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Programming of the European Neighbourhood Instrument (ENI) - 2017-2020

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**Single Support Framework for EU support to Egypt
(2017-2020)**

Introduction

Egypt is struggling to make headway, admittedly in a very challenging environment marked by deteriorating socio-economic situation, terrorism and regional crises, on a complex political transition towards democracy initiated with the revolution and ousting of President Mubarak in 2011. It is significant that a new Constitution, which includes important human rights provisions, was approved in 2014, and that presidential and parliamentary elections were held in 2014 and 2015. However, this transition process has not been without challenges and setbacks. The devastating church bombings on Palm Sunday claimed by the Islamic State in April 2017 were followed by the reintroduction of a country-wide state of emergency, granting the authorities additional powers to arrest, detain and sentence suspects with almost no judicial review, as well as putting further restrictions on a number of fundamental freedoms. The reintroduction of the state of emergency, along with the further closing down of civil society space, poor support for human rights and weakening of judicial independence have been significant setbacks for the democratic transition.

The institutional steps included in the political roadmap announced by then Minister of Defence General Abdel Fattah Al Sisi on 3 July 2013, when President Morsi was ousted from power following massive demonstrations, have been implemented. A new Constitution was approved by referendum, by 98,1% of votes with a 38% turnout, in January 2014. Al Sisi was elected as President in May 2014, with 97% of the votes and 47% turnout, followed by parliamentary elections held in October-December 2015 with the reportedly lowest voter turnout of any election in Egypt's recent history (28.3%). Of the record 596 seats in the new Parliament, only 120 - barely one-fifth - are apportioned to party lists, with the rest reserved to individual candidates, 28 of whom are appointed directly by President Al Sisi himself. The 2014 Constitution *de jure* limits the powers of the president in a semi-presidential system, notably through term limits and parliamentary checks, which is a first in Egyptian Constitutional history. The Constitution bolsters several rights and freedoms with robust provisions (such as prohibition of all forms of torture, protection from unlawful search and arrest, and freedom of opinion and expression in any form), including those of women and, overall, it enhances gender equality. However, the recourse to military trials of civilians for attacks on military personnel or property remains, and the document leaves much to be determined by ordinary legislation. A number of the human rights provisions are far from being implemented, and/or have been allegedly breached by the passing of laws arguably not compliant with the Constitution or, in practice, by the authorities.

The Government, with its Protest Law, harshly restricts dissent and assembly by activists from across the political spectrum, and mass arrests and disproportionate sentences, including mass death sentences, often following dubious charges and proceedings, allegations of enforced disappearances, torture and extra-judicial killings continue to raise serious concerns. Dozens of civil society organizations are facing closure, and even the most significant human rights organisations are charged with “receipt of illegal foreign funding” and “working without legal permission” and may face prosecution. Travel bans have been issued to many prominent rights activists in connection with foreign funding cases, and the assets of human rights activists and organisations were frozen. A highly restrictive new Non-Governmental Organisation (NGO) law was enacted in May 2017, curtailing the space for civil society in general and almost putting an end to the work of human rights organisations in particular. The number of imprisoned journalists is alarmingly high. More than 21 media outlets were blocked without pre-notification, including at least four of them fully registered in Egypt.

The economic situation remains difficult, because of structural challenges to the economy exacerbated by the events since January 2011. Growth has been below Egypt's potential since 2011,

even if posting an upwards trend in Fiscal Year (FY) 16/17 (quarterly GDP growth rate has risen from 3.4% to 3.8% to 3.9%), it is still insufficient to maintain living standards, given Egypt's demographic growth. This has led the government to adopt an economic reform programme to improve Egypt's public finances, balance of payments situation and rekindle growth. Between September and November 2016, authorities introduced a new value-added tax (VAT), floated the currency, and raised the price of subsidised fuel, as prior actions towards securing a USD 12 billion International Monetary Fund (IMF) loan in support of the reform program. The World Bank, the African Development Bank, China, France, the United Kingdom, Germany and others also contributed to the financing of the ambitious program.

1. EU Response

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

The stabilisation and resilience building of neighbouring countries, particularly by boosting economic development are the EU's main political priorities outlined in the European Neighbourhood Policy (ENP) review of 2015 and in the Global Strategy for the European Union's Foreign and Security policy (Global Strategy) of 2016¹. These are reflected in this programming document for the period 2017-2020 through increased focus on governance, social and economic development and energy, which are among the priorities for cooperation as mentioned in the ENP Review. In this context the main strategic objective for the EU's relationship with Egypt is to contribute to the stability and prosperity of the country by meeting the aspiration of its people, including women and youth, particularly with regard to ensuring social justice, decent job opportunities, economic prosperity and substantially improved living conditions. This will be pursued through a well-calibrated engagement combining dialogue and support to political, economic and social reforms.

The EU stands ready to continue supporting Egypt in the implementation of the Association Agreement which was signed in 2001 and entered into force in 2004. The EU and its Member States consider Egypt as a key partner to promote peace, prosperity and stability in the Southern Neighbourhood region. Apart from addressing economic and social challenges in Egypt, important work remains to be done also on the political track and on the path towards democracy, which are key to sustainable stability and security. This is a principal point of the European Neighbourhood Policy (ENP) and also the central message of the Global Strategy. Accordingly, the aim is to support the country's democratic consolidation as well as sustainable and inclusive development.

The resumption of the Association Agreement structures in 2015, through the holding of all the subcommittees between 2015 and 2016 and of the Association Committee in May 2016, allowed for increased dialogue and for joint identification of areas of potential cooperation. Following a negotiation process of the Partnership Priorities (PPs) between February and December 2016, the EU's relationship with Egypt has gained new momentum through the agreement at the Ministerial Association Council of 25 July on the EU-Egypt PPs which provide the overarching political framework for a stronger and more strategic EU-Egypt relationship, in the context of the revised ENP. These Partnership Priorities include support to Egypt's sustainable economic and social development, reinforcement of the partnership in foreign policy, and cooperation in the stabilisation process, notably in the fields of good governance, human rights, security and migration. They also include important commitments and references to democracy, the rule of law, respect for human rights, fundamental freedoms and international obligations and the acknowledgement the key role of civil society. The Ministerial Association Council is expected to formally adopt the jointly agreed PPs. These Partnership Priorities are the reference for setting the key priorities for EU

¹ http://europa.eu/globalstrategy/sites/globalstrategy/files/regions/files/eugs_review_web_0.pdf

assistance and are reflected in the bilateral assistance programme under the ENP, the Single Support Framework (SSF) for the period 2017 to 2020.

Joint Programming

The EU programming for the period 2017-2020 aims at maximising the impact of EU action by ensuring synergies between the EU and its Member States (including agencies and development banks), both in terms of programming and implementation. In line with the Council Conclusions of 12 May 2016 on Joint Programming (JP), Member States have been involved from the very first steps of the programming process. A roadmap was agreed in 2015 and a particular milestone was the endorsement by EU Heads of Mission of the Joint EU Analysis of Egypt's political, social, economic and planning context in September 2016. Though the SSF is not the product of JP, the momentum created around its drafting may lead to building a collective EU response to Egypt development objectives and challenges in a near future.

1.2. Choice of sectors of intervention

The sectors of intervention are directly derived from the EU-Egypt PPs, which define common challenges and areas of joint interests and aim to guarantee long-term stability in line with the revised ENP, as well as with Egypt's Economic Reform Programme, on the basis of which Egypt and the IMF concluded the three-year Extended Fund Facility in November 2016. They are aligned with key strategic government planning documents, namely Egypt's "Sustainable Development Strategy – Vision 2030" and related sector strategies outlining the development objectives and plans for the coming years.

The current SSF builds upon the achievements and lessons learned from the implementation of the previous SSF 2014-2016^[1]. However, and in line with the PPs, it emphasises the creation of a more conducive environment for inclusive growth and job creation, and includes a specific sector of intervention for social development and social protection. Support to democratic governance remains as a priority area and a specific financial provision in support for capacity development and civil society is now foreseen. The preliminary findings of the Gender Action Plan II (GAP II) for Egypt for the period 2016-2020, have been taken into due account and a rights-based approach will be pursued in all interventions, in line with the new European Consensus on Development. Also in line with the consensus and the revised ENP, interventions will take advantage of the potential of digital technologies to leverage impact. The "fewer and bigger approach", concentrating EU assistance on a few strategic sectors through a limited number of major programmes, was initiated under the previous SSF and will be pursued with a view to maximise impact and limit transaction costs. The following three sectors of intervention have been identified for the period 2017-2020.

Sector 1: Economic modernisation, energy sustainability and environment (indicative 40% of total budget)

Economic growth rate in the recent years has been insufficient amid the country's pronounced demographic expansion and job losses in high employment sectors like tourism and construction. Important macroeconomic imbalances, including fiscal and current account deficits negatively affect the overall economic conditions for companies and job creation. Private sector development has also been hindered by the skewed economic structure, dominated by few large, old and politically connected firms, with on the other side very small, largely informal firms with low productivity, as well as the strong presence of state-owned enterprises and the military in the country's economy.

^[1] Sectors of intervention: i. Governance, transparency and business environment; ii. Poverty alleviation, local socio-economic development and social protection, and; iii. Quality of life and environment.

Enhancing the competitiveness of the Egyptian economy and its trade and investment potentials, creating decent job opportunities, particularly for youth and women, reforming energy subsidies, promoting renewable energy and increasing efficiency in using energy resources to meet national demand, both on the short and long term, are particularly important elements for Egypt's sustainable development and stability. An Integrated Sustainable Energy Strategy and several short-to-medium-term action plans have been developed by the Government, with EU support, aiming at ensuring energy security. Egypt's natural resources and environment are suffering from increasing demographic pressure, the effects of climate change and high levels of pollution. This not only affects the population's health and quality of life but also the country's overall private sector and economic development. A deteriorating environment and rising pressure on natural resources, including land and water, also contribute to internal and international migration, and increase the risk of conflict. In this context, the lack of integrated and well-coordinated policies to foster sustainable local development – in rural, as well as in underserved urban, areas and in coastal areas – needs to be addressed.

Sector 2: Social development and social protection (indicative 40% of total budget)

According to the Egyptian Central Agency for Public Mobilization and Statistics (CAPMAS), nearly half of the Egyptian population is either poor or at risk of slipping into poverty. Poverty rose from about 17% in 2000 to 27.8% in 2015, with a further quarter of the population clustered just above the poverty line. Official unemployment figures went from 9.6% in 2010 to about 13% in 2015, with 70% of unemployed aged 18-29, meanwhile the informal sector continued to grow (it is now estimated at two thirds of the size of the formal economy). Within the country, regional disparities are significant, with social and economic indicators scoring persistently lower in southern governorates (Upper Egypt), particularly in rural areas; the gender gap also continues to impact on access to education and labour force participation. In addition, the macroeconomic situation has constrained public spending in the social sectors, although the 2014 Constitution foresees a focus on these sectors with e.g. public spending targets of no less than 4% of GDP in education, 2% in higher education, and 3% in health. The existing social assistance system has not contributed to reducing social disparities and unequal distribution of resources. Improved access to basic services, including to education that provides skills matching labour market needs, is required; a particular attention should be given to people with disabilities.

The flotation of the currency, which aimed to address the pressures of a balance of payments, has led to an over 50% depreciation of the currency and subsequently, to high levels of inflation. The IMF programme of November 2016 (USD 12 billion and the largest in the region) is aimed at helping Egypt restore macroeconomic stability and promote inclusive growth. It should also help it carry on with its economic reform programme, including continuing fiscal consolidation and strengthening the investment climate. However, measures such as further cuts in energy subsidies, or an additional VAT increment, coupled with sustained inflation, are expected to further impact on the situation of the vulnerable. To mitigate negative effects, the Government intends to set aside part of the budgetary savings realised from fiscal consolidation efforts for social investments, such as expanding education and health services, and better targeting of social protection programmes. The depreciation, however, has meant these savings have been more limited than anticipated (the energy subsidy bill has actually increased in the current FY). Egypt's pronounced population growth represents a challenge to both its sustainable development and stability.

Sector 3: Governance, enhancing stability and modern democratic state (indicative 10% of total budget)

While Egypt's 2013 political "roadmap" towards democracy has been formally implemented, a

number of important socioeconomic challenges, regarding governance, poverty, social and economic inequality, and lack of opportunity for the young, remain to be addressed as planned in various Government strategies.

The new Constitution that entered into force in January 2014 includes robust provisions on human rights and fundamental freedoms; however, many of these provisions are still to be translated into law. The efficiency and transparency challenges, in particular as regards the public administration system and the law enforcement institutions, continue to undermine the latter's capacity to drive reform and design and implement improved public policies and services. Given Egypt's path of fiscal consolidation and the envisaged shift in spending away from subsidies to other social and investment budget items; particular attention will need to be paid to creating sufficient transparency on the budget process through strengthening of the budget oversight mechanisms; and to ensuring that the appropriate Public Finance Management practices are in place to accompany this process.

Complementary support for capacity development and civil society (indicative 10% of total budget)

Building on successful experiences and Egyptian request for broader support, capacity-building measures will be proposed to support Egypt's public administration reform, enhance its regulatory framework, accompany progress towards e-governance and support the implementation of sector strategies benefiting from European expertise and promoting peer exchanges with European Member States' specialised entities or administrations. In order to reinforce the role of Egypt's civil society organisations (CSO), social partners and non-state actors in the country's economic, political and social development process, a specific financial provision for support to civil society is foreseen. Through this provision, CSO engagement will be systematically facilitated, among others, in the policy/sector-wide dialogues in all sectors, capacity building and service delivery. Some complementary and more specifically targeted support to civil society (local authorities, democracy and human rights) shall be provided under other EU financial instruments.

2. Financial overview

The indicative allocation for 2014-2020 is EUR 756,000,000 - EUR 924,000,000.

The indicative allocation for 2017-2020 is EUR 432,000,000 - EUR 528,000,000.

The indicative breakdown by sector is the following:

Sector of Intervention	<i>Indicative amounts</i>	<i>% of total allocations</i>
Sector 1: Economic modernisation, energy and environment	<i>EUR 172.8 million - EUR 211.2 million</i>	<i>40%</i>
Sector 2: Social development and social protection	<i>EUR 172.8 million - EUR 211.2 million</i>	<i>40%</i>
Sector 3: Governance, enhancing stability and modern democratic state	<i>EUR 43.2 million - EUR 52.8 million</i>	<i>10%</i>
Complementary support for capacity development and civil society	<i>EUR 43.2 million - EUR 52.8 million</i>	<i>10%</i>

Egypt may benefit from supplementary allocations provided under the umbrella programmes. Such supplementary allocations will be granted on the basis of progress towards deep and sustainable democracy and implementation of agreed reform objectives contributing to the attainment of that goal.

Egypt is also eligible for support under a number of other EU instruments, such as the Instrument Contributing to Stability and Peace², EU Humanitarian Aid³, CFSP measures and CSDP missions and operations, the European Instrument for Democracy and Human Rights⁴, the Partnership Instrument⁵, the Instrument for Nuclear Safety Cooperation⁶, Macro-Financial Assistance⁷, Development Co-operation Instrument thematic programmes⁸ and external actions under EU internal programmes e.g. research and innovation (Horizon 2020)⁹, energy, transport, education and youth (Erasmus+)¹⁰ and culture (Creative Europe)¹¹. Besides, additional resources could be mobilised from the External Investment Plan to upscale or complement planned interventions.

3. EU support per sector

3.1 Economic Modernisation, energy sustainability and environment (indicative 40%)

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

The **overall objective** is to contribute to fostering Egypt's inclusive economic growth and sustainable development as drivers of stability. The **specific objectives** are: 1. to promote inclusive economic development and create decent job opportunities that respond to market demands in support of Egypt's Economic Reform Programme, and 2. to support sustainable development and a better quality of life for the population by sustainable resource management and improved access to energy, water, sanitation and waste management.

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

For specific objective 1, the following main **results** are expected:

- An enabling business environment, with sectorial policies and standards, for private sector development, trade and investment, including through Public-Private Partnerships, is supported;
- Small and Medium Enterprises (SME) development with focus on strengthening value chains and promoting innovative approaches is fostered (e.g. youth entrepreneurship and incubators, start-ups, access to micro-credit and support to Micro, Small and Medium Enterprises (MSMEs));
- Local development (in rural or underserved urban areas as well as in coastal areas) and the economic potential of green and blue economy and Egypt's cultural heritage sector are supported.

For specific objective 2, the following main **results** are expected:

- Support to Egypt's Energy Strategy 2035 provided with a particular focus on improved management of national energy resources and on further promoting renewable energy and

² http://ec.europa.eu/dgs/fpi/documents/140311_icsp_reg_230_2014_en.pdf

³ <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=URISERV%3Ar10001>

⁴ <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R0235>

⁵ http://ec.europa.eu/dgs/fpi/documents/pi_mip_annex_en.pdf

⁶ <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R0237>

⁷ https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/international-economic-relations/macro-financial-assistance-mfa-non-eu-partner-countries_en#documents

⁸ <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32014R0233>

⁹ <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32013R1291>

¹⁰ <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32013R1288>

¹¹ <http://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A32013R1295>

energy efficiency through increasing security of energy supply and sustainable energy sources;

- Water and sanitation supported, including providing potable water and sanitation to undeserved urban and rural areas, through a more efficient and integrated Water Resources Management, and the relevant national strategies adopted and implemented.
- Support to improved solid waste management provided, including through transfer of EU experience in the fields of treatment, management and disposal of waste and solid waste.
- Support to the developing and implementation of necessary policies and strategies on climate, environmental protection and strengthening biodiversity defined in particular under the Nationally Determined Contribution and Vision 2030.

3.1.3. For each result, the main **indicators** are:

See Attachment 1.

3.1.4. **Donor coordination and policy dialogue** are:

On issues relevant to business and investment climate, donor co-ordination is led by the Development Partners Group (DPG) sub-group on MSMEs development, chaired by the German Embassy and United States Agency for International Development (USAID). In local development, DPG sub-groups are active in agriculture and rural development (co-chaired by the Italian Cooperation and the Food and Agriculture Organization), and urban development (co-chaired by the GIZ and UN-Habitat). There is recurrent policy dialogue in these sectors, notably with the Ministry of Agriculture and Land Reclamation, the Ministry of Housing, Utilities and Urban Communities, and with relevant agencies such as the Agricultural Research Centre or the Informal Settlements Development Fund. In the field of culture, the EU Delegation chairs the bimonthly EU Cultural Counsellors coordination meetings. Moreover, a policy dialogue is currently starting, driven notably by the needs of the Government counterparts. Main donor coordination in the wastewater sector is also done through the DPG, with a specific sub-DPG on Water, co-chaired by the EU Delegation and Kreditanstalt für Wiederaufbau (KfW). In addition, close contacts are in place with key donors active in the water sector, namely KfW, Agence Française de Développement (AFD), European Investment Bank (EIB), the World Bank (WB) and Swiss Development Cooperation. Policy dialogue with the two water-related ministries is well established and further deepened by ongoing cooperation programmes in this area. An important and active policy dialogue with the Ministries of Electricity and Energy, Petroleum and of Environment is generated in the Sub-DPG on Energy and Environment. The EU is already co-funding a number of programmes aiming at reforming the Egyptian energy sector and investment projects in the field of clean energy and renewables with KfW, AFD, EIB and European Bank for Reconstruction and Development (EBRD), including in some cases parallel financing with the WB. This *de facto* creates close ties and exchanges between the different donors. Solid waste management (SWM) sector coordination is carried out through the sub-group on environment and energy. Coordination with KfW, GIZ and Swiss Cooperation is ensured to jointly support to the National Solid Waste Management Programme (NSWMP). Policy dialogue is conducted regularly with the Minister of Environment, the Environmental Affairs Agency, and the SWM Regulatory Agency.

Green/circular economy is a relatively new topic of development partners' engagement. So far, there are no specific fora for coordination. However, eco innovation and business development within the green economy are discussed in the DPG sub-group on MSME development and within the sub-group on environment and energy, in relation with the promotion of renewable energy and energy efficiency investments. At policy level there is scope for enhancing dialogue on green/circular economy-related topics in context of the dialogue on Egypt's climate strategy (Nationally Determined Contribution).

3.1.5. The *partner country's authorities* **financial and policy commitments** are:

The Government's "Sustainable Development Strategy - Vision 2030" puts forward a broad strategic vision regarding economic development and commits to supporting a market-driven, competitive, diversified, knowledge-based economy. Culture, energy, urban development, water, agriculture, as well as environmental policy goals have also been mainstreamed in this National Strategy.

The "Industry and Trade Development Strategy 2016 – 2020", drafted by the Ministry of Trade and Industry with the EU assistance through the Trade and Domestic Market Enhancement Programme, encompasses commitments related to business and investment climate, as well as SME development. The Strategy focuses on five pillars, i.e. industrial development; micro, small and medium enterprises; export development; upgrade of technical and vocational training; governance and institutional development. In the context of the Egypt Economic Recovery Programme, the Government of Egypt is committed to addressing macro-economic imbalances and to improving the framework conditions for productivity and competitiveness of the economy. Egypt is also advancing the implementation of its Energy Strategy and committed to continuing the reform of the Egyptian Energy Sector. One objective is to become a regional energy hub within the Eastern Mediterranean and an important energy transit country. "Egypt Vision 2030" also aims at modernising agriculture to achieve food security and improve the living standards of the rural inhabitants by making efficient use of the available resources. In this respect, the Government of Egypt launched in 2015 the National Rural Sanitation Programme (NRSP), which aims at providing universal access to sanitation in rural Egypt through investments in sanitation infrastructure. An Inter-Ministerial Committee (IMC) is steering institutional and policy arrangements to govern the solid waste management sector across Egypt. A National Solid Waste Management Regulatory Agency has been founded to become the national centre for solid waste management.

In relation to environment and climate change action, Egypt has ratified the Paris Agreement, as well as pledged a national climate action plan for its implementation, a Nationally Determined Contribution covering both climate adaptation and mitigation. Egypt has adopted a National Action Plan on Sustainable Consumption and Production, supported through EU funded SWITCH-MED programme, which acknowledges the economic potential of green economy. Financial resources are yet to be allocated to the implementation of the action plan. Egypt is also contracting party of the General Fisheries Committee for the Mediterranean (GFCM) and has subscribed to the GFCM mid-term strategy (2017-2020).

3.1.6. When needed, the appropriate type of **environmental assessment** (SEA or EIA) will be carried out¹²:

For energy, water as well as for rural sanitation infrastructure projects, Environmental and Social Impact Assessments (ESIA) will be carried out according to Egyptian law and EU regulations.

3.1.7. The overall **risk assessment** of the sector intervention is:

The deterioration of the socioeconomic and security environment could dampen the economic recovery and affect the pace of reforms by distracting the Government from mid- to long-term priorities. Relevant policy and implementation decisions might not be taken to address the necessary reforms. There also is a risk of limited internal financial resources for infrastructure development. Other risks include the weak capacity in the water sector that might prevent swift progress, and the lack of decisions related to subsidies reduction against a possible context of social unrest hindering efforts to expand renewable energies and energy efficiency measures.

¹² See guidelines (<http://capacity4dev.ec.europa.eu/public-environment-climate/documents>)

To mitigate these risks, the EU will provide continued support to economic reforms specifically addressing job creation and inclusive growth. A continuous policy dialogue will also be pursued to encourage the implementation of sector strategies relevant for the modernisation of the economy. The EU shall support, through policy dialogue and soft interventions policies, promoting efficient water management to address water scarcity, including policies that reduce the dependence on more uncertain water supply and that enhance water sector contribution to the overall economic growth.

3.2 Social development and social protection (indicative 40%)

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

The **overall objective** is to address Egypt's social and demographic challenges in line with the national population strategy and Egypt's Sustainable Development Strategy: "Vision 2030". The **specific objective** is to support Egypt's efforts to protect marginalised groups from potential negative impacts of economic reforms through social development and social protection, including support to the national population strategy.

3.2.2 For the above-mentioned specific objective, the main expected **results** are:

- Pre-university education with focus on girls (including pre-primary) supported;
- Contribution to the provision of skills and adequate accreditation standards to better match the current and future needs of the labour market (including Technical and Vocational Education and Training), especially among youth and women;
- Implementation of the national population strategy supported, focusing on population governance, effective family planning services, awareness programmes on teenagers, on mother's health and family planning, as well as on violence against women and children;
- Creation of quality jobs with focus on the most vulnerable segments of the population (such as women and youth) supported;
- Delivery and improvement of social services (such as education, health, and/or social protection) supported.

3.2.3. For each result, the main **indicators** are:

See Attachment 1.

3.2.4. **Donor coordination and policy dialogue** are:

Coordination is ensured through the DPG sub-groups on Education and Skills Development, Health, and Social Protection. Notably, the EU Delegation co-chairs with the United Nations Children's Fund (UNICEF) the very active DPG sub-group on Education and Skills Development. This varied group meets every two months on average on a pre-determined topic, and can count on the strong involvement of the Government (relevant decision-makers and technical staff from the Ministry of Education are present at each meeting). Moreover, the EU Delegation has established close links with the most active donors, agencies, and representations of EU Member States, in the domains covered by this sector of intervention, namely education (at all levels), employment, health and population, and social protection. Close coordination is particularly ensured during the identification and formulation of programmes by wide consultations, shared meetings including with relevant stakeholders, or exchange of formulation and other relevant reports and documents.

The EU Delegation also regularly holds policy dialogue with relevant line Ministries, such as the Ministries of Education; Health and Population; Higher Education and Scientific Research, and Social Solidarity. Close cooperation and information exchanges are also maintained with related

agencies and other public bodies, such as the National Authority for Quality Assurance and Accreditation in Education, the Professional Academy for Teachers, or the Social Fund for Development.

3.2.5. The *partner country's authorities* **financial and policy commitments** are:

"Egypt Vision 2030" has identified the high level of poverty, as well as the access to, and quality of, basic services (including education, health, and social protection) as main national development challenges. These challenges are further exacerbated by the extremely limited fiscal space available in a state budget dominated by the salaries of the public sector and subsidies. Given the size of the workforce, the needs, and the efficiency of the spending, this constraint is likely to remain even if the Government reaches the public spending targets mentioned in the 2014 Constitution (i.e. no less than 4% of GDP in education, 2% in higher education, and 3% in health – with a reference to further increases until reaching "international standards"). Moreover, despite two strong cuts in 2014 and 2016, the subsidy system remains disproportionately costly and ineffective in adequately targeting the most vulnerable segments of the population. Egypt's "Vision 2030" also provides the basis for a comprehensive approach to integrate population and development. The National Population Council presented the National Population Strategy for the period 2015-2020, and is currently coordinating and monitoring its implementation by line ministries. As objectives related to population growth adopted in the strategy's planning phases have not been achieved so far, the main challenge is to move from advocating the national strategy to effectively implementing it.

The Government envisages a deep and comprehensive restructuring of the social sectors, the reorganisation of the main stakeholders, and the establishment of financially sustainable insurance systems (health and social protection). Yet, to date, the adoption of some of the key legal and operational documents, such as the Universal Social Health Insurance or the revamped Education Sector Strategy, are being regularly postponed. At the same time, the Government has embarked on a thorough revamp of its social protection programmes, following a "step-by-step approach" starting with targeted and conditional social assistance. In this domain, the next – and long-awaited – step will be the adoption of a comprehensive Social Protection Strategy. The aim of this strategy should be to rationalise all existing social assistance, protection, and public employment programmes, improving their targeting, and possibly ensuring a progressive graduation of beneficiaries aimed at providing them with adequate skills and opportunities. Finally, despite the two rounds of subsidy cuts and the commitment to reallocate parts of the savings to the social sectors (and their reform), it appears unlikely that the relevant spending targets set in the 2014 Constitution will be met in the near future.

3.2.6. When needed, the appropriate type of **environmental assessment** (SEA or EIA) will be carried out:

Environmental and Social Impact Assessments (ESIA) will be carried out if necessary at the time of project design.

3.2.7. The overall **risk assessment** of the sector intervention is:

Major risks are linked to fiscal constraints limiting the state's ability to integrate proposed actions into its budget, possible continued changes of Government in some of the key social sectors, as well as limited administrative and management capacities at all levels. The inertia of the administrative procedures and systems in place could further affect the currently expressed reform efforts. Work in this sector is also highly dependent on the evolution of Egypt's policy and institutional framework and most strategies that, if available, often lack concrete and achievable action plans.

To mitigate these risks, the policy dialogue with relevant Government counterparts needs to be further strengthened in view of the identification of reform champions at the technical level and of support measures with maximum possible impact at no/low long-term fiscal cost. The above-mentioned coordination of development partners is being used in this sense as well as to build coalitions to keep the reform momentum alive in key domains pertaining to this sector of intervention. Peer-to-peer cooperation with European public administrations will also be applied wherever appropriate to widely share the experiences and know-how of EU Member States, and to further deepen the EU-Egypt partnership.

3.3 Governance, enhancing stability and modern democratic state (indicative 10%)

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

The **overall objective** is to support, in line with the 2014 Constitution, Egypt's process towards increased democratic governance, structural reform and political, social and economic stabilisation. The **specific objectives** are: 1. to support effective, accountable and participatory governance; 2. to promote and protect the values of democracy, the rule of law, human rights, fundamental freedoms and gender equality, 3. to promote a transparent and equitable fiscal system and public finance management.

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

For specific objective 1, the following main **results** are expected:

- Parliament's capacity to hold the executive to account is strengthened;
- Governance and accountability mechanisms and regulatory bodies to strengthen rule of law, combat corruption and increase the efficiency of public administration are fostered, including through exchange of experiences and best practices.

For specific objective 2, the following main **results** are expected:

- Human rights of all segments of society and persons of concern present on the Egyptian territory are promoted and protected;
- Gender equality and women empowerment are fostered.

For specific objective 3, the following main **results** are expected:

- Increased transparency and efficiency in public financial management;
- Improved revenue collection taking into consideration social justice and fiscal sustainability.

3.3.3. For each result, the main **indicators** are:

See attachment 1

3.3.4. **Donor coordination and policy dialogue** are:

Donor coordination in the governance sector is ensured through the DPG sub-group on Democratic Governance (DGG), co-chaired by the EU Delegation since 2013. It has significant participation and allows for a regular monitoring of the Constitutional framework and an exchange and consultation on legislative reforms, human rights, elections, public administration reform and others. In addition, close bilateral relations are in place with specific UN agencies (UN Women, United Nations Office on Drugs and Crime, United Nations International Children's Emergency Fund, United Nations Development Programme, United Nations Interregional Crime and Justice Research Institute) on gender equality and women empowerment, violence against women, combatting corruption, money laundering and asset management and recovery, and child rights.

Close links are also in place with USAID, a main actor in democratic governance in Egypt. A close policy dialogue is ongoing with relevant line Ministries, such as the Ministry of Justice, Ministry of Administrative Reform, the Ministry of Local Development, as well as with the relevant national councils, in light of their role as agents of democratic change. Close ties have been developed in the recent past with the Administrative Control Authority, who is leading the National Coordination Committee for Combatting Corruption (NCCCC).

The Delegation has also established close links with Member States active in the area of legislative and public administration reform, fight against corruption, human rights, support to women and child rights and access to services for the most vulnerable segments of society. The monthly meetings of the Informal Group on Human Rights are an important forum to exchange information on human rights developments and to coordinate actions, promoting human rights in Egypt. Human rights defenders, representatives from civil society, members of the National Council for Human Rights, and other relevant interlocutors are invited as guest speakers. Salient human rights issues are raised throughout the year at senior level as well as in the context of high level visits to Egypt. Meetings between the Delegation and the Human Rights and Social Affairs Division at the Ministry of Foreign Affairs take place on a regular basis, in which Delegation raises salient human rights issues and makes inquiries about cases of specific concern, including the detention of human rights defenders, the legal situation of human rights organisation under pressure and NGO legislation. After a period of five years without convening, a series of sub-committees covering Human Rights, Democracy, International and Regional Issues, Migration, Social and Consular Affairs were held in Cairo in November 2015 and January 2016. Most human rights issues and many persons of concern were mentioned by the EU, often eliciting scripted, legalistic replies by the Egyptian side, which stressed the terrorist threat as a major concern. Overall the meeting was constructive, a useful first step in discussing issues seen as very sensitive by Egypt. The bilateral policy dialogue under the new EU-Egypt Partnership Priorities should also allow to more regularly addressing and discussing all issues of interest and concern including good governance and human rights, at different levels, including through regular visits of the EU Special Representative for Human rights.

With regard to Public Finance Management (PFM) and revenue collection, there is coordination amongst relevant development agencies through the Macro-Economy/PFM Development Partners' Group; of which the EU is co-chair. This is complemented with additional contacts with IMF and other development agencies with specific activities in this domain.

3.3.5. The *partner country's authorities* **financial and policy commitments** are:

The new Constitution of January 2014 establishes the Government's commitment to adopt the necessary and legal and regulatory reforms to ensure the service delivery and access to rights also of the most vulnerable, including women, children and disabled citizens. A number of important legislations existed or have newly been passed, such as the Civil Service Law, and others have been strengthened (violence against women, FGM). However, the enforcement of these laws requires additional support. Many sector strategies have been developed and endorsed in the past years. The most important strategies are the National Strategy for Combatting Corruption, the Strategy for Combatting Violence against Women, the National FMG Abandonment Strategy, and most recently the Women Empowerment Strategy. Their implementation, however, remains limited due to a lack of sufficient budget allocations, a lack of clarity on the mandates of the concerned national entities and a lack of national capacities. The national councils can play an important role in fostering the rights of Egyptians and their access to services and justice as they advocate for increased accountability and participation; their funding, however, remains heavily dependent on donor support.

Egypt's Economic Reform Programme, backed by the Extended Financing Facility with the IMF, sets very ambitious targets on fiscal adjustment including significant foreseen increases in tax

revenues. It also envisages reforms in PFM, tax policy and tax administration to facilitate the achievement of these targets. A comprehensive tax administration reform programme is under preparation as well. The Government has not yet adopted a specific PFM Reform plan but a number of reform measures are foreseen, including some reflecting structural benchmarks under the IMF programme. Due to the deteriorating Government revenues and increasing population growth, budgetary allocations are prioritised to firstly meet citizens' needs for basic services and maintain infrastructure which has deteriorated over the past decades. Therefore, the different national councils do not have the appropriate financial and human resources to undertake their mandate. This is also evidenced in insufficient budget allocations to child protection systems, to combat FGM and violence against women, and to address the rights of disabled citizens.

3.3.6. When needed, the appropriate type of **environmental assessment** (SEA or EIA) will be carried out:

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

3.3.7. The overall **risk assessment** of the sector intervention is:

The current political situation and economic instability of the country pose a high level of risk regarding the implementation of the EU response as defined above, and so does the low level of commitment of the Government. Indeed, despite the finalisation of the political Roadmap, reform processes related to the functioning of democratic institutions and public administration are slow. The Government reluctance to reform structures and allow for genuine democratic processes puts at risk the implementation of interventions towards strengthening accountability, rule of law, human rights, access to justice and others. Recently endorsed or proposed new legislations, particularly the recently adopted NGO law, indicate limited willingness to realise the provisions of the 2014 Constitution. New strategies are usually not sufficiently operationalised, i.e. do not include an action plan. Low capacities and overlapping mandates are an important risk to the successful implementation of these strategies.

While the Government expresses a clear commitment to reduce corruption levels, its commitment and ability to reform public services and enhance the rule of law remain minimal. There are also clear fiscal constraints that limit the state's ability to integrate proposed actions into its budget. The Egyptian Reform Programme envisages a significant fiscal consolidation over the medium-term, but in principle some of the savings should be reallocated towards social spending budget lines. In addition, a significant budgetary shifting is envisaged from subsidising commodities (in particular fuel, energy) towards more efficient and targeted social programmes. This shift will be gradual, and will be complicated by the significant fiscal overhang of the public debt, and regular monitoring and expenditure reviews should take place.

To mitigate the risks, a strong policy dialogue with national entities is in place under all interventions. Specific focus will also be given to the involvement of non-state actors into the policy dialogue as to allow them to hold the Government accountable against the Constitutional provisions. Specific focus on capacity building to selected administrations and democratic institutions, such as the Parliament and the Administrative Control Authority, is envisaged to facilitate reforms. As peer-to-peer cooperation with European public administrations has proven over the past years to be very much accepted by the Government and have built an entry point for policy dialogue and instilling reform, this approach will be applied wherever appropriate aiming at providing EU MS experiences and knowhow and as such foster the EU-Egypt partnership.

4. Complementary support for capacity development and institution building and measures in favour of civil society

In addition to the three sectors of intervention, the provision of technical assistance and Twinning is foreseen in those areas where the EU is already engaged and ready to continue providing technical assistance to support ongoing reform processes. Building on successful experiences and local demand for broader support, capacity-building measures will be proposed to support Egypt's public administration reform, enhance its regulatory framework and accompany progress towards e-governance and support implementation of sector strategies, benefiting from European expertise and promoting peer exchanges with EU Member States' specialised entities or administrations. Strategic use will be made of TAIEX and Twinning as a catalyst for reforms as well as other vehicles to support the reforms and modernisation processes. Specific support for capacity development and institution building will be mainly focussing on the policy areas covered by the EU-Egypt Partnership Priorities and key EU-Egyptian policy dialogues. Where possible, they will be integrated in wider EU sector programmes. Linkages and complementarities with EU-supported research and innovation activities, in areas covered by the EU-Egypt Partnership Priorities, will also be explored. The provision of technical assistance and twinings could help to reinforce the efficiency and effectiveness of public administration systems (including strengthening official statistics), local governance and citizen participation, national capacity in public communication and media sector, private sector competitiveness, and the access and availability of improved statistical information for policy decision.

Working strategically with civil society, including social partners, throughout the programme cycle will allow fine-tuning actions to the local context, achieving a more reliable risk analysis, and subsequently more sustainability and legitimacy of EU programmes. Civil society will therefore be systematically involved and consulted in all sectors of support interventions and policy dialogue. In addition, in order to reinforce the increasingly restricted role of Egypt's CSOs, social partners and non-state actors in the country's economic, political and social development process, a specific financial provision for support to civil society is foreseen. More specifically, the interventions supported under this specific allocation will aim at promoting an enabling environment for civil society engagement in policy dialogue and governance, at promoting a structured participation of civil society in policy dialogue and governance, and at developing the capacities of civil society in terms of networking, knowledge-sharing, communication, evidence-based advocacy and monitoring. In this context is foreseen to implement specific measures aiming at strengthening the capacities and role of the Egyptian non-state actors in monitoring state reforms and the actions taken by state actors towards realising the provisions of the 2014 Constitution, such as legislative processes and strategy development. Under these specific measures, civil society will be strengthened and empowered to hold the State accountable for its commitments towards establishing a democratic state. The measures will also include a focus on establishing close relations and engaging with local authorities and fostering cooperation among non-state actors. It is additionally envisaged to implement specific schemes in support of civil society actions towards social and economic development, including those of community-based initiatives at grassroots level. Particular provisions are foreseen to allow civil society to seize windows of opportunities for interventions specifically in the field of human rights. A focus on empowering women and fostering gender equality, as well as protecting children and other vulnerable segments of the society, will be ensured.

Complementary and more specifically targeted support to civil society (local authorities, democracy and human rights) shall continue to be provided under other EU financial instruments.

Attachments

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

Attachment 1. Sector of intervention framework¹³

Sector 1: Economic Modernisation, energy sustainability and environment		
Specific objective 1: To promote inclusive economic development and create decent job opportunities in support of Egypt's Economic Reform Programme.		
<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
a) An enabling business environment, with sectorial policies and standards, for private sector development, trade and investment, including through Public-Private Partnerships, is supported;	a1) Doing Business Ranking a2) SBA Policy Index a3) Annual inflow of FDI in USD terms a4) Egypt's Trade balance (with the EU and rest of the world)	World Bank EU/ OECD General Authority for Investment and Free Zones (GAFI) and Central Bank of Egypt (CBE) Data Government of Egypt and CBE data
b) SME development with focus on strengthening value chains and promoting innovative approaches is fostered (e.g. youth entrepreneurship and incubators, start-ups, access to micro-credit and support to MSMEs).	b1) % of GDP generated by SMEs b2) % of new jobs created by SMEs	Central Agency for Public Mobilization and Statistics (CAPMAS) economic data Enterprise level surveys
c) Local development (in rural or underserved urban areas as well as in coastal areas) and the economic potential of green and blue economy and Egypt's cultural heritage sector are supported.	c1) No. of rural households increasing income (indicatively, in Fayoum, Matrouh, and/or Menya Governorates) c2) Access to basic services or infrastructures in underserved urban areas in the Greater Cairo Region c3) Implementation of National Action Plan for Sustainable Consumption and Production c4) Site management plan for heritage sites prepared with an embedded community	Rapid Rural Appraisal UN-Habitat / Government of Egypt data Ministry of Environment activity reporting UNESCO reports /

¹³ The results, indicators and means of verification presented in this Annex are indicative. They will be specified in the corresponding action documents which will be elaborated annually for adoption by the Commission. The baselines and targets will be defined during the inception phase of the different programmes.

	development dimension	Government of Egypt data
Specific Objective 2: To support sustainable development and a better quality of life for the population by sustainable resource management and improved access to energy, water, sanitation and waste management.		
<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
a) Support to Egypt's Energy Strategy 2035 provided with a particular focus on improved management of national energy resources and on further promoting renewable energy and energy efficiency through increasing security of energy supply and sustainable energy sources.	a1) Implementation of Egypt's Energy Strategy 2035 a2) Security of energy supply a3) Energy efficiency policy measures are implemented with measureable energy savings a4) Reform of energy subsidies implemented as per Nationally Determined Contribution a5) Carbon intensity of energy production	Government official communications Ministry of electricity and renewable energy Ministry of petroleum and Egyptian Natural Gas Holding Company (EGAS) reports Energy Efficiency Unit (Information and Decision Support Center) Cabinet of the Prime Minister Reports
b) Water and sanitation supported, including providing potable water and sanitation to undeserved urban and rural areas, through a more efficient and integrated Water Resources Management, and the relevant national strategies adopted and implemented.	b1) National Rural Sanitation strategy and National Water Resources Plan are being implemented b2) Number of persons with access to Improved sanitation facilities b3) Sustainable income and livelihood of rural population	Government official communication Egyptian Water Regulatory Agency (EWRA) annual Water Sector Report National Statistics of Central Agency for Public Mobilization and Statistics (CAPMAS)
c) Support to improved solid waste management provided, including through transfer of EU experience in the fields of treatment, management and disposal of waste and solid waste.	c1) Number of net of direct temporary and permanent jobs created in the Solid Waste Management sector c2) number of tons reduced of non-treated waste disposal	National Statistics of Central Agency for Public Mobilization and Statistics (CAPMAS) Ministry of Environment reports
d) Support to the developing and implementation of necessary policies and strategies on climate, environmental protection and strengthening biodiversity defined in	d1) Actions proposed under the Nationally Determined Contribution implemented d2) Increased number of	Egypt's national Reports to United Nations Framework Convention on Climate Change (UNFCCC) and other

particular under the Nationally Determined Contribution and Vision 2030.	passengers using public transport	international organisations
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Sector 2: Social development and social protection		
Specific objective 1: To support Egypt's efforts to protect marginalised groups from potential negative impacts of economic reforms through social development and social protection, including support to the national population strategy.		
<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
a) Pre-University education with focus on girls (including pre-primary) supported.	a1) Net enrolment in pre-university education a2) Net enrolment of girls in pre-university education a3) Net enrolment in pre-primary education	Government of Egypt statistics (Ministry of Education and CAPMAS)
b) Contribution to the provision of skills and adequate accreditation standards to better match the current and future needs of the labour market (including Technical and Vocational Education and Training), especially among youth and women.	b1) National Qualification Framework adopted and applied b2) Selected institutional reforms to strengthen the TVET sector adopted and applied	Government of Egypt data (Ministry of Education and National Authority for Quality Assurance and Accreditation of Education, NAQAAE)
c) Implementation of the national population strategy supported, focusing on population governance and effective family planning services, awareness programmes on teenagers, on mother's health and family planning, as well as on violence against women and children.	c1) Scaled- up and more accessible Family Planning and Reproductive Health services c2) Youths' and women's awareness and education regarding family planning; public awareness on the value of smaller family size c3): Availability and use of monitoring and coordination tools for the implementation of the National Population Strategy	Government of Egypt statistics (Ministry of Health and Population; National Population Council; Ministry of Social Solidarity; CAPMAS); data/reports of specialised CSO; surveys
d) Creation of quality jobs with focus on the most vulnerable segments of the population (such as women and youth) supported.	d1) Number of newly created quality jobs targeted at the most vulnerable segments of the population, figures disaggregated by age and gender d2) Public employment generation schemes included in the Government's overall social protection toolkit and effective	Government of Egypt data and statistics (CAPMAS, Ministry of Social Solidarity, and Social Fund for Development)

	coordination in place	
e) Delivery and improvement of social services (such as education, health, and/or social protection) supported.	e1) Access to social services for the most vulnerable segments of the population	Government of Egypt statistics (CAPMAS)

Sector 3: Governance, enhancing stability and modern democratic state
Specific objective 1: To support effective, accountable and participatory governance

<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
a) Parliament's capacity to hold the executive to account is strengthened.	a1) Work processes at the Parliament are improved a2) Public access to information on the Parliament's work is increased a3) Capacities of the permanent structures of the Parliament are strengthened	Reports on the work/deliveries of the Parliament Quality and content of the Parliament's website
b) Governance and accountability mechanisms and regulatory bodies to strengthen rule of law, combat corruption and increase the efficiency of public administration are fostered, including through exchange of experiences and best practices.	b1) The institutional capacity of relevant inspection and control agencies (such as ACA, NCCCC) that have a role in anti-corruption is strengthened and their functioning is made more transparent b2) Civil Society plays an active role in holding the Government accountable against the Constitutional provisions	Annual reports by concerned institutions Reports by involved civil society actors

Specific objective 2: To promote and protect the values of democracy, the rule of law, human rights, fundamental freedoms and gender equality

<u>Expected Results</u>	<u>Indicators</u>	<u>Means of verification</u>
a) Human rights of all segments of society and persons of concern present on the Egyptian territory are promoted and protected.	a1) The Constitutional provisions relating to Human Rights are operationalised through appropriate legislation a2) Complaints on Human Rights violations received by complaints offices/hotlines are adequately addressed a3) Prevalence of Violence against women and girls is reduced	Analysis of legislations adopted Reports by complaints offices and legal support offices National Council for Human Rights (NCHR) annual reports
b) Gender equality and women	b1) Number of women without	Civil registry reports

empowerment are fostered.	ID cards reduced b2) Public services to citizens are accessible equally by men and women	
Specific objective 3: To promote a transparent and equitable fiscal system and public finance management.		
a) Increased transparency and efficiency in public financial management.	a1) Public Expenditure and Financial Accountability (PEFA) scores	PEFA and other diagnostic reports
b) Improved revenue collection taking into consideration social justice and fiscal sustainability.	b1) Tax revenue/GDP in increased b2) tax base is broadened b3) fiscal deficit is reduced b4) proportion of budget spending on social items increased	Ministry of Finance, budget execution reports

Attachment 2. Indicative timetable for commitments

	Indicative allocation	2017	2018	2019	2020
SECTOR OF INTERVENTION – Economic modernisation, energy sustainability and environment	EUR 172.8 – EUR 211.2	x	x	x	x
SECTOR OF INTERVENTION – Social development and social protection	EUR 172.8 – EUR 211.2	x	x	x	x
SECTOR OF INTERVENTION – Governance, enhancing stability and modern democratic state	EUR 43.2 – EUR 52.8	x	x	x	x
Complementary support in favour of civil society and for capacity development and institution building	EUR 43.2 – EUR 52.8		x	x	
Total Commitments	EUR 432 – EUR 528				