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GENERAL FOR DEVELOPMENT AND  
COOPERATION - EUROPEAID

## **Programming of the European Neighbourhood Instrument (ENI) - 2014-2020**

### **Single Support Framework for EU support to Egypt (2014-2015)**

# Egypt

## 2014-2015

### Introduction

Since the uprising of January 2011, which led to the fall of former President Mubarak, Egypt has been going through a complex and turbulent transition. It is significant that orderly parliamentary and presidential elections were held in 2011 and 2012. The end of the state of emergency after thirty years was also an important step. Nevertheless, this process has not been without challenges and set-backs.

During 2012, specific matters of concern included the dissolution of the People's Assembly, the crafting and passage of a new Constitution opposed by non-Islamists, and the issuing of a decree sheltering presidential decisions from judicial scrutiny. In 2013, a massive popular uprising led to the ousting of Mohammed Morsi from the Presidency and his imprisonment, as well as clashes with his supporters. This resulted in a brief relapse into the state of emergency and the establishment of an interim government, the suspension of the 2012 Constitution and dissolution of the Shoura Council, a crackdown on Morsi and Muslim Brotherhood (MB) supporters and more generally on dissenting voices (some 2,000 killed and 16,000-25,000 arrested, including 1,200-1,300 students and a number of journalists), an armed insurgency in Sinai (causing some 300-400 deaths since last summer) and a terrorist wave West of the Canal mainly targeting the police.

In July 2013, a constitutional road map was adopted by the new authorities, of which two major steps have been achieved. The Constitution was adopted in January 2014, following a referendum to which the EU sent an Election Expert Mission. The Presidential elections took place 26-28 May 2014, with a landslide victory (97.5% of votes), of Mr Al-Sisi (though voter turn-out was only 47.5%). Upon invitation, the EU sent an Election Observation Mission (EOM). The EOM concluded that the elections were generally in line with international standards, but found a lack of respect of fundamental freedoms and human rights due to political polarization and the clamp down of the authorities on the Muslim Brotherhood (MB) and political opposition. Parliamentary elections are expected to follow in the autumn of 2014.

Mass arrests and 'excess' sentences, including mass death sentences, often following dubious charges and proceedings, continue to raise serious concerns. A court in Minya issued two mass death sentences (end March and end of April) for 529 and 683 MB supporters which has created international outcry and condemnation. Despite the information that the Prosecutor General has now ordered full retrial of the cases, the events are alarming. Furthermore, on 19 June, leading figures of Islamist movements were given death sentences and on 23 June, Egyptian and foreign Al-Jazeera journalists were handed 7-10 year long prison sentences.

It is also worrying that following a de facto moratorium of the execution of the capital punishment, allegedly since 2011, the Egyptian authorities have confirmed the death sentences, in June 2014, of death sentences following murder convictions.

The economic situation remains difficult, because of structural challenges to the economy exacerbated by the events since January 2011. Growth has been very limited since 2011, averaging about 2% per year, which is insufficient given Egypt's demographic growth. Egypt

is a lower middle income country, with an estimated GDP per capita in 2012 of USD 3 200, which has been decreasing over the last few years. Egypt's economy is relatively diversified, with the service sector (48% of GDP) and industry (37% of GDP) being the largest contributors, although around one third of the active labour population derive their living from primary agriculture. High employment sectors like tourism and construction have been particularly impacted in recent years, leading to a gradual increase in unemployment (13.4% in December 2013). Poverty levels remain high too, and have been increasing in recent years from 16.7% in 2000 to 26.3% in 2013, according to the Government's poverty definition. Poverty is particularly high in Upper Egypt.

Egypt also faces a very elevated fiscal deficit (13.7% of GDP in Fiscal Year (FY) 2012/2013), mainly due to high levels of spending on debt service, inefficient fuel subsidies and higher spending on public salaries and pensions in response to public unrest, coupled with decreasing fiscal revenue because of the economic slowdown and lowering tax compliance. This fiscal deficit was financed mainly by reliance on domestic debt, which has increased significantly in recent years. In addition, Egypt faces structural balance of payments problems, which have contributed to a depletion of international reserves to critically low levels and administrative measures to rationalise scarce foreign currency. The current account has recently improved, but only because of a massive inflow of Gulf funds in fiscal and balance of payments support, following the ousting of Morsi in 2013, and not because of any structural improvement.

Successive governments, since the ouster of Mubarak, have been in negotiations with the International Monetary Fund (IMF) on a support programme, but neither the interim military authorities nor the Morsi regime were able to finalize a programme due to the political pressure related to the necessary restructuring measures that would be included in it (reduction of fuel subsidy, tax increases, cuts in public spending). The current government has not yet sought an IMF programme. With the inflow of funding from the Gulf - up to USD 17 billion between July and December 2013 in fiscal support, in-kind support (fuel products) and central bank deposits - it has initiated an accommodating fiscal and monetary policy in the hope of re-igniting the economy. At present this has not yet led to a reboot of the economy, while there are certain inflationary risks related to this policy.

Egypt remains an important EU trading partner in the Mediterranean and has attracted significant EU investment, although foreign direct investments (FDI) inflows have slowed down significantly since 2011. In terms of trade policy priorities, the focus remains on ensuring the full implementation of the provisions of the Association Agreement and complete the Trade Sustainability Impact Assessment on the potential implications of an eventual Deep and Comprehensive Free Trade Agreement.

## **1. EU Response**

### **1.1. Strategic objectives of the EU's relationship with the partner country**

The EU seeks to support a democratic transition and enhance stability, peace and prosperity in Egypt. The EU's objective is to pursue a well-calibrated engagement with Egypt that combines dialogue and support to the political, economic and social reforms required during the country's transition period. In particular the EU's long term objective is to support the building of a deep and sustainable democracy with accountable and transparent institutions, the respect of human rights and fundamental freedoms, including the freedom of expression

and assembly. This includes the finalisation of transparent and credible elections, the alignment of Egypt existing and future legislation with the Constitution and international standards, an inclusive political process and upholding the role of civil society organisations. These objectives can be attained through different means such as political dialogue, the establishment of a new Action Plan and, in some cases, financial support from different instruments.

The EU will also pursue the objective of redressing the deteriorating socio-economic situation in the country by encouraging economic reform, progress towards social justice, transparency, an improved business environment and social measures in particular to the benefit of the most vulnerable groups of the society. The EU will work with Egypt as a key partner in the region.

The preparation of a new EU-Egypt Action Plan under the ENP will be an opportunity to underpin dialogue and cooperation on the above mentioned areas. The current Action Plan has been extended until March 2015 and formal consultations on a new Action Plan will be taken up as soon as the situation allows. Furthermore, the EU and Egypt are preparing the ground for starting a possible Dialogue on Migration and Mobility in line with the EU's Global Approach on Migration and Mobility in order to enhance cooperation between the two sides in these areas. Council Conclusions of June 2011 call upon the Commission to start such a Dialogue when the conditions permit to do so. Similarly, the Communication on the work of the Task Force Mediterranean, following the tragedy of migrant deaths near Lampedusa in 2013, mentions the launching of a Dialogue with Egypt as a priority.

The choice of priorities for EU cooperation takes into consideration the Council conclusions of 21 August and 21 October 2013, the recommendations of the Court of Auditors and the HR/VP's Statement of 19 January 2014 on the newly voted constitutional referendum. Given the current situation, and in particular the repeated changes in governments and the lack of a clearly defined reform strategy, priorities have been identified for a two-year period only (2014-2015).

## **1.2. Choice of sectors of intervention**

Egypt faces numerous social, administrative, political, economic and environmental challenges that need to be comprehensively addressed:

- a) Egyptians are suffering from a weak economy, growing joblessness and increasing poverty and vulnerability. With the continuing political and economic uncertainties, nearly half of the Egyptian population is either poor or finds itself at risk of slipping into poverty. The country's poverty rate has reached 26.3% in FY13, with rural Upper Egypt (50% under the 'poverty line', representing 40% of the overall population) being particularly vulnerable. Thus, with a still very high annual population growth rate of 2.8% in FY13, **inclusion** remains a multidimensional challenge for the Egyptian economy. If unaddressed, the situation could threaten to worsen the country's instability.
- b) **Living conditions** have worsened since the 2008 global economic recession and have been further aggravated by the political instability that characterized the post revolution period. The demands for bread, dignity, job opportunities and social justice of the revolution are still very much present. According to the Egyptian Food

Observatory report of March 2013, nearly 90% of households reported not being able to meet their basic needs for food, clothing and shelter.

- c) The insufficient and ineffective social safety system creates disparities and unfair redistribution of resources. Without a rationalisation and better targeting of social transfers support to cope with social justice principles, most Egyptians, particularly those who are already poor and vulnerable, will likely experience significant further deterioration in their well-being.
- d) The political instability and its impact on important sectors of the economy have had a considerable impact on the job market. The official registered **unemployment** rate has increased from 9.6% prior to the revolution, to an estimated 14% by June 2014, particularly among women (25%) and youth (40%). The introduction of the necessary reforms to promote inclusive and sustainable growth and stimulate the creation of more and better jobs remains crucial.
- e) This situation is happening in a context of a highly centralised country with complex bureaucratic public administration and institutional system as well as growing disparities among the governorates. This calls for enhancing institutional structures in order to support more **regional and local inclusive and sustainable economic development**, while improving the channels for participation in decision-making at local level, reaching out to non-state actors, particularly the civil society and the private sector.
- f) The Egyptian population is struggling to gain **access to quality basic services** such as health and education. This translates into about 25% of Egyptian children (under age 5) suffering from chronic malnutrition and into about 2 million children (age 6-18) out-of-school. Most of the out-of-school children are working children, from poor families, living in remote rural communities or urban poor communities, or are disabled (according to the Ministry of Education, less than 1.8% of children with disabilities receive the educational services they need in Egypt). Despite being different in nature, both challenges are linked to inadequate planning and insufficient funding. This has particularly strong negative impacts on the poorest regions and on remote villages, already deprived from the provision of basic services.
- g) The overall **illiteracy rate** remains high and is another indication of the failure of basic services. The rate varies throughout the country (e.g. 36.7% in Minya compared to 17.4% in Cairo) with high illiteracy coinciding with high poverty (the illiteracy rate is 41% among poor families compared to 24% in non-poor families). On a more optimistic note, the youth (age 15-24) illiteracy rate was 8.5%, an indication that the overall illiteracy rate might drop in the future.
- h) The political transition has brought new opportunities to Egyptian society, but some groups are not positioned to fully benefit from these. Political participation is not inclusive towards all segments of society: women have been acutely under-represented in all governments before and after transition, with female lawmakers holding 2 percent of seats in the last parliament. Mechanisms for citizens to address issues in access and delivery of public service need to be further developed. **Vulnerable groups particularly need these mechanisms**: disabled people still lack access to many public services; women face socio-cultural barriers and a system that prevent them from fully participating in society: 23.7% of the workforce are women, and unemployment for women is more than three times higher than for men; a majority of women experience sexual harassment, and violence against women both

in the private and the public sphere is widespread. Children are particularly at risk as long as they lack protection mechanisms, and as such they are vulnerable to violence, forced marriage, trafficking, labour and other kinds of exploitation; 91% of girls and women aged 15-49 have undergone female genital mutilation (FGM). Ensuring increased participation of these segments of the society in social, economic and political life puts an important challenge to the country.

- i) **Corruption remains a widespread phenomenon** in Egypt. According to Transparency International's corruption perception index 2013, Egypt ranks 114th worldwide out of 175 countries surveyed. In this respect Egypt lags behind all North African countries except Libya. Following the January 2011 Revolution and the disclosure of the cronyism system that prevailed until then, expectations remain high to see the assets stolen by former regime officials repatriated to the Egyptian State. Although the Constitution adopted in January 2014 devotes article 218 to the fight against corruption, the choice has been made to keep addressing corruption through a set of dedicated agencies and committees. It is important to stress that Egypt is member of the United Nations Convention Against Corruption (UNCAC), and will undergo a peer assessment exercise in 2014.
- j) While the political transition and the related **macroeconomic challenges** may well be currently the greatest impediment to Egypt's business environment, more structural challenges continue to hamper the economic development potential of Egypt. In particular small business growth, and therefore opportunities for employment growth, is greatly hampered by heavy presence of regulations that are unfit for purpose, as well as from lack of predictability and transparency in implementation of business related laws and regulations. Egypt ranks 128th out of 189 economies in the ease of doing business index of the World Bank Doing Business report 2014, a significant drop compared to 2010 when Egypt was ranked at the 106 out of 183 economies and was included within the group of 10 top reformers.
- k) The macro-economic situation remains difficult and Egypt still faces significant financing gaps. Macro-economic and budgetary policies are highly reliant on continued external financing, at present received from Gulf States.
- l) Public Finance Management (PFM) in Egypt remains critical with a budgetary system in distress, with revenue numbers below target and rising expenditure, deviation between approved budget and budget execution, domestic debt and particularly the cost of servicing domestic debt increasing. The Government has not adopted an overall PFM reform strategy or plan, and most PFM reforms with regard to budget execution and treasury are still mostly on hold. The new constitution introduces some provisions related to enhanced transparency, accountability and the rule of law; and should these provisions be put into action, major revision of PFM procedures would be required.
- m) As natural resources face both increasing demographic pressure and levels of pollution, **environmental protection**, climate change mitigation and adaptation, as well as sustainable management and use of natural resources are vital. Pressing public policy needs in Egypt. The currently unsustainable situation in this field affects not only the population's health and quality of life, but also private sector and sustainable economic development.

- n) **Securing energy resources and production** to meet the national demand both on the short and long terms, along with **adequate attention to environmental concerns**, are considered particularly important. Once an exporter of oil and gas, Egypt is now struggling to meet its own energy needs. The growth in energy consumption is a response to the country's economic expansion, industrialization, and change in people's life style. Although all energy forms have been subject to high growth, electricity consumption has increased substantially causing serious concerns over the power sector's fuel mix, heavier reliance on fuel oil, and an unaffordable burden on the government budget.

In the light of these challenges, considering the priority objectives mutually agreed in the framework of the Association Agreement, the sectors of interventions of the EU single support framework with Egypt for 2014-2015 are:

- I. Poverty Alleviation, Local Socio-Economic Development and Social Protection**
- II. Governance, Transparency and Business Environment**
- III. Quality of Life and Environment**

Considering the EU commitment to dedicate 20% of its budget to climate related issues, a contribution to this objective under this programme could be envisaged.

#### **Horizontal interventions**

Some technical and/or institutional support for **capacity development** will continue to work as a complement to the interventions in the three core areas of cooperation and will be used, inter alia, to reinforce the capacity of institutions of key relevance to meet the commitments undertaken in the context of the EU Agreements and, as appropriate, to foster harmonisation of the domestic legislative and regulatory framework with EU and/or international standards (including, if relevant, in the area of statistics).

Besides, measures in favour of strengthening the role of the Egyptian **civil society** including social partners will be mainstreamed in the three focal sectors in the form of: engagement in the policy/sector-wide dialogue; capacity building; and the delivery of services.

The interventions to be financed under the above mentioned priorities will be implemented in agreement between both parties, and whenever appropriate with the participation of civil society organizations including social partners in accordance with national legislations and EU regulations.

An amount of up to 10% of the overall assistance may be allocated to the horizontal interventions, and allocated in particular to sector II issues.

Some complementary and more specifically targeted support to civil society including social partners (local authorities, democracy and human rights) shall be provided under other EU financial instruments.

Complementarities and coherence will be sought with all other EU instruments, in particular with the thematic and regional programmes such as research and innovation, energy, transport, education, youth, culture and media (in particular Erasmus+ Plus and Creative

Europe), facilities, loan operations of the European Investment Bank (EIB) as well as with interventions funded by other development partners, in particular with EU Member States. The EU will work with the Egyptian authorities to ensure ownership and reinforce donor coordination.

### **I. Poverty Alleviation, Local Socio-Economic Development and Social Protection**

EU support will help to develop the capacities of the Government of Egypt in social policy formulation and delivery of social transfers to reduce regional disparities based on objective socio-economic human development criteria. The Single Support Framework (SSF) resources will focus on cushioning the likely negative impact of economic reforms on the most vulnerable. In the same vein, funding could also be allocated to multi-sector local and regional development activities to support governorates in job creation, income generation and enhancement of access to basic services.

Within this context the EU will support the effort of the Government of Egypt to increase access to basic social services such as education, to fight unemployment, mainly of the youth and women, to address the shortcomings of its current social protection system (incomplete and unequal access to social protection mechanisms, low quality of benefits delivered by these mechanisms), and to improve its functioning (targeting better its coverage and improving the administration of the system).

### **II. Governance, Transparency and Business Environment**

The EU has already developed a robust portfolio in many areas related to governance and administrative reform. Ongoing EU support focusses on the modernisation of justice and public administration, and includes support to the National Council for Women (NCW), the National Council for Human Rights (NCHR), and the National Council of Childhood and Motherhood (NCCM). Under the SSF 2014-15 EU will support the establishment of mechanisms to address citizen's concerns on public services and access to these services. This will cover continued support to NCW and NCHR, including their complaint mechanisms, and support to NCCM with a focus on operationalising the child protection mechanism as foreseen in the Child Law and with a focus on services for children subject to violence.

While current EU support focusses on the finalisation of the national anti-corruption strategy, the SSF will support the implementation of this strategy foreseen in Art. 218 of the 2014 Constitution. Specific support could address corruption issues via closing loopholes or simplifying procedures within the State system. Supporting buildings for institutions such as economic courts, the prosecutor's office, the central audit agency or the National Committee for Combating Corruption (NCCC) can be envisaged. The SSF will also support assistance to state institutions and non-state civil society actors in the preparation, conduct and monitoring of elections, when –and as- appropriate.

Specific attention will be given to strengthening economic governance given the importance of transparent, predictable and conducive business environment for fostering economic recovery and equitable growth. The EU will support the Egyptian Government and its stakeholders to design and implement business and investment climate reforms which in particular favour the lower strata of businesses, particularly SMEs. The EU support is expected to contribute to improve a business enabling environment and make it more conducive to business creation and economic development. EU support will also aim at strengthening the capacity of the private sector, in particular SMEs, to compete in local and



international markets. The EU may support in the elaboration of a new SME development strategy which should provide the opportunity to develop a common vision inspiring the actions of the various institutions, to review the current institutional framework and better define policy mandates, to set a common SME definition in line with the EU SME definition , to establish co-ordination mechanisms, to develop synergies among programmes and to introduce monitoring and impact evaluation tools.

As a complement to the interventions in the three core areas of cooperation, support for capacity development will be provided to the Government of Egypt and its line Ministries, State Agencies and Public Institutions of key relevance involved in the implementation of the Association Agreement and the EU-Egypt ENP Action Plan to meet the commitments undertaken in the context of the Agreements and, as appropriate, to foster harmonisation of the domestic legislative and regulatory framework with EU and/or international standards. Specific attention will be paid to supporting institutions charged with introducing governance reforms, including in relation to public finance management. Possible complementary support deriving from a Dialogue on migration and mobility, if eventually launched, could also be envisaged.

Where relevant, this assistance may support the participation of the country in EU Agencies and programmes. Other instruments (Technical Assistance and Information Exchange (TAIEX) and Support for Improvement in Governance and Management (SIGMA)) will be utilised complementarily to the twinning instrument and technical assistance provided through this support.

### **III. Improved Quality of Life and Environment**

Sustainable development, including improved access and quality of services to citizens are well reflected in the new National Plan 2012-2022. The Government of Egypt considers the management of waste and, water, including wastewater, as a top priority (40 million Egyptians have no access to sanitation). In addition to that, solid waste management in Egypt has become a major policy priority. It is a sector with a strong growth potential, including in sustainable development practices and climate change mitigation, and an industry with the potential to employ people, including unskilled workers, youth, poor and disadvantaged ones.

Egypt is also determined to diversify the energy mix and to improve the efficiency of electricity consumption. It has also recognized that energy diversification and efficiency can impart other benefits such as cleaner environment, transfer of advanced technologies, and possible new areas of manufacturing and services resulting in poverty alleviation and increasing the level of entrepreneurship. Although energy efficiency in particular had not taken a prominent role in Egypt's past energy strategy, it has now become a high priority. Due to inadequate supply of domestic oil and gas and a tight public budget, the government has now arrived at the conclusion that energy efficiency should be pursued aggressively.

Support to improve environmental management in Egypt, such as eco-efficient business and products and eco-innovation at SME level, and including climate change considerations, can have direct consequences on health and quality of life; better and more efficient resource management, including waste and energy management will have a direct and measurable impact also on private sector development and trade. The EU, hence, will focus on building capacities for waste-water and solid waste management, to co-finance with European development partners (such as KfW and AFD selected infrastructure projects).

In this context, complementarity and coordination should be ensured with the EU regional Initiative Horizon 2020 to de-pollute the Mediterranean Sea, in particular the Pollution Reduction component, and its EIB investment facility MeHSIP II (Mediterranean Hotspot Investment Programme), and its Capacity Building component. Complementarity and coordination should also be ensured with the EU-funded SWIM (Sustainable Water Integrated Management) and the SWITCH programmes (promoting the transition towards more sustainable production and consumption patterns).

## **2. Financial overview**

The indicative allocation for the period 2014-2020 is: EUR 756,000,000 – EUR 924,000,000

The indicative allocation for the period 2014-2015 is: EUR 210,000,000 – EUR 257,000,000

Moreover, Egypt could benefit like the rest of the EU neighbourhood countries of the multi-country umbrella programmes which will facilitate the implementation of an incentive-based approach by allocating supplementary funding to selected neighbours, in line with their progress in building deep and sustainable democracy.

The indicative breakdown for the first period by sector of intervention is:

- I. Poverty Alleviation, Local Socio-Economic Development and Social Protection: 40%
- II. Governance, Transparency and Business Environment: 20%
- III. Quality of Life and Environment: 40%

## **3. EU support per sector**

### **3.1 Poverty Alleviation, Local Socio-Economic Development and Social Protection**

#### *3.1.1 The following overall and specific objectives will be pursued:*

**The overall objective** is to support Egypt's inclusive economic growth and the creation of decent jobs, as well as to foster social protection.

The specific objectives are:

1. To enhance the delivery of basic services, notably to combat illiteracy and improve access to education, in particular at community level.
2. To support socio-economic development at the local level targeting those most in need through generating and strengthening sustainable economic activities.
3. To increase employment and decent work, and improve entrepreneurship and self-employment, with a focus on youth and women.
4. To support the transition from informal to formal work and improve working conditions and respect for labour rights.
5. To improve social protection systems and instruments.

#### *3.1.2 For each of the specific objectives the main expected results are:*

For specific objective 1: To enhance the delivery of basic services, notably to combat illiteracy and improve access to education, in particular at community level:

- Community based schools are established and teacher's capacity strengthened to provide quality basic education.
- Access of disabled children to basic education has improved in target communities.

For specific objective 2: To support socio-economic development at the local level targeting those most in need through generating and strengthening sustainable economic activities:

- The capacity of the targeted communities (authorities and stakeholders) to identify and plan sustainable integrated economic activities including climate change considerations, is enhanced.
- Sustainable economic activities with a focus on strengthening social inclusion and the creation of decent jobs are financed.

For specific objective 3: To increase employment and decent work and improve entrepreneurship and self-employment, with a focus on youth and women.

- The skillset and employability of the targeted population are improved.
- The entrepreneurship culture in the targeted areas is strengthened.

For specific objective 4: Improve social protection systems and instruments:

- Domestic co-ordination mechanisms for social protection are put in place and safety net mechanisms are rationalized and targeting improved.
- Collaboration between the government, social partners and civil society working on social protection at the ground level is strengthened.
- Access to public health and other basic services is improved.

### 3.1.3 For each of the specific objectives the main expected indicators are:

See attachment 1.

### 3.1.4 Donor coordination and policy dialogue

In Egypt the donor community has not yet established a coordination mechanism in the social protection or local socio-economic development field. For this sector, areas of work are broad and touch upon many developmental issues tackled by many other coordination mechanisms in sectors such as education, health, employment, rural development. In the field of social protection and safety nets, a number of donors and agencies such as the World Bank, the International Labour Organisation (ILO) or the EU have been active and are implementing activities. The EU sees potential scope to build upon existing coordination platforms and/or to initiate new platforms for cross-sectorial donor discussions on a topical basis. These fora could be set up on a needs basis to respond to new emerging issues and/or to facilitate follow-up throughout the programme management cycle. For these activities there has been a close coordination of donors during formulation stages of programmes (shared meetings, shared formulation reports and documents).

### 3.1.5 The Government's financial and policy commitments

Egypt has identified the high level of poverty, access to, and quality of, basic services, and regional developments disparities, as the main national development challenges.

The Government's challenge in protecting the poor is further exacerbated by the existing and dysfunctional social assistance & social safety net (SSN) system. Defined more than three decades ago, the system includes food and energy subsidies, and income transfers to vulnerable groups. It counts for a substantial share of public spending (27% of its GDP) but does not have a significant impact on fighting against poverty and human development.

Essential public services and subsidies, which represent a consistent portion of the government's expenditure to tackle poverty, are untargeted and often do not benefit the most vulnerable groups.

A major challenge the government faces is the management of the state budget, which includes salaries for public sector and subsidies, which count for more than half of all public expenditures. Measures to further reduce fuel subsidies are planned.

Recognising the deficiencies in the existing system, the Government has made a commitment to strengthen and reform its social assistance and SSN system. More broadly the Government intends to work in favour of a new social protection system which is defined as the set of public and private policies and programmes aimed at preventing, reducing and eliminating economic and social vulnerabilities to poverty and deprivation.

Egypt's Minister of Planning and International Cooperation announced that a draft plan has been completed for an effective strategy to double national income within ten years – in the period from 2012 to 2022. The proposed 10-year development plan aims to boost growth potential to reach the highest levels possible and to double national income within a period of ten years. Policies targeting the poor and the unemployed while addressing structural weaknesses have become central. The Plan aims to offer a range of better targeted social security measures financed through improved tax collection and rationalized public expenditure.

#### 3.1.6 Environmental assessment

Environmental assessments will be carried out when needed. In particular a prior environmental assessment will be carried out on programmes to be implemented on socio-economic development at the local level.

#### 3.1.7 Overall risk assessment

The major risks in this intervention sector are linked to the currently volatile political context of the country, fiscal constraints which limit the state's ability to integrate proposed actions into its budget, as well as limited administrative and management capacities at both the local and national levels. Inertia of the administrative systems and procedures could further affect the effective devolution of decision-making power. Finally, work on the social protection system, and its instruments, beyond pilot initiatives is dependent on the evolution of Egypt's policy and institutional framework.

### **3.2 Governance, Transparency and Business Environment**

#### 3.2.1 The following overall and specific objectives will be pursued:

The **overall objective** of this priority area is to encourage and support Egypt's process towards good governance and social justice including through establishing an enabling environment for conducting business to ensure economic recovery.

The **specific objectives** are:

1. Facilitate access of citizens to public services, particularly of women, youth and disabled citizens.
2. Cooperate in combating and preventing corruption, including possible where appropriate, support to holding in the context of elections.
3. Improve the legal and regulatory framework for conducting business and investment.
4. Support the implementation of the Association Agreement.

3.2.2. For each of the specific objectives the main expected results are:

For specific objective 1: Facilitate access of citizens to public services, particularly of women, youth and disabled citizens

- Child Protection Committees and Sub-Committees as per Child Law 2006 are in place and functioning and protection services by Care Centers for Children are improved.
- The legislative and regulatory framework to ensure service delivery to the most vulnerable, including women, children and disabled is reformed.
- Increased numbers of women are provided with ID cards.
- Mechanisms to address citizen's concerns on public services and access to these services are strengthened.

For specific objective 2: Cooperate in combating and preventing corruption:

- The National anti-corruption strategy (foreseen in Art 218 of the 2014 Constitution) is finalised and its implementation is supported.
- Institution building measures are implemented in support of selected institutions, such as for example the National Committee for Combating Corruption (NCCC), the prosecutor's office, the central audit agency, economic courts or other bodies involved in public finances management.

For specific objective 3: Improve the legal and regulatory framework for conducting business and investment:

- Business enabling environment is improved and is more conducive to business creation and economic development.
- Investment climate is improved through the creation of a business friendly institutional and regulatory environment.
- Capacity of the private sector, in particular SMEs, to compete at local and international markets enhanced.

For specific objective 4: Support the implementation of the Association Agreement:

- Competencies of Egyptian administrations and upgraded legislative and regulatory reforms in agreed-upon priorities areas through relevant approximations with the EU legislation and regulation (acquis communautaire) are enhanced and improved.
- Public administrations responsible for the service delivery to citizens in agreed-upon priorities areas are reformed and modernised.
- Possibly, capacity of Egyptian authorities to manage mobility and migration related issues.

3.2.3. For each result, the main indicators are:

See attachment 1.

3.2.4. Donor coordination and policy dialogue

The main donor coordination in the governance sector is done through the Development Partners Group (DPG), with specific sub-groups on Democratic Governance and fight against

corruption. Both sub-groups are co-chaired by the EU Delegation (EUD) with others partners and have significant participation. In addition close contacts are in place with UN specialised agencies on women and child rights (United Nations Children Fund (UNICEF), World Food Programme (WFP)) and fight against corruption (United Nations Office on Drugs and Crime (UNODC)). Important links have been established with WB with regard to legislative reforms and monitoring the constitutional framework. A close policy dialogue is ongoing with relevant line Ministries as well as NCCM, NCW and NCHR in light of their role as agents of democratic change. The EU has also established close links to Member States development agencies active in the field of service delivery to the most vulnerable.

As regards the dialogue on business environment, the EU Delegation jointly with EU MS Embassies and Agencies is in regular dialogue with relevant government authorities, local think tanks and business associations on issues relevant to business and investment climate. Donor co-ordination in this field is led by the DPG sub-group on Micro, Small and Medium Enterprises development, chaired by the German Embassy and United States Agency for International Development (USAID). The EUD is an active member of the group.

#### 3.2.5. The Government's financial and policy commitments

The new Constitution adopted in January 2014 establishes the Government's commitment to adopt the necessary and legal and regulatory reforms to ensure the service delivery to the most vulnerable, including women, children and disabled citizens. The Egyptian Child Law of 2006 establishes Child Protection Committees. The Ombudsman Offices of NCHR and NCW have so far been established and were functioning mainly due to donor funding, however, continued financial support from donors paired with increased policy dialogue aims at securing Government funding in the future.

Throughout the political transition, Egypt has continued to recognise that the business and investment climate is crucial to realising Egypt's potential and has remained committed to a process of reforms. However, in practise no major reforms have been undertaken over the past 2 – 3 years. The Interim Government's policy agenda has placed business and investment climate reforms at a centre stage. A number of new legislative initiatives, such as a micro finance law, are in making and a stock-take of regulations affecting business climate has commenced. Nevertheless, the capacity of the Government to design regulations that are fit for purpose as well as to implement and enforce such regulations remains weak.

The Government shows strong commitment to continue the implementation of Twinings and TAIEX activities under the Support to the Association Agreement and Implementation of the Action Plan Programme (SAAP). Peer to peer cooperation with European public administrations has proven to be very much accepted by the Government.

#### 3.2.6 Environmental assessment

An environmental assessment will be carried out where needed at the time of project design.

#### 3.2.7. The overall risk assessment of the sector intervention

The current political instability of the country and the Egyptian Government poses a high level of risk regarding the implementation of the EU response as defined above. Despite the continued implementation of the Roadmap and the Elections to be held during 2014, the level of commitment of the future elected Government to prioritize strengthening of public services to the vulnerable segments of the society and anti-corruption measures is so far difficult to assess. Since corruption is a symptom of a dysfunctional allocation of resources within the

public system, fight against corruption requires a strong commitment of Egyptian authorities to reform the country's governance system, notably its public finances management. A risk relates to the commitment of the Government to finalise and implement the national anti-corruption strategy and to reform the relevant institutions.

Besides the unclear political environment also the social and cultural environment is not necessarily conducive to increased focus of the Government on access of vulnerable women, children, and disabled to adequate services, such as protection and complaint services. Current communication with key players at NCCM and other relevant institutions indicate however a clear commitment to the cause, though fiscal constraints limit the state's ability to integrate proposed actions into its budget.

While the interim Government has expressed strong commitment to business and investment climate related reforms, only limited progress has been made in absence of a Parliament. The policy priorities of the new elected Government as well as the Parliament will only be known later in 2014, and there is a moderate risk that business climate issues will fall off their priority agenda. Strong non-state actor participation in public policy dialogue will however mitigate this risk.

### **3.3 Improved quality of life and the environment**

#### 3.3.1 The following overall and specific objectives will be pursued:

The **overall objective** is to improve the quality of life and the environment by facilitating the access to sanitation and other basic environmental services and by providing clean energy.

**Specific objectives** are:

1. Improving waste-water management and citizens' access to sanitation and solid waste management, including participatory measures at local level and income generating activities.
2. Improving access to clean energy.

#### 3.3.2. For each of the specific objectives the main expected results are:

For specific objective 1: Improving waste-water management (WWM) and citizens' access to sanitation, including participatory measures at local level and income generating activities:

- Relevant stakeholders have increased capacities to establish and operate a demand-oriented, sustainable and climate-friendly WWM and Solid Waste Management (SWM) systems.
- Access to sanitation services at the level of rural areas is increased improving quality of life of citizens.
- The rehabilitation, extension and management of the WWM and SWM are oriented to maximise employment and related income generating activities.

For specific objective 2: Improving access to clean energy:

- The use of technologies relying on renewable energy sources is increased.
- Efficiency measures to save energy are in place.

- Household awareness of energy efficiency is enhanced and their access to natural gas is increased.

3.3.3. For each result, the main indicators are:

See attachment 1.

3.3.4. Donor coordination and policy dialogue are:

Main donor coordination in the SWM sector is done through the Development Partners Group (DPG), with a specific sub group on environment and energy. Close links are maintained with KfW, GIZ with a view to launch a joint support to National SWM Programme (NSWMP). The NSWMP, in its function to catalyse necessary policy, legal and institutional reform is important to establishing the framework for future coordinated interventions of different development partners. Policy dialogue is conducted regularly with the Minister for State of Environment and Egyptian Environmental Affairs Agency.

In April 2013, a decree was issued to establish an Integrated Solid Waste Management Sector (ISWMS) under the authority of the Ministry of State for Environmental Affairs (MSEA). The ISWMS will constitute the nucleus of a future General Executive Agency for Integrated Solid Waste Management (ESWA). Once established, ESWA will take over the role of the national centre for solid waste management in Egypt from ISWMS.

Main donor coordination in the wastewater sector is as well done through the DPG, with a specific sub-DPG on Water, in which wastewater is included. The sub-DPG is co-chaired by the EU Delegation and KfW. In addition close contacts are in place with key donors active in the water sector namely KfW, AFD, EIB, the WB and Swiss Development Cooperation. Policy dialogue with the two water-related ministries namely Ministry of Water Resources and Irrigation and Ministry of Water and Wastewater Utilities together with the Ministry of Finance has been on-going since 2005 and continues through the on-going EU Water Sector Reform Programme.

The Sub – DPG on Energy and Environment is co-chaired by KfW and AFD. An important and active policy dialogue is generated in the framework of this sub DPG with the Ministries of Electricity and Energy, Petroleum and Environment. The EU is already co-funding a number of projects in the field of energy and renewables with KfW, AFD and EIB such as the Gabal El Zeit Wind Farm Projects, which creates de facto close ties and exchanges between the different European donors.

3.3.5. The Government's financial and policy commitments:

The Government of Egypt has expressed his will:

- To continue the SWM related Inter-Ministerial Committee (IMC). It comprises representatives from all key Ministries playing a role in the waste management sector, and is preparing a proposal for the future institutional arrangements to govern the waste management sector across Egypt.
- To establish the ESWA. A draft Decree constitutes ESWA as a Public Agency with independent legal character, and locates the institution within the Ministry of State for Environment. ESWA shall be provided with a comprehensive range of functions to enable it to become the national centre for solid waste management.
- To continue compiling statistics (in the water and waste water sector) via the UK inspired Annual Information Returns (AIRs) system, carried out by the Egyptian Water and Wastewater Regulatory Agency.



- To continue to increase the costs recovery of waste water services with numerous measures, including tariff increases. With this aim, the Egyptian Cabinet of Ministers recently approved plans for a Financial Reform and Tariff restructure which should lead to a gradual increase in water and wastewater tariffs.
- To continue the reform of the Egyptian Energy Sector in line with the 2009 Memorandum of Understanding for Strategic Partnership in Energy signed between the EU and Egypt and the successful implementation of the Energy Sector Policy Support Programme. The reforms of the energy sector target an improved governance and structure of the sector, an improved financial sustainability as well as the promotion of renewable energies, energy efficiency and other sources of clean energy.

### 3.3.6. Environmental assessment

For WWM as well as for rural sanitation infrastructure, EIAs will be carried out according to Egyptian law and EU regulations.

### 3.3.7. The overall risk assessment of the sector intervention

The government's current crisis management mode may distract from mid to long term priorities. Relevant policy and implementation decisions might not be taken. There also exists a risk of limited internal financial resources for reforms.

Other risks include the weak capacity in water sector that might prevent swift progress, as well as the lack of decisions related to subsidies reduction against a possible context of social unrest, which might hinder efforts aiming at water tariff increases and expanding renewable energies and energy efficiency measures.

### **Attachments**

1. Sector of intervention framework and performance.
2. Indicative timetable for commitment of funds.

## Attachment 1: Sector of intervention framework and performance

### Sector 1: Poverty Alleviation, Local Socio-Economic Development and Social Protection

<b>Specific objective 1: To enhance the delivery of basic services, notably to combat illiteracy and improve access to education, in particular at community level.</b>		
<b>Expected Results</b>	<b>Indicators</b>	<b>Means of verification</b>
a) Community based schools are established and teacher's capacity strengthened to provide quality basic education.	a1) Number of community schools in targeted areas. Baseline (B): 0 (2014); Target (T): 1,200 (2019). a2) Percentage of teachers in the newly established community schools who have attended at least one training session financed by the EU. B: 0 (2014); T: 80% (2019).	- Ministry of Education Statistics. - UNICEF Reporting Documents, analysis and studies.
b) Access of disabled children to basic education has improved in target communities.	b1) Number of mainstream public schools equipped to provide education to disabled children. B: 90 (2014); T: 290 (2019). b2) Percentage of disabled children attending primary education within the targeted population. B/T will be introduced in the Action documents at the latest.	- Ministry of Health Statistics. - Ministry of Education Statistics. - UNICEF Reporting Documents, analysis and studies.
<b>Specific objective 2: To support socio-economic development at the local level targeting those most in need through generating and strengthening sustainable economic activities</b>		
<b>Expected Results</b>	<b>Indicators</b>	<b>Means of verification</b>
a) The capacity of the targeted communities (authorities and stakeholders) to identify and plan sustainable integrated economic activities is enhanced.	a1) Number of initiatives (e.g. training sessions, guidance documents, etc.) implemented to enhance the capacities of targeted communities to identify and plan sustainable integrated economic activities. B/T will be introduced in the Action documents at the latest.	- Governorate Statistics. - Reports from Local Development Organisations. - Project Reporting Documents.
b) Sustainable economic activities with a focus on strengthening social inclusion and job creation are	b1) Number of social inclusion/job creation projects identified at the local level financed by EU	- Governorate Statistics. - Reports from Local

financed.	B/T will be introduced in the Action documents at the latest. b2) Number of direct beneficiaries of the supported activities mentioned in b1. B/T will be introduced in the Action documents at the latest.	Development Organisations. - Project Reporting Documents.
<b>Specific objective 3: To increase employment and improve entrepreneurship and self-employment, with a focus on youth and women.</b>		
<b>Expected Results</b>	<b>Indicators</b>	<b>Means of verification</b>
a) The skillset and employability of the targeted population are improved.	a1) Number of policies and plans to address unemployment, with a focus on youth and women, adopted by the authorities. B/T will be introduced in the Action documents at the latest.	- Governorate statistics. - Reports from Local Development Organisations. - Project Reporting Documents.
b) The entrepreneurship culture in the targeted areas is strengthened.	b1) Number of entrepreneurship training/service packages with a specific focus on youth and women designed and delivered. B/T will be introduced in the Action documents at the latest.	- Reports from Local Development Organisations. - Project Reporting Documents.
<b>Specific objective 4: To improve social protection systems and instruments</b>		
<b>Expected Results</b>	<b>Indicators</b>	<b>Means of verification</b>
a) Domestic co-ordination mechanisms for social protection are put in place, safety net mechanisms are rationalized, and targeting improved.	a1) Number of measures prepared to reform social protection activities / social safety nets: national framework for social protection in place (examples: Economic Social Justice Unit at MoF in place and effectively functioning, inter-ministerial Social Justice Committee set up, cash transfer system elaborated...). B/T will be introduced in the Action documents at the latest.	- National legislation. - CAPMAS statistics. - Ministry of Finance documents. - Ministry of Social Solidarity documents.
b) Collaboration between the government and civil society working on social protection at the	b1) Number of social protection activities (e.g. joint implementation of social safety net programmes, training	- Governorate statistics. - Reports from Local

ground-level is strengthened.	activities, cooperation documents, etc.) implemented in partnership between local authorities and civil society. B/T will be introduced in the Action documents at the latest.	Development Organisations. - Project Reporting Documents.
c) Access to public health and other basic services is improved.	c1) Number of persons having access to basic services (e.g. new cases at health centres, clinics, day centres, community health centres, or with mobile clinics). B/T will be introduced in the Action documents at the latest.	- CAPMAS statistics. - Governorate statistics. - Reports from Local Development Organisations. - Project Reporting Documents.

## Sector 2 Governance, Transparency and business environment

### Specific objective 1: Facilitate access of citizens to public services, particularly of women, youth and disabled citizens

Expected Results	Indicators	Means of verification
a) Child Protection Committees and Sub-Committees as per Child Law 2006 are in place and functioning and protection services by Care Centers for Children are improved.	a1) Number of reform measures adopted to put in place Child Protection Committees and Sub-Committees as per Child Law 2006. B/T will be introduced in the Action documents at the latest. a2) Number of children supported through CPCs in line with established CPC mechanism B/T will be introduced in the Action documents at the latest.	- Report by CPC Secretariat - NCCM Annual Report - Ministerial Decrees
b) Increased numbers of women are provided with ID cards.	b1) Number of ID cards provided to women. B/T will be introduced in the Action documents at the latest.	- Statistics of the civic registry office
c) Mechanisms to address citizen's concerns on	c1) Number of complaints filed and treated with Ombudsman Offices, such as NCW and NCHR	- Annual Reports of NCW and

public services and access to these services are strengthened.	B/T will be introduced in the Action documents at the latest.	NCHR - NCW Ombudsman Office Annual Report - NCHR Ombudsman office Annual Report - Internal database of Ombudsman Offices - Official press releases
<b>Specific objective 2: Cooperate in combating and preventing corruption</b>		
<b>Expected Results</b>	<b>Indicators</b>	<b>Means of verification</b>
a) The national anti-corruption strategy is finalised and its implementation is supported.	a1) Status of National anti-corruption strategy Milestone 1: Strategy adopted and Milestone 2: measures of the strategy implemented. B/T will be introduced in the Action documents at the latest.	- National anti-corruption strategy - NCCCC Annual Report
b) Institution building measures are implemented in support of selected institutions, such as for example the National Committee for Coordination of Combating Corruption (NCCCC), the prosecutor's office, the central audit agency or economic courts.	b1) Number of institutional reform measures to combat corruption implemented. B/T will be introduced in the Action documents at the latest.	- NCCCC Annual Reports - Annual Reports of targeted institutions - Statistics of Central Agency for Organisation and Administration (CAOA)

**Sector 3: Improved quality of life and the environment**

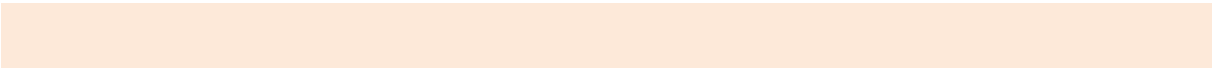
**Specific objective 1: Improving waste-water management (WWM) and citizens' access to sanitation and other basic environmental services, including participatory measures at local level and income generating activities.**

Expected Results	Indicators	Means of verification
<p>a) Relevant stakeholders have increased capacities to establish and operate a demand-oriented, sustainable and climate-friendly WWM and Solid Waste Management (SWM) systems</p>	<p>a1) Number of training sessions provided and initiatives implemented to increase capacities in the WWM and SWM sectors. (e.g. on the job training, provision of targeted TA, seminars, workshops) B/T will be introduced in the Action documents at the latest.</p> <p>a2) Relevant sector strategies are drafted and endorsed by the Government of Egypt. B/T will be introduced in the Action documents at the latest.</p>	<ul style="list-style-type: none"> <li>- National Statistics of Central Agency for Public Mobilization and Statistics (CAPMAS)</li> <li>- Government official communication.</li> <li>- Projects Implementation Reports</li> </ul>
<p>b) Access to sanitation services at the level of rural areas is increased improving quality of life of citizens.</p>	<p>b1) number of persons with access to improved sanitation facilities. B/T will be introduced in the Action documents at the latest.</p>	<ul style="list-style-type: none"> <li>- National Statistics of Central Agency for Public Mobilization and Statistics (CAPMAS)</li> <li>- Annual Published Report of the Egyptian Water and Wastewater Regulatory Agency (EWRA)</li> <li>- National health statistics</li> <li>- WHO country reports</li> </ul>
<p>c) The rehabilitation, extension and management of the WWM and SWM are oriented to maximise employment and related income generating activities.</p>	<p>c1) Number of net of direct temporary and permanent jobs created in the WWM and SWM sectors. B/T will be introduced in the Action</p>	<ul style="list-style-type: none"> <li>- National Statistics of Central Agency for Public Mobilization and Statistics</li> </ul>

	documents at the latest.  C2) Unemployment rate in the areas of intervention  B/T will be introduced in the Action documents at the latest.	(CAPMAS)  - Annual Published Report of the Egyptian Water and Wastewater Regulatory Agency (EWRA)  - Projects Implementation Reports
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**Specific objective 2: Improving Access to Clean Energy.**

<b>Expected Results</b>	<b>Indicators</b>	<b>Means of verification</b>
a) The use of technologies relying on renewable energy sources is increased	a1) Number of additional Megawatts in the national grid produced from renewable sources.  B/T will be introduced in the Action documents at the latest.	Ministry of electricity and renewable energy reports
b) Efficiency measures to save energy are in place	b1) Number of Megawatts saved based on energy efficiency policy measures.  B/T will be introduced in the Action documents at the latest.	Energy Efficiency Unit (Information and Decision Support Center, Cabinet of the Prime Minister Reports.
c) Households awareness of efficiency and access to natural gas is increased	c1) Number of Households connected to national Gas Grid.  C2) Number of campaigns aiming energy efficiency and targeting the consumer/households.  B/T will be introduced in the Action documents at the latest.	Ministry of petroleum and EGAS reports.



## Attachment 2. Indicative timetable for commitments of funds

	<b>Indicative allocation</b>	<b>2014*</b>	<b>2015*</b>
<b>SECTOR OF INTERVENTION I – Poverty Alleviation, Local Socio-Economic Development and Social Protection</b>	<b>40%</b>		
Support to access to education		X	
Local Development			X
Enhancing Social Protection			X
<b>SECTOR OF INTERVENTION II – Governance, Transparency and Business Environment</b>	<b>20%</b>		
Child protection		X	
Business Environment support			X
Governance and Transparency			X
Complementary support for capacity development and to civil society (mainstreamed in the 3 sectors)			X
<b>SECTOR OF INTERVENTION III – Quality of Life and Environment</b>	<b>40%</b>		
Kafr El Sheikh Waste Water expansion		X	
Household Natural Gas Connection project		X	
<b>Total Commitments</b>	<b>100%</b>		

\*Breakdown by year is useful for planning, but not required