

Ex-Ante Evaluation(for Japanese ODA Loan)

Middle East Division 1,
Middle East and Europe Department
Japan International Cooperation Agency

1. Name of the Program

- (1) Country: The Arab Republic of Egypt
- (2) Program: Development Policy Loan for the Private Sector Development and Economic Diversification Support (hereinafter referred to as “the Program”)

Loan Agreement: January 16th, 2025

2. Background and Necessity of the Program

(1) Current State and Issues of the Economy and the Priority of the Program in the Arab Republic of Egypt

The Arab Republic of Egypt (hereinafter referred to as "Egypt") had been experiencing ongoing political and economic turmoil due to the Arab Spring in 2011 and the coup in 2013. However, with the birth of the current El-Sisi administration in 2014, economic reforms, primarily in the macroeconomic sector, have progressed. In 2016, the Egyptian government agreed with the International Monetary Fund (hereinafter referred to as "IMF") on an Extended Fund Facility (hereinafter referred to as "EFF")(approximately 12,000 million USD for three years), implementing an economic recovery program aimed at exchange rate stabilization, inflation control, employment promotion, and fiscal soundness. Despite the impact of the decline in tourism and the reduction in domestic demand due to restrictions on going out due to the spread of COVID-19 since 2020, the Egyptian government has been striving to stabilize the macroeconomy and promote major structural reforms. In May 2020, it agreed with the IMF on a Rapid Financing Instrument (approximately 2,700 million USD), and in June 2020, on a Stand By Arrangement (12 months, approximately 5,400 million USD). While receiving support from international institutions such as the World Bank and bilateral support including Japan, Egypt has been advancing stable economic management, and despite the impact of COVID-19, it continued to show robust growth with a GDP growth rate of 3.3% in the fiscal year 20/21.

Entering 2022, the impact of the US interest rate hike and Russia's invasion of Ukraine led to a rapid depreciation of the currency as over 20 billion USD in foreign currency funds flowed out. In addition, high inflation continued due to factors such as soaring food prices including wheat (which relies on imports for

60%, over 80% of which is imported from Russia and Ukraine), rising oil prices, and currency depreciation. An agreement was reached with the IMF on the EFF (46 months, approximately 3,000 million USD) at the end of 2022, but pressure for currency depreciation continued thereafter.

In April 2023, armed conflict broke out in Sudan, resulting in an influx of over 500,000 Sudanese refugees into Egypt, putting a strain on the country's society and economy. Furthermore, in October of the same year, the Gaza conflict broke out triggered by attacks on Israel by Hamas and others, resulting in over 45,000 deaths on both sides (approximately 44,000 in the Gaza Strip and about 1,100 in Israel). As a result of this influence, an incident occurred in Alexandria where an Israeli was shot dead by a police officer, and anti-Israel rallies were held in various places, leading to a deterioration in domestic security. In addition, there was a decrease in tourists, mainly in the Sinai Peninsula, and the volume of traffic and income from the Suez Canal halved after the end of 2023 due to attacks on ships by Yemen's Houthi faction, raising concerns about the long-term negative impact on tourism and Suez Canal income, which are important sources of foreign currency. In particular, if Palestine refugees are influxed in the future, it would put further strain on society and the economy.

The Egyptian Ministry of Finance has continued to maintain a surplus in the primary balance (1.3% of GDP) since the fiscal year 18/19 (July to June). Despite the increase in debt interest payments and COVID-19 related expenditures, the fiscal deficit (as a percentage of GDP) continued to be reduced in the fiscal years 19/20(-7.5%), 20/21(-7.1%), 21/22(-6.2%), and 22/23(-6.1%). On the other hand, for the fiscal year 23/24, due to the impact of high inflation and high interest rates, as well as the economic slowdown (GDP growth rate for 23/24 is expected to be 2.7%) caused by the deterioration of security conditions in neighboring countries, a fiscal deficit of -7.1% is expected as of August 2024 (IMF) due to a decrease in revenue and an increase in expenditure. For the fiscal year 24/25, a further expansion of the fiscal gap to -9.2% is expected.

Under the above circumstances, the Egyptian government is working on strengthening the private sector and promoting the transition to a green economy as a strategy to achieve economic development while mitigating exchange rate depreciation pressure and environmental impacts, and improving the fiscal situation. In terms of strengthening the private sector, the government is implementing measures such as the publication of the State Ownership Policy,

promoting the sale and privatization of assets of military-related and state-owned enterprises, and promoting the application of the Golden License to expedite administrative procedures, in order to improve the business environment and strengthen the domestic competitive environment, which will enhance the competitiveness of domestic companies and promote investment from abroad. Regarding the transition to a green economy, Egypt hosted COP27 in November 2022. In addition, in May 2022, it established the "National Climate Change Strategy 2050", and in July of the same year, it set up the Nexus of Water, Food and Energy (hereinafter referred to as "NWFE") program to implement urgent issues in the three fields of energy, food, and water. The government is advancing many initiatives, such as expanding investment in the renewable energy sector that contributes to climate change measures, including wind power plant construction projects and seawater desalination projects.

The "Development Policy Loan for the Private Sector Development and Economic Diversification Support" provides financial support for the strengthening of the private sector and the promotion of the transition to a green economy, which are priority issues for the Egyptian government, even in the midst of the impact of the Ukraine crisis and neighboring countries and regions such as Sudan and Palestine. The African Development Bank (hereinafter referred to as "AfDB") provides financial support of approximately 231 million USD (including 100 million USD from the facility set up by the Export-Import Bank of Korea (hereinafter referred to as "KEXIM") within the AfDB, the Korea-Africa Energy Investment Framework). The Program supports the efforts of the Egyptian side in the form of coordinated financing with this support. Furthermore, the Program corresponds to the financial support that was communicated by former Prime Minister Kishida to President El-Sisi in December 2023 as being under consideration.

(2) Japan's and JICA's Policy Cooperation Policy and Operations in the Private Sector Development

The Program was requested by the Egyptian government to Japan in May 2023. The Country Assistance Policy for the Arab Republic of Egypt (September 2020) specified the basic policy of "Promotion of Sustainable Economic Growth". In addition, the JICA Country Analysis Paper for the Arab Republic of Egypt (March 2016) also analyzes that industrial promotion, including investment promotion, is necessary for achieving sustainable growth. The Program is in line with the "Promotion of Sustainable Economic Growth" and "Industrial

Development", which are the priority areas and development issues listed in these policies and analyses.

(3) Other Donors' Activities

Following the start of the Russian invasion of Ukraine, the AfDB approved a support of 271 million USD in June 2022 as the Food Security and Economic Resilience Support Program. In addition, in November 2023, it approved a total of 231 million USD, including 100 million USD from the facility set up within the AfDB, the Korea-Africa Energy Investment Framework, as the Private Sector Development and Economic Diversification Support Program - Phase I. In November 2024, the board also approved the Private Sector Development and Economic Diversification Support Program - Phase II (170 million USD).

The World Bank approved a support of 700 million USD in June 2024 as the Generating Resilience, Opportunities, and Welfare for a Thriving Egypt Development Policy Financing.

The IMF has been implementing the EFF (approximately 3,000 million USD for a period of 46 months) since December 2022. In March 2024, the board approved the first and second reviews of the program and an increase to approximately 8,000 million USD. The third review was completed in July of the same year.

3. Program Description

(1) Program Description

- ① Program Objective: The objective of the Program is to enhance private sector development and economic diversification towards transition to a green economy through budget support for policy reforms contributing to (i) strengthening the economic competitiveness and (ii) diversifying the economy toward a green economy, thereby contributing to promoting the economic stabilization and sustainable development efforts of Egypt.
- ② Program Components: The Program supports policy and institutional improvements and their steady implementation in the two areas of "Promotion of Private Sector Investment" and "Support for Economic Diversification and Transition to a Green Economy", which have been agreed upon and set among the Egyptian government agencies through financial support. The AfDB envisages a two-phase program provision, the first phase (July 2023 to June 2024) and the second phase (July 2024 to June 2025), and sets policy actions to be achieved in the first phase and Indicative Actions for the second phase (see annex). The Program will

provide coordinated financing for the first phase. In addition to a total of seven policy actions related to the establishment of the Investment Supreme Council and the utilization of state-owned land for investment in the renewable energy sector, JICA has set two policy actions related to the investment promotion measure, the Golden License, as its own policy actions. Upon the achievement of all of these, the loan will be executed in a lump sum after approval.

③ Program Beneficiaries (Target Group): People of Egypt

(2) Estimated Program Cost: 35,000 million Yen

(3) Schedule

The financial support for this Program will commence at the time of the L/A signing. The achievement of the policy actions has been confirmed. The Program will be completed upon disbursement of the loan (scheduled for January 2025).

(4) Program Implementation Structure

1) Borrower: The Government of the Arab Republic of Egypt

2) Executing Agency: The Ministry of Finance of Egypt will monitor the implementation status of each policy action in collaboration with the implementing agencies.

(5) Collaboration and Sharing of Roles with Other Donors

1) Japan's Activity: An investment promotion expert has been dispatched to the General Authority for Investment and Free Zones (GAFI), the relevant agency for the Program, since May 2022. With the implementation of the Program, it is expected that improvements based on various advice given by the expert to solve issues faced by Japanese companies in Egypt will be promoted.

2) Other Donors' Activity: Parallel co-financing with AfDB

(6) Environmental and Social Consideration/ Cross-Sectoral Issues/ Gender Category

1) Environmental and Social Consideration

① Category: C

② Reason for Categorization: The program is likely to have minimal adverse impact on the environment under the JICA guidelines for environmental and social considerations (January 2022).

2) Cross-Sectoral Issues: N/A

3) Gender Category Not applicable ■GI (Gender Mainstreaming Needs

Assessment and Analysis Program)

<Details of Activities/Reason for Categorization> Although a social and gender analysis was conducted in the preliminary survey, it did not lead to the establishment and planning of measures and indicators contributing to gender mainstreaming. However, the scope of the Program includes efforts to improve corporate governance and other areas by promoting the acquisition of permits and licenses in sectors such as manufacturing, where many women are assumed to be working.

(7) Other Important Issues: N/A

4 . Targeted Outcomes

(1) Quantitative Effects

1) Outcomes (Operation and Effect Indicators)

Indicator	Baseline (Actual value)	Target (2025) [1 year after Program completion]
1. An Enhanced Private Sector Development		
i) Private investment (% of GDP)	3.3% (2021/22)	4.3% (2024/2025)
ii) Length of time it takes to get a business license	28 Days (2022)	10 Days
2 . A Diversified and Green Economy, and Supporting Green Transition		
iii) Manufacturing, value added in % of GDP	14.2% (2021)	17%
iv) Area from the State-owned lands dedicated to renewable energy investments (km ²)	5,500 (2022)	30,000

(Note) The above operation and effect indicators are common with the AfDB, which is the recipient of the coordinated financing. The target for the goal is set for one year after the completion of the project, and the timing of the post-evaluation implementation is also set for the same period.

(2) Qualitative Effects: Improvement of fiscal conditions, promotion of private sector development, encouragement of economic diversification, and advancement of the green economy

(3) Internal Rate of Return: The internal Rate of Return is not calculated for program-type loans.

5 . External Factors and Risk Control

The external condition and risk control is that the extreme impacts on economic activities in Egypt, due to further deterioration of the global and regional situation,

will be avoided.

6 . Lessons Learned from Past Programs

From the ex-post evaluation of the "Development Policy Support Program-Investment Climate" to the Republic of the Philippines (evaluation fiscal year 2017), we have learned that by monitoring policy reforms in collaboration with international institutions and sharing policy matrices, we can expect to promote reform and make it easier to address issues that are difficult for a single aid agency to support. In this Program, we will promote reform by monitoring policy changes in collaboration with AfDB, which is our co-financing partner.

7 . Evaluation Results

The program is consistent with Egypt's development challenges, policies, and the cooperation policies and analysis of Japan and JICA. It aims to strengthen economic competitiveness and contribute to economic diversification towards a green economy by supporting the government's efforts to promote private sector investment and economic diversification/green economy transition in Egypt, which is affected by the Ukraine crisis and the impact of neighboring countries and regions such as Sudan and Palestine. The necessity for JICA to support the Program is substantial as it is considered to contribute toSDGs Goal 1 (No Poverty), 8 (Decent Work and Economic Growth), 10 (Reduced Inequalities), and 16 (Peace, Justice and Strong Institutions).

8 . Plan for Future Evaluation

(1) Indicators to be Used

As indicated in Sections 4.

(2) Future Evaluation Schedule

Ex-post evaluation:1 year after the Program completion

END

[Attachment] Policy Matrix

[Attachment]

Policy Matrix for Development Policy Loan for the Private Sector Development and Economic Diversification Support

Objectives	Policy measures (2023/2024) (Prior Actions)	Policy measures (2024/2025) (Indicative Actions)
Component 1: Promoting Private Sector Investment		
<u>Objective 1.1: Improving business environment</u>	(1) Decision establishing the Supreme Council (SCI) for Investments issued by the President.	(1) Decree establishing the Inter-ministerial Committee responsible for studying barriers to investment issued.
	(2) Amendment of the Investment Law No. 72/2017 to add new incentives and more flexible criteria investment projects.	(2) GAFI's new organizational chart approved by the Cabinet.
	(3)Prime Ministerial Decree amending Executive Regulation of Investment Law No. 72/2017, streamlining the procedures and facilitating the issuance / implementation of Golden License, is issued. (JICA Action)	
	(4)The integrated electronic platform applying for the Golden License in English and Arabic is launched. (JICA Action)	
<u>Objective 1.2: Strengthening the framework for competition and commercial justice</u>	(3) Law cancelling exemptions from taxes and fees for SOEs with investment activities issued by the President.	(3) Amended Law strengthening the independence of the Egyptian Competition Authority (ECA) approved by the Cabinet.
	(4) Law establishing the Egyptian Authority for Intellectual Property (EAIP) issued by the President.	
Component 2: Supporting Economic Diversification and Green Transition		
<u>Objective 2.1: Promoting key productive sectors</u>	(5) Law legalizing unlicensed industrial structures issued by the President.	(4) Extension of the resolution regarding granting incentives and facilities for industrial projects for which land and industrial units are allocated.
	(6) Decree of Ministry of Agriculture and Land Reclamation (MALR) improving the quality of cotton issued.	(5) Amended Law on agricultural cooperatives approved by the Cabinet.
<u>Objective 2.2: Supporting Green Transition</u>	(7) Decree Allocation of 26,000 square kilometers from the State-owned lands to renewable energy investments issued by the President.	(6) Egypt Hydrogen Strategy approved by the Supreme Energy Council.
		(7) Signature of a MOU between the Ministry of Environment and the Ministry of Trade and Industry (MTI).