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Single Support Framework for EU support to Egypt (2014-2016)

Egypt

2014-2016

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 the dissolution of the Shoura Council (Upper House), a crackdown on Morsi and Muslim Brotherhood (MB) supporters and more generally on dissenting voices (some 2,000 killed and over 40,000 reportedly arrested by the end of 2014, including 1,200-1,300 students and 20-60 journalists). The situation was further complicated by an armed insurgency in the Sinai (causing a significant death toll) and a surge of terrorist attacks across mainland Egypt mainly targeting security forces and judicial authorities.

In July 2013, a constitutional road map was adopted by the new authorities, of which two major steps have been achieved. A new 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. Upon invitation, the EU sent an Election Observation Mission (EOM). The EOM concluded that the elections were conducted 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 on the MB and political opposition. Overdue parliamentary elections are now underway and are due to be completed by December 2015.

Mass arrests and disproportionate sentences, including mass death sentences, often following dubious charges and proceedings, continue to raise serious concerns. This culminated in death sentences handed to Mohamed Morsi and MB members on 16 June 2015 in a mass trial relating to a 2011 jail break. Further, it is worrying that following a de facto-moratorium of the execution of capital punishment since 2011, the Egyptian authorities resumed executions in June 2014.

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. In 2014-2015 growth increased to a currently forecast 4.5%, although the situation remains mixed. Egypt is a lower middle income country, with an estimated GNI per capita in 2014 of USD 3,280, which has not seen any significant increase in recent years, and had even decreased for a number of 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 peaking at 13.4% in December 2013, and since then easing to 12.7%. 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, at over 10% of GDP in recent years (peaking at 13.7% of GDP in Fiscal Year 2012/2013, and foreseen to reach 11% of GDP in Fiscal Year 2014/2015), 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. In 2013, the Government took some important steps to reduce fuel subsidies and increase fiscal revenue, but it is unclear if the reform drive will be maintained. The fiscal deficit was financed mainly by reliance on domestic debt, which has increased significantly in recent years. In 2015, Egypt returned to international markets for a limited bond issues, after some improvement in its credit ratings. In addition, Egypt faces structural balance of payments problems, which have contributed to a depletion of international reserves to low levels and administrative measures to rationalise scarce foreign currency. The current account has recently improved, but mostly because of a massive inflow of Gulf funds in fiscal and balance of payments support, following the ousting of Morsi in 2013. Since 2014, there has been a modest improvement in FDI and tourism revenue, but which is not sufficient to structurally meet Egypt's financing needs.

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 or willing 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). In January 2015, the first Article IV assessment since 2010 was concluded, pointing to a normalisation of relations with the IMF. The report was rather positive about the economic measures taken by the Government in 2013 and 2014 to address fiscal imbalances, but highlighted enduring structural growth constraints. 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, as well as an additional USD 12.5 billion pledged in March 2015 – it has initiated an accommodating fiscal and monetary policy. At present this has resulted in a modest improvement in economic performance, whilst also leading to increased inflation.

Science, research and innovation cooperation with Egypt continued despite the challenges facing Egypt in the post-revolution period, with the research community continuing to perform well. Further, in early 2015, the Ministry for Scientific Research indicated an expected 70% increase in the budget for science, research and innovation.

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.

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, assembly and association. This includes the finalisation of transparent and credible elections, the alignment of 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 December 2015 and formal consultations on a new Action Plan might be taken up upon completion of the ENP review. Furthermore, the EU and Egypt have been engaged in preliminary talks for starting a possible Dialogue on Migration and Mobility in line with the EU's Global Approach on Migration and Mobility¹ and the European Agenda on Migration², 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. In the context of the EU's approach of forging closer ties with its neighbours to better manage migration, including reducing the death toll of migrants at sea, the launching of a Dialogue with Egypt remains 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, priorities have been identified for a three-year period (2014-2016).

1.2. Choice of sectors of intervention

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

¹ Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: the Global Approach to Migration and Mobility, COM(2011)0743

² Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: A European Agenda on Migration, COM(2015)240

- 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, before dropping to 12.7% in the second quarter of 2015. Unemployment is particularly high 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 113th out of 189 economies in the ease of doing business index of the World Bank Doing Business report 2014, with a slight improvement recorded in the 2015 report (112th of 189), while still representing a significant drop compared to 2010 when Egypt 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 though it is at present preparing one, and most PFM reforms with regard to budget execution and treasury are only now resuming after a long period a stagnation or even regression. 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 2014-2016 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 be provided 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.

Some complementary and more specifically targeted support to civil society shall be provided under other EU financial instruments.

Complementarity and coherence will be sought with other EU instruments, in particular with the thematic and regional programmes and the European Instrument for Democracy and Human Rights (EIDHR), Horizon 2020, the new Framework Programme for Science, Research and Innovation, energy, transport, education, youth, culture and media (in particular Erasmus+ Plus and Creative Europe), and human rights. Coherence will also be ensured with facilities and 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 and to improve basic infrastructure (in urban informal settlements as well as in rural areas: drainage, sanitation).

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 Human Rights (NCHR), and the National Council of Childhood and Motherhood (NCCM). Under the SSF 2014-16 EU will support the establishment of mechanisms to address citizen's concerns on public services and access to these services. This could cover continued support to 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. 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, in a complementary manner with Horizon 2020 support for science, research and innovation aiming to create an enabling environment for business. 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 potential of the private sector, in particular SMEs, to bring added value to the economy and to generate jobs. 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 support provided under the SSF.

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). 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 potentially for solid waste management (according to progress achieved in reforms in the sector), to co-finance with European Financial Institutions and Development Agencies.

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 2014-2016 is: EUR 311,000,000 – EUR 380,000,000

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

3. EU support per sector

3.1 Poverty Alleviation and Local Socio-Economic Development

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.

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, complementing support to science, technology and innovation through Horizon 2020.

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.

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

The Development Partners Group (DPG) is the main platform for donor coordination. Through its sub-groups on Education and Human Resources Development, Agriculture and Rural Development, Urban Development, social Protection, sectoral coordination is ensured. A number of donors and agencies such as the GIZ, KFW, AFD, World Bank, AfDB, the IsDB, and the EU are active and are implementing activities in these areas. 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 were taken in 2014 although it is unclear if this reform drive will be maintained.

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 the framework of its Sustainable Development Strategy (SDS – presented at the Egypt Economic Development Conference in March 2015) through a new set of measures to pave the way for Social Justice, reducing deficit in the state budget, reducing subsidies and launching programmes aimed at preventing, reducing and eliminating economic and social vulnerabilities to poverty and deprivation.

Over the past decade, growing policy attention has been given to informal urban areas. This includes the establishment, by decree, of the Informal Settlements Development fund (ISDF) in 2008. However, since its creation, the Fund has focused mainly on informal areas considered as unsafe, the “slums” (which only represent 5% of the total informal areas of the Greater Cairo Region). In July 2014, a further step was taken to address the specific problems of informal areas with the creation of the Ministry of Urban Renewal and Informal Settlements (MoURIS). Ensuring the participation of all governorates in achieving inclusive and sustainable growth as well as developing an Egyptian agricultural plan unlocking the sector's high growth potential and generating a large number of jobs remains high on the SDS agenda.

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.

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 in this sector of intervention 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.
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:

- Selected service-providing Government entities have implemented anti-corruption measures.

Institutional capacity of some of the relevant inspection and control agencies that have a role in anti-corruption is strengthened. This could be in support of existing inspection agencies, or of new entities that would be set up under the envisaged anti-corruption architecture of the new Constitution if there is sufficient progress in its set-up.

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.
- Potential of the private sector, in particular SMEs, to add value in the economy and to generate jobs is 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

Donor coordination in the governance sector is mainly done through the Development Partners Group (DPG), with a specific sub-group on Democratic Governance, which also covers the fight against corruption. The sub-group on Democratic Governance is co-chaired by the EU Delegation (EUD) with others partners, and has significant participation. In addition, close contacts are in place with UN specialised agencies on women and children's rights (United Nations Children Fund (UNICEF), the World Food Programme (WFP)) and fight against corruption (United Nations Office on Drugs and Crime (UNODC)). Important links have been established with the World Bank with regard to legislative reforms and monitoring the constitutional framework. A close policy dialogue is ongoing with relevant line Ministries as well as the NCCM 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.

Peer to peer cooperation with European public administrations has proven to be very much accepted by the Government to support Egypt' progression towards good governance.

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 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 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.

The Government has expressed a strong commitment to business and investment climate-related reforms. Despite the absence of a Parliament, some important policy measures were taken and more are envisaged. There remains a risk that business climate issues will fall off their priority agenda. Strong non-state actor participation in public policy dialogue could 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, 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 sanitation 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 sanitation systems are oriented to maximise employment and related income generating activities.

An extension of the ongoing Solid Waste Management (SWM) programme could be launched subject to satisfactory progress of sector reform and implementation of pilot

infrastructure investment financed under AAP 2013, which following a delay was started in 2015.

For specific objective 2: Improving access to clean energy:

- The use of technologies and innovative solutions relying on renewable energy sources is increased and capacity building actions for its management are in place.
- Measures to increase energy efficiency and diminish the impact on the environment of energy production 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 sanitation and wastewater sector is done through the DPG, with a specific sub-DPG on Water, in which wastewater is included and a dedicated sub group on environment and energy covering waste. The sub-DPG on water is co-chaired by the EU Delegation and KfW. In addition close contacts are in place with key donors active in the sanitation sectors namely KfW, AFD, EIB, the WB and Swiss Development Cooperation. Policy dialogue is conducted with the sanitation and water-related ministries namely Ministry of Water Resources and Irrigation and Ministry of Housing, Utilities and Urban Communities as well as Ministry of Environment and Egyptian Environmental Affairs Agency along with the Ministry of Finance.

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

Specific objective 1: To enhance the delivery of basic services, notably to combat illiteracy and improve access to education, in particular at community level.		
Expected Results	Indicators	Means of verification
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.
Specific objective 2: To support socio-economic development at the local level targeting those most in need through generating and strengthening sustainable economic activities		
Expected Results	Indicators	Means of verification
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.
Specific objective 3: To increase employment and improve entrepreneurship and self-employment, with a focus on youth and women.		
Expected Results	Indicators	Means of verification
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.

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	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	- Report by CPC Secretariat - NCCM Annual Report - Ministerial Decrees

are improved.	line with established CPC mechanism B/T will be introduced in the Action documents at the latest.	
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 public services and access to these services are strengthened.	c1) Number of complaints filed and treated with Ombudsman Offices, such as the OO of the NCHR B/T will be introduced in the Action documents at the latest.	- Annual Reports of NCW and NCHR - NCW Ombudsman Office Annual Report - NCHR Ombudsman office Annual Report - Internal database of Ombudsman Offices - Official press releases
Specific objective 2: Cooperate in combating and preventing corruption		
Expected Results	Indicators	Means of verification
a) Selected service-providing government entities have implemented anti-corruption measures and institutional capacity of some of the relevant inspection and control agencies that have a role in anti-corruption is strengthened.	a1) Number of institutional reform measures to combat corruption implemented. a2) Institutional capacity of relevant control and inspection agency strengthened B/T will be introduced in the Action documents at the latest.	- Annual Reports of targeted institutions - Global report from AC coordinating entities (NCCCC, CAO, ...)
Specific objective 3: Improve the legal and regulatory framework for conducting business and investment:		

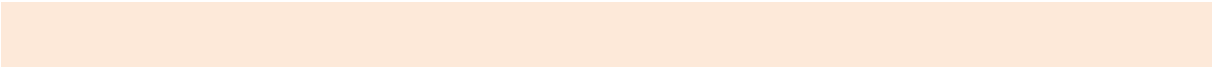
Expected Results	Indicators	Means of verification
a) Business enabling environment is improved and is more conducive to business creation and economic development	a1) Number of business reforms which make it easier to do business, as identified in Egypt Doing Business report. a2) Number of legislations and regulations reducing compliance burden on MSMEs revised. B/T will be introduced in the Action documents at the latest	-Doing Business Report (WB) -Small Business Act for Europe indicators -Enterprise level surveys
b) Investment climate is improved through the creation of a business friendly institutional and regulatory environment	b1) Annual inflow of FDI in USD terms B/T will be introduced in the Action documents at the latest.	- GAFI and CBE data
c) Potential of the private sector, in particular SMEs, to add value in the economy and to generate jobs is enhanced	c1) % of GDP generated by SMEs c2) % of new jobs created by SMEs B/T will be introduced in the Action documents at the latest.	- CAPMAS economic data -Enterprise level surveys

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
a) Relevant stakeholders have increased capacities to establish and operate a demand-oriented, sustainable and climate-friendly water and sanitation systems	a1) Number of training sessions provided and initiatives implemented to increase capacities in the sanitation 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. a2) Relevant sector strategies are drafted	- National Statistics of Central Agency for Public Mobilization and Statistics (CAPMAS) - Government official

	and endorsed by the Government of Egypt. B/T will be introduced in the Action documents at the latest.	communication. - Projects Implementation Reports
b) Access to sanitation services at the level of rural areas is increased improving quality of life of citizens.	b1) number of persons with access to improved sanitation facilities. B/T will be introduced in the Action documents at the latest.	- National Statistics of Central Agency for Public Mobilization and Statistics (CAPMAS) - Annual Published Report of the Egyptian Water and Wastewater Regulatory Agency (EWRA) - National health statistics - WHO country reports
c) The rehabilitation, extension and management of the sanitation are oriented to maximise employment and related income generating activities.	c1) Number of net of direct temporary and permanent jobs created in the sanitation sector. B/T will be introduced in the Action documents at the latest. C2) Unemployment rate in the areas of intervention B/T will be introduced in the Action documents at the latest.	- National Statistics of Central Agency for Public Mobilization and Statistics (CAPMAS) - Annual Published Report of the Egyptian Water and Wastewater Regulatory Agency (EWRA) - Projects Implementation Reports
Specific objective 2: Improving Access to Clean Energy.		
Expected Results	Indicators	Means of verification
a) The use of technologies	a1) Number of additional Megawatts in	Ministry of electricity

relying on renewable energy sources is increased	the national grid produced from renewable sources. B/T will be introduced in the Action documents at the latest.	and renewable energy reports
- b) Measures to increase energy efficiency and diminish the impact on the environment of energy production are in place.	b1) Number of Megawatts saved based on energy efficiency policy measures. b2) Tonnes of CO2 emissions avoided 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

	Indicative allocation
SECTOR OF INTERVENTION I – Poverty Alleviation and Local Socio-Economic Development	40%
SECTOR OF INTERVENTION II – Governance, Transparency and Business Environment	20%
SECTOR OF INTERVENTION III – Quality of Life and Environment	40%
Total Commitments	100%

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