

## Annex 4

### **ACTION FICHE FOR EGYPT**

#### **1. IDENTIFICATION**

|                              |   |        |  |
|------------------------------|---|--------|--|
| Title                        | Transport Sector Policy Support Programme       |        |  |
| Total cost                   | EUR 80 000 000                                  |        |  |
| Aid method / management mode | Sector budget support (centralised management); |        |  |
| DAC-code                     | 21010   | Sector | Transport policy and administrative Management |

#### **RATIONALE AND COUNTRY CONTEXT**

##### **1.1. Economic and social situation**

Egypt's economy has continued to be dynamic during the last years. Real GDP growth in 2007-2008 is estimated at 7.3%, thanks to a continued - but slower - expansion of the oil and gas sectors and to increasing activities in labour intensive sectors, such as agriculture and manufacturing. Fiscal imbalances and unemployment have narrowed. Preliminary data indicates that the 2007-2008 deficit will fall to 6.9% of GDP, below the 9% level of recent years. However, the mastering of the inflation remains difficult. Strong domestic demand, reduction in subsidies in core products and price increases of imports and administered products lifted the headline (urban) inflation rate to 16.4% in April 2008.

Egypt is listed as a medium-level performer in the UN Human Development Index (published in 2007), ranked 112 out of 175 countries. Egypt continues to face the challenge of tackling critical social issues such as life expectancy, literacy, education, standards of living, employment and child welfare. Unemployment, especially among youth (32% of the population are less than 15 years), is a major concern to the government, and emphasis has been given to remedying the mismatch between output of the education system and the demands of the labour market. More recently, progress has been made in improving some of the non-income dimensions of poverty: a number of Millennium Development Goals targets are being met in literacy, mortality and health status.

As a result of recent economic developments and policy choices, Egypt still enjoys a relatively high degree of macro-economic stability, fulfilling the relevant eligibility criterion for budget support. However, challenges emanating from recent price developments need to be monitored carefully.

## 1.2. Cooperation policy of beneficiary country

Egypt-EC transport cooperation is based on the transport chapter of the ENP Action Plan (signed in March 2007), which reflects the Government of Egypt's (GoE) priorities in the transport sector.

## 1.3. Government Sector Programme

The policy paper on transport approved by the Cabinet was translated into policies and actions in the 6th National Development Plan (2007/20008–2011/2012) voted by the Parliament and adopted by GoE. This plan envisages both investment programmes and policies aiming at expanding production capacities and improving social services and infrastructure. The current Egyptian transport policy aims at reforming the transport sector while improving and modernizing infrastructure required for achieving the targeted GDP growth and economic liberalisation.

### Public finance management

Public finance is in the process of a wide-ranging overhaul:

- Budget classification is being modernised and a Treasury Single Account (TSA) is progressively being established;
- Generalised Sales Tax and Income Tax are now put under a single Tax Commissioner and a fully-fledged VAT is being prepared;
- Subsidies are being made explicit in the budget and at the same time being reassessed in terms of their economic and social relevance;
- Fiscal compliance is enhanced through expanding the tax base and removing unjustified tax exemptions.

As for Egypt's public finance management (PFM), credible reform efforts are ongoing, in particular technical assistance programmes by the IMF and USAID. Recommendations from the World Bank (WB) addressing the the most critical weaknesses in PFM are being followed up.

The EC envisages reinforcing PFM related matters through:

- a) EC support for the WB's initiative for creation of a group on PFM issues (to be created during 2008)
- b) Preliminary talks have been launched with the WB to suggest to the Egyptian authorities to conduct a joint PEFA assessment. Terms of reference for a full assessment on public finance management in Egypt are being developed and will be launched most probably during the second semester of 2008. This will include an extensive public expenditure and financial accountability (PEFA) based PFM assessment in general and in the transport sector. Recommendations of this assessment will be beneficial for the development of the PFM related disbursement criteria.

Egypt is eligible for sector budget support based on the analysis undertaken and based on the assumptions as specified in 13.5.

#### **1.4. Lessons learnt**

This programme will be the first of its kind in the transport area in Egypt. However, some lessons can be drawn from other budgetary support programmes implemented in Egypt in other areas (e.g. SPSP Spinning and Weaving, SPSP Water). These lessons are:

- Conditionalities should be achievable and not overly ambitious. The programme should promote the process of reforms. In this respect, the coordination of donor's efforts are important to build up a consensus for a policy change;
- The programme should help in animating a national policy dialogue around the transport sector in Egypt, including representatives from the private sector and taking into account of international experience in certain transport issues;
- Building support for transport policy reform should be done by showcasing stakeholders' benefits from such reforms;
- Problems should be well diagnosed in order to ensure that measures under this programme will be well defined so as to promote investment in specific areas needed to promote concepts such as multimodality and interoperability;
- The existence of powerful interests should be adequately taking into account when establishing conditionalities.

#### **1.5. Complementary actions**

The Regional Transport Action Plan (RTAP) 2007-2013, solicited by the Euro-Mediterranean Ministerial Conference of Marrakech, comprises a set of actions in different transport sectors (maritime, road, railways and civil aviation) and targets mainly a regulatory (institutional) reform and infrastructure network planning and implementation.

The RTAP 2007-2013 foresees that transport planning and policy are better coordinated at differentiated levels (national transport strategies, the ENP Action Plans). Several actions are to be implemented at the national level but monitored at the multilateral level. This will be done in the framework of the Euro-Mediterranean Transport Forum, ongoing and future EuroMed regional projects (e.g. SAFEMED, Motorways of the Sea, and Rempec).

In addition, the EC has identified 3 high priority twinning arrangements in the field of transport safety -respectively with the Egyptian Authority for Maritime Safety (already ongoing), the Egyptian National Railways and the Roads, Bridges and Land Transportation Authority-; all three authorities are operating under the umbrella of the Ministry of Transport.

Other donors-funded activities in the field of transport include:

- USAid study on the reform of PFM in Egypt;

- The assistance provided by UNDP to the Egyptian parliament on budget control;
- The support provided by the Japanese Development Agency (JAICA) to the Egyptian Government for the development of a national transport master plan;
- UNDP/GEF programme to promote the use of environmental friendly vehicles in the specific governorates in Egypt;
- Activities in the fluvial transport sector funded by the Netherlands;
- France's funds for the construction of a third line of the Cairo Metro Network;
- Projects in preparation by the World Bank, (one in the field of railways -USD 120 million- other on urban transport management -USD 100 million).

## 1.6. Donor coordination

Cooperation between different donors has been close and effective in recent years through the Donors Assistance Group (DAG). Discussions for the creation of a specific sub-group on transport are ongoing in order to focus efforts and consultative work on this specific issue. This sector sub-group on transport will be in place before the start of this programme. Meanwhile, regular consultations with other donors are in place on an *ad hoc* basis.

## 2. DESCRIPTION

### 2.1. Overall Objectives

The objective of the envisaged budgetary support operation is to provide assistance to Egypt's efforts to reform the transport sector. These efforts relate to the implementation of a series of administrative, regulatory and legal measures to improve access and quality of transport as well as the restructuring of the different financial flows to enhance efficient use of resources.

### 2.2. Specific Objectives

While focusing on Road and Rail modes, support the Egyptian Ministry of transport to implement an updated transport policy framework with a view to:

- put in place an efficient, competitive and sustainable freight transport
- improving accessibility and affordability of safe and secure passenger transport services.

### 2.3. Expected results and main activities

The matrix of conditions of the financing agreement will cover:

**Optimized transport sector governance through strengthened institutional capacity and separation of policy/planning, regulatory/executive and operational functions**

- Appropriate organizational structure and decision making procedures for the central transport policy/planning mission of the Ministry of Transport established;
- Process heading to the establishment of an independent regulator (including market/competition, safety and security) for each transport mode (rail, road,);
- Commercialization of state-owned national transport service providers with focus on Railways pursued;
- Proper concept (custodian function) for Transport Executive Authorities established in rail and road;
- MoT lead role in transport sub-sector donor coordination established
- Comprehensive, consistent and transparent transport sector statistics and performance measurement and monitoring system is initiated in rail, and road.
- Comprehensive institutionalized, sustainable and transparent transport PSP/PPP strategy and coordination mechanism for private sector participation in investment and operation established especially in road and rail sectors.

**Improved financial sustainability of the transport sector based on a proper and transparent transport budgetary planning/monitoring system and financial viable transport services**

- Adequate transparent budget resource allocation and budgetary approval structure of public and private investments in the transport sector is based on a systematic and integrated strategic planning process;
- Improved revenue/ cost relation of state provided “commercial” transport services guided by the “user pays” principle;
- Increased financial and budget autonomy of the state-owned transport service providers (“operators”) and executive authorities, in road and railways.
- Public Service Obligation compensation schemes for commercially non profitable transport services (state-owned operators) are established and respective budget for compensations allocated by the PSO beneficiary in rail and road.
- Private sector participation in transport infrastructure investment projects, transport service concessions increased.

**Adequate policies, regulation and technical applications for transport safety, security and environmental sustainability established**

- Policy guidelines for safety and security regulation and strategic environmental impact assessment (SEA) are set-up as part of an integrated transport & environment strategy by the MoT.
- Mode-specific adaptation, enforcement mechanism and monitoring of safety, security and environmental issues are integrated in the function of the mode specific national regulatory bodies.

- EIA is applied in all transport projects based on the same SEA principles and guidelines established by MoT and the respective regulatory bodies.

### **Policy framework for improved access of citizens to reliable and affordable passenger transport services**

- Improved quality of “commercial” cost-covering passenger rail services;
- Passenger service networks expanded under a consistent allocation policy making maximum use of mode specific advantages.

#### **2.4. Stakeholders**

The main beneficiary under this programme is the Egyptian Ministry of Transport and the following dependent authorities:

- The Ministry of Finance;
- The General Authority for Roads, Bridges and Land Transportation (GARBLT);
- The Egyptian National Railways.

These institutions generally need assistance to build up their institutional capacity to refine, maintain, and monitor a national reform and development strategy for the transport sector, properly integrated with other sector strategies. External capacity building support is being provided via twinning projects.

#### **2.5. Risks and assumptions**

GoE is expected to maintain a stability-oriented macro economic policy that would be conducive for the implementation of sector policy and budget. Furthermore, it is assumed that the government will be able to maintain its present programme to improve public finance management.

The reform of the transport sector is ambitious and foresees substantial changes in terms of management and responsibilities. Its success will depend on the political willingness to continue with such reforms and on the technical capacity to implement them in the frame of a well defined sector policy and strategy. Donor coordination is also a key factor for the success of the reform.

#### **2.6. Crosscutting Issues**

Poverty reduction: The promoted transport policies and strategies will pursue a combination of interventions to meet national poverty-reduction goals (e.g. improved transport access and employment opportunities). Improving management of road agencies, putting maintenance financing on a sustainable basis and reforming loss-making transport agencies holds important benefits (e.g. provision of more reliable services, freeing up amounts of public resources).

Good Governance: Good governance is materialized by ensuring safety and security in transport infrastructures, which is a major problem in Egypt. An effective public-

private partnership, will provide the population with the confidence to safely use transport and other-related infrastructures.

Integration in world economy: Egypt's ability to compete in a global economy is dependent on its transport system. Supporting service activities include the implementation of a multimodal and intermodal freight transport system composed of modes, infrastructures and terminals throughout the country to support trade.

Environment: This programme paves the way to implement strategic environmental impact assessments for all relevant plans, programmes and projects related to transport.

### **3. IMPLEMENTATION ISSUES**

#### **3.1. Implementation method**

Centralised management will be used to implement the sector budget support component (EUR 75 million) of this programme. A financing agreement will be signed with the Ministry of Transport.

The Technical Assistance (TA) package will be implemented via centralised management following the procedures and standard documents laid down and published by the Commission for the implementation of external operations. The EUR 4.4 million TA package will ensure proper follow-up of implementation, report on the evolution of the programme, and provide for specific advice to facilitate the realisation of critical objectives related to the programme benchmarks.

#### **3.2. 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 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.

#### **3.3. Budget and calendar**

The overall budget for the program is EUR 80 million. Following the signature of the financing agreement, an initial payment of EUR 15 million will be made. The subsequent two tranches will be paid in equal instalments (EUR 30 million each). Tranche disbursement will be done on a yearly basis once the Commission's services have ascertained that the conditions relating to each instalment as presented in the matrix of conditions have been met.

In principle, and always in accordance to the provisions envisaged in the Special Conditions of the Financing Agreement, the funds for the programme would be transferred in Euros to the Treasury Account opened for this purpose at the Central

Bank of Egypt. This sum would be converted into Egyptian Pounds at the exchange rate in force of the day on which the account is debited. The amount into Egyptian Pounds would be transferred to the Government's budget.

EUR 4.4 million will be allocated for Technical Assistance. The European Commission will directly recruit the Technical Assistance (TA) component on behalf of the beneficiary. EUR 0.6 million will be allocated for audit, monitoring and visibility.

Contribution from the European Commission to this programme is set at a maximum of EUR 80 million. Unused amount from provisions for technical assistance could be added to the last tranche.

### **3.4. 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 Transport, a 6- month rolling activity plan where the main activities to be foreseen under the technical assistance component will be detailed.

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. 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.

Considering the number of authorities involved in this programme, the Egyptian Minister of Transport will issue a ministerial decree to establish a coordination committee including all involved parties under the umbrella of the Ministry of Transport. The committee will be chaired by a senior official from the Ministry of Transport and will follow up the programme implementation at operational level. This committee will prepare, under the supervision of the Minister of Transport, a 6 months rolling activity plan detailing the main activities to be foreseen under the technical assistance component.

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<sup>8</sup>.

### **3.5. Evaluation**

The Delegation of the European Commission to Egypt will hire experts to carry out mid-term and final evaluations of the programme.

### **3.6. Communication and visibility**

Communication and visibility will be carried out via regular joint events on the occasion of fulfilment of the disbursement criteria, and in connection with the results of technical assistance projects in the transport sector. A communication budget is established for promotion of the implemented reforms.

Communication and visibility activities, as per envisaged in the Communication and Visibility Manual for EU External Actions, will include:

- Stakeholders' workshops (among other, at the end of each semester after disbursement of each tranche).
- National and international press releases
- Kick-off meetings and launching of technical assistance contracts/projects. Participation at transport-related conferences on jointly with other international donors or financial institutions.

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<sup>8</sup> Support to Sector Programmes covering the three financing modality : sector budget support, pool funding and EC project procedures