

Action Fiche for Arab Republic of Egypt

1. IDENTIFICATION

Title/Number	Upgrading of Informal Areas in the Greater Cairo Region - ENPI/2011/22764		
Total cost	EU contribution: EUR 20,000,000 Parallel financing by <i>Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ)</i> / Bill and Melinda Gates Foundation / Ministry of Planning and International Cooperation		
Aid method / Method of implementation	Project approach – Standalone project approach Delegated Agreement with GIZ Indirect Centralised Management		
DAC-code	43030	Sector	Urban Development and Management

2. RATIONALE

2.1. Sector context

Egypt's cities are rapidly growing, mostly in the absence of governmental planning. Around 20,000,000 people currently live in the Greater Cairo Region, of which 60% live in informal, underserved and densely built areas. The latter lack basic social services, access to drinking water, sewage and waste disposal and proper physical, social and economic integration into the metropolitan area. The extreme population density results in high environmental pollution. The population is mostly poor with a low level of education. Public administration and civil society organizations do not provide sufficient services for improving the living and environmental conditions in urban poverty areas and as such residents often build without obtaining building permits and without any proper connection to public infrastructure. Living conditions and environmental conditions are deteriorating, spatial and social marginalization continues to prevail; poverty is rising, while there continues to be a lack of trust by the poor urban population in the efficiency of the public administration's basic social services.

Against this background the Participatory Development Programme in Urban Areas (PDP) implemented by GIZ in 2004-2010 (EUR 26,800,000) has been the only international development cooperation programme to explicitly target the living conditions in informal areas. Given its significance the Ministry of International Cooperation has requested the continuation of the programme beyond 2011 and has approached the European Commission to partially cover the budget for the new phase. In this next phase the proposed project will address the improvement of the living conditions of the poor population living in deprived informal areas by offering better quality services via public administration and civil society organizations in order to satisfy their needs and improve the environmental conditions in these areas.

2.2. Lessons learnt

A monitoring and evaluation mission was carried out in June 2010, yielding positive results from the PDP program's recent phase. In the frame of the current program and previous phases, infrastructural improvements were achieved in different urban areas as well as dissemination of new methods and processes of cooperation between public administration and civil society have been taking place. Urban Upgrading Units (UUUs) have been established in four governorates in the Greater Cairo Region. This is an important step in the institutional anchoring of participatory development tools.

The main lesson learnt for future support is that the governorate level is the right and effective intervention level for managing the development of informal areas, and for linking interventions to national policies. Integrating physical and social aspects in development activities was and is highly appreciated by the beneficiaries. Hence, the PDP's approach combines the implementation of concrete measures with policy advice. Additionally, diversification of the partner landscape is one of the main factors contributing to success. Therefore, it is important to maintain strong relationships to other stakeholders involved.

Another lesson learnt is that capacity building is an important factor to ensure partner ownership and capabilities. An increased focus will therefore be placed at various levels (district, governorate, and national level) upon strengthening the institutional and managerial capacity of public administration staff to ensure sustainability of the program's objective.

2.3. Complementary actions

Apart from the GIZ led PDP programme there are no other donors currently active in the participatory urban development of informal areas. GIZ/PDP is participating in all discussions about sectoral interventions of other donors affecting urban issues and informal areas (e.g. Japan International Cooperation Agency (JICA) when planning a metro line) or UN-HABITAT (urban development strategies). Synergies or complementary actions with donor programs in the urban sector are ensured.

2.4. Donor coordination

PDP/GIZ is involved in donor coordination on Governance and Human Rights issues in the Participatory Development and Good Governance (PDGG) Donor Partner Group sub-group where the role of NGOs and the civil society cooperation is being discussed. Thus, coordination among EU Member States is carried out in the context of monthly PDGG meetings. Furthermore, an informal coordination group is taking place on a monthly basis where experts from different organizations discuss urban issues. The expert meetings are organized by PDP/GIZ and *Centre d'Etudes et de Documentation Economiques, Juridiques et Sociales (CEDEJ)*.

3. DESCRIPTION

3.1. Objectives

The overall objective of the proposed project is to improve the living conditions of the poor population residing in underserved informal areas by offering better quality services via public administration and civil society organizations in order to satisfy the needs of the residents and to improve the environmental conditions in these informal areas. The proposed project will be implemented in indicatively four informal areas in the Cairo (Ain Shams and Ezbet el Nasr) and Giza (Ezbet Harb and Dayer el Nahia) Governorate of Greater Cairo.

The related specific objectives are the following:

Component 1:

- Improve environmental and socio-economic services in the four pre-identified informal areas as well as physical and social infrastructure, in both quality and quantity.
- Mobilize youth and women to become active participants in the development of informal areas.

Component 2:

- Improve the management of informal area development at a governorate level by using an integrated development approach, where physical, social, environmental and economic aspects are taken into consideration.
- Build up capacities related to informal area development for all relevant stakeholders and partners.
- Improve residents, local administration and civil society awareness of the environmental challenges in informal areas

Hence, the proposed project will contribute to the national efforts of developing informal areas through policy advice at various levels, capacity building and the implementation of development measures.

3.2. Expected results and main activities

The project will focus geographically in the Governorates of Giza and Cairo in Greater Cairo Region in order to capitalize on the existing successful cooperation between PDP/GIZ and these governorates. Following the lessons learned from PDP/GIZ's experience and earlier institutional assessments of partner structures, the management of the proposed project will be multi-levelled:

- Program management at the Ministry of Planning and International Cooperation will provide managerial, administrative and technical support for the project overall as well as coordination with other national and international stakeholders.

- Regional advisory units at Cairo and Giza Governorates for the management of upgrading and intervention activities and partner (Governor) coordination.
- Implementation and monitoring on local level in the selected informal areas.

The proposed project will give special attention to the direct involvement of the local community through participatory techniques in the identification and selection of projects in order to ensure full engagement from local communities and NGOs in the identification of needs. In line with the general and specific objectives the project's expected results are:

Component 1:

- Improved living and environmental conditions of the urban poor in four selected informal areas (source: survey/interviews).
- Enhanced role for the private sector and civil society in informal areas development (source: number of measures they actively participated in).

Component 2:

- Upgraded partner management capacities for informal area development using participatory approaches (source: evaluation of UUUUs).
- Institutionalization of integrated urban development (source: documentation of trainings institutes).
- Creation of a comprehensive and transparent database on four selected informal areas (source: documentation, maps).
- Awareness on environmental challenges among residents, local administration and civil society is raised.

Main activities (ways of achievement of results) are:

Component 1:

- Implementation of participatory needs assessment in the four selected areas.
- Identification and implementation of initiatives and measures (similar to PDP's Local Initiatives) aiming to improve the living conditions in informal areas through upgrading physical, environmental, socio-economic and social infrastructure.

Component 2:

- Capacity development for local administration, private sector and civil society on participatory methodologies and tools.
- Awareness raising campaigns.

3.3. Risks and assumptions

It is assumed that possible changes/reshuffles in the Egyptian administration/leadership could have consequences on the proposed project's operations. A change of decision-makers or local administration personnel working in the UUs could lead to a delay in the implementation of a project. Based on previous experiences, winning the political support through concluding official cooperation agreements with different ministries, governorates and civil society organizations and identifying the exact roles and responsibilities can ensure their commitment. This helps to prevent delays or halting of PDP's activities when counterparts change. Additionally, trained personnel have a tendency to look for better paid job opportunities.

It is also assumed that the proposed project will build on existing relationships/cooperation agreements and will conclude official agreements with new partners. Finally, it is assumed that framework conditions favouring informal area development in Egypt will prevail. The proposed project is building on the experiences of the ongoing PDP. Therefore, the project's approach is well-established.

3.4. Crosscutting Issues

The proposed project will address a number of cross-cutting issues, such as good governance, gender equality, environmental sustainability and climate change as follows:

Good Governance: Participatory development and strengthening the capacities of public administration staff on various levels are central themes of the proposed project. Activities are contributing to good governance as they promote participation of civil society, decentralisation and transparency.

Gender Equality: All activities are gender mainstreamed. In addition, specific measures focusing on the female empowerment will be identified and implemented (e.g. upgrading of health units, income generating activities). Until now, the PDP has gender mainstreamed its planning, monitoring and implementation as well as all materials/products (manuals, curricula, evaluation questionnaires, etc.), being gender sensitized and all PDP staff members trained in gender mainstreaming.

Environmental Sustainability: The upgrade of poor informal urban areas not only leads to societal benefits but also environmental ones as it improves often deteriorating environmental conditions in these areas. Thus the proposed project will finance measures such as initiatives for waste collection, recycling of solid waste, solar energy systems for health clinics, waste water disposal among other projects carried out by NGOs.

Climate Change: The PDP will introduce in the Egyptian context for the first time the topic of adaptation to climate change in informal areas starting in 2011. The objective is to raise awareness and the information level of the public administration, civil society organizations and residents with regard to the consequences of climate change in informal areas. Additionally, small-scale projects to increase the resilience of informal areas towards climate change will be piloted. The proposed project will benefit from these experiences and lessons learned.

3.5. Stakeholders

The executing body for the proposed project is the Participatory Development Programme in Urban Areas (PDP) implemented by the German International Cooperation (GIZ) together with the Egyptian Ministry of Economic Development – now the Ministry of Planning and International Cooperation.

Urban development is a multifaceted field that involves a diversity of stakeholders. The main stakeholders for the implementation are the Governorates of Cairo and Giza in Greater Cairo (regional level). The Urban Upgrading Units (UUU), established by governors' decrees and capacitated by GIZ, act as focal points within the local administration coordinating the project activities horizontally (with other departments at the governorates) and vertically (with district administration).

Furthermore, collaboration with ministries like the Ministry of Local Development or Ministry of Environmental Affairs is essential for policy adaptation based on local practice, replication in other locations, technical expertise and capacity building in thematic, cross-cutting fields, etc. On the regional level, stakeholders are umbrella NGOs (bigger NGOs) mobilizing local communities, capacitating local Community Based Organisations (CBOs) or managing relevant components of interventions, and the private sector for partnerships with local administration. Universities and training institutes provide platforms for capacity development of relevant stakeholders. On the local level, stakeholders are entities such as for example district administrations and the Local Popular Council (elected representatives) regarding the direct implementation of interventions as well as local NGOs (CBOs) regarding operation and management of improved urban services and eventually the local communities.

The beneficiaries are the poor urban residents of the four selected areas in Cairo and Giza Governorates (approximately 1,000,000 inhabitants in total), including women and youth groups civil society organizations and local administration staff in the Cairo and Giza Governorates at governorate and district levels.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

The method of implementation is indirect centralised management in accordance with Article 54(2)c of the Financial Regulation, through the signature of a Financing Agreement with the Ministry of Planning and International Cooperation that will provide for a delegation agreement with GIZ. The delegation agreement under the Financing Agreement will be signed between the EU and GIZ to implement the Participatory Development Programme in Urban Areas (PDP).

Any change of management mode constitutes a substantial change except where the Commission "re-centralises" or reduces the level of tasks previously delegated to the delegated body under indirect centralised management.

4.2. Procurement and grant award procedures

1) Contracts

All contracts implementing the action are awarded and implemented in accordance with the procedures and standard documents laid down and published by the GIZ, with the exception of grant contracts for which the following rules will apply:

2) Grants

Participation in the award of grants contracts for the present action shall be open to all natural and legal persons covered by the ENPI Regulation. Further extensions of this participation to other natural or legal persons by the concerned authorising officer shall be subject to the conditions provided for in Article 21(7) ENPI.

The essential selection and award criteria for the award of grants are laid down in the Practical Guide to contract procedures for EU 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.
- 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.

4.3. Indicative budget and calendar

The total cost of the programme is estimated at EUR 20,000,000. The total EU contribution to the programme is EUR 20,000,000, to be done through a Delegated Agreement with GIZ of EUR 19,700,000 and EU centralised management of EUR 300,000 (audit and evaluation budget line, as specified below).

There will be parallel financing from other stakeholders as specified in the following table:

Name of Organization:	Contribution
German Technical Cooperation	EUR 1,000,000 confirmed EUR 1,000,000 request in process
Bill & Melinda Gates Foundation (Solid Waste Management Strategy, only in Qalyubeya)	USD 5,000,000 (approximately EUR 3,700,000)
Ministry of Planning and International Cooperation	Estimated at LE 4,000,000 plus office space
EU	EUR 20,000,000

The indicative breakdown of the EU funds is as follows:

Component	Estimated costs (in EUR)	Implementation
1. Development of informal areas including fund management	12,000,000	Grants and service contracts. Physical and social infrastructure interventions, socio-economic and environmental activities through fund
2. Capacity building including technical assistance	5,600,000	Service contracts (consultants) and technical assistance
Operating Costs (7%)	1,400,000	Overheads for GIZ
Audit, evaluations	300,000	Service contracts
Visibility	150,000	Service contracts. PR campaigns, publications etc.
Contingencies	550,000	
TOTAL	20,000,000	

Procurement procedures and call for proposals will indicatively start to be launched within 6 months following the signature of the Delegation Agreement and Financing Agreement. The implementation of the project will indicatively take a total of 48 months from the signature of the Financing Agreement and Delegated Agreement to the end of the project's activities, plus a 24 month closure phase.

4.4. Performance monitoring

Monitoring and Evaluation will be conducted on a permanent basis by a Monitoring and Evaluation Expert according to the system applied by GIZ, entailing regular reporting responsibilities of GIZ to be further specified in the EU Delegation to Egypt's Delegation Agreement and the Financing Agreement. Performance indicators will form part of the EU-GIZ Delegation Agreement and the Financing Agreement.

Furthermore, field visits, regular reporting from staff located in regional advisory units in Cairo and Giza Governorates and different partner evaluation workshops will take place to evaluate achievements.

Finally, an annual report will be submitted by GIZ highlighting the progress of implementation, obstacles faced and the extent to which the project is achieving its objectives.

4.5. Evaluation and audit

All evaluation and audit contracts will be awarded and implemented by the European Commission 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. The programme will be also subject to an annual financial and system audit launched by the European Commission as well as Results Oriented Monitoring.

4.6. Communication and visibility

Communication and visibility are considered a key component of the project and will be implemented by the GIZ. A comprehensive communication strategy will be developed. Activities to improve awareness are envisaged including workshops and dissemination events, visibility materials and the media. All communication and visibility activities are aligned with the EU Communication and Visibility Manual and the GIZ guidelines. The EU Manual will take precedence in the event of incompatibility.

Action Fiche for Arab Republic of Egypt

1. IDENTIFICATION

Title/Number	Trade and Domestic Market Enhancement Programme - ENPI/2011/22767		
Total cost	EU contribution: EUR 20,000,000		
Aid method / Method of implementation	Project Approach – Partial Decentralized Management and Joint management through Standard Contribution Agreement with the European Patent Office		
DAC-code	331, 321	Sector	33110, 33120, 33140, 32110

2. RATIONALE

2.1. Sector context

Since 2004 Egypt has expanded the scope of its overall trade reforms to include trade liberalization and industrial modernization. New tariff schemes were implemented in 2010 reducing the weighted average tariff from 14% to 5.5% in 2010. New import and export regulations were also issued which introduced for the first time border enforcement of intellectual property rights together with a number of trade facilitation provisions and measures.

In terms of EU-Egypt trade relations, the EU-Egypt agreement on the trade of agricultural products, processed agricultural products and fishery products entered into force in June 2010, accounting for the bilateral trade liberalization of some 90% of these goods. In order to achieve further liberalization Egypt needs to strengthen its position as regards to trade remedy application and utilization. Egypt's first law to comply with the World Trade Organisation trade remedy provisions was Law No. 161 *Concerning the Protection of the National Economy from the Effects of Injurious Practices in International Trade* that was passed in 1998. Since the adoption that same year of an implementing regulation in that same year, Egypt has been a consistent but moderate user of trade remedies. In order to be in a position to adopt measures which are in strict compliance with its international obligations, but also to defend its interests in trade remedy proceedings conducted by other countries, Egypt needs to continue to draw on the experience of experts. Egypt also needs to be able to use multilateral and bilateral dispute settlement systems, an area where it currently only has very limited expertise.

As regards industrial policy Egypt's priorities include strengthening the quality infrastructure according to international norms and standards for key industrial sectors. In this context, Egypt is working to open negotiations with the EU on the Agreement of Conformity Assessment and Acceptance of Industrial Products (ACAA), a tool that is expected to favour Egypt's access to the EU internal market and further allow the free movement of goods between the two sides. Signing the ACAA will also be instrumental in promoting EU-Egypt industrial cooperation.

Vertical legislation is being aligned for some priority ACAA sectors - including toys, gas appliances, construction products, electrical appliances, pressure equipment, medical devices, machinery and vehicles and their parts.

The horizontal legislation concerning standardization, conformity assessment and accreditation, is also being aligned, but Egypt still lacks a full fledged national quality policy as well as a market surveillance strategy. Independence of quality infrastructure institutions needs to be achieved in order to avoid conflict of interests. Conformity assessment bodies are accredited according to international standards, but not in all chosen sectors and they are not yet fully operational to become notified bodies (both at level of competences and equipment). Reliability of test results needs to be enhanced through implementing regular proficiency testing schemes.

2.2. Lessons learnt

Of highest relevance to the proposed programme, are the lessons learned from the Trade Enhancement Programme 2004-2007 for the Ministry of Trade and Industry which was generally regarded as a successful Technical Assistance (TA) programme. The final evaluation report of 2008 provides a few key lessons into future programming, in particular, to keep the beneficiary's trade policy and the programme's objectives fully aligned throughout the course of its implementation and to put a strong emphasis on the recruitment of specialized expertise.

2.3. Complementary actions

In parallel to this, the EU Technical and Vocational Education Training Project, co-financed by the Ministry of Trade and Industry, is supporting the skills upgrade of a large number of vocational workers across Egypt, also including export oriented industries. A twinning program, in support of the Egyptian Accreditation Council which contributed to the improvement of accreditation services and the re-organization of its Industrial Quality Assurance System on the accreditation track, was just concluded. Upcoming twinning programmes, for which complementarities and cross fertilization with the trade TA envelope are being ensured, include one twinning with the Egyptian Organization for Standards and one twinning with the Consumer Protection Agency both due to be launched in 2011.

2.4. Donor coordination

United States Agency for International Development (USAID) is currently tendering a USD 14,000,000 trade programme (USD 13,000,000 for TA and USD 1,000,000 for equipment). Beneficiaries of this programme are two ministries, the Ministry of Industry and Trade and the Ministry of Finance represented by the Egyptian Customs Authority. The main objective of this programme is to improve conditions for trade and investment and to create an efficient trade system that streamlines the flow of goods both internally and at the border. Meetings have been held between the EU Delegation and USAID Cairo Office staff to share programming documents and information. Further cooperation will occur as the implementation phases start to ensure that no duplication of activities occurs and indeed that the two programmes can be mutually reinforcing.

3. DESCRIPTION

3.1. Objectives

The *general objective* of the program is to assist the Ministry of Trade and Industry in the implementation and execution of key policy reforms in order to sustain economic development and Egypt's further integration into the global and regional economy.

The *specific objectives* are to implement trade and domestic market related reforms that will 1) increase Egypt's benefit from international trade policy and agreements 2) foster industrial policy, in particular improve the quality infrastructure necessary for trade liberalisation, especially towards the EU market.

3.2. Expected results and main activities

The proposed programme will include two components i) foreign trade and trade agreements iii) industrial policy and quality infrastructure. Horizontal coordination between the two components will to be ensured

Each component shall include, but will not be limited to, a set of results and activities as follows.

Component 1: Foreign trade and trade agreements

R1.1 Rules and procedures relating to foreign trade (import/export law, Intellectual Property Rights (IPR) law, trade remedies, etc) improved.

R1.2 Reinforced capacity of the Ministry of Trade and Industry to negotiate trade agreements and analyze legal, environmental and trade implications of international agreements.

R 1.3. Stronger reinforcement of IPR

Activities in this component will contribute to capacity building in, *inter alia*, trade defence, trade in services, trade facilitation, IPR and trade related legal service and IT department within the Ministry of Trade and Industry. Further indicative support will be provided in the form of legal advice, legal and technical training, study tours, seminars, workshops, outreach events improving awareness in public and private sectors.

Component 2: Industrial policy and quality infrastructure

R2.1 Establishment of a proper regulatory environment for the initiation of negotiation on ACAA including National Quality Policy; horizontal legislation; sector legislation and market surveillance strategy.

R2.2 A national quality infrastructure in line with requirements defined in ACAA.

R2.3 Support the Ministry of Trade and Industry to promote industrial policies

Activities will focus on supporting the alignment of the quality infrastructure bodies and the harmonization of the technical regulations in order to meet requirements to

open ACAA negotiations. A further emphasis will be on the provision of capacity building, advisory services and equipment to key Ministry of Trade and Industry departments involved in industrial policy formulation.

3.3. Risks and assumptions

The actions here identified reflect currently projected priorities of the Ministry of Trade and Industry in key policy areas for the 2012-2014 periods. The degree of outcome effectiveness assumes a strong ownership by the Ministry of Trade and Industry and, linked to it, a reconfirmation of these priorities following presidential and parliamentary elections in end 2011. It is thus assumed that a fair degree of flexibility shall be preserved at this stage so as to allow further targeting of specific activities during the programme launch.

Coordination between international donors and the EU Twinning projects will also remain necessary to avoid overlapping between programmes addressing trade related issues in Egypt. In particular a coordination mechanism shall be established between the different programme managers.

3.4. Crosscutting Issues

The programme directly addresses the issue of sustainable development and environmental protection, by targeting activities aimed to increase the range of quality products of the markets, target the application of environmental-and safety standards to domestic and export products, and improve the domestic market base towards a long-term sustainable and equitable structure.

Poverty reduction will also be addressed, though more indirectly. Trade liberalisation and integrating in the global economy will imply a diversification of standard trade patterns, the improvement of product quality, and, ultimately, more jobs and lower product prices for the population.

Consumer protection through upgrading of product standards, higher controls on food and agricultural products, and tighter control of counterfeited products is expected to have a clear and positive impact on reducing consumer health risks.

3.5. Stakeholders

The programme partner will be the Ministry of Trade and Industry, which will implement the programme through its affiliated agencies and/or specialized departments.

Other stakeholders shall be involved either directly or indirectly in the various programme components, if appropriate.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

The programme will be implemented through the signature of a Financing Agreement with the Egyptian government providing for a) partial decentralised management; and b) joint management.

a) Partial decentralised management through the signature of a financing agreement with the Government of Egypt, in accordance with Article 53c and 56 of the Financial Regulation. This method of implementation will be adopted for all budget headings, except 'Monitoring, audit and evaluation, visibility', which will be implemented with a centralised management.

The Ministry of Foreign Trade and Industry will be responsible for procurement procedures related to service and supply contracts for component 1 and 2. The Commission controls ex ante all the procurement procedures except in cases where programme estimates are applied, under which the Commission applies ex ante control for procurement contracts > EUR 50,000 and may apply ex post for procurement contracts • EUR 50,000. The Commission controls ex ante the contracting procedures for all grant contracts.

Payments are executed by the Commission except in cases where programmes estimates are applied, under which payments are executed by the beneficiary country for operating costs and contracts up to the ceilings indicated in the table below.

The responsible 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
< EUR 300,000	< EUR 150,000	< EUR 200,000	• EUR 100,000

Any change of management mode constitutes a substantial change except where the Commission "re-centralises" or reduces the level of tasks previously delegated to the beneficiary country under decentralised management.

b) Joint management through the signature of a Standard Contribution Agreement with the European Patent Office in accordance with Article 53.d of the Financial Regulation. This office complies with the criteria provided for in the applicable Financial Regulation. The European Patent Office possesses a unique experience supporting national intellectual property authorities by providing guidance on building up and organising IP offices, training general and specialist personnel and related technical support to these authorities.

This method of implementation will be adopted for parts of the management of Component 1 (Intellectual Property).

Under the joint management through standard contribution agreement method, all contracts implementing the action are awarded and implemented in accordance with

the procedures and standard documents laid down and published by the International Organisation concerned.

4.2. Procurement and grant award procedures

1) Contracts

All contracts implementing the action must be awarded and implemented in accordance with the procedure and standard documents laid down and published by the European 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. Further extensions of this participation to other natural or legal persons by the concerned authorising officer shall be subject to the conditions provided for in Articles 21(7) of the ENPI Regulation.

2) Specific rules for grants

The essential selection and award criteria for the award of grants are laid down in the Practical Guide to contract procedures for EU 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 and Regulation (EC) No 1638/2006 - European Neighbourhood and Partnership Instrument. 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 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.
- 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 (i.e. the Practical Guide to procedures for programme estimates).

The EU financial contribution covers the ordinary operating costs deriving from the programme-estimates.

4.3. Indicative budget and calendar

Out of the EUR 20,000,000 envelope allocated under the NIP 2011-13, around EUR 16,000,000 will be dedicated to service contracts, while the remaining EUR 3,500,000 are expected to be used for buying equipment (provision of laboratory

equipment and other supplies) necessary in particular in EU *acquis* approximation areas.

This programme will be entirely financed by the European Union, while the Ministry of Foreign Trade and Industry will provide office space for the project management staff and experts teams. The budget will be divided according to the programme objectives.

Indicative Programme Budget Allocation	Total
Equipment	3,500,000
Component 1 (Foreign Trade/Trade Agreements) : (includes joint agreement with EPO)	6,700,000 (1,500,000)
Component 2 (Industrial policy /ACCA):	6,700,000
Visibility and communication:	900,000
Program Support Office	1,300,000
Monitoring, audit and evaluation, visibility	400,000
Contingency:	500,000
Total:	20,000,000

The indicative operational implementation of the program will be 42 months and the closure phase will be 24 months.

4.4. Performance monitoring

The Programme will be supervised by a Programme Executive Committee (PEC), the Steering Committee for the programme, that will include representatives of the key stakeholders together with key business representatives, as deemed appropriate by the Executive Committee. The EU Delegation will participate as an observer.

A Programme Support Office (PSO) will be responsible for managing the programme and monitoring of activities, results, and the implementation of the grants projects, and will be responsible for submitting regular reports to the EU Delegation on project status. The head of the PSO will be appointed by the Egyptian government who will then recruit other staff members.

The PSO will report to the PEC.

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

4.5. Evaluation and audit

The programme will be subject to an annual external financial and system audit contracted directly by the Commission, as appropriate.

Mid-term and final evaluations by external consultants will be performed in accordance with the European Commission procedures.

4.6. Communication and visibility

The European Commission will ensure that adequate communication and visibility is given to EU funding by the Ministry of Trade and Industry (press conferences, brochures/flyers, media reports, etc.) in line with the EU manual on visibility. The EU Delegation in Cairo will organise one conference in cooperation with the

Ministry of Trade and Industry to present the new project to main stakeholders. A visibility campaign about new developments in trade in services and trade defence will be launched in a bid to improve the communication between the private and public sector.

Action Fiche for Arab Republic of Egypt

1. Identification

Title/Number	Energy Sector Policy Support Programme (SPSP) - ENPI/2011/22763		
Total cost	EU contribution: EUR 60,000,000 (EUR 30,000,000 in 2011; EUR 30,000,000 in 2012)		
Aid method / Method of implementation	Sector Policy Support Programme: - Sector budget support (centralised management).		
DAC-code	23010	Sector	Energy policy and administrative management

2. Rationale and country context

2.1. Country context and rationale for SPSP

2.1.1. *Economic and social situation and poverty analysis*

The economy has proven resilient to the global crisis, thanks notably to appropriate reforms and stimulus actions implemented by the government of Egypt, as well as a low level of financial integration with world financial market. GDP growth was higher than expected at 5.2% in Fiscal Year (FY) 2009/10 thanks to consumption spending and production in the construction, communications and trade sectors, as well as a resurgence of tourism. Consumer price index (CPI) inflation, which lowered steadily during FY 2009/10, accelerated again at 10.9% in August 2010, with core inflation at 8.2%, i.e. slightly above the central bank's informal comfort zone. With growth expected at 6% in FY 2010/11, the priority should be to resume fiscal consolidation towards the 3% budget deficit (to GDP). While Foreign Direct Investment inflow levels compared to previous years remain low, portfolio inflows have picked up during FY 2009/10 and have shifted the level of international reserves to above its pre-crisis level.

As a result of this strong economic performance and appropriate policy reforms, Egypt has reported progress in most of the Millennium Development Goals. Poverty in Egypt remains widespread, mainly in rural (77% of the poor) areas, whereby the most acute areas are in Upper Egypt (40% poverty). Unemployment, at 9.4%, is concentrated among women and youths.

2.1.2. *National development policy*

Egypt's long-term development programme is set out in its 1997-2017 National Plan, which is put into operation through the Five-Year Plan. The Five-Year Plan is the main framework for planning investment in Egypt, in the absence of a Medium Term

Expenditure Framework. The Plan has been developed by the Ministry of Economic Development and adopted by the Government.

The latest Plan covers 2007/8-2011/12 fiscal years and focuses on socioeconomic development, notably through improving living standards and social security, economic growth and job creation and fostering private sector participation in the economy. Key targets of the plan are annual GDP growth rates of 8%, poverty reduction from the 20% to 15% and decrease in unemployment from 9.6% to 5.5%. Considering the 2008-2009 global crisis and its effect on the Egyptian economy, these ambitious targets are unlikely to be met by 2012, but are expected to remain feasible in the longer-term.

2.2. Sector context: policies and challenges

Sector context: The institutional setup of the energy sector in Egypt is still characterized by the overarching goal of providing sufficient subsidised energy supply and developing the oil and gas sector based on the country's own reserves. Both ministries responsible (Petroleum and Electricity) are supply-oriented and control economically important state-owned companies.

The Egyptian electricity sector is going through substantial changes and is evolving with the government by seeking alternatives and more efficient means to meet demand and secure energy. The high reliance on increasingly scarce crude oil and valuable natural gas has become a concern, as growing dynamic population and economic development are quickly driving up consumption. Sector reforms are starting to yield results, laying the ground for market liberalization and enhanced participation of the private sector.

In 2007, the government set the objectives of producing 20% of its electricity from renewable energy, to cut its green house gas emissions by 20% and to reduce its energy intensity by 20% by 2020. A recent study "Egypt Energy Strategy to 2030" has been endorsed by the government Supreme Energy Council with the aim to achieve the following : (i) ensuring long-term security of energy supply for Egypt; (ii) optimizing the use of the country's energy resources to ensure sustainable economic development; (iii) increasing the efficient utilization of energy in the local economy; (iv) ensuring that social objectives are met, by reconciling the need to ensure energy is affordable and all sections of society have access to basic energy services; and (v) promoting and enforcing the environmentally sound supply and consumption of energy. The Government now intends to include the selected policy options into a five-year action plan (or 'White Book' as mentioned in the EU-Egypt Energy Memorandum of Understanding (MoU)) (Annex 1: additional information on institutional reforms).

Assessment of the sector budget and its medium term financial perspectives: Energy sector development planning and costing is under the responsibility of the Ministry of Petroleum and the Ministry of Electricity and Energy. However, delivery of services and infrastructure investment is off-budget, i.e. under the responsibility of enterprises, either private or state-owned. State-owned enterprises (SOEs) finance their development from their own revenues, without direct government contribution. However, the potential impact of the energy sector on public finances is considerable

as SOE's investments, mainly financed through concessional loans from International Financial Institutions and Arab funds, are covered by state guarantees that create contingent liabilities.

Investment needs in the energy sector are considerable due to the high demand of growth patterns. EGP 73.6 billion (approximately EUR 10 billion) were needed to implement the 2007/8-2011/12 plan. The financial feasibility of the electricity and gas development plans may be jeopardised by limits to more concessional loans. Realising this, the government developed a policy to involve the private sector in sector development. Energy market liberalization reforms were launched with the objective, among others, to gradually limit the Government's involvement and contingent liabilities in sector development. An important element of reform will be to improve financial transparency of the energy sector, notably SOE financial reporting and quasi-fiscal activities and contingent liabilities arising from investments covered by the state's sovereign guarantee.

In addition, the government heavily subsidizes the energy sector through imposed low tariffs and reduced rates of return on its energy enterprises. Energy subsidies were expected to account for about 18% of total budget in FY 2009/10. The government had started to increase energy prices in 2004, but froze prices in the midst of the crisis in 2008. More transparency is a preliminary condition to tariff and subsidy reforms.

Donor coordination: The reform process is coordinated by the Supreme Energy Council and chaired by the Prime Minister, while donors have established a Development Partner Group for Energy and Environment.

Assessment of institutional capacity: The institutions which will be involved in the Energy SPSP have the basic capacity necessary to implement what will be required, but complementary technical assistance (TA) will be necessary to accompany reforms.

Performance monitoring: Performance monitoring activities are coordinated by the ruling party's energy committee but are rather input-oriented. It is envisaged that a comprehensive and centralised performance monitoring framework for the energy sector should be established as part of the future five-year action plan ('White Book').

Macroeconomic framework: The Egyptian economy managed to maintain its growth momentum during FY 2009/10, registering a preliminary GDP growth rate of 5.2% compared to 4.7% in FY 2008/09, against the backdrop of a slow global economic recovery after the 2008 economic crisis. The rebound in growth has been driven mostly by private sector consumption, on the back a series of government fiscal stimulus packages, and by strong activity in sectors like construction and telecommunications. Key sectors in Egypt have been gradually recovering; however Suez Canal revenues are still lagging behind pre-crisis levels, due to the persistently lower global trade volume and a still weak EU economic recovery (Annex 2: Additional information on the macroeconomic framework).

Public Financial Management (PFM): Several PFM diagnostics exercises have been conducted in the last 4-5 years with the support of donors. Taking the Public Expenditure and Financial Accountability (PEFA) as the most analytical and most recent of such exercise, and analysing PFM from the perspective of the six core dimensions of the PEFA, it appears that Egypt's PFM system functions fairly well and supports the three budgetary outcomes of fiscal discipline, resources allocation efficiency and service delivery. (Annex 3: additional information on public finance management).

2.3. Eligibility for budget support

Egypt is eligible for sector budget support based on the analysis undertaken.

Eligibility criterion 1: A sector development or reform policy and strategy. The government endorsed in February 2010 a study for an 'Energy Strategy 2030', and now intends to develop a five-year Action Plan (or 'White Book' as mentioned in the EU-Egypt Energy MoU) where it will select key priority policy options for the midterm. Finally, the government has drafted a new Electricity Law that organizes the gradual liberalization of the energy market. In addition, the Government is considering a reform of the gas market regulation.

Eligibility criterion 2: A sound macroeconomic policy. Egypt's economy has grown steadily in the last five years and proved resilient to the international financial crisis. The IMF has recently commended the Government for its macroeconomic policies and for its appropriate reaction to the recent global financial crisis.

Eligibility criterion 3: A satisfactory trend in PFM reform. The Ministry of Finance has achieved considerable progress in improving the PFM system in the last six years, notably budget transparency. As the Ministry of Finance is currently launching a fiscal decentralisation reform, the ad hoc inter-ministerial committee created for that purpose has started working on formulating a comprehensive strategy document for PFM improvement.

2.4. Lessons learnt

The proposed Energy SPSP takes into account lessons learnt from previous SPSPs in other sectors in Egypt, and hence favours: (i) the use of variable annual instalments and (ii) the design of conditions which will not depend on the fulfilment of other conditions, so as to avoid a domino effect.

Additionally, experiences of other donors (mainly World Bank), such as the failure to promote increased energy tariffs through conditionality, were taken into account during the formulation phase. Indeed, it has proven more effective to support the policy dialogue and to focus on good corporate and public administration governance such as promoting transparency of financial operations in the energy sector, thus exposing quasi-fiscal activities, the real cost of subsidies to the society, their inequity and their distortional impact on the market and sector development.

2.5. Complementary actions

In order for the Energy SPSP to achieve maximum effectiveness, complementary action is needed in the form of specific advisory and Technical Assistance projects, including the ones already in progress and planned at national and regional levels, as well as short-term missions for audit, evaluations and reviews. These actions need to be coordinated with those of other donors, in particular the European Investment Bank, the World Bank, *Gesellschaft für Internationale Zusammenarbeit* and *Kreditanstalt für Wiederaufbau*, United Nations Development Programme, African Development Bank, *Agence Française de Développement* and Japan International Cooperation Agency. A technical assistance contract of EUR 1,000,000 was awarded to provide support in terms of capacity building to the Egyptian Electricity Regulator (EgyptERA).

2.6. Donor coordination

Donors have established a Development Partner Group for Energy and Environment. The Group meeting on a monthly basis to discuss energy issues has ensured a high degree of coordination among donors. The Group was consulted during the preparation of this SPSP.

3. Description

3.1. Objectives

The overall objective of the proposed Energy SPSP is to assist Egypt in putting in place and implementing its programme of energy reforms as well as fostering implementation of its strategic energy partnership with the EU with the purpose of improving energy security and sustainable development.

The specific objectives of the proposed SPSP are to: (i) improve the energy policy and regulatory framework; (ii) improve financial transparency and performance of the energy sector; (iii) promote development of renewable energy sources and mitigation of Greenhouse gas emissions; and (iv) promote energy efficiency.

These objectives are in line with the study “Energy Strategy 2030” endorsed by the Supreme Energy Council in February 2010 and the EU-Egypt MoU for an Energy Strategic Partnership. The commitment of Egypt to develop renewable energy potentials and programmes for more efficient utilisation of energy will have a strong impact on the environment.

3.2. Expected results and main activities

The expected results and main activities are as follows:

- (1) Improvement of the energy policy and regulatory framework
 - Update of the energy policy framework:
 - Progress in converging energy market regulations with those of the EU

- A proposal for the regulation of the Egyptian gas sector
- (2) Improvement of the energy sector financial transparency and performance
- Improved transparency of electricity tariffs and subsidies
 - Improved transparency of fiscal risks arising from state guarantees
 - Improved financial transparency of SOEs:
- (3) Promote the development of Renewable Energy sources
- Widen the use of solar water heaters in buildings:.
 - Wind and solar power development programmes are on-track
- (4) Promote Energy Efficiency
- Consolidation of the Energy Efficiency institutional and policy framework
 - Energy savings programmes for public buildings and street lighting are pursued.

3.3. Risks and assumptions

The basic assumptions underlying the Energy SPSP are the following:

- Prevalence of political, economic and social stability in Egypt.
- Sustained commitment of Egypt to the ENP Action Plan and EU-Egypt strategic energy partnership.
- Sustained commitment of Egypt to energy sector reforms, including energy pricing.

The risks underlying the Energy SPSP are set out in the table below:

Risks	Level¹	Risk mitigation measures
Commitment of all Energy SPSP partners to engage actively in a sector approach and raise the level of policy dialogue with donors and among themselves.	M	Involvement of the Ministry of Finance at an early stage in the preparation and implementation phases of the SPSP. Focus of the SPSP on areas where there is a clear committed counterpart or wide consensus in government.
Slow progress of energy reforms until the end of the electoral process in	H	Most of Energy SPSP conditions will be assessed

¹ Risks are broadly divided in low (L), medium (M), and High (H)

Egypt (parliamentary and presidential elections).		in FY 2012/13 and 2013/14, i.e. well after the end of the electoral process.
Insufficient human resources.	L	Build the necessary human capital through complementary actions.

3.4. Stakeholders

The key stakeholders consist of the Ministry of International Cooperation, Ministry of Finance, the Ministry of Petroleum, the Ministry of Electricity & Energy, the electricity regulator EgyptERA, the Secretariat of the Supreme Energy Council ('Energy Efficiency Unit'), the New and Renewable Energy Authority and the Egyptian Electricity Holding Company.

3.5. Crosscutting Issues

The commitment of Egypt to the development of renewable energy potentials and the programmes for more efficient utilisation of energy will have a strong impact on the environment. The Energy SPSP will have a significant impact on the environment with the reduction of greenhouse gas emissions and other pollutants in order to achieve more efficient utilisation of energy resources and development of renewable energies in all sectors of the Egyptian economy. The estimated reduction of GHG emissions for solar and wind power plants considered in the Energy SPSP as targets will amount to 2,400,000 tons CO₂ per year when connected to the grid and operational while the energy efficiency measures should lead to a reduction of 280,000 tons CO₂ per year.

The approval of the Electricity Law, the preparation of the White Book and the work on the gas sector regulation will also lead to positive environmental impacts in the medium and long term and lead to successful achievements in climate change. Finally, the Energy SPSP also addresses energy tariff reform through better transparency of service costs and through expected resumption of annual tariffs increase. These will positively impact the consumer's behaviour regarding energy use which will lead to a better environment (Annex 4: additional information on crosscutting issues).

4. Implementation issues

4.1. Method of implementation

Direct centralised management for both the budget support and the TA components (service contracts) of the Energy SPSP, through the signature of a Financing Agreement with the Government of Egypt.

4.2. Procurement and grant award procedures

All 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 ENPI regulations. Further extensions of this participation to other natural or legal persons by the concerned authorising officer shall be subject to the conditions provided for in 21(7) ENPI.

4.3. Indicative budget and calendar

The total amount of the programme is EUR 60,000,000. EUR 30,000,000 will be committed in 2011. This will be complemented by an additional EUR 30,000,000 from 2012 funds subject to the availability of budgetary resources. The additional commitment of EUR 30,000,000 will be made as soon as 2012 commitment credits become available. EUR 56,000,000 will be earmarked for budget support to be split up into three tranches. All tranches shall be released after the Commission services ascertain that the conditions for each instalment are met. The programme will allocate EUR 3,500,000 for TA and EUR 500,000 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 constitute the platform for policy dialogue between the European Commission and all SPSP stakeholders. The SC will be in charge of monitoring the SPSP implementation. It will be assisted in this task by external monitoring missions that will take place at least once a year and will give an independent evaluation of the general progress of the programme and the fulfilment of criteria attached to the disbursement of each budgetary support instalment. These external monitoring missions will be contracted by the EU and financed from the SPSP complementary action budget.

4.5. Evaluation and audit

An external evaluation, contracted by the European Commission will be carried out at the end of the programme. This does not preclude the European Commission to require interim evaluations if deemed necessary.

4.6. Communication and visibility

The Energy SPSP will follow the “Communication and Visibility Manual for EU External Actions” issued by the European Commission. Proper communication and visibility of the action will be achieved via regular joint communication events, in particular on the occasion of the release of budgetary support instalments.