

ANNEXES

Annex 1

Action Fiche : Health Sector Policy Support Programme - II

1. IDENTIFICATION

Title/Number	Health Sector Policy Support Programme - II ENPI/2009/020-494		
Total cost	110,000,000 €		
Aid method / Method of implementation	Sector Policy Support Programme Sector budget support (centralised management)		
DAC-code	12110	Sector	Health sector policy

2. RATIONALE AND COUNTRY CONTEXT

2.1. Country context and rationale for SPSP

2.1.1. *Economic and social situation, poverty analysis*

Egypt's economy experienced another year of sound macroeconomic performance in 2008, although growth slowed down in the second half of 2008 on the back of the global financial crisis. As in other emerging economies, the crisis in Egypt is mainly affecting the real economy. As reported in the latest IMF Article IV consultation report¹ the Egyptian economy may experience a decline in its growth rate to 5.5%-4.5% in the next two years compared to the 7% average of the 2005-2008 period. On the other hand the inflationary pressures seem to have come to a halt, and the outlook for the 2009-2010 period sees inflation decline to 8-12% (compared to 20% of December 2008). Unemployment will be affected by slower economic growth in the near to medium term and poverty reduction targets may be challenged. The current subsidy system (food aid and cash transfers) benefits close to 50 million people out of a population of 75 million, making a significant impact on public expenditure and fiscal policy options. The Egyptian government will have to balance the prerogatives of economic and social reform (e.g. removing costly subsidies) and its response to the international economic slowdown while maintaining social protection for lower income groups.

2.1.2. *National development policy*

Egypt's long-term development programme is set out in its National Plan 1997-2017. This has been accompanied by a series of five-year socioeconomic plans, the latest of which for 2007-2011 focuses on: (1) improvement of living standards and social security, (2) economic growth and job creation, (3) strengthening of state institutions and political reform. Key targets of the plan are the reduction of poverty from the 20-18% rate of 2006-2007 to 10% by 2011/12 and the decrease in unemployment to 5.5% by 2012. 43% of the population are living on less than \$2 per day. In view of the projected economic slowdown, these targets may not be met by the projected deadline, but they are expected to remain feasible in the longer-term. The MDG Mid-

¹ Article IV Consultations – IMF Staff Report December 2008

term Report (2008) shows that the Egyptian government's progress towards MDG targets is slow but consistent.

2.2. Sector context: policies and challenges

The Government's health reform plan for achieving universal health coverage embraces: (1) the establishment of a purchaser body in each governorate in order to separate the purchaser from the provider functions, (2) the building of a single payer financing system covering the primary health care services with the Basic Benefits Package, (3) the development of a partnership with the private sector invited and encouraged to provide services, (4) the roll-out of the Family Health Model (FHM) for reforming the Primary Health Care (PHC) level.

In Suez², a well designed pilot project, which merges Health Insurance Organisation (HIO) and the Family Health Fund (FHF) is being implemented. Furthermore, experience is being accumulated in the four other governorates where FHF has been developed. An actuarial study has been conducted by the Ministry of Finance, and a draft health insurance law was prepared for reading by parliament. During the entire period of the reform, the EC Delegation will remain attentive to the financial mechanism put in place to cover the expenses of the poor.

The roll-out of the FHM includes the physical upgrading, a redefinition of the staff pattern, an intensive training programme, an accreditation of health facilities, and a census of community households including poor families. The FHM ensures access to efficient and good health quality services in accordance with the epidemiological profile of the population. The target is 330 additional accredited units per year during the period 2010-2012.

Since salaries are low, incentives are a crucial element of the structure of the Family Health Model to ensure its sustainability: human resources stability (attraction) and financial balance. The application of the new incentive policy introduced by the generalisation of the decree 075 will be followed by the EC Delegation. In particular, the EC Delegation will monitor the legal provisions relating to staff incentives and the contracts between the FHF and FHU with respect to their ability to balance conflicting requirements of financing, financial sustainability and of ensuring a satisfactory level of staff motivation)

In terms of budget, the sector accounts for 6.1% of GDP, with a total of 10.6 billion LE for 2007-2008 distributed as follows: employees' salaries and compensations (45%), goods and services (29%), subsidies, grants and social benefits (13%), and investments (10%). The health sector expenditure framework is established annually and on incremental basis. Multi-year projections are presented in the first phase of the National Investment Plan (2007-2010) that supports the expansion of the FHM for a total of 2,180 billion LE (corresponding to the development and/or the establishment and the equipment of a total of 2,214 FHUS). However, based upon progress made so far with broadly 1300 FHUs refurbished, it would suggest that the MoH is capable of developing or establishing 330 FHUs per year. While this is nearly one-per-day, it does imply that it will take broadly three more years to achieve the plans objectives. An extension of the investment plan (2010-2011) is foreseen and will be submitted for the approval of the cabinet of the Minister of Health.

² The EC Delegation considers the monitoring of the Suez project as an essential part of the ongoing Policy Dialogue maintained with the GoE and international partners.

The reform process is coordinated by the Ministry of Health and Population (MoH), with the Ministry of International Cooperation managing donor relations. Within the MoH, the Technical Support Office (TSO) plays an important role in the reform process by planning, monitoring and coordinating the actions of the different departments. The institutional capacity of the MoH, has indeed improved in the past years thanks to the adoption of a new internal organization which prioritizes Primary Health Care (PHC) and medical quality, and the integration of all PHC programmes under a single authority. Donors' capacity building activities and the Government's own training programmes have also contributed to this achievement. A new computerized network (on-line system), the Clinical Information System (CIS), recently replaced the Health Information System (HIS), and covers 249 Family Health Units (FHU). Demographic Health Surveys (DHS) are carried out every three years and provide reliable information for monitoring purposes.

2.3. Eligibility for budget support

Sector policy: A health sector strategy is in place and its component for the roll-out of the Family Health Model on a national scale is clearly defined. An investment plan and an accreditation programme are already ongoing, supplemented by a plan for primary health care programmes output. In a situation where the overall reform of the health care system and the introduction of mandatory social health insurance are still in their infancy, the choice of supporting the sub-sector of primary care is a judicious decision

Macroeconomic stability: Egypt's overall macroeconomic context remains relatively stable although it is inevitably affected by the negative impact of the international crisis on the real economy. A set of measures to support growth – including a fiscal stimulus to public infrastructure expenditure, acceleration of public-private partnerships, cuts in policy interest rates and other revenue boosting measures are expected to balance expenditure and keep the budgeted fiscal of 6.9% for 2009 on target. These measures to sustain the pace of reform in the face of the international economic slowdown appear reasonable and adequate to support the medium-term fiscal consolidation plan and boost investment. The impact on trade, investment and the rest of the real economy is being monitored closely.

PFM: Progress has been made since mid-2004 toward improving PFM systems in Egypt, as confirmed by latest CFAA report and the ongoing PEFA exercise. Achievements include better budget performance, greater accountability of the budget authorities and more budget transparency. The Government is committed to continue its reform plans and as long as the government continues to implement and consolidate its ongoing PFM reform programme the fiduciary risks will continue to decline. The EC will build upon the PEFA exercise to strengthen dialogue on PFM reform issues with the Egyptian government and other donors.

2.4. Lessons learned

The final evaluation report of the Health Sector Reform Programme (HSRP, 1998-2008) stated: the reform of the public primary health care services centred on Family Health Practice is in place, the rolling out of the model can no longer be delayed too long. Regarding the ongoing HSPSP, the MEDA evaluation reported that its Policy matrix does not reflect current EC sector policy guidelines. The Result Oriented Monitoring (ROM) report underlined that the SPSP approach is appropriate as it accompanies the sector reform initiative of the government, but it also highlighted that the HSPSP is very ambitious and complex, imposing fairly high transaction costs

for the GoE. The EC Delegation, however, has been able to develop a Policy Dialogue of good quality and to work with the national authorities for the implementation of an effective SBS. The design of the HSPSP-II takes into account the conclusions of these reports and the lessons learned through implementation of the ongoing HSPSP.

2.5. Complementary actions

Major donors in the health sector include the World Bank, the African Development Bank, Saudi Arabia, USAID, DANIDA and the Italian Cooperation. The World Bank will provide Egypt with a new loan of 75 M\$ for the implementation of the insurance component of the reform. USAID has been implementing a large Reproductive Health Integrated Project which covered 192 Family Health Units. Other donors are active on a smaller scale.

2.6. Donor coordination

The DPG Health Sector Sub-Groups provides an effective platform for sector policy coordination and for information exchange among donors. The EC Delegation will take the opportunity of the HSPSP-II to enhance donor coordination and the Policy Dialogue already in place, on health issues, in particular on the primary health care provider network and Family Health Model.

3. DESCRIPTION

Given the complexity and the long term timeframe for the introduction of the mandatory social health insurance, the priority has been given to the development of the well-defined Family Health Model programme. Therefore, this intervention will focus on the improvement of the Primary Health Care provider network which, by being the backbone of the Health Sector Reform, will better provide the whole population and especially the poor, with access to affordable basic quality health care.

The EC Delegation will propose a TA to support: (1) the supervision of the surveys that will be conducted, (2) the monitoring of the financial sustainability versus incentives and coverage of the poor, (3) to address questions related to the PHC management.

3.1. Objectives

Overall objective: To support the Health Sector Reform Programme in Egypt by improving access to and quality of Public Primary Health Care. This overall objective will be sustained by three specific objectives:

Specific objective 1: The quality of the services provided by the Public Primary Health Care network is improved.

Specific objective 2: The utilization and satisfaction rates of the upgraded Public Primary Health Care network facilities are improved.

Specific objective 3: The systemic, social and financial sustainability of the Family Health Model is strengthened.

3.2. Expected results and main activities

Each specific objective is sustained by expected results:

1. Expected results sustaining the specific objective 1:

Around one thousand Health Care Units will be physically reconditioned and the personal will be trained to reach Family Health Units standard requirements, in order to be accredited according to internationally approved Standards.

2. Expected results sustaining the specific objective 2:

Within the catchment area, the utilization rate of the upgraded Health Facilities by the population and especially by the poor will be increased (including for the reproductive health services and family planning). The rate of satisfaction for the population using these facilities will increase.

3. Expected results sustaining the specific objective 3:

The proportion of the catchment area's population enrolled in the Family Health Fund will increase and the number of FHU/Cs establishing a contractual relation with the Family Health Fund (or a similar health public purchaser) will increase. As a consequence, the out-of pocket money (paid by visit) earmarked to health will decrease.

These specific objectives and the expected results entail not only a quantitative and qualitative improvement of the primary health care services (through the roll-out of the Family Health Model), but also address the utilisation rate of these services, and the financial access of the beneficiaries by reducing the amount of out-of-pocket money earmarked to health.

4. Monitoring:

In agreement with the Egyptian authorities, indicators related to access, utilisation, equity, quality and sustainability have been added in the matrix, since the programme looks into the effects of the rolling-out of the FHM model on the population's access to and satisfaction of services provided there. The use of household surveys for the monitoring of the programme has been discussed with the Deputy Minister for PHC and his team.

3.3. Assumptions and risks

It is assumed that the health sector reform process will keep up its political momentum and that the national investment plan covering the PHC and the expansion of the Family Health Model will be concluded before the start of the SBS and the first tranche release. There are some uncertainties related to the financial sustainability of the reform objectives. The EC Delegation will monitor the development of the reform in order to suggest appropriate measures to reduce the risks and offer technical assistance when appropriate and necessary.

3.4. Stakeholders

The main stakeholder is the MoH. Other stakeholders include the Ministry of Finance responsible for health financing and the Ministry of Social Solidarity (MoSS) mandated to cover the insurance for the poor. The physicians and nurses working at the FHU/C level are also important stakeholders. Civil society is represented at FHU/C governance board level. The success of the reform will also depend on the public debate organised with Non State Actors and on the quality of the social dialogue. Therefore, the EC Delegation will address these topics through Policy Dialogue while remaining attentive to the legislation and the regulatory activities developed by the GoE to set the parameters for the new system.

3.5. Cross-cutting Issues

Poverty reduction is the overarching objective of Egypt's National Development Plan which this programme will support by focusing, among others, on increasing access to health care for the poor. Access to, and quality of, health care also has a strong basic human rights dimension.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

Direct centralised management.

4.2. Procurement and grant award procedures

Service contracts related to the technical assistance and monitoring, audit and evaluation of the programme will be awarded and implemented directly by the Commission in accordance with the procedures and standard documents laid down and published for the implementation of external operations, in force at the time of the launch of the procedure in question.

4.3. Budget and calendar

The total amount of the programme is €10 million. €07.7 million will be earmarked for budget support: the first, second and third tranches will indicatively be €3 million each, the last tranche will indicatively be €7.7 million. The four annual fixed tranches will be released after the Commission services ascertain that the conditions for each instalment are met. The programme will allocate €2 million for Technical Assistance and €300,000 for monitoring, audit, visibility and evaluation purposes. The operational implementation phase will last 36 months.

4.4. Performance monitoring and criteria for disbursement

A Steering Committee (SC) shall be in charge of the follow up of the programme activities as well as the general progress of the reform of the sector. The SC will periodically review progress against the matrix of conditions and it may invite anytime to representatives from any other Government body or private sector organization considered relevant for the programme in order to facilitate the follow up of the reform measures.

The National Coordinator will prepare, under the supervision of the Minister of Health, an plan for activities foreseen under the technical assistance component.

Implementation of the programme will be monitored regularly by the European Commission's services in close cooperation with the Steering Committee and the National Coordinator. Continuous dialogue will take place between the European Commission and key stakeholders. Monitoring missions will take place at least once a year and will be arranged with reference to: (i) Fulfilment of the conditions for disbursement of instalments and (ii) The general progress of the programme.

In order to prepare the disbursement of the different tranches, a dialogue with the Steering Committee will be organised annually at the end of each semester and before each annual disbursement, in order to discuss progress of the programme on the basis of the indicators chosen.

Standard Indicators (SI) for a project or sector financed by the EC are designed to measure the effect of aid and to be better accountable for aid operations. SIs are also part of the dialogue with the partner country.

4.5. Evaluation and audit

An external evaluation, contracted by the Commission, will be carried out at the end of programme. If needed, monitoring mission will be carried-out by the EC Delegation or external monitors under the ROM system.

4.6. Communication and visibility

The entire action will follow the "Communication and Visibility Manual for EU External Actions" issued by EuropeAid. Proper communication and visibility of the action will be achieved via regular joint communication events on the occasion of tranche release.

Annex 2

Action Fiche : Support to the Implementation of the Action Plan Programme and the Association Agreement (SAAP III)

1. IDENTIFICATION

Title/Number	Support to the Implementation of the Action Plan Programme and the Association Agreement (SAAP III) ENPI/2009/020-492		
Total cost	EC Contribution: €20,000,000		
Aid method / Method of implementation	Project approach - Decentralised Management		
DAC-code	15040	Sector	Government Administration

2. RATIONALE

2.1. Sector context

The European Neighbourhood Policy - ENP Action Plan (AP), signed between the EU and Egypt in 2007, supports Egypt's reform efforts by reinforcing cooperation between the two parties in a number of areas including political, economic, and social development. The implementation of the AP will allow Egypt and the EU to further develop their strategic partnership through a significant degree of economic integration, deepening of political, cultural and social co-operation, aiming at promoting the modernisation of the Egyptian economy and society.

At the national level, Egypt's reform strategy is being accompanied with relevant regulatory, legislative and institutional measures to improve the performance of its public administrations and create an enabling and competitive business environment. In its plan for 2006/7-2012, the Egyptian government considers the quality of and access to public services at the forefront of its reform agenda- priorities include transport, energy, health, and education sectors.

Progress has been made towards achieving greater efficiency through relevant separation between the government regulatory and monitoring functions and operational aspects, while encouraging market liberalisation, and ensuring practices of good governance.

At the central level, new laws for civil service and decentralization are underway. Some national initiatives were also recently made to upgrade public services through administrative simplification and e-services as well as reforming organizational structures and building the capacities of human resources.

At sector level, recent market-related reforms encompassed the amendment/enactment of some legislation like those with respect to investment and special economic zones, export promotion, intellectual property rights, money laundering and banking, e-signature, customs, antitrust and competition, corporate tax, liberalisation of the energy market, antidumping and consumer protection.

Meanwhile, weaknesses in the Egyptian administration are a major obstacle to implement reform initiatives and to align the country's legislative and regulatory framework with international standards. In particular, national resources and technical capacity to achieve a greater pace of reform are limited against the background of embedded deficiencies resulting from many years of centralised systems.

It is within this context that the European Commission (EC) is launching the Support to the Implementation of the Action Plan Programme and the Association Agreement (SAAP III). The new programme builds upon and complements, in its objectives and activities, the Support to the Association Agreement (SAAP) and the Support to the Implementation of the Action Plan and Association Agreement Programmes (SAAP II) where *institutional twinning* is a key instrument for implementation. The twinning instrument can efficiently address reform needs through the transfer of know-how by experienced European senior civil servants to their Egyptian counterparts. SAAP III will further support the development of the legal and institutional capacity of the Egyptian government through the approximation to the European standards, legal practices and institutional best practices.

2.2. Lessons learnt

The new programme will build on the lessons learnt and experience gained from other EC programmes and particularly from the ongoing programmes "Support to the Association Agreement Programme (SAAP)" and the "Support to the Implementation of the Action Plan and Association Agreement Programmes (SAAP II)". Under these programmes there are currently 13 ongoing twinning operations and 5 under formulation. A further 15 operations are under consideration. The sectors covered include statistics, tourism, postal services, railway safety, water quality, road safety, telecommunications regulation, among others. Austria, France, Italy and Germany have been the main partners for these operations.

Relevant recommendations of the monitoring and evaluation missions on previous envelopes (SAAP and SAAP II) will be taken into consideration. In particular, the implementation of SAAP III will build on the success of the first two twinning envelopes (e.g. greater awareness of the twinning instrument, increased experience and improved capacity of the Programme Administration Office to implement twinning operations). The programme will also mitigate some weaknesses identified in the implementation of the first wave of launched projects (some overambitious project fiches and relevant assessment of the beneficiary's absorption capacity to engage in institutional twinning or technical assistance projects). Increased focus will be made on strengthening the capacity of the Programme Administration Office (PAO) and improving its internal monitoring mechanism, information dissemination, and reporting. Improved coordination with the EC Delegation will lead to better identification of twinning prospects and selection of new projects.

Best practices from other similar twinning programmes in partner countries will also be considered.

2.3. Complementary actions

Legislative and institutional reform is currently supported by SAAP (€25,000,000) and SAAP II (€17,000,000) with which the new programme will be directly linked. SAAP III will be very similar in objectives and expected results and will use the

same administrative structure for implementation: the Programme Administration Office (PAO) affiliated to the Ministry of International Cooperation.

The design of new twinning projects will be very much in line with the relevant ongoing and future EC Sector Policy Support in various areas (Transport, Water, Education, etc.).

Coordination with other donors' programmes supporting administrative and sector reform will be ensured. Other instruments (TAIEX and SIGMA) will be utilised in complement to the twinning instrument and technical assistance provided through this programme. Other activities funded by the EU Member States in sectors like Energy, Transport, Education, and Sustainable Environment will be particularly taken into consideration.

SAAP III will be *per se* also in line with national initiatives and programmes targeted at administrative development and reforms in various sectors.

2.4. Donor coordination

Cooperation and coordination among EU Member States is carried out in the context of the regular meetings of the EU Development Counsellors in which the EC and EU Member States exchange information on their respective current and future programmes and discuss possibilities for increase cooperation and synergies.

Given the cross cutting nature of regulatory and institutional reforms, the Development Partners' Group and its nine thematic sub-groups serves as another mechanism for coordination with donor agencies active in Egypt within particular sectors.

3. DESCRIPTION

3.1. Objectives

The overall objective is to strengthen cooperation between the EU and Egypt as well as contribute to Egypt's reform process in the context of the ENP Action Plan (ENP AP) and the Association Agreement (AA). SAAP III is to support the Egyptian Government in implementing the EU-Egypt ENP Action Plan and the Association Agreement, which will in turn contribute to the achievement of sustainable reform and strengthened cooperation with the EU. In particular, the project aims to:

- Support the Egyptian public administration in upgrading its legislative and institutional framework through approximation to EU legislation and best practice (*acquis communautaire*), taking into consideration national reform priorities and implementation needs of the ENP AP and the AA.
- Improve the capacity of governmental administrations and entities involved in the implementation of the ENP AP and the AA.

3.2. Expected results and main activities

The programme will contribute to national efforts towards strengthening the regulatory, monitoring, and operational functions of the public administration, particularly through the utilisation of Institutional Twinning. Technical assistance shall be provided as such to strengthen institutional capacities of the public administration, or be used as preparatory/complementary phase for twinning projects.

SAAP III will follow a "demand driven" approach, and is therefore designed as a relatively flexible mechanism to respond to inherent and evolving challenges that might arise during the implementation of the AP and AA. Prioritisation of intervention areas (twinning and technical assistance) will be regularly and jointly agreed between the EC and the Ministry of International Cooperation.

Twinnability of candidate institutions shall be directly dependent upon the potential contribution of the area/sector to the European and/or the Egyptian priorities, the expected impact on governance reform, political commitment, technical readiness of the respective beneficiary institution and relevance to the implementation of the ENP EU – Egypt Joint Action Plan, with a view towards achieving the following results:

- Improved legislative and regulatory context through approximation with EU legislation and regulation;
- Improved institutional capacity of the Egyptian public administration particularly in fields specified in the ENP AP and the Association Agreement;
- Improved conditions necessary for the EU-Egypt economic cooperation and other cooperation areas (e.g. political development and governance, and social development);
- Improved awareness of the ENP Action Plan and the Association Agreement.
- As a key energy partner for the EU, energy should also form part of the support provided under SAAP III.

3.3. Risks and assumptions

National commitment towards implementing the ENP Action Plan and the Association Agreement is assumed, as well as commitment towards political, governance, economic and social reform. It is also assumed that there is a sufficient relevant absorption capacity to carry out twinning operations with the candidate administrations.

3.4. Crosscutting Issues

Further to gender and sustainable environment, issues like administrative reform, good governance and human rights will be cross-cutting in the definition, design, and implementation of the activities funded under this project.

3.5. Stakeholders

The direct beneficiaries of the Programme will be different entities of the Egyptian administration playing a crucial role in the Government's reform efforts as well as in the successful implementation of the AP and the AA (not only line Ministries but also Agencies, Administrations, Organisations, etc).

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

The implementation method will be substantial decentralised management through the signature of a financing agreement with the Government of Egypt.

The Programme Administration Office (PAO) within the Ministry of International Cooperation will manage the programme, except for framework contracts, audits and evaluations, which are managed by the Commission. In addition, the Commission

may conclude and manage contracts relating to visibility, in agreement with the PAO. The management responsibility of the PAO includes procurement and award procedures and payments.

The Commission controls ex ante the contracting procedures for procurement contracts > €50,000 and ex post for contracts • €50,000. The Commission controls ex-ante the contracting procedures for all grant contracts.

Through the programme estimates, payments are fully decentralised for the relevant contracts that have been decentralised and for operating costs.

To allow for this level of decentralisation, the Authorising officer has carried out an assessment of the criteria mentioned in article 56 of the Financial regulation: the award procedures will follow the Twinning Manual and remain subject to ex-ante control by the Commission; a final audit will be conducted by external experts contracted by the Commission; the publication of beneficiaries is imposed by a provision of the general conditions of the financing agreement. The internal control system and the accounting system have been assessed at the level of the PAO. The control environment offers sufficient guaranties, with a segregation of functions within the role of authorising officer, between the initiation and the verification roles. All payments are subject to double signature. Specific instructions to staff members who would come across serious irregularities or fraud have been given. The accounting system is a mixed accounting system, based on cash accounting, but allowing for some accrual transactions. It is exclusively used for EU project funding and enables the correct use of Community funds to be verified. Financial reporting foreseen for the programme estimates will allow the use of funds to be properly encoded in the Commission information and accounting system.

4.2. Procurement and grant award procedures

Twinning contracts are awarded and implemented in accordance with the applicable Twinning Manual.

All other contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by the ENPI regulation.

The essential selection and award criteria for the award of grants are laid down in the Practical Guide to contract procedures for EC external actions. They are established in accordance with the principles set out in Title VI 'Grants' of the Financial Regulation applicable to the general budget. When derogations to these principles are applied, they shall be justified, in particular in the following cases:

- Financing in full (derogation to the principle of co-financing): the maximum possible rate of co-financing for grants is 80%. Full financing may only be applied in the cases provided for in Article 253 of the Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of the Financial Regulation applicable to the general budget of the European Communities.
- Derogation to the principle of non-retroactivity: a grant may be awarded for an action which has already begun only if the applicant can demonstrate the need to

start the action before the grant is awarded, in accordance with Article 112 of the Financial Regulation applicable to the general budget.

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

4.3. Budget and calendar

The total programme cost is estimated at €20,000,000, which shall be financed from the general budget of the European Communities, the indicative break-down of the EC contribution will be as follows:

Operational fund (Twinning and Technical Assistance)	18,000,000
Technical assistance to the PAO (Financial Advisor)	200,000
Programme Management (PAO)	1,405,000
Audit and Evaluation	85,000
Visibility	180,000
Contingency	130,000
Total	20,000,000

The operational fund will be used for technical assistance (service contracts) and twinning projects (grant contracts).

The total amount of imprest individual budgetary commitments must be fixed and communicated before the start of the implementation of the programme.

Adjustments between the amounts committed under specific individual budgetary commitments and imprest individual budgetary commitments can take place only during the “date + 3 years” period.

The programme will last 72 months starting from the date of signature of the Financing Agreement. This execution period will comprise 2 phases according to the conditions provided for in article 4.1 of the General Conditions:

- (1) Operational implementation phase that starts from the entry into force of the financing agreement and will have duration of 48 months.
- (2) Closure phase of a duration of 24 months that starts from the expiry date of the operational implementation phase.

4.4. Performance monitoring

The overall performance will be monitored by the EC Delegation in Cairo. Day-to-day technical and financial monitoring will be a continuous process as part of the Beneficiary responsibilities. The PAO shall utilise and improve its internal technical and financial, monitoring mechanism.

Independent consultants recruited directly by the Commission will carry out external monitoring following the ROM methodology (Result Oriented Monitoring).

4.5. Evaluation and audit

Independent consultants recruited directly by the Commission on specifically established terms of reference will carry out external evaluations, as follows:

- a final evaluation, at the beginning of the closing phase;
- possibly, an ex-post evaluation;
- possibly, evaluation for individual twinning projects

The EC shall appoint, in accordance with EC procurement rules, a reputable external auditor/accountant to monitor the programme's expenditures and accounts.

4.6. Communication and visibility

Activities to improve awareness and exchange of information are envisaged, awareness activities may address the ENP priorities, progress of reform aspects in relation to the programme's intervention areas, progress of the twinning portfolio/technical assistance, and relevant European best practices.

Various visibility mechanisms will be utilized such as holding conferences, workshops and roundtables with direct stakeholders, as well as using visibility printed materials and the media.

Annex 3
Action Fiche : Health Sector Policy Support Programme - II

1. IDENTIFICATION

Title/Number	Support to Rural Development ENPI/2009/020-493		
Total cost	EC Contribution: €10,000,000		
Aid method / Method of implementation	Project approach – Decentralised management		
DAC-code	43040	Sector	Agriculture/Rural Dev.

2. RATIONALE

2.1. Sector context

Unemployment and poverty remain a major concern for Egypt. Despite the decrease in unemployment from around 11% in 2003-5 to 8.4% in 2008, unemployment is unlikely to continue this downward trend against the background of the global crisis affecting Egypt's real economy. Poverty reduction targets will also be difficult to achieve, although the commitment of the authorities to pro-poor policies remains strong.

Based on the national poverty line, in 2007 one out of five Egyptians (19.6%) had consumption expenditures below the poverty line. This compares to 24.3% in 1990, an annual average rate of decline of 1% over the period. However, in order to meet the target of halving the proportion of the poor below the poverty line (12.1% by 2015) this rate of decline needs to accelerate. 43% of the population are living on less than \$2 per day.

More than 50% of Egypt's current population of 75 million live in the rural areas where poverty is concentrated and agriculture is the main economic activity. Moreover, agriculture is a key sector in the national economy of Egypt. It accounts for about 17% of Gross Domestic Product (GDP), about 20% of total exports and 30% of total labour force.

In the past, crop yields in the 'old lands' were among the highest in the world for several cereal and horticultural crops. However, productivity has declined in recent years owing to the over-use of fertilizers and pesticides. In addition, the physical limitations of arable land and scarce water supply mean that Egypt remains a country in food deficit.

Notwithstanding the problems associated with the recent upheaval in the world food markets and the impact of increasing globalisation over the next decades, Egyptian agriculture faces substantial problems. Given its resource endowments, the most significant problems are those relating to the available land and water. With a fast growing population, estimated to reach 95 million by the year 2025, fragmentation of farm holdings, a current problem for the adoption of modern agricultural methods, are likely to become worse in the future. Farm sizes will have shrunk even further and about 80% of the farmers will have holdings of less than 1.3 hectares.

The current small-scale agriculture in the old lands of Egypt is becoming marginal when compared to the modernised agriculture in the “new lands” e.g. in the fringes of the Western Delta. With low returns from small land holdings, land sales for real estate development has and will continue to become more profitable than farming. As a result, urban spread will continue even with existing legislation against construction and the lack of food self-sufficiency is likely to be worsened.

Associated with the availability of land is the question of water that casts an overwhelming shadow over Egyptian agriculture. In terms of resources, the fixed amount of water that Egypt receives from the Nile will be shared among a larger and more diversified population of users. The consequence of a variety of factors including the impact of climate change means that the current available quota of 875 litres per capita per year is likely to go down by nearly 30% to 630 litres per capita per year in 2025. Water for agricultural use is also expected to go down by about 20% from the current 5,000 m³/feddan/year to 4,000 m³/feddan/year.

2.2. Lessons learnt

Over the past decades agriculture rural development strategies in Egypt have largely been based on a resource determined, technology based, supply driven basis. A top-down, centralised approach was employed driven by decision making based upon making resources available to farmers. While the focus has shifted from making the resource available to making effective use of the resource, the issue of rural development has moved the debate from an input/technology focus to a people focus. It has brought in a number of other factors and players that significantly changed the nature and management of such programmes. Lessons can be drawn from rural development policies in the EU and from EC projects in Egypt and in other countries. Evidence suggests that to be successful programmes should be community-based, participatory, demand-driven, flexible and accountable, implemented in a decentralised way and conditional.

2.3. Complementary actions

The pilot programme to be supported by the SRD project is the result of a process initiated by the Egyptian Ministry of Agriculture and Land Reclamation (MoALR) in 2006 together with the Union of Horticultural Producers and Exporters (UPEHC) and the assistance and support of the Embassy of the Netherlands to assess the current development trends in the rural areas and more specifically in the old land of Egypt (Nile Valley, the Delta and Fayoum).

2.4. Donor coordination

Close coordination with the Embassy of the Netherlands has already been achieved during the identification and formulation phases of the programme taking into account that the proposed programme is building on the results of the support provided by the Embassy over the past two years to the Ministry of Agriculture and Land Reclamation aiming at developing a conditional incentive based rural development approach.

3. DESCRIPTION

3.1. Objectives

The overall objective of the pilot project is to contribute to poverty reduction and socio-economic development of the rural poor through increased land productivity, employment creation and income generation.

The specific objective of the project is to demonstrate and establish the modality of conditional incentive based development as an approach to poverty reduction and growth in the rural areas of Egypt. It aims to provide direct and tangible benefits to the population demonstrating more effective use of scarce Government resources. Thus contributing to the a change in approach for rural development that would be the basis for a Rural Development Policy/Strategy for the country.

3.2. Expected results and main activities

The project strategy is based on the principle of 'conditional incentives' to be provided to the participating population. Based on the partnership between beneficiaries and the Government, support would be provided to poor farmers and their families to improve the productivity of their land and increase their output and incomes on condition that they participate and comply with measures that support good agriculture practices related to the use of land and water (both in terms of quantity and quality), adopt appropriate land use measures, invest in appropriate recommended technologies, knowledge transfer and the preservation of biodiversity, including the mitigation of and adaptation to climate change. It would also assist in job creation through support for small scale agro-processing and/or marketing including investments in social assets.

The expected results include:

- Increased outputs and incomes from a combination of better cropping practices, increased water availability (for irrigation) and improved land development;
- Increased employment and income generating opportunities from off farm post harvest and marketing activities;
- Reduced environmental degradation at the farm level;
- Improved living conditions in the targeted areas through the improvement of existing social infrastructure;
- Upgraded capacities of NGOs and CBOs operating in targeted areas in better identifying needs of the local community and proposing how to respond to such needs. Local organisations will, as a consequence, be better placed in identifying and designing development activities, job creation and income generation opportunities and to act as focal points in the communities;
- Upgraded abilities of Ministry of Agriculture staff at the District and local/village level to initiate, appraise, propose projects, for funding support in close consultation with beneficiaries.

Activities

The beneficiary farmers will have available to them a menu of activities under three main headings:

- Natural Resource Management or improving the physical resource base through improvements in irrigation, drainage and land. This could include the adoption of better on-farm water management practices, repairs to the water conveyance structures at the village level, adoption of modern and efficient irrigation technologies and techniques, adoption of modern and sustainable management system for irrigation, improvement of drainage structures, reduction of pollution in the drains, residues and biomass management or preservation and rehabilitation of ecological functions through erosion and desertification control.
- Better Management of Agricultural Practices or improving agricultural husbandry through improvements in crop mix and cropping patterns, fertiliser usage/reduction and pesticide use/reduction. This could include undertaking soil management measures, minimise the impact of fragmentation, introduction of new crop varieties, introducing non chemical fertilisers, composting, adoption of traceability systems, adoption of community based natural resources management following international best practices or improving land degradation through Integrated Environmental Management.
- Supporting post harvest activities including small scale processing and transformation (value added) of agricultural products and/or organising better marketing of outputs or the establishment of specific social assets. This could include the development of small and medium enterprises in agricultural production and marketing, the participation of small farmers in the production non traditional and organic horticultural produce for export, upgrading production methods by applying international standards including HACCP and ISO 22000 to enable better penetration in international markets, introduction of food safety standards or promoting innovative research and extension systems that respond to the needs of small farmers and rural women

Strengthening the institutional capability of line agencies (both at local and national level) is also envisaged. This will include training as well as resources to improve effectiveness and efficiency, for example, through the provision of infrastructure and equipment if necessary.

Management Structure and Modalities

The project will be implemented through a three axis management structure. At the national level there will be a National Steering Committee with the participation of the Ministry of Agriculture and Land Reclamation, the Ministry of Irrigation, representatives of the three Governorates, private sector representatives (such as UPEHC) and the EC.

Furthermore, a Project Support Office (PSO) will be established at the MoALR with full time staff which would act as Secretary to the National Steering Committee. The PSO will be responsible for overall management of the project, coordinate Programme Estimates and establish priorities in coordination with agencies at the Governorate and field levels.

Finally, the third and critical management point would be at each Governorate level. A project office, District Implementation Office (DIO) would be established at the MoALR Technical Directorate at each one of the three concerned Governorates, at District level.

A Technical Assistance team composed of long and short term specialists will provide staff support to both the PSO and the three DIOs.

3.3. Risks and assumptions

In all group community-based and inclusive programmes there is always the risk of free-riders. However, this risk is expected to be small given the usual social cohesion among the rural population which use a common resource. The free-rider problem is easier to identify and mitigate in this situation. In addition, a considerable amount of social mobilisation and inclusion before the group formation stage is envisaged, in order to reinforce group responsibility and to mitigate this risk.

Also, with substantial subsidies and credit lines currently in existence in the three districts, there is the risk of inadequate demand. Preliminary surveys indicate that despite the existence of subsidies and/or credit resources, farmers face constraints in accessing them. In the case of credit, particularly credit for post harvest, agro-processing investments, the programme will facilitate access to those credit lines, specifically to the ones established over the past years with EC assistance and funds (see point 2.3 above).

The risks associated with sustainability and expansion of the pilot depends upon its success. The government of Egypt is committed with its contribution assessed at €3 million for the pilot phase. This contribution is not expected to require additional resources but a reallocation of the already extensive input based subsidies, for example, for fertilisers. In the long-term the Egyptian government foresees a reallocation of funds from traditional subsidies to conditional payments.

3.4. Crosscutting Issues

Perhaps no other agricultural rural development project addresses the issue of environment as directly as this project. Gender issues are also addressed both directly and indirectly through project interventions. Project interventions will contribute to good governance through the modality of its support to a decentralised system of project implementation.

A Strategic Environment Assessment will be carried out at the beginning of the implementation phase of the programme.

Environment management and protection will be a core element governing the implementation of the programme and a pre-condition for all actions to be funded by it. Reduction of the environmental impact of agricultural practices is as well an expected outcome of the programme.

Furthermore, the Egyptian Environmental Policy and the National Environmental Action Plan 2002-2017 will be taken into account during the implementation phase. Finally, the Ministry of Environment will take part in the decision making process through the participation in the National Steering Committee.

3.5. Stakeholders

Major stakeholders in this programme will include the MoALR, both at national and local levels, the concerned Governorates, the farming population, local NGOs, CBOs involved in the different stages of the planned interventions. The process of consultation with civil society also makes them indirectly a stakeholder in development activities in their areas. Other Egyptian Ministries involved in rural development, such as Irrigation, Local Development or Environment, would become stakeholders and participate in the programme's implementation and decision making process through the proposed National Steering Committee.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

The method will be partly decentralised management through the signature of a financing agreement with the Arab Republic of Egypt. The Ministry of Agriculture and Land reclamation will be responsible for procurement and grant award procedures. The Commission controls ex ante the contracting procedures for procurement contracts > 50.000 EUR and ex post for procurement contracts • €50,000. The Commission controls ex ante the contracting procedures for all grant contracts.

Through the programme estimates, payments are decentralised for operating costs and contracts up to the ceilings indicated in the table below.

The Authorising Officer ensures that, by using the model of financing agreement for decentralised management, the segregation of duties between the authorising officer and the accounting officer or of the equivalent functions within the delegated entity will be effective, so that the decentralisation of the payments can be carried out for contracts up to the ceilings specified below.

Works	Supplies	Services	Grants
< 300.000 EUR	< 150.000 EUR	< 200.000 EUR	• 100.000 EUR

4.2. Procurement and grant award procedures

1) Contracts

All contracts implementing the action will be awarded and implemented in accordance with the procedures and standard documents laid down and published by the Commission for the implementation of external operations, in force at the time of the launch of the procedure in question. Participation in the award of contracts for the present action shall be open to all natural and legal persons covered by the ENPI Regulation.

Audit and evaluation contracts will be directly contracted by the EC Delegation.

2) Specific Rules of Grants

The essential selection and award criteria for the award of grants are laid down in the Practical Guide to contract procedures for EC external actions. They are established in accordance with the principles set out in Title VI 'Grants' of the Financial Regulation applicable to the general budget. The maximum possible rate of co-financing for grants is 95%. This percentage is based on previous experiences with such instruments (i.e. South Sinai Regional Development Programme and Support to Social Development Programme) and reflects the financial capacity of the target grant beneficiaries (NGOs or CBOs that in most cases are locally based).

Derogation to the principle of non-retroactivity: a grant may be awarded for an action which has already begun only if the applicant can demonstrate the need to start the action before the grant is awarded, in accordance with Article 112 of the Financial Regulation applicable to the general budget.

3) Specific Rules on programme estimates

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question.

4.3. Budget and calendar

The total budget of the program is € 10,000,000 with the following indicative breakdown:

- €8,000,000 allocated for the three districts for grant support for specific projects in three broad categories. The three categories include projects in 1) Natural Resource Management; 2) Productivity; 3) Post Harvest Management.
- €1,500,000 allocated to Technical Assistance for implementation of the project as well as for the capacity building;
- €200,000 allocated for the programme's management structure operating costs, communication and equipment if necessary;
- €200,000 allocated for audit, external monitoring and evaluation visibility;
- €100,000 allocated for contingencies.

The implementation of the project will be 48 months.

4.4. Performance monitoring

The PSO will be responsible for monitoring project implementation and will be responsible for submitting regular reports to the EC Delegation on project status.

At the start of the project a number of indicators will be agreed between the PSO and EC. Specific indicators will be selected from a range of indicators which could, among include: number of groups formed; number of people (including women) participating in project by type of activities; number of people actually benefiting from physical improvements on land and water ; number of farmers changing behaviour through changes in production practices; number of beneficiaries initiating off-farm income generating activities; number of participants seeking access to credit; numbers of participants actually developing small businesses; number of farmers receiving training in new technologies; and number of NGO/CBO staff trained. Special attention will be given to innovative elements in the projects and the dissemination of good practices.

The project will also benefit from the system of the external EC ROM monitoring missions.

4.5. Evaluation and audit

An annual system and financial audits will be launched by the Commission shortly after the beginning of the implementation phase. In addition, the Commission may send specific missions at any time to assess the progress of the programme.

A final external evaluation for the whole programme will be contracted by the Commission with the aim to provide an independent and reliable assessment with conclusions, recommendations and lesson learned which should assist policymakers and managers in the implementation of the Programme and/or planning of future interventions.

4.6. Communication and visibility

Communication and visibility are considered a key component of the project. A comprehensive communication strategy will be developed in coordination with all the stakeholders. Activities to improve awareness are envisaged, including workshops, visibility materials and the media.

EU visibility guidelines are to be respected by the respective Beneficiaries. The EC Delegation in Cairo will check the visibility component of the actions through field visits and will increase visibility when it is appropriate.

APPENDIX TO THE ACTION FICHE Support to the Implementation of the Action Plan Programme and the Association Agreement (SAAP III)

**REGARDING THE VERIFICATION OF THE CONDITIONS FOR
DECENTRALISED MANAGEMENT PROVIDED FOR IN ART. 56 OF THE EC
REGULATION 1605/2002 (FINANCIAL REGULATION)**

The Financial Regulation (FR) (Council Regulation No. 1605/2002) and its implementation rules (Commission Regulation No. 2342/2002) are applicable to the Budget Line 19.081010 (ENPI SOUTH)

In view of setting up the implementation modalities for the new financing agreement "Support to the Implementation of the Action Plan Programme and the Association Agreement (SAAP III), and particularly regarding to the degree of decentralisation of payments in the framework of twinning an technical assistance activities, the Delegation in Egypt has carried out an ex-ante assessment on a certain number of criteria enumerated in article 56 of the Financial regulation to be respected by the Programme Administration Office (PAO), created within the Egyptian Ministry of International Cooperation. Decentralisation of payments is important to ensure successful continuation of the implementation of this type of programmes, to increase ownership of the beneficiary country and to use as much as possible the national structures (these last two criteria are in line with Paris declaration on aid effectiveness).

The assessment made confirmed that the criteria envisaged by Article 56.2 of the Financial regulation are fulfilled as stated in the table below.

Summary table

Article [56.1] [56.2] FR criterion	Comment
(a) Transparent procurement and grant-award procedures, which are non-discriminatory and exclude any conflict of interests and which are in accordance with the relevant FR provisions	<i>No ex-ante assessment was necessary for this criterion as the applicable procurement rules and grant awarding rules for this project are those of the EC (PRAG & Twinning Manual). Procurement procedure for contracts above EUR 50 000 will be subject to ex ante control by the services of the Commission.</i>
(b) An effective and efficient internal control system for the management of operations, which includes effective segregation of the duties of authorising officer and accounting officer or of the equivalent functions	<i>The control system was found to be materialised through a Manual of Procedures which was discussed and reviewed and was found effective and efficient.</i> <i>Management/governance structure in place, segregation of roles/duties in place for authorising and executing financial transactions, double signature on project account in place. Monitoring of the project done through Commission services and ROM instrument.</i>

<p>(c) An accounting system that enables the correct use of Community funds to be verified and the use of funds to be reflected in Community accounts.</p>	<p><i>The PAO (Programme Administrative Office) uses the accounting system "quickbooks pro" which allows the use of mixed currencies (EURO and Egyptian currency).</i></p> <p><i>This is a mixed accounting system based on cash accounting but allowing some accrual transactions and which allows checking the use of Community funds. The IT infrastructure and server plan are documented, access and back up procedures seem adequate.</i></p> <p><i>Some weaknesses were spotted on the timings and the content of the financial reporting in order to address these shortcomings, technical assistance is provided.</i></p>
<p>(d) An independent external audit exercised by a national institution for independent external auditing</p>	<p><i>In the frame of the twinning contracts and service contracts(TA) expenditure verification reports are included in the contract provisions, to be executed by an independent external auditor (at interim payments and/or at the final payment).For (EU) MS administrations, the auditor is designated in accordance with the regulation prevailing for the MSP.</i></p> <p><i>Audits of the funds managed by the PAO will be undertaken on an yearly basis by an external auditor.. Checks can also be carried out by OLAF and Court of Auditors.</i></p>
<p>(e) Adequate annual ex post publication of beneficiaries of funds deriving from the EC budget.</p>	<p><i>Adequate clauses are included in General Conditions (art11) of the Financing Agreement to be signed with the Egyptian authorities.</i></p>
<p>Prevention of irregularities and fraud and recovery of funds if necessary</p>	<p><i>Adequate clauses are included in General Conditions (art19) of the Financing Agreement to be signed with the Egyptian authorities</i></p>
<p>The Commission will ensure supervision, evaluation and control of the implementation of the tasks entrusted</p>	<p><i>Adequate clauses are included in General Conditions (art20) of the Financing Agreement to be signed with the Egyptian authorities</i></p>

Conclusion: M.Cornaro, Director Aidco/A confirmed that the conditions required by Article 56 the FR are currently being met.

On this basis, the Director proposes that the applicable implementation method to the Annual Action Programme 2009, "Support to the Implementation of the Action Plan Programme and the Association Agreement (SAAP III)" for Egypt will be **decentralised management for the twinning activities and TA service contracts** and submits it to the Commission for decision.

Date: 23 AVR, 2009

Signature: Director AIDCO/A
 Authorising officer subdelegated on BUDGET