDA	200.00
Financing Gap	0.00

DETAILS

World Bank Group Financing

International Bank for Reconstruction and Development (IBRD)	200.00

Environmental Assessment Category	Concept Review Decision

F - Financial Intermediary Assessment	Track II-The review did not authorize the preparation to continue

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Other Decision (as needed)

B. Introduction and Context

Country Context

Egypt's economic reform program is showing early signs of success, as economic growth rebounds, inflation falls, and fiscal consolidation efforts remain on track to bring public debt back to sustainable levels. The Government of Egypt (GoE) has implemented major reforms, such as the move to a flexible exchange rate in November 2016, to bring about macroeconomic stability, improve the climate for the private sector and to enhance competitiveness. Real GDP grew at 5.3 percent in FY18, compared to 4.2 percent in FY17; and inflation reached 16 percent in September 2018, down from a high of 33 percent in July 2017. The last three years of government expenditure reforms (to curb significant fiscal outlays for energy subsidies and the wage bill) and revenue measures (the introduction of Value-Added Tax (VAT) extended to the services sector), pave the way for a sustained macroeconomic adjustment and downward debt trajectory. Government debt has come down to just below 99 percent of GDP in end-FY18. The external accounts are improving, supported by the liberalized exchange rate, a narrowing current account deficit and a surge in capital inflows in the form of sovereign bond issuances and loans from international financial institutions. Net international reserves reached a record high of US$44.5 billion in end-September 2018, (8.5 months of FY19 merchandise imports). However, the recent turmoil in emerging markets and a spike in global oil prices are exerting pressure on Egypt's external and fiscal accounts for the medium term. These reforms have been widely endorsed, including by the World Bank's programmatic Development Policy Financing and the IMF's 3-year Extended Fund Facility. Egypt's sovereign credit outlook has thus been upgraded to 'positive' by rating agencies S&P, Moody's and Fitch.

The development of a private sector-led economy requires further efforts to alleviate key binding constraints. The GoE has also implemented structural reforms that include a new industrial licensing law and an investment law, as well as updating the companies law and introducing legislation to cover bankruptcy all which have laid the ground work for a private sector response to the new macroeconomic conditions. Access to finance and land, as well as the lack of a level-playing field remain key impediments to private sector activity. Thus, the implementation and proper implementation of the newly adopted legislative reforms are imperative to enhance the business environment and ensure fair competition and equal-opportunity for all market players.

Social conditions remain difficult. High inflation over the course of FY17 and FY18 has taken a toll on social and economic conditions due to the erosion of real incomes. Poverty rates based on national estimates indicate that about a third of the population were below the poverty line in 2015. Regional disparities endure, rural Upper Egypt lags behind other regions, with poverty rates reaching as high as 60 percent in some governorates. The government's efforts to scale up social protection measures including through higher allocations on food smart cards and targeted cash transfer programs have been key in partly mitigating the short-term negative effects. Yet, these need to be complemented with efforts to improve targeting and widen coverage, also in addition to enhancing public service delivery.

To ensure that the economic reforms have a positive impact on citizens, Egypt needs the private sector to create new jobs, particularly in the formal labor market, notably jobs for women and youth. While recent data shows some downward movements in the unemployment rate (from a high of 13.4% in FY14 to 10.9% in FY18) this improvement partially reflected a decline in labor force participation rather than pure job creation, as the unemployed (mostly youth) exited the labor force. At the same time, youth and female unemployment remain high at 30 percent and 22 percent. Private investment is historically low in Egypt compared to other countries in the region, and globally compared to countries at similar levels of development. The private sector investment as a share of GDP constituted only 11.4 percent over the period 2000-2016, which is approximately 7 percent lower than in other emerging economies, and the recent uptick in investment since 2016 has been driven by public investments. Furthermore, jobs have been increasingly informal: between 1998 and 2018, informal private sector employment increased from 31 percent to 76 percent of the total.

There are several constraints to private sector growth: finance and land access, competitiveness and an equal playing field. Access to finance was cited as a top business constraint by 13 percent of firms in 2016, up from 10 percent of firms in 2013. Finance, particularly for MSMEs and start-ups, is predominantly debt financing with channels through the banking and non-banking sectors – with a majority of bank financing. To be fully effective, financing for

entrepreneurs requires various mechanisms to open-up, and effective provision of equity finance through capital markets, venture capital, and private equity. In addition, access to land is essential to run and manage a business, and yet more than 90 percent of land is owned by the government, furthermore land registration processes have not been modernized. The share of firms reporting access to land as a major constraint increased from 11 percent in 2013 to 16 percent in 2016.[1] While the exchange rate adjustment has had a significant and positive impact on competitiveness in the last two years, and both exports and tourism have responded well, structural reforms will be required to reduce non-tariff barriers and improve the trade and transport logistics performance. The Egyptian Competition Authority (ECA) has been established – new reforms that are underway to strengthen its autonomy would enhance its effectiveness further.

Sectoral and Institutional Context

The GoE has launched a set of legislative and institutional reforms that foster an improved environment for the business sector, especially for smaller enterprises, focusing on the demand-side constraints.[2] Recognizing that new job creation is likely to come from new firms and the growth of smaller enterprises, the government has taken measures such as: i) creating a formal registry for movable assets to be used as collateral, to overcome constraints especially for smaller enterprises, and women and youth entrepreneurs who do not own/cannot own land or have access to traditional collateral; ii) amending the companies' law to allow single person companies to be formally incorporated and to strengthen protection for minority shareholders; iii) issuing a new Investment Law to encourage new inward investments; iv) introducing a new Bankruptcy Law which de-criminalizes bankruptcy, simplifies the procedures and minimizes the need for companies or individuals to resort to the courts; and (iv) the establishment of a one-stop shop and on-line services to start a business, and offering dedicated services for women entrepreneurs

At the same time, there is a renewed impetus behind the reform of the education sector with a focus on acquiring skills for the jobs of the future. Compared to other lower middle-income countries, access to education in Egypt is high, and subsequent generations are going on to acquire higher levels of education than their parents. However, children are not acquiring the knowledge and learning skills that they need to prepare them for the jobs of the future, and the government is committed to a reform of the education sector to capitalize on new technology to advance both the management of the sector and the approach to learning in the classroom.

Yet even with reforms in both the demand- and the supply-side of the labor market, informality is widespread across income groups. Even fifty percent of the middle class are employed in the informal sector. While supply-side challenges are dominant in some geographic regions, mainly in Upper Egypt, where low skills are a constraint to employment, it is demand-side problems which dominate in most governorates. They arise from low job creation or a shortage of formal employment opportunities outside the public sector. There is also a gender dimension to accessing quality jobs. The task content of private sector jobs in the labor market is skewed toward manual and physical work, and this has been increasing over time, as a result the average job is not conducive to female labor force participation and employment. New jobs in new markets are also required to generate additional employment options for women.

To foster a stronger private sector response to the improved business environment, the government has offered a number of entrepreneurship support programs, as well as, launched various initiatives to build entrepreneurial skills – particularly given the needs for women and youth. Among the different programs and initiatives, the latest was Egypt Ventures established to develop the Egyptian entrepreneurial ecosystem, increase deal-flow from startups to scaleups, as well as support the development of new and existing accelerators and venture capital firms. The government also launched the Fekretak Sherketak (your idea, your company) initiative which provides financial and technical support to entrepreneurs all over Egypt. In Egypt, over a third of entrepreneurs remain driven by opportunity, which means that they have started a business due to the absence of other work alternatives; higher than the global average of 23.2 percent. In terms of age distribution, there is a noticeable increase in the

[1] Enterprise Survey Data, 2013 and 2016
[2] World Bank. 2017. "Women Entrepreneurship in Egypt: High growth potential start-up report".

percentage of youth that decide to open their own business, especially those in the age range 18-24 years. This growth in youth entrepreneurship could be attributed to the higher rate of necessity entrepreneurs driven by the unemployment rate. In terms of gender, one in four entrepreneurs is a woman, and one in six established business owners is a woman. The trend has been a decline, 25 percent of early stage entrepreneurs were women in 2015 compared to 32 percent in 2010. Furthermore, women-led businesses have a lower probability of continuation compared to men-led businesses, although women entrepreneurs tend to make higher returns than their male counterparts.

Globally, small and medium-sized, and young firms are associated with high growth and job creation, and significant investments have been made in Egypt to build a dynamic ecosystem to encourage high-growth firm development, an ecosystem that is still under development. Several private sector stakeholders and development partners (including MEPI, Endeavor, Rise Up, Flat6Labs, the EU, UK and US) have invested in creating a pipeline of startups in the ideation and early stages of development. These initiatives resulted in the establishment of the Technology Innovation and Entrepreneurship Center (TIEC); the first private start-up accelerator Flat6Labs in 2011; and the launch of The Greek Campus, which has become the de facto hub for entrepreneurship and innovation activities in Cairo. Rise Up was founded in 2013, attracting key stakeholders of the entrepreneurial ecosystem including local, regional, and global entrepreneurs, angel investors, venture capitalists, entrepreneurship advocates, and support organizations to an annual global entrepreneurship summit that had the snowball effect of triggering similar events in other governorates, including Alexandria and Asyut. However, there is still a gap in supporting early stage startups as they move to the next level, resulting in startups losing their growth momentum and getting locked-in at relatively low revenue levels. As a result, a large proportion of start-ups and young companies do not manage to reach a more developed stage and exit the market quickly. According to the 2016/17 Global Entrepreneurship Monitor (GEM) Report, the rate of discontinued start-ups and businesses in Egypt is around 7.3 percent, compared to a global rate of 3 percent, where Egypt ranked 4th out of 65 countries. Among the top three reasons for business discontinuation in Egypt was problems getting financing (11.7 percent of cases).

There has been an innovation focus to the government's entrepreneurship activities. Efforts have been made by the Ministry of Communication and Information Technology (MCIT) in the entrepreneurship space as well, specifically through The Information Technology Industry Development Agency (ITIDA). ITIDA is a public-private partnership between MCIT and the private sector dedicated to developing IT in Egypt and providing capacity building activities. MCIT also promotes the Technology Innovation and Entrepreneurship Center (TIEC) which aims to promote innovation and entrepreneurship in Information and Communication Technology (ICT). Several programs were launched under TIEC such as: (i) the Startup Support Program ; (ii) the Entrepreneurship Accelerator (TEA); and (iii) the Egypt Internet of Things (IoT) League . As part of the Egyptian government's efforts to support innovative young entrepreneurs and provide them with tools to develop their potentials and enhancing their chances of competing in the global markets, MCIT and MIIC signed a cooperation protocol aimed at creating a supportive environment for entrepreneurship; developing innovative young people's capabilities; attracting international investments in ICTs; stimulating investment for startups; and promoting technological innovations that help integrate and empower People with Disabilities.

While the problem of limited access to finance for entrepreneurs is widespread, it is more acute for female and youth-led enterprises, who also face more challenges in accessing business development services. The World Bank FINDEX 2017 survey finds that only 27 percent of females aged 15 years and above had an account with a financial institution, compared to 57 percent of males. In addition, only 14 percent of Egyptians aged 15 to 24 years had an account with a financial institution in 2017, compared to 23 percent in Tunisia, 25 percent in Jordan, and an average of 34 percent in the MENA region. In Egypt, the majority of women-owned businesses are concentrated in rural areas in the agricultural sector and wholesale retail trade, and their entrepreneurial activities in high growth sectors is very limited. . The main constraints women and youth face are: restrictive collateral requirements and inadequate loan sizes and terms. In addition, women and youth tend to lack awareness and understanding of available financing mechanisms. In the case of start-ups, entrepreneurs identify lack of investors and shortage of funding at all the stages of the start-up financing lifecycle as one of the main constraints. In the case of women and youth entrepreneurs, this is aggravated by two factors: i) women and youth have lower access to networks of investors compared to men; and ii) investors perceive women and youth led enterprises as riskier than other investments. Investors have expressed a preference to work with men rather than women, and young entrepreneurs are perceived as high risk due to lack of business experience.

Support to women entrepreneurs (business development services) is not yet yielding the expected impact and would benefit from a more structured and systematic approach. According to the Women Entrepreneurship Development Assessment, although there are various NGOs providing mainstream business development services, the geographical reach, depth of services and quality of interventions are reported to be low. These factors, together with lack of convenient scheduling options and affordability of services cause women's take-up of mainstream business development programs to be very low in Egypt. Women entrepreneurs in ILO focus groups confirm that they are not aware of such services and only 8.5 percent have ever attended a training program for women, and only 5 percent have received business counselling or mentoring targeting women entrepreneurs. According to the ILO's Women Entrepreneurs Survey results, 56 per cent of respondents obtain most of their information on business related matters from family, friends and neighbors. Similarly, young entrepreneurs also have difficulty getting information on business development, marketing, sales, management and operations, all vital for their businesses to survive and grow.

Relationship to CPF

The operation contributes to implementation of the World Bank Group's Strategy for Middle East and North Africa, and directly supports strategic pillars related to renewing the social contract pillar and supporting economic recovery, and it is aligned with the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity in a sustainable manner. The project contributes to an inclusive growth strategy, by unlocking finance and business development constraints to entrepreneurs enabling them to start-up, grow and go on to create new economic opportunities and jobs. With specific targets for those typically excluded, the project will also focus on inclusion of women and youth. The proposed operation is fully aligned with the IFC regional priorities, which include small and medium-sized enterprises, gender and youth employability, with the objective of supporting the region's private sector, helping to create jobs and drive sustainable growth.

The operation is closely linked to the Systematic Country Diagnostic (SCD), and the Country Partnership Framework (CPF) for Egypt for 2015-2019. Focus Area 2 of the CPF is to improve opportunities for private sector job creation, and objective 2.5 of the CPF is "*enhanced access to finance for MSMEs*". The proposed operation also addresses the gender gap and jobs cross-cutting themes of the CPF.

C. Proposed Development Objective(s)

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The project development objective is to catalyze entrepreneurship to improve economic opportunities and create jobs

Key Results (From PCN)

D. Concept Description

The project is a Financial Intermediary Loan (FIL), amounting to US$ 200 million that will be channeled through the MSMEDA—the apex institution, which is mandated to lead and coordinate the MSE development sector in Egypt. MSMEDA would then on-lend to financial intermediaries that would ultimately reach the end beneficiaries, namely MSEs, as well as start-ups. Numerous innovative mechanisms will be tapped on to enhance access to finance through offering financial products for MSEs (financial leasing, debt and equity); designing products that would mitigate the hurdles faced by some enterprises (special products for women); expanding outreach to all segments of the population; and providing non-financial support to ensure capacity building, business development services and deal flow activities. All this will contribute to improving financial intermediation, enhancing access to finance for different segments of the society, which will ultimately contribute to the creation of sustainable private sector jobs.

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SAFEGUARDS

A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

Funding will be available to potential start-up companies throughout Egypt. However, it is expected that most small and medium enterprises (SMEs) will be based in Cairo or other major cities.

B. Borrower's Institutional Capacity for Safeguard Policies

MSMEDA has experience in managing World Bank-funded projects, with similar project design, and will be responsible for managing the ESMS and ensuring that the MFIs have proper arrangements for managing environmental and social risks and impacts. These MFIs are yet to be selected and might not have experience with World Bank financed lending projects and might lack essential safeguard system requirements, including guidelines, procedures, staff, and other safeguards capacities. An Environmental and Social Management Framework (ESMF) is being prepared which assesses the institutional capacity of MSMEDA and lays out an Environmental and Social Management System (ESMS) for all financial intermediaries to identify, assess, manage, and monitor the environmental and social risks and impacts of sub-projects. The ESMF includes a screening process for excluding sub-projects that might cause significant environmental and social impact. The Environment Unit, encompassing Social Focal Points, will work with its focal branches at governorate and local levels to ensure proper implementation, monitoring, and reporting on the ESMF. Safeguards training will be given to the Environment Unit and Focal Points, particularly on managing MSMEs environmental and social risks and impacts Lastly, the Bank team will ensure close supervision of safeguards compliance during project implementation.

C. Environmental and Social Safeguards Specialists on the Team

Amer Abdulwahab Ali Al-Ghorbany, Environmental Specialist
Fawah Ngeniform Akwo, Social Specialist

D. Policies that might apply

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	This project is classified as category FI (Financial Intermediary) according to OP 4.01 on Environmental Assessment. This project will support the following interventions: a) start-ups and high-growth potential SMEs e.g. renewable energy, pharmaceuticals, agri-business, b) interventions in the services, trade or technology spheres, c) leasing activities, in which the project will focus mostly on financing vehicles, machinery, medical equipment and equipment for production lines. The environmental impacts of these interventions are expected to be limited, site-specific and reversible. To ensure that the project's interventions are compliant with the relevant requirements of the national policies and legislations as well as the World Bank relevant operational policies and procedures; and to ensure that any potential negative environmental or social impact would be properly mitigated, an Environmental and Social Management Framework (ESMF) is being prepared and will be consulted on by the borrower, and reviewed and cleared by the Bank. The ESMF will include an assessment of the institutional capacity of MSMEDA and using the existing Environmental and Social Management System (ESMS), the ESMF will detail the procedures for screening, assessing, managing, and monitoring the environmental and social risks and impacts of subprojects. The ESMF will provide an overall framework for the operation and will include a screening process to exclude any subprojects that might cause significant environmental impacts i.e. category A. The ESMF -including the consultation report- will be disclosed in the country and on the World Bank external website. Hard copies of the ESMF and subsequent Environmental Assessment studies will be made available to PAPs in MSMEDA, its branches and MFIs offices. The Environment Unit of the MSMEDA will be responsible for implementing the ESMF. As part of the former SFD, the Environment Unit has years of experience in implementing and monitoring World Bank-funded projects including FIs; a robust environmental safeguards management system with

		well-established procedures is in place and will be used for subproject's screening, categorization, monitoring and reporting. MSMEDA safeguards institutional arrangements include a central Environment Unit with qualified environmental and social specialists and trained Environmental Focal Points (EFPs) in 33 SFD branches at governorate/local level. For component 1, decision-making and involvement in review and selection of equity investments in NBFIs will be the responsibility of MSMEDA staff with the relevant expertise and skill set. Where MSMEDA has direct equity in high growth SMEs and startups, MSMEDA will directly implement the ESMF. In cases (under component 1) where equity is through NBFIs or risk capital intermediaries, accelerators and incubators are done, MSMEDA will ensure that all intermediaries implement the ESMF in turn through contractual agreements. For component 2, decision-making and involvement in review and selection of equity investments will be the sole responsibility of the Investment Committee (having majority representatives from the private sector, MSMEDA, MIIC, MCIT), to be designated to it by the MSMEDA Board. A set of boundaries to the decision-making process to address accountability issues as well as ESMF implementation will be agreed upon and laid out in the Operations Manual. Furthermore, the Project will benefit from the existing modern and efficient MIS available at MSMEDA which has been put in place for on-line reporting on the compliance with environmental safeguards measures at governorate/local level. As the MIS was mainly used for monitoring infrastructure type of subprojects, this system should be upgraded to include reporting on the compliance of MSEs that will be supported under this Project. The capacity of the Environment Unit and the EFPs should be further enhanced under the Project in terms of monitoring and reporting on MSMEs.
Performance Standards for Private Sector Activities OP/BP 4.03	No	
Natural Habitats OP/BP 4.04	No	Policy is not triggered as the project will not intervene in areas of natural habitat nor result in loss, conversion or degradation of natural habitats or critical natural habitats as defined by the policy.

Forests OP/BP 4.36	No	Policy does not apply as the project will not be implemented in any forested areas.
Pest Management OP 4.09	No	Policy does not apply as the project will not support the purchase or use of pesticides or pesticide application equipment.
Physical Cultural Resources OP/BP 4.11	No	Policy is not triggered as the project will not be implemented in areas of cultural heritage sites.
Indigenous Peoples OP/BP 4.10	No	There are no indigenous peoples in the service area.
Involuntary Resettlement OP/BP 4.12	No	Policy is not triggered as the project is not expected to involve any works that would require land acquisition or resettlement.
Safety of Dams OP/BP 4.37	No	Policy is not triggered as the project will not include construction of dams as defined by the policy.
Projects on International Waterways OP/BP 7.50	No	Policy is not triggered as the project will not undertake any activities in the catchment areas of international waterways and shared aquifers.
Projects in Disputed Areas OP/BP 7.60	No	Policy is not triggered as project activities will not be implemented in any disputed areas.

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Nov 08, 2018

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

ESMF and related public consultations should be finalized prior to negotiations.

CONTACT POINT

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APPROVAL

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