ASIAN INFRASTRUCTURE INVESTMENT BANK

Sovereign-backed Financings

Approval Program Document

Arab Republic of Egypt

P000894 Egypt: Generating Resilience, Opportunities, and Welfare for a Thriving Egypt

November 21, 2024

Currency Equivalents
As of November 10, 2024

Currency Unit – Egyptian Pound (EGP)
USD1.00 = EGP49.19
EGP1.00 = USD0.02

Fiscal year
January 1 – December 31

Abbreviations

AIIB	Asian Infrastructure Investment Bank
CBE	Central Bank of Egypt
CCCD	Climate Change Central Department
CPBF	Climate-Focused Policy-based Financing
CRF	Crisis Response Facility
DPF	Development Policy Financing
EFF	Extended Fund Facility
ES	Environmental and Social
ESF	Environmental and Social Framework
ESP	Environmental and Social Policy
FRA	Financial Regulatory Authority
GOE	Government of Egypt
GRS	Grievance Redress Service
IGSR	Inclusive Growth for Sustainable Recovery Development Policy Finance
IMF	International Monetary Fund
MOE	Ministry of Environment
MOPEDIC	Ministry of Planning, Economic Development, and International Cooperation
MRV	Monitoring, Reporting, and Verification
NCCC	National Council on Climate Change
NCCS	National Climate Change Strategy
NDC	National Determined Contributions
NSRP	National Structural Reform Program
PA	Policy Action
PPM	Project-affected People's Mechanism
RSF	Resilience and Sustainability Facility
SEA	Strategic Environmental Assessment
SESA	Strategic Environmental and Social Assessment
SME	Small and Medium-Sized Enterprise
SOE	State-owned Enterprise
SOP	State Ownership Policy
UHIS	Universal Health Insurance System

Table of Contents

1. Summary Sheet

Program No.	P000894
Program Name	Generating Resilience, Opportunities, and Welfare for a Thriving Egypt
AIIB Member	Arab Republic of Egypt
Borrower	Arab Republic of Egypt
Sector Subsector	Others Multi-subsector
Alignment with AIIB's thematic priorities	Green infrastructure
Program Objective	The Program Objectives are to (i) enhance economic competitiveness through increased competition and an improved business environment for more private sector participation; (ii) build macroeconomic resilience to external shocks, through higher domestic revenue mobilization, debt reduction and improved fiscal reporting; and (iii) support the green transition by strengthening resilience to climate change, promoting low carbon development, scaling up renewable energy and increasing electricity and water and sanitation sectors efficiency. The Bank's support is focused on the third objective of the Program, which is closely aligned with the objective of AIIB's Climate-Focused Policy-Based Financing (CPBF) instrument.
Program Description	The Program comprises of three reform areas. **Reform Area 1** Enhancing economic competitiveness through increased competition and an improved business environment for more private sector participation. **Reform Area 2** Building macroeconomic resilience to external shocks, through higher domestic revenue mobilization, debt reduction, improved fiscal reporting, and redistributive effectiveness. **Reform Area 3** Supporting the green transition by strengthening resilience to climate change, promoting low carbon development, scaling up renewable energy, and increasing electricity, water, and sanitation sectors' efficiency. The financing of the Program is structured as a programmatic series of three single-tranche policy-based financings that will be implemented in sequence over the period 2024-2026, with the proposed operation being the first in the programmatic series. The Bank's financing through the first CPBF loan in Egypt will be made for prior actions completed in 2024 under the

	Reform Area 3 of the programmatic series and which are directly supporting the Member's implementation of the National Climate Change Strategy 2050 to achieve the goals of the Nationally Determined Contributions.
Implementation Period	01/01/2025 12/31/2025
Expected Loan Closing Date	03/01/2026
Proposed Amount of AIIB Financing (USDm)	USD300.00
Financing Plan	Single tranche disbursement based on agreed Prior Actions. Total Program Loan Amount: USD1,000 million WB: USD700 million (approved in June 2024) AIIB: USD300 million
ES Category	Not applicable
Risk (Low/Medium/High)	High
Policy Waivers Requested	No
Policy Assurance	Granted on November 25, 2024.

President	Liqun Jin
Vice President	Konstantin Limitovskiy
Acting Director General	Konstantin Limitovskiy
Team Leader	Nat Pinnoi, Senior Investment Officer
Team Members	Marcin Sasin, Senior Economist Yi Geng, Senior Financial Management Specialist Yunlong Liu, Senior Procurement Specialist Indrani Ghosh, Senior Environment Specialist Suu Tran Quy, Social Development Specialist Christopher Damandl, Senior Counsel Mengmeng He, Finance Officer Yijun Jiang, Specialist Hayoung Kim, Legal Associate Pobploy Wattanakrai, Legal Associate Mark Sundberg, CPBF Senior Advisor Consultant Robert Beschel, Senior Governance Consultant John Roome, Senior Climate Consultant Jiaming Yu, Project Assistant
Credit Officer	Young Bong Cho, Senior Sovereign Risk Officer

2. Program Description

A. Program Overview

i. Program Objectives, Scope, and Financing.

1. **Program Objectives.** The Program Objectives are to: (i) enhance economic competitiveness through increased competition and an improved business environment for more private sector participation; (ii) build macroeconomic resilience to external shocks, through higher domestic revenue mobilization, debt reduction and improved fiscal reporting; and (iii) support the green transition by strengthening resilience to climate change, promoting low carbon development, scaling up renewable energy and increasing electricity and water and sanitation sectors efficiency. The Program aligns with the National Structural Reform Program [1] (NSRP), the State Ownership Policy [2] (SOP), the second updated National Determined Contributions[3] (NDCs) 2023 and its implementation strategy, and the National Climate Change Strategy 2050 [4] (NCCS 2050), all of which highlight the economy's adaptability, resilience, flexibility, and productivity while advancing the green transition, low-carbon and resilient development pathways, and private sector participation. The financing of the Program is structured as a programmatic series of three single-tranche policy-based financings that will be implemented in sequence over the period 2024-2026, with the proposed operation being the first in the programmatic series. The Bank's support is focused on the third objective of the Program, which is closely aligned with the objective of AIIB's Climate-Focused Policy-Based Financing (CPBF) instrument.

2. **Program Scope.** The Program design addresses three structural reform priorities mainly drawn from the NSRP, NDCs and NCCS 2050, the World Bank (WB) Systematic Country Diagnostic 2021 Report and the Country Climate and Development Report (CCDR), the International Monetary Fund (IMF) First, Second, and Third Reviews of the Extended Fund Facility (EFF) to Egypt and the Climate Public Investment Management Assessment (C-PIMA), and the International Finance Corporation (IFC) Country Private Sector Diagnostic (CPSD) report. The three structural reform priorities are: (i) enhancing economic competitiveness; (ii) strengthening macroeconomic resilience; and (iii) promoting green transition. The Bank's financing through the first CPBF loan in Egypt will be made for prior actions under the Reform Area 3 of the programmatic series, which are directly supporting the Member's implementation of the National Climate Change Strategy 2050 to achieve the goals of the Nationally Determined Contributions and the NCCS 2050 on both mitigation and adaptation activities.

3. **Program Financing.** The Government of Egypt (GOE) has requested AIIB to join the Program (2024-2026) along with the WB with a parallel CPBF financing loan of USD300 million from the Bank in 2024 for the first of the programmatic series. The United Kingdom is finalizing the process for loan guarantee to the WB for USD200 million, which allowed the WB to

---

[1] The NSRP's objectives are to enhance the adaptability, flexibility, resilience, and productivity of the economy.
[2] The SOP regulates the state's ownership and participation in economic activities, aiming to enhance the private sector's role in the economy.
[3] The second updated NDC was submitted to the United Nations Framework Convention on Climate Change (UNFCCC) in 2023. This latest NDC confirms Egypt's commitment for climate action up to 2030 with international financial support ensuring just transition, and appropriateness to national capabilities.
[4] NCCS 2050, announced in 2021, aims at enabling Egypt to plan and manage climate change at various levels as well as support the achievement of the NDC as well as the United Nations Sustainable Development Goals following low-carbon and resilient approach.

increase its total loan amount from USD500 million to USD700 million. As a result, the total Program financing is USD1,000 million. The USD700 million of WB loan was approved in June 2024. The GOE also intends to request AIIB's financing support for the subsequent operations (2025-2026) of the Program.

ii. Background and Development Constraints.

4. Egypt is a lower middle-income country, with a population of around 112 million and a Gross Domestic Product (GDP) per capita[5] of around USD3,512 strategically located between Asia, Africa, and Europe. The economy is relatively well-diversified, with energy resources, foreign tourism, remittances, and public investment playing important roles. However, a legacy of heavy state involvement in the economy and the underdevelopment of the private sector have led to insufficient job creation, weak external competitiveness, dependence on imports, over-reliance on foreign financing, and vulnerability to periodic balance-of-payment stress. Most recently, during 2020-23, Egypt has been battered by a series of external shocks, including the COVID pandemic, spillovers from the geopolitical tensions in Europe and the Middle East and a sharp tightening of global financial conditions. As policies were slow to adjust, Egypt came under severe macroeconomic stress, from which it is currently recovering under a large IMF program. The main policy pillars of the IMF program are flexible exchange rates, revenues-based fiscal consolidation, and structural reforms for private-sector-led growth. With that, Egypt's medium-term economic outlook (2025-2029)[6] remains robust with a real GDP growth of around 5.1-5.6 percent per year, supported by its strategic location, large and diverse economy, export potential, growing labor force, and improving education attainments.

5. Regarding the public finances, efforts are needed to facilitate domestic revenue mobilization, reduce the debt burden, and gain greater control of fiscal activity outside the budget. This will also facilitate additional spending on social sectors to protect the poor and build human capital. The IMF 46-month (EFF) program approved in 2022 and extended in 2024, as part of a collective development partner effort that includes this proposed operation, has helped address immediate, short-term financing needs and restore confidence. Nonetheless, a suite of medium-term reform measures remains crucial to achieving and sustaining long-term recovery.

6. Private sector participation is one of the major drivers to reach the long-term growth potential for Egypt. However, the private sector in Egypt is mainly comprised of Small and Medium-Sized Enterprises (SMEs) with limited capacity to compete under complex regulations and the presence of numerous state-owned enterprises (SOEs). Another major constraint to competitiveness and participation of the private sector in the economy is the developments needed in commercial justice despite the establishment of eight specialized economic courts across Egypt in 2019 that have reduced the disposition times for the resolution of commercial cases.

7. Egypt ranked as the world's 10th most water-stressed country due to its geographical location, a few concentrated high-density urban areas, uncertainty of the Nile River water availability, and agricultural and industrial practices. Climate change, particularly extreme heat

[5] The World Bank Data Portal: 2023 population and GDP per capita data.
[6] IMF, 2024, Arab Republic of Egypt: Third Review Under the Extended Arrangement Under the Extended Fund Facility Staff Report, August 26, 2024.

and weather events such as flash floods and prolonged drought and sea level rise form a major risk that exacerbates Egypt's existing socioeconomic vulnerabilities. Collectively, these factors underscore the need to prioritize the implementation of climate policies to mitigate the growing climate change risk to Egypt's competitiveness, macroeconomic stability, and low carbon energy transition. Furthermore, significant improvement in water use efficiency and water conservation practices are needed to address the country's climate-induced water scarcity. The WB CCDR highlighted priority actions to strengthen resilience and adaptation including enhancing resources efficiency, especially water resources and transition to a low carbon development path including accelerating the transition to renewable energy as well as improving energy efficiency and reduce losses in the transmission and distribution system. The results of the analysis carried out by the CCDR inform that design of the PAs under the RA3.

iii. Government Strategy and Program.

8. The priorities of Government of Egypt (GOE) are outlined in the three-year NSRP announced in April 2021. This is the second phase of the National Economic and Social Reform Program launched in 2016. The strategic objectives of the reform program are to enhance the adaptability, flexibility, resilience, and productivity of the economy. The Law for a Universal Health Insurance System (UHIS) was enacted in 2018 during this first phase of the reform implementation. The Law provides mandatory insurance enrollment for all citizens with subsidized enrollment for underprivileged groups.

9. Egypt's NCCS 2050 emphasizes the importance of green transition, low-carbon, and resilient development pathways, and private capital mobilization, launched in November 2021 by the Ministry of Environment (MOE) at the 26th United Nations Framework Convention on Climate Change Conference of Parties (UN COP26). In June 2023, Egypt updated the NDCs first published in 2015 as the Intended National Determined Contribution. The NDC highlights progress on mitigation and adaptation actions in several sectors such as renewable energy (wind and solar), transportation (railway, buses, and e-vehicles), land management, energy efficiency, building codes, waste and water resource management, agriculture, coastal zone management, and urban space. To mobilize international support to help implement the NCCS 2050 and achieve the NDC, the GOE launched its Country-led Program for the Nexus of Water, Food, Energy, and Transport – NWFE+ in July 2022, in which the Bank has participated along with other development partners.

10. The Program Objective to foster a competitive, resilient, and green economy aligns with the Bank's thematic priority of green infrastructure. The Program includes policy and institutional reforms to increase adaptation finance and attract private capital at scale. The Program supports and is consistent with, Egypt's NDC and NCCS 2050 as well as other strategic plans of the Government. The economic and sectoral policies and institutional reform actions support Egypt's implementation of NDC and NCCS 2050. The Program's reform measures contribute to (i) the implementation and further development of Egypt's national climate transition plan; and (ii) increased opportunities for infrastructure investments, particularly in green and climate-related areas.

11. The Program directly contributes to this national program by targeting measures aiming at supporting the green economy transition (Reform Area 3) while the WB's program

also focuses on improving competition and business environment (Reform Area 1) and increasing the resilience of the economy (Reform Area 2). As described below, Reform Areas (RAs) 1 and 2 and the corresponding Prior Actions (PAs) are part of fundamental conditions that promote investments from both private and public sectors in all sectors including investments in the Member's climate transition. Both are critical to successful transition, as highlighted in Egypt's Second Updated Nationally Determined Contributions (NDCs), National Climate Change Strategy 2050, the WB's Egypt-Climate Change and Development Report (CCDR) as well as IMF's Climate Public Investment Management (C-PIMA). The financial resources required to implement the Second Updated NDCs up to 2023 was estimated at least USD246 billion or around USD30 billion per year (around 8 percent of the GDP[7] in 2023). The mitigation finance accounted for 80 percent to the total financing needs.

a. ***Reform Area 1*** creates a conducive environment for greater competition from the private sector, enhanced competitiveness of firms as well as State-Owned Enterprises (SOEs), and ease of doing business, all of which were highlighted as one of the key directions of the NCCS 2050. Expanding the share of the private sector in total investment in the economy is a key indicator in the program's results matrix. This is also an important impetus for expanding private sector green investment, including in renewable energy, as well private investment in adaptive technologies to manage water conservation and energy efficiency.

b. ***Reform Area 2*** focuses on building macroeconomic resilience required to attract private investment and also a key cornerstone of both NDC and NCCS 2050. As the government well recognizes, macroeconomic stability is the sine qua non of program success and objectives of building a resilient economic transition to the green economy with greater participation of the private sector. Reform Area 2 aims to increase domestic revenue mobilization and debt reduction which are necessary to expand public investment in strategic infrastructure areas as highlighted by the CCDR. Public investment in renewable energy, energy efficiency, and green transport which is complementary with private investment is critical as the country transitions toward a low carbon and resilient economy. The reform measures include removal of tax and fee exemptions (including the Value Added Tax on goods and services as fossil fuel, electricity production and supply, and road transportation) to state entities in economic and investment activities, which encourage energy efficiency and renewable energy measures leading to reduction in Greenhouse Gas (GHG) emissions as mentioned by the CCDR, C-PIMA, and RSF program. As such, both Reform Areas 1 and 2, while indirectly related to climate investment, are crucial for advancing the Member's long-term vision for a resilient green economy. Although, the RA1 and RA2 address competitiveness of the private sector and macroeconomic stability and fiscal issues in the economy that are critical to the Member's sustainable and low carbon and resilient economy transition, the Bank has a focused CPBF instrument in achieving a resilient green economy.

c. ***Reform Area 3*** The Program directly supports green transition by strengthening resilience to climate change, fostering low carbon development, scaling up renewable energy, and increasing electricity, water, and sanitation sectors'

[7] The World Bank Data Portal.

efficiency. The reform actions were reported by the CCDR, C-PIMA, as well as the RSF program.

iv. Strategic Fit for AIIB.

12. The Bank's financing is made for prior actions completed in 2024 under the Reform Area 3 of the programmatic series and which were highlighted in both NDC and NCCS 2050. Furthermore, all three RAs and their corresponding PAs are conducive to further creating downstream demand for greater investment by the private and public entities in the Bank's priority sectors, particularly in key areas such as renewable energy, energy efficiency, and other low-carbon technologies, water and sanitation efficiency, and the use of public-private-partnerships.

13. The Paris Agreement alignment assessment was carried out based on the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New Operations – Policy-Based Lending (PBL), version 1.0, June 2023. By definition, an operation needs to be aligned with both the mitigation and climate adaptation and resilience goals of the Paris Agreement to be considered "Paris-aligned". After undergoing the required assessment, the results confirm that the Program aligns with the climate mitigation and climate adaptation and resilience goals of the Paris Agreement (more information is provided in the Annex 7).

14. According to the Annex C.5 of the 2022 Joint Report of Multilateral Development Banks' Climate Finance, policy-based lending which includes the climate-related prior actions can be reported as climate finance. The proportion of the reported climate financing is the same as the proportion of the climate-related policy actions. Since the Bank's support is focused on the RA3, according to the 2023 Common Principles for Climate Mitigation Finance Tracking, four out of five (80 percent) Prior Actions (PAs) are directly supporting the climate mitigation including creating the Monitoring, Reporting, and Verification (MRV) system to track GHG emissions (PA7) and voluntary carbon market (PA8), allowing private-to-private sales of renewable electricity (PA9), and reducing losses in the transmission and distribution system (PA10) while one PA (20 percent) is directly supportive of climate adaptation by improving the efficiency of the water supply system and addressing the country's climate vulnerability of the water resources. The Program contributes 100 percent of the total financing of USD300 million toward the Bank's climate finance target. The climate mitigation and adaptation finance accounts for 80 percent (USD240 million) and 20 percent (USD60 million), respectively. Annex 7 provides more detailed assessment of the alignment with the climate mitigation and climate adaptation and resilience goals of the Paris Agreement and climate finance.

15. The Member's macroeconomic policy framework is adequate in light of the recent significant adjustment in the foreign exchange regime and sufficient monetary policy tightening measures. Additional discussion on the adequacy of the Member's macroeconomic framework is provided in Section C.

v. Value Addition by AIIB.

16. The value addition of the Bank includes:

a. *Provision of additional financing* to support the GOE in scaling up its climate expenditure and investment to achieve the national climate goals as specified in the updated NDC published in 2023 and NCCS 2050. Furthermore, the larger size of the total financing package adds greater weight to the discussions and negotiations on challenging policy reform measures.

b. *Attracting and mobilizing further climate financing opportunities* through the Bank's financial instruments in both the public and private sectors to support the operationalization of the Reform Areas and increase the supply of bankable infrastructure projects that directly support national climate goals. For example, in collaboration with other development partners including the African Development Bank, the International Fund for Agricultural Development, the European Investment Bank, the Bank has been providing technical advice to the Ministry of Planning, Economic Development, and International Cooperation (MOPEDIC) in development of bankable investment projects to support the Government's implementation of NCCS 2050 through the Country Platform "Nexus of Water, Food, Energy, and Transportation, (NWFE+)." The NWFE+ program now consists of a pipeline of potential investment projects in the energy, food and agriculture, water, and transport sectors to be financed by development partners and the private sector. The Bank has signed the Participation Agreements with the lead development partners in the area of renewable energy, water resources management and climate resilience, and mass transit system to develop future investment opportunities in partnership with both public and private sector.

c. *Engaging in medium and long-term policy dialogue* with the GOE, development partners, and relevant stakeholders to develop and support further enabling policy and institutional reforms for green infrastructure investment, climate finance and private capital participation. For example, currently, the Government is in discussion with the IMF on the potential access to the IMF's Resilient and Sustainability Facility (RSF), where the proposed reform measures align well with the Bank's green infrastructure thematic priority as well as the climate finance target. Pending the outcome of these discussions, the Bank has initiated discussions with the IMF and WB to identify areas where the Bank could pursue dialogue with the GOE on key reforms that the GOE may need more time to consider and given the RSF's shorter time-horizon for implementation than the Program.

d. *Knowledge Partner*. In addition, the Bank has introduced to the WB, IMF, and the government teams a concept of linking the current fossil fuel subsidy to carbon content of each fuel so that a subsidy could be better targeted and directly linked to climate mitigation objectives. The IMF is currently working with Uruguay on similar concept with respect to the excise tax on fossil fuel. The structure of the excise tax applied to gasolines was modified to include a component linked to CO_2 emissions, covering around 80 percent of Uruguay's vehicle fleet[8].Thailand will levy similar excise tax linked to carbon emission factors of different type of fuels in 2025. The Bank plans to support the Government in organizing a series of knowledge sharing sessions to bring practitioners from Thailand, Uruguay, the IMF and the WB to share lessons learned and operational experience with the Egypt's authorities. These

[8] IMF, 2023, Embracing Climate Change Challenges, *Uruguay Selected Issues*, Vol. 2023, Issue 179.

sessions will help inform the design and reform content of the next phases of the Program.

vi. Value Addition to AIIB.

17. Participation of the Bank in parallel financing of this Program allows the Bank to gain more experience and learn lessons in policy and institutional assessment and the design of reform measures to support the Members' efforts to meet their climate commitments under the Paris Agreement. In fact, the Bank is currently working on a few Climate-Focused Policy-Based Financing (CPBF) requests where the knowledge and experience gained from this and other programs will be very useful in informing the design and implementation of ongoing and future programs. Additionally, the Bank's engagement with the GOE at the relevant policy level is creating more direct public and private infrastructure investment opportunities in the Bank's strategic sectors (energy, water supply and sanitation, and water resources management) supported by the policy and institutional reforms under the Program. Currently, the Bank is considering a few investments potential including both public and private projects, in collaboration with other MDBs, in the areas of renewable energy (wind power), water desalinization powered by renewable energy, water resource efficiency, and public mass transit systems. As the implementation of the Program proceeds, the Bank will have an opportunity to engage and contribute substantively to the reform contents through policy dialogue under Reform Areas 1 and 2, and to consider options for the subsequent operation(s) to expand its support to cover Reform Areas 1 and/or 2, in addition to continuing support to Reform Area 3.

vii. Lessons Learned.

18. The Program is built on key lessons learned from the implementation of the Development Policy Financing programs by several countries (including Egypt) reported in the WB's publication, Development Policy Perspective (2021), which were similar to lessons learned from the Bank's co-financed policy-based financing with the WB for Egypt, entitled "Inclusive Growth for Sustainable Recovery Development Policy Financing Program," the Bank's COVID-19 Crisis Response Facility (CRF). It is built on the following lessons learned: (i) Strong government ownership is one of the key factors for the success of policy reform programs. The Ministry of Planning, Economic Development, and International Cooperation (MOPEDIC) with a "whole of the government" approach, engages directly with the Prime Minister and a large number of line Ministers to ensure strong support of the multisectoral reform program, including the results framework and timeframe for implementation; (ii) Medium-term support program of a reform agenda is critical to enabling effective policy implementation as well as identification of further reform measures and emerging reform areas resulting in a programmatic approach for this operation; (iii) application of relevant analytical works are necessary for program design and strategic discussion with stakeholders responsible for implementing the agreed reformed measures, and (iv) Coordination with development partners is another key lessons learned for successful design and implementation of a policy-based support program. The Bank has been actively engaging together with the WB and other development partners including the IMF on macroeconomic and fiscal status, along with the EIB and EBRD on low-carbon infrastructure sectors to ensure policy consistency.

viii. Consultations And Collaboration with Development Partners and Stakeholders

19. Since 2022, the Government has developed the Reform Areas and Prior Actions of the program, following a consultative process led by the Government with relevant stakeholders including development partners, different ministries and agencies of the GOE as well as wider stakeholder groups within the country. The draft laws supported by the program have undergone Parliamentary consultations, including debate within the specific committees of the Parliament and multiple deliberations with major industry chambers, think tanks, the private sector, and civil society organizations. The Government and WB informed the Bank of the outcomes of these consultations, as described in the paragraph below, and these helped shape the reform actions under the Program, while AIIB advised its own assessment of their benefits, risks and mitigations of any negative social impacts (See Risks Section). The Bank will join future consultations for the next phases of the Program.

20. Consultations in March 2024 with the private sector, development partners, and CSOs recognized the Program's potential to address the multipronged challenges facing the economy. While recognizing the limited number of reforms a policy-based operation can cover, stakeholders raised the need for tangible actions that create more space for the private sector, enhance stability and trust, and attract foreign investors. Key areas highlighted included transparency and business environment improvement, competition, and SOE ownership; greater action toward resilient and fairer taxation and more efficient spending; improvement of economic resilience and the availability of foreign currency through greater export capabilities; and support for the green transition through sectoral decarbonization pathways which open up business opportunities for the private sector and financial institutions. Stakeholders flagged the absence in the program of direct actions to support human capital development and inclusion; however, it was clarified that the expected indirect positive outcomes would be created by several reforms supported by the program. Subsequently, a Reform Area on redistributive effectiveness was added to the design. Emphasis was also put on the need for proper implementation of reforms, connecting with citizens and local communities. The Government is also encouraged to foster meaningful dialogue between the GOE, stakeholders, and citizens regarding the reform process. In addition, consultations will also be systematically conducted with non-Governmental actors including local communities, CSOs, and academia to establish and measure monitoring indicators and benchmarks related to the established management system.

21. The Bank has been working in close partnership with the GOE, WB, IMF, and other development partners since the inception of the program in 2022 with the original target delivery date in 2023 when the CRF facility was still active. However, due to the deteriorating macroeconomic and fiscal situations during 2023, the program did not proceed as planned until the expiration of the CRF at the end of 2023. The program preparation was revived and active in early 2024 when the IMF reached the staff-level agreement with the GOE in early March 2024. After the CPBF was approved by the Board in June, the Bank has a proper instrument to co-finance with the WB. The WB program of USD700 million was approved later in June 2024 inclusive of the USD200 million to be guaranteed by the United Kingdom.

22. The Bank is working with the WB and IMF on the preparation of Programs 2 and 3 in areas that the Bank can further add value such as financing climate infrastructure, attracting private investment, strengthening institutional capacity. Discussions with the IMF on Egypt's

access to the Resilience and Sustainability Facility (RSF) have been informative as most of the policy reform measures contemplated under the IMF's RSF are supportive of Egypt's implementation of the NCCS 2050. The synergy between the Program and the IMF's RSF for Egypt will be further explored during the preparation of Programs 2 and 3.

B. Policy Actions, Results, and Sustainability

i. Reform Areas, Policy Actions, Triggers, and Expected Results.

23. The proposed operation consolidates and deepens the reforms program initiated by the WB and co-financed by the Bank in 2021, entitled Egypt Inclusive Growth for Sustainable Recovery Development Policy Finance (IGSR) approved in, October 2021, and builds on lessons learned from the Bank's operations in Egypt and the previous WB's policy reform operations. The IGSR program focused on macro-fiscal sustainability by improving debt transparency, some aspects of SOE management, and expanding green investments.

24. This program extends this agenda by targeting bolder measures including revenue mobilization, debt servicing, and fiscal reporting. Similarly, while the previous IGSR program included some reforms aimed at increasing private sector participation, the Program contributes to improving competition concerning the state's involvement in commercial and strategic business activities to enhance the private sector's competitiveness - in alignment with the principles of the SOP.

25. Finally, the Program dedicates a specific Reform Area to the green transition, building on the recommendations of the Climate Change and Development Report (CCDR). The intervention logic of the programmatic series is to build on the gains achieved during the previous operation and deepen reforms that will improve the enabling environment for the private sector while also addressing macro-fiscal imbalances and pushing the green agenda. The reforms will also reinforce inclusion and create room for increased social and health spending. The RAs and PAs for the first phase of the Program (the Program 1) and their expected results at the end of the programmatic series are provided in Table 1. The entire programmatic policy matrix and expected results are provided in Annex 1. The Bank supports the third structural reform priority (Reform Area 3) of promoting green transition and the Bank's first CPBF loan is made prior actions completed in 2024 under Reform Area 3 and which are directly supporting the implementation of the NDCs and the NCCS 2050 on both mitigation and adaptation activities. The rational and significance of each prior action under Reform Area 3 of Program 1 including triggers, expected outcomes at the end of the Program and underpinning analytical works are further detailed in Annex 8.

Table 1: The Reform areas and Prior Actions for Program 1 and Their Expected Results at the end of the Programmatic Series

Reform Area (RA)	Prior Action (PA)	Expected Result Indicator (RI)
1. Enhancing economic competitiveness through increased competition and an improved business environment for more	PA1 The Borrower has submitted to Parliament draft law 179/2024 to regulate its ownership in state owned companies. PA2 The Borrower has issued a Prime minister decree amending Executive Regulations of Law 152/2022 with provisions on competition and prohibition of monopolistic	RI1 Share of private sector's investments l total investment (percent) RI2 Number of merger and acquisition deals reviewed

Reform Area (RA)	Prior Action (PA)	Expected Result Indicator (RI)
private sector participation	practices to implement merger control and limit anticompetitive effects through remedies. PA3 The Borrower has submitted the draft Law 125/2024 on Small Claims to Parliament.	by the Egyptian Competition Authority. RI3a Number of days to resolve small claims from filing to decision and RI3b Percentage increase of SME users of the small claims' procedure (gender disaggregated).
2. Building macroeconomic resilience to external shocks, through higher domestic revenue mobilization, debt reduction, improved fiscal reporting and redistributive effectiveness.	PA4 The Borrower has (i) promulgated Law 159/2023 that eliminates tax and fees exemptions to State entities in economic and investment activities; and (ii) issued MoF Decrees to gradually roll-out the system that standardizes the principles and criteria for calculation of wages and salaries tax. PA5 The Borrower has issued a Primary Dealer Decree including rules and incentives to improve competition, transparency and increased secondary market trading. PA6 The Borrower has promulgated amendments to the Unified Public Finance Law to improve fiscal reporting by including economic authorities in the definition of the general government. Indicative Trigger 6 (2025) The reform provides for automatic health insurance enrollment of Takaful and Karama beneficiaries (of the conditional and unconditional cash transfer program), an important vulnerable group. It also proposes amendments to the UHIS legal framework to streamline institutional arrangements and support financial sustainability of the UHIS.	RI4 Increase in tax-to-GDP ratio from these reforms (in percent). RI5 Holdings of government debt by banks as a percentage of total debt (in percent). RI6 Net relation between public economic authorities (EAs) and the treasury (in percent of GDP). Increase in UHIS enrollment by vulnerable individuals (number and in percent of eligible individuals)
The Bank's Program provides support to the Reform Area 3 and its prior actions which are directly supporting the Member's implementation of the National Climate Change Strategy 2050 to achieve the goals of the Nationally Determined Contributions and the NCCS 2050 on both mitigation and adaptation activities.		
3. Climate change mitigation actions accelerated. The green transition by strengthening resilience to climate change, promoting low carbon development, scaling up renewable energy and increasing electricity, water and sanitation sectors efficiency.	PA7 The Borrower has issued decree no. 415 of 28 December 2023 for the establishment of a working group to support the national monitoring reporting, and verification system (MRV), and to allow Egypt to collect data on GHG emissions, track progress on mitigation and adaptation measures. PA8 The Borrower has issued three decrees on the main Building Blocks of the domestic carbon markets: (i) the requirements for validation and verification bodies (VVBs) approved by Financial Regulatory Authority (FRA) for both international and domestic bodies; (ii) the	RI7a Number of sectors with regulatory framework in place and sector specific MRV protocols implemented and RI7b consultations to be systematically conducted with non-Governmental actors including local communities, CSOs, and academia to establish and measure monitoring indicators and benchmarks related to the established management system. RI8 Capital in USD mobilized to invest in projects generating Voluntary Carbon Credits

Reform Area (RA)	Prior Action (PA)	Expected Result Indicator (RI)
	requirements for domestic voluntary carbon credit registries approved by FRA; and (iii) the listing and delisting rules for voluntary carbon credits.	(VCCs) in Egypt under the new regulatory framework.
	PA9 The Borrower, through the board of directors of the Egyptian Electric Utility and Consumer Protection Regulatory Agency, has issued a circular agreed at its 14th session of 28 March 2024, governing direct renewable electricity supply between private producers and consumers (private-to-private) including the use of transmission networks.	RI9a Capacity of renewable energy in the generation mix (MW) and RI9b Share of the private sector in the capacity of renewable energy in the generation mix (percent).
	PA10 The Borrower, through a decision of the board of directors of the Egyptian Electricity Holding Company (EEHC), has approved a loss reduction plan with annual distribution loss reduction targets for the distribution companies owned by EEHC, and mandating said electricity distribution companies to achieve set targets.	RI10a Reduction of distribution losses (in percent); RI10b Financial viability plan of the sector implemented; and RI10c Number of electricity SOEs with performance agreement signed.
	PA11 The Borrower has submitted to the Parliament a draft law on regulating drinking water and sanitation utilities, which brings in reforms to strengthen the regulator's role, implement cost reflective tariffs, and enable private sector participation.	RI11 Reduction in required per capita water consumption rate used in the production of water supply. The rate was greater than international best practice leading to overproduction of water supply and higher production cost and over-requirement of freshwater, the availability of which has been declining.

C. Macroeconomic Assessment

i. Macroeconomic Management Outlook

26. Egypt is taking the following measures to restore short-term macroeconomic stability. (i) To help ease the acute foreign exchange crisis, the Central Bank of Egypt (CBE) allowed the local currency to depreciate against the US dollar in early March 2024 to unify the exchange rate and clear foreign currency backlogs; (ii) the CBE hiked key policy rates by 600 basis points (bps) (bringing them to 27.25 percent and 28.25 percent for the overnight deposit and lending transaction, respectively (which is 1,900 bps above the levels before March 2022), to anchor inflation expectations and support the local currency; (iii) the Government committed to tightening fiscal policy and fiscal management reforms to control public investment outside the state budget; and (iv) the Government announced a mitigation package in February 2024, including an increase in pension payments, and for the cash transfer programs, and a rise in the minimum threshold of the personal income tax, among other measures.

27. These measures followed more than a year of delayed macroeconomic adjustments, an ensuing sharp real currency appreciation, and a soaring parallel market rate and sovereign spreads. Markets have assessed the early March measures favorably, with a decline of Egypt's emerging markets bond index (EMBI) sovereign dollar bond spread over US

Treasuries by more than 300 bps to about 580 bps. Rating agencies also reacted positively, with Moody's and S&P upgrading Egypt's sovereign outlook from negative to positive and stable to positive, respectively. On November 1, S&P issued an one-notch credit upgrade with stable outlook. The adjustments have also provided a basis for the completion of two long-delayed IMF EFF reviews (originally slated for March and September 2023, respectively), along with complementary support from other development partners—including this operation.

28. The combination of the adverse global environment, ongoing distortions in the foreign exchange market, the transitory impact of the policy adjustment, and domestic supply bottlenecks is undermining the near-term economic outlook—partially reversing recent budget consolidation gains. However, under the baseline scenario, Egypt is expected to push ahead with fiscal consolidation and debt reduction (details below), pursue a flexible exchange rate regime coupled with monetary tightening, and carry out key structural reforms—notably those supported by this Development Policy Financing (DPF) as well as the recently approved IMF EFF and potential RSF — which would lay the foundation for enhanced economic resilience, a more climate-friendly growth trajectory, and strengthened confidence in the economy.

29. Growth is expected to decline to 2.8 percent in FY2023/24 from 3.8 percent in FY2022/23, as inflation is undermining real incomes and constraining household demand (see Annex 7 for a table of macroeconomic indicators). Similarly, firms are facing higher production costs due to the exchange rate depreciation and domestic supply bottlenecks arising from the difficulty in accessing inputs and foreign currency for imports throughout most of FY2023/24. The higher finance cost due to monetary tightening will also constrain firms' expansion. On the production side, the slowdown in growth is expected to be driven by the expected negative contribution of petroleum extractives (amid accumulating arrears to international oil companies). Similarly, the non-oil manufacturing sector is expected to subtract from growth due to import restrictions.

30. Tourism and the Suez Canal, though expected to contribute positively to growth, will slow down because of the conflict in the Middle East. Going forward, growth is projected to inch up gradually to 4.2 percent by FY2024/25, initially benefitting from favorable base effects but also from investments, notably those financed by the UAE deal, and improved private consumption and net exports (the latter associated with the exchange rate depreciation). In addition, the country is expected to continue pushing ahead with macro-stabilization and structural reforms, underpinned by the IMF reviews and this operation. A rebound in manufacturing (following the lifting of restrictions on imports), ICT, construction, and agriculture will drive growth over the medium term.

ii. Macroeconomic adequacy

31. Fiscal Policy. Under the IMF program, the authorities have committed to a decisive fiscal consolidation, with a primary surplus target of 3.5 percent of GDP. The FY25 budget is consistent with the target. Currently, the consolidation has been mostly expenditure-based, but going forward, more revenue mobilization is planned, including a VAT reform, to minimize adverse impact on development spending. Other critical components include (i) bringing on-budget all public investment programs, (ii) reducing energy subsidies, which have grown to 1.5 percent of GDP, through raising fuel prices towards cost recovery by end 2025. The

policymakers have a good track record of fiscal management, as demonstrated by consistent surpluses over the past five years.

32. Monetary Policy, Inflation, the Financial Sector. The central bank operates a “flexible” inflation targeting framework, where the inflation target (7 percent +/- 2 percentage points as of Q4 2024) serves as an anchor. Inflation has been relatively high and volatile, sensitive to global food prices and exchange rate movements. Following the recent spike, inflation is currently declining, and expected to decline further, to the tight monetary policies. In the past decade, the exchange rate appears to have been stabilized, leading to periodic overvaluations and subsequent devaluations. Since March 2024, the central bank is committed to a more flexible and market-determined rate. The financial system has proven resilient to macro volatility. Capitalization is adequate and liquidity is high. Financial intermediation for the private sector remains low.

33. Debt Sustainability Analysis. A debt sustainability analysis by the WB and IMF conducted as part of the Program assessment and EFF implementation, respectively, shows that Egypt’s public debt is sustainable[9]. While the overall risk of sovereign stress is high in the medium term, this is due to rollover risks related to short maturities of domestic debt. With time, as maturities lengthen and debt declines, the long-term risk of stress becomes moderate. The level of public debt is high, at 90 percent of GDP in FY24, partly due to weaker currency. Higher growth, high inflation, and the planned primary surpluses put debt on a firmly downward path, towards 60 percent of GDP expected by 2030. Debt risks are further mitigated by the liquid and captive domestic financial system, track record of fiscal surpluses, and good relations with official creditors. Still, improvement in the debt profile will take time.

34. Policy Framework. With the current fiscal and monetary policy stance, debt being in principle sustainable, as described above, and the decisive strengthening of the policy mix since March 2024, the Bank deems the current macroeconomic framework to be adequate. The improved policy framework, if maintained, would decisively strengthen macroeconomic balances, including external finance. The unification of the exchange rate and a more flexible regime will facilitate the proper functioning of the foreign exchange market and help cushion external shocks. The monetary policy is appropriately tight, to support the currency and guide disinflation. Fiscal consolidation embedded in the 3.5 percent of GDP primary surplus target is meaningful and generally sufficient to bring public debt down from high levels. The IMF program is a useful anchor, while the demonstrated support from official partners during times of stress was an important strength. The authorities have publicly committed to the improved policies, and this commitment was evidently credible, as demonstrated by capital inflows, positive rating actions by all three major rating agencies, and lower spreads. However, risk remains elevated, including policy reversals, should new shocks change the existing circumstances.

35. IMF and World Bank’s views. The Bank’s macroeconomic adequacy assessment has considered similar assessments prepared by the IMF and the World Bank. Specifically, in July 2024, the IMF completed the third review of Egypt’s program and its Staff Report serves as the Assessment Letter, in line with Fund policies. In its report, the IMF notes that the new

[9] More precisely, IMF assesses Egypt’s public debt as sustainable “but not with high probability”. The probability qualification is required by IMF policies in case of borrowers above certain thresholds of financing. Otherwise, such qualification is not required, and debt would be assessed simply as “sustainable”.

policy settings are expected to help maintain macro stability and that the implementation of structural reforms will be critical. The World Bank's Program assessment notes that the macroeconomic framework is adequate under the baseline scenario that assumes sustained implementation of policy adjustment and structural reforms.

iii. Climate Change Adaptation and Mitigation.

36. **Alignment with the Member's Planned Transition to a Low Carbon and Climate Resilient Future.** The Program is supportive and consistent with the member's reforms aimed at implementing the Member's internationally recognized climate action plans. Egypt's Second Updated NDCs highlighted that the country is highly vulnerable to impacts of climate change especially in the areas of water scarcity and Sea Level Rise (SLR) along the Mediterranean Coast and the Nile River Delta. The Nile River contributes around 97 percent of the total available freshwater resources in Egypt. Changes in the weather patterns, temperature, precipitation, and evapotranspiration in the Nile River Basin induced by climate change will significantly affect the country's freshwater availability. By 2100, the variability of the region's rainfall is projected to increase by 50 percent directly impacting the Nile flow into Egypt[10]. These changes will result in not only frequent and prolonged drought but also more frequent high-flow years accompanying by higher frequency and intensity of flash flooding in the coastal and other areas. Two recent floods in Aswan[11] (2021) and Alexandria[12] (2015) provide strong evidence that heavy floods could be materialized from heavy rains that occurred in a short period. The cities infrastructure and early warning systems were unable to cope with these extreme whether events which are projected to increase in frequency and severity induced by climate change.

37. The climate induced period of low-flow rate from the Nile will further exacerbate the existing water scarcity as the population growth continue, especially in the major urban areas. It was estimated by the Second Updated NDCs that by 2050 the per capita freshwater availability will be reduced by 32 percent from 2018 figure of 570 cubic meters to 390 cubic meters. The water scarcity and associated climate impacts such as water salinization, heat stress and shock will also adversely impact the agricultural sector in terms of lowering productivity, irrigated land area and employment. Subsequently the food production was also projected to decline[13]. Therefore, the reform measures to improve efficiency in the water supply system was included as the PA11.

38. Raising the efficiency of the health care sector to deal with the health impacts of climate change was another key adaptation measures highlighted in the Second Updated NDCs. According to the World Health Organization (WHO), many of the climate induced health risks are related to water scarcity as well as flood events. These health risks are injury and mortality from extreme weather events such as floods and droughts, water-borne disease and other water-related health impacts, malnutrition and food-borne disease, and mental and

[10] The World Bank, CCDR November 8, 2022.
[11] International Federation of Red Cros and Red Crescent Societies, 2022, Final Report – Egypt: Aswan Floods, May 31, 2022.
[12] African Development Bank, 2015, Egypt Emergency Humanitarian Relief Assistance to the Victims of the Floods, November 2015.
[13] Ibid.

psychosocial health[14]. The poor and vulnerable groups are more susceptible to these health risks as they have low capacity and resources to cope with the impacts of increased health risks compared to other population groups. The indicative Trigger 6 and second Trigger 7 directly support the NDCs adaptation measures in the heath sector.

39. The Updated NDCs highlighted the potential impact of SLR which might rise to by 1 meter by the 2100. According to the CCDR, Egypt ranks fifth in the world in terms of SLR's potential economic impact on urban areas, with damage costs under a medium SLR scenario of 1 percent of GDP annually by 2030. Assessments of coastal flooding scenarios conducted by the WB estimated that in Alexandria, rising sea levels would also lead to saltwater intrusion, inundation, and erosion, which would amplify climate change impacts on water available for agriculture and affect the quality and availability of freshwater resources.

40. **Climate Change Mitigation.** Egypt's GHG emissions are primarily generated from the energy sector 85 percent of which came from two sources: natural gas (55 percent) and crude oil[15] (30 percent). The total GHG emissions from fossil fuel combustion was estimated around 218 million ton of CO_2 equivalent (MCO_2e) in 2022[16]. According to the CCDR, since 2000, the level of GDP growth and emission growth have been moving in the same direction. Over the 22 years period from 2000-2022, the GHG emissions from fossil fuel combustion has been trending upward with an average annual growth rate of around 5.4 percent[17]. Despite the ambitious targets for both renewable energy and energy efficiency in Egypt's Integrated Sustainable Energy Strategy 2035, natural gas and oil still accounted for about 92% of the total primary energy supply in 2019. A low carbon transition can enhance Egypt's competitiveness and sustainable economic growth, as market preferences are shifting toward lower carbon content products and policies. The European Union's implementation of the Carbon Border Adjustment Mechanism (CBAM) will have adverse consequences on the key export industries that are considered energy intensive industries such as cement, aluminum, iron and steel, and fertilizer[18].

41. In a recent assessment carried out by the Energy Sector Management Assistance Program on sustainable energy policies and regulations, Egypt scored 79, above the Middle east and Northern Africa regional average of 66. Although, the natural gas is still the main source of Egypt energy needs, the GOE has implemented several measures to expand the levels of renewable energy, and energy efficiency on both the supply and demand sides. Currently, renewable electricity generation is around 12 percent of the total power generated in 2021, with installed capacity at 19 percent. This is in line with Egypt's Integrated Sustainable Energy Strategy 2035 interim target[19]. Egypt has strong endowment of solar and wind resources. Accelerating the integration of renewable energy in the system in accordance with the NCCS and updated NDCs, will require significantly more renewable energy generation facilities, including storage systems and modernizing of the transmission and distribution systems to accommodate and stabilize the existing network.

[14] WHO, 2023, Climate Change Fact Sheet, October 12, 2023, https://www.who.int/news-room/fact-sheets/detail/climate-change-and-health
[15] CCDR
[16] International Energy Agency, 2022, Egypt: CO2 Emission, https://www.iea.org/countries/egypt/emissions
[17] Ibid.
[18] CCDR
[19] Ibid.

D. Institutional Arrangements, Public Financial Management, Disbursement, and Auditing Aspects

42. The Bank recognizes that Egypt's institutional framework for managing climate policy has evolved over the past two decades as the agenda has risen in prominence. Originally, the climate change agenda was headed by the Environmental Affairs Agency, who chaired a national committee on the topic. In 2019, the National Council on Climate Change (NCCC) was created and headed by the Prime Minister, responsible for formulating climate change policies and coordinating this agenda across the government. A complex structure under the NCCC is responsible for managing various dimensions of the agenda, including a Supreme Coordinating Committee, which includes several ministers and provides ongoing policy guidance and direction; an Executive Bureau, which presides over technical working groups; and a number of technical working groups addressing specialized topics.

43. The MOE plays a particularly important role in implementing climate policy. It has several units working directly on climate change, including the Climate Change Central Department (CCCD), which serves as the secretariat to the NCCC and is the focal point within government for this agenda; the Climate and Environment Investment Unit, which seeks to catalyze climate-friendly investment from the private sector; and the General Department of Climate Change Technology and Research (GDCCTR), which focuses upon climate change research and mitigation measures and provides technical expertise within government.

44. Internal GOE assessments and external reviews by civil society organizations have highlighted several strengths and weaknesses regarding the GOE's institutional framework for tackling climate change. On the positive side, the NCCC and CCCD are well-positioned to help coordinate this agenda across government; considerable analytic capacity exists within the MOE and other parts of government; and the GOE has been effective in interfacing with the global community and mobilizing donor financing. Ongoing challenges remain in several areas, including improving coordination; strengthening staff capacity (particularly within the governorates and municipalities); and developing a more integrated legal framework. Greater transparency with regard to the dissemination of climate related documents and liaising with civil society on the agenda will also be important. These topics will be a focus of discussion between the AIIB and the GOE in subsequent operations.

45. The Constitution provides the legal basis for the budget, appropriations, spending, and approval of the final accounts. The Unified Public Finance Law of 2022 introduced a transition to program-based budgeting and a medium-term budget framework. In February 2024, the Cabinet approved amendments to this law to include 59 economic authorities into the 'general government' budget, and the amendments were reflected in law no. 18 of the year 2024 enacted on March 30, 2024. The legal framework for public procurement in Egypt is governed by the Public Procurement Law No. 182 of 2018 and its executive regulations.

46. This framework is in line with international practices, but further reforms would enhance and modernize the procurement procedures in Egypt. An ex-ante control system of budget spending is carried out by the MOF through its financial controllers in accounting units. External audits are carried out by the Supreme Audit Institution which has a comprehensive scope of coverage. Its audit reports were made public for the first time in early 2023 through the Parliament's website, publishing FY19, FY20, and FY21 reports. The 2023 IMF

Safeguards Assessment of the CBE recognized advancements in the safeguard framework while highlighting recommendations on financial reporting and controls.

47. Disbursement procedures for the Program are envisaged under this operation, once the Loan Agreement becomes effective and a withdrawal application has been received, the Bank will deposit the loan proceeds into an account designated by the Government at the CBE, provided the Bank is satisfied with the progress achieved in carrying out program and with the adequacy of the country's macroeconomic policy framework. The Government will credit the local-currency equivalent to finance budget expenditures. The proceeds of the loan may be used for any productive activity, provided that the proceeds may not be used for excluded expenditures as defined in the Loan Agreement.

E. Environmental and Social

i. Environmental and Social Aspects.

48. The updated AIIB's Environmental and Social Framework (ESF, June 2024) introduces provisions for environmental and social (ES) management for the Climate-Focused Policy-Based Financing instrument. AIIB's Environmental and Social Policy (ESP) including the Environmental and Social Exclusion List (ESEL), is applicable to Reform Area 3 of the Program supported by the AIIB.

49. The Bank's financing through the first CPBF loan will be made for prior actions under the Reform Area 3 of the programmatic series, accordingly, the program description in AIIB's loan agreement with the Borrower will be limited to include the AIIB financed Reform Area. The Bank has conducted its environmental and social analysis of the Reform Area 3 in accordance with the provisions set forth in Section 16 of the ESF, relying on the Social, Poverty and Environment due diligence conducted by the World Bank (2023). **Annex 4** provides a summary of the environmental and social assessment of Reform Area 3 of the Program supported by the AIIB.

50. The Bank's analysis provides that the reforms being supported by the CPBF are likely to have positive social outcomes such as increased labor incomes from most of the PAs. In addition, the environmental impacts associated with actions under Prior Action (PA) 7 to PA11 of Reform Area 3 are expected to have a net positive environmental impact, as they will enable the GOE to monitor and reduce GHG emissions, promote renewable energy investments, efficient use of energy, and increase water efficiency. However, potentially adverse social impacts may derive in the future from downstream investments that benefit from the reforms introduced through Reform Area 3. PA9 encourages investments in renewable electricity such as wind, and solar power that could pose potential impacts and risks from future downstream project investment in a specific location. Potential downstream environmental and social impacts include aspects such as air, water, occupational health and safety, land contamination, and biodiversity (terrestrial and avifauna biodiversity due to large land occupation and to possible migratory bird flyways) as well as land acquisition and involuntary resettlement.

51. To mitigate these downstream investment risks, the GOE with the Technical Assistance from the WB is carrying out a strategic environmental and social assessment (SESA) with the objective of facilitating the development of future concessions and addressing the potential environmental and social adverse impacts of renewable energy projects. The

Bank will coordinate with the WB and the GOE on the development of the SESA. The SESA will add value by proposing appropriate recommendations to avoid and mitigate any critical biodiversity and social risks that maybe associated with future renewable energy projects. If actual project investment in renewable electricity happens to be materialized, the findings from the SESA will inform the scope of an appropriate environmental and social assessment and corresponding instruments to manage relevant environmental and social risks. Stakeholder engagement and information disclosure will be carried out along the SESA process in accordance with the Stakeholder Engagement Plan. The GOE may also reach out to other interested international development partners to provide necessary technical support to carry out the SESA in different locations.

52. PA10 incentivizes the electricity distribution companies to implement their loss reduction program and improve operational efficiency, which is expected to reduce the need for state subsidy and for charging higher tariffs to end users. However, in the short term, there may be a risk of higher electricity tariffs for residential consumers, which could disproportionately and adversely affect poor and vulnerable households. Monitoring follow-up regulations for implementation, a gradual approach to tariff increases, compensatory mechanisms, and adequate stakeholder engagement and communication would be important. Existing compensatory mechanisms and systems could be leveraged during program implementation to address social and distributional impacts.

53. On PA11, enhancing water resource management is critical for Egypt's climate resilience, which is important particularly for the poor, who rely more on nature-based livelihood activities and are often disproportionately affected by water resource scarcity and climate change. However, moving toward tariffs reflective of the service provision cost would have impacts through a tariff increase for most consumers in the immediate and short terms. There is an opportunity to use the tariff structuring as a signal for economizing consumption by establishing a stronger relationship between the cost of service and tariff levels and at the same time explore the alternative mechanisms for channeling subsidy to the vulnerable groups.

54. The safeguards assessment by IMF in 2023 concluded that the current legal environmental framework in Egypt has adequate requirements to address the potential environmental impacts associated with the PAs under this Program. However, for large-scale development projects, the existing legal structure needs to be complemented with good international practices to conduct SESAs to address high-level environmental and social risks associated with the PAs. Institutionally, dedicated departments within the Egyptian Environmental Affairs Agency are well-positioned to address the types of risks that may derive from investments in renewable electricity such as wind, and solar power that are incentivized under the Program. In addition, specialized units under the environmental management directorate and the Central Department for Environmental Inspection and Environmental Compliance are both following up on the implementation of mitigating measures during the construction and operation phases of specific development projects. However, if required interaction will be carried out with other departments of other ministries such as the Ministry of Water Resources and Irrigation and others.

ii. <u>Gender Aspects.</u>

55. The WB program's Reform Area 1 encourages job creation in productive sectors, which is likely to increase female labor force participation. Measures benefiting women's access to justice through streamlining the small claims supported under this program are crucial as gender gaps in this area remain strong. Gender-disaggregated justice data globally show that women are more likely than their male counterparts to face challenges to access to justice such as the lack of information and awareness of judicial procedures, cultural bias and discrimination, high costs, petty corruption, and distances to court and related safety issues. Women will also disproportionately benefit from the UHIS reform with better access to maternal and child primary care. Furthermore, women and girls are disproportionately affected by the lack of access to basic water, sanitation and hygiene facilities, due to their needs during periods of increased vulnerability to infection around menstruation and reproduction[20]. The PA 11 under the Reform Area 3 which supports improvement of water efficiency and reliability of the water supply and sanitation system provides direct gender benefits.

F. Monitoring, Evaluation, and Accountability

i. Monitoring and Evaluation.

56. Nine agencies, namely MOPEDIC, Ministry of Finance, Ministry of Justice, Ministry of Electricity and Renewable Energy, Ministry of Environment, Ministry of Housing, Utilities, and Urban Communities, FRA, and the Information and Decision Support Center, are responsible for the PAs. MOPEDIC is also responsible for coordinating among these key agencies and other related agencies to monitor the progress toward the result indicators. The monitoring will be based on periodically published sector indicators, specific reports as well as surveys developed and agreed upon with the responsible agencies. These indicators assess progress toward the implementation of the policy and institutional reform measures supported by the Program. Key variables will be monitored closely and will inform the decision to move ahead with the Program 2. The MOPEDIC is responsible for presenting the information related to the reform implementation and progress made toward results on time and in a format satisfactory to the Bank.

57. Systems are in place for citizens to complain or seek grievance redress. Communities and individuals who believe that they are adversely affected by specific country policies supported as PAs under a World Bank Development Policy Operation (DPO) may submit complaints to the responsible country authorities and appropriate local/national grievance mechanisms, such as the Unified Government Complaints System (known as the governmental e-portal). In the meantime, communities and individuals can also access the World Bank's Grievance Redress Service (GRS).

ii. Governance and Anti-corruption.

58. The Bank's Policy on Prohibited Practices will apply to Reform Area 3 of the Program supported by the AIIB. The Bank will undertake any inquiry or investigation of allegations or indications of Prohibited Practices.

iii. Grievance Redress and Bank's Project-Affected People's Mechanism.

[20] Kaser, G.L., et.al., 2019, "Water, sanitation and hygiene: measuring gender equality and empowerment," *Bulletin of the World Health Organization*, Vol. 97 No. 6, May 14, 2019, pp. 438-440.

59. Individuals and communities who believe that they are adversely affected by the Program may submit complaints to the responsible government authorities and the appropriate local/national grievance mechanisms, including the Unified Government Complaints System (or the government's e-portal) hosted by the Prime Minister's Office.

60. Project-affected people who believe they have been adversely affected by AIIB's failure to implement the AIIB's Environmental and Social Policy with respect to Reform Area 3 of the Program supported by the AIIB, in situations where their concern cannot be addressed by the appropriate local/national grievance mechanisms or by AIIB's Policy on the Project-Affected People's Mechanism (PPM). For information on AIIB's PPM, please visit: https://www.aiib.org/en/about-aiib/who-we-are/project-affected-peoples-mechanism/how-we-assist-you/index.html.

61. **Information Disclosure.** As provided in the ESP, AIIB discloses on its website the summary of the Bank's environmental and social analysis and the information of the applicable independent accountability mechanism, through the disclosure of the PSI in a timely manner.

G. Risks and Mitigation Measures

62. The overall risk rating of this Program is High. The major risks to the operation include (a) macroeconomic challenges associated with the uncertainty surrounding the global environment arising from the consecutive shocks, and the path to a more sustainable exchange rate and its adverse effects on economic activity, inflation, interest rates, and the public debt-to-GDP ratio, along with the risk that debt service crowds out essential services; indeed, the main source of macroeconomic risk is debt sustainability, especially with the high concentration in domestic banks; (b) political and governance risks stemming from institutional challenges and vested interests posing obstacles to the sustained implementation of structural reforms and the enforcement of legislation; (c) a shift in sector strategies, challenges in technical design or in stakeholders' commitment/ownership; and (d) the potential spillover effects of regional and geopolitical instability. These risks, if materialized, could affect the Government's ability to implement the reforms or make development outcomes less successful. However, the expanded financial package under the DPF—coupled with a three-operation framework giving a long-term anchor to the operation and complemented by the substantial IMF program and other WB projects, including the Program for Result operation on SOE reform, along with ongoing TA—will contribute significantly to mitigating risks, rebuilding trust, and resetting expectations. Wider consultations and effective citizen engagement will help provide feedback on implementation bottlenecks and inform decisions.

63. The Program will prioritize incorporating interventions throughout its cycle to facilitate dialogue between the GOE, stakeholders, and citizens concerning the reform process.

Table 2: Summary of Risks and Mitigating Measures

Risk Description	Assessment (H/M/L)	Mitigation Measures
1. Macroeconomic Outlook – mainly related to debt sustainability arising from the maturity and currency structure of Egypt's debt stock and increasing debt service costs.	High	The Bank and WB teams will closely follow up with the GOE to put in place substantive measures to restore the macro-context in collaboration with the IMF and EFF's implementation progress will help shore up

Risk Description	Assessment (H/M/L)	Mitigation Measures
		confidence and improve macro-fiscal stability, while advancing on key structural reform measures.
2. Political and Governance – due primarily to limited institutional capacity, time lagged in domestic private investment in responding to policy changes, and potential delay in legislative approval by the parliament.	High	The Bank will continue to work closely with the WB, IMF, and other relevant development partners to identify areas where support could be mobilized to further build the required capacity.
3. Technical Design, Sector Strategies, and Stakeholders – due to the complexity of some of the future programs' triggers and the associated risk of policy shift and/or dwindling of stakeholder's support.	Medium	The Bank and the WB will continue to have dialogue with the Government (supported by the WB's TA) to ensure reforms are successfully implemented.
4. Institutional Capacity for Implementation and Sustainability – refers to the limited institutional capacity and resources to effectively implement the enacted legislations.	Medium	The WB's technical assistance support. Mechanisms are being put in place to facilitate cross-ministerial coordination, which is much needed to tackle topics such as climate change. Wider consultations and effective staff and citizen engagement will also help provide feedback on implementation bottlenecks and inform decisions.
5. Fiduciary	Medium	The assessment of the foreign exchange control environment of the Central Bank did not identify substantial risks that may affect the loan proceeds. In February 2024, the Egypt Cabinet approved amendments to the Unified Public Finance Law, which mandate including the budgets of 59 EAs into the 'general government' budget. The amendments were enacted by virtue of law 18 of year 2024.
Overall	High	

Annex 1: Policy Design and Monitoring Framework

Prior Actions under Program 1 (2024)		Triggers for Program 2 (2025)	Triggers for Program 3 (2026)	Results
Reform Area 1 – Enhancing economic competitiveness through increased competition and an improved business environment for more private sector participation (Supported by the WB program)				
Clarify the role of the State, enable private sector participation, and strengthen the legal/governance frameworks of SOEs, building on the SOP.	**Prior Action 1.** The Borrower has submitted to Parliament the draft law 179/2024 to Regulate its Ownership in State Owned Companies.	**(Indicative) Trigger 1.** The Borrower has issued regulations on the establishment of the SOE unit as mandated by the Law on State Owned Companies.	**(Indicative) Second Trigger 1.** The Borrower has issued a corporate governance code for SOEs	**Results Indicator 1:** Share of private sector's investments in total investments (in percent). *Base (2023): 25.5 (Fiscal report FY23/22); Target (FY27/28): 45*
Improve the overall regulatory framework for competition.	**Prior Action 2.** The Borrower has issued executive regulations of Law 152/2022 amending some provisions on competition and prohibition of monopolistic practices to implement merger control and limit anticompetitive effects through remedies.	**(Indicative) Trigger 2.** The Borrower has (i) adopted by presidential decree the amendments of the competition law that strengthen the independence of the Egyptian Competition Authority (ECA) at par with other sector regulators as per articles 215/216 of the Constitution and (ii) reinforced the ability to sanction anticompetitive conducts through the creation of a judicial committee to impose administrative sanctions.	**(Indicative) Second Trigger 2.** The Borrower has issued by decree the executive regulations related to the amendments of the competition law.	**Results Indicator 2:** Number of merger and acquisition deals reviewed by ECA. *Base (2023): 0; Target (2027): 20*

Prior Actions under Program 1 (2024)		Triggers for Program 2 (2025)	Triggers for Program 3 (2026)	Results
Improve the efficiency of commercial justice procedures and help create a conducive business environment.	**Prior Action 3.** The Borrower has submitted the draft law on small claims to Parliament.		**(Indicative) Second Trigger 3.** The Borrower has submitted the draft amended Code of Civil Procedures to Parliament.	**Results Indicator 3a:** Number of days to resolve small claims from filing to decision. *Base (2023): No procedure for small claims; Target (2027): 150* **Results Indicator 3b:** Percentage increase of SME users of the small claims' procedure (gender disaggregated). *Base (2023): No procedure for small claims; Target (2027): 5*
Reform Area 2 – Building macro-fiscal resilience to external shocks, through higher domestic revenue mobilization, debt reduction, improved fiscal reporting and redistributive effectiveness (Supported by the WB program)				
Improve domestic revenue mobilization.	**Prior Action 4.** The Borrower has (i) promulgated law 159/2023 that eliminates tax and fees exemptions to State entities in economic and investment activities; and (ii) issued MoF decrees [No.137/2023 and No. 175/2023] to gradually roll-out the system that standardizes the principles and criteria for calculation of wages and salaries tax.	**(Indicative) Trigger 3.** The Borrower has eliminated key a number of expenditures identified in the annual report, critical to enhancing revenue mobilization in line with the FY2024/2025 and FY2025/2026 tax to GDP targets.	**(Indicative) Second Trigger 4.** The Borrower has submitted the Income Tax Law to the Parliament.	**Results Indicator 4:** Increase in tax-to-GDP ratio from these reforms (in percent). *Base (2023): 12.4; Target (2027): 14.0.*

Prior Actions under Program 1 (2024)		Triggers for Program 2 (2025)	Triggers for Program 3 (2026)	Results
Improve competition and efficiency in the domestic debt market and reduce the cost of government funding.	**Prior Action 5.** The Borrower has issued a primary dealer decree including rules and incentives to improve competition, transparency and increased secondary market trading.	**(Indicative) Trigger 4.** The Borrower has promulgated the insurance law enabling the development of a voluntary private pension fund pillar and issued a decree establishing the enabling environment for the development of money market funds and fixed income funds.	**(Indicative) Second Trigger 5**. The Borrower has issued a decree for the development of money market funds.	**Results Indicator 5:** Holdings of government debt by banks as a percentage of total debt (in percent). *Base (2023): 64; Target (2027): 54*
Enhance transparency and monitoring of the government's fiscal situation.	**Prior Action 6.** The Borrower has presented to Parliament draft amendments to the Unified Public Finance Law to improve fiscal reporting by including Economic Authorities in the definition of the General Government.	**(Indicative) Trigger 5.** The Supreme Committee for Economic Authorities (established by prime ministerial decree No. 3994 of 2022) issues decisions to merge or change the legal form of certain Economic Authorities as either service authorities (state budget entities) or corporations.	**(Indicative) Second Trigger 5.** The Borrower has issued general government consolidated final accounts which include at least 40 Economic Authorities.	**Results Indicator 6:** Net relation between public economic authorities and the treasury (in percent of GDP) *Base (FY2021/22): -2.4; Target (FY2026/27) -1.6.*

Prior Actions under Program 1 (2024)		Triggers for Program 2 (2025)	Triggers for Program 3 (2026)	Results
Increase the redistributive effectiveness of fiscal policy		**(Indicative) Trigger 6.** The Borrower has provided for automatic health insurance enrollment of T&K beneficiaries, and proposed amendments to the UHIS legal framework to streamline institutional arrangements and support financial sustainability of the UHIS.	**(Indicative) Second Trigger 7.** The Borrower has promulgated amendments to the UHIS Law No. 2/2018 to improve the effectiveness of the institutional arrangements and the financial sustainability of the UHIS.	**Results Indicator 7:** Increase in UHIS enrollment by vulnerable individuals (number and in percent of eligible individuals) Base (December 2023): 536,322 vulnerable individuals (32% of target). Target (2027): 1,682,511 vulnerable individuals
Reform Area 3 – Supporting the green transition by strengthening resilience to climate change, promoting low carbon development, scaling up renewable energy and increasing electricity and water and sanitation sectors efficiency (Supported by AIIB and the WB program)				
Establish a management system to support climate change mitigation and adaption.	**Prior Action 7.** The Borrower has issued Decree 415 of 28 December 2023 establishing administrative structure to support the national monitoring reporting and verification (MRV) system, allowing Egypt to collect data on GHG emissions, track progress on mitigation and adaptation measures.	**(Indicative) Trigger 7.** The Borrower has (i) approved a regulatory framework for implementation and digitalization of national MRV System; and (ii) issued guidelines for implementing and digitalization of the national MRV system consistent with the Enhanced Transparency Framework of the Paris Agreement for at least three priority sectors Transport, Electricity, Oil and Gas.	**(Indicative) Second Trigger 8.** The Borrower has submitted the draft of the revised environmental law to the parliament for ratification.	**Results Indicator 8a:** Number of sectors with regulatory framework in place and sector specific MRV protocols implemented. Base (2023): 0; Target (2027): 3 **Results Indicator 8b:** Consultations to be systematically conducted with non-Governmental actors including local communities, CSOs and academia to establish and measure monitoring indicators and benchmarks related to the established management system. *Base (2023): 0; Target (2027): 12*

Prior Actions under Program 1 (2024)		Triggers for Program 2 (2025)	Triggers for Program 3 (2026)	Results
Enable the development of the voluntary carbon credit markets.	**Prior Action 8.** The Borrower has issued three decrees on the main Building Blocks of the domestic carbon markets: (i) the requirements for validation and verification bodies (VVBs) approved by FRA for both international and domestic bodies; (ii) the requirements for domestic voluntary carbon credit registries approved by FRA; and (iii) the listing and delisting rules for voluntary carbon credits.	**(Indicative) Trigger 8.** The Borrower has issued two decrees through the "Supervisory and Control Committee for Carbon Emissions Reductions" establishing (i) priority sectors for Article 6 for which Letters of Authorization will be issued (as defined by the MOE); (ii) priority sectors/industries in which the private sector can invest to generate Voluntary Carbon Market (VCM) credits (as defined by the MOE) s; and (ii) a framework for "domestic standards" in the VCM.	**(Indicative) Second Trigger 9.** The Borrower has issued the decrees through the "Supervisory and Control Committee for Carbon Emissions Reductions" that align Egypt with IOSCO's and UNFCCC principles on financial and markets integrity of carbon markets.	**Results Indicator 9:** Capital in USD mobilized to invest in projects generating VCCs in Egypt under the new regulatory framework. *Base (2023): USD3 Mil. (100,000 carbon credits); Target (2027): USD120 Mil. (4 million carbon credits)*
Increase the share of renewable energy in the generation mix and private sector participation and reduce the carbon footprint for a competitive economy.	**Prior Action 9.** The Borrower, through the board of directors of the Egyptian Electric Utility and Consumer Protection Regulatory Agency, has issued a circular agreed at its 14th session of 28 March 2024, governing direct renewable electricity supply between private producers and consumers (private-to-private) including the use of transmission networks.	**(Indicative) Trigger 9.** The Borrower has issued regulations on certification of the origin of energy to contribute to the framework for private demand driven clean energy.		**Results Indicator 10a:** Capacity of renewable energy in the generation mix (MW). *Base (2023): 6028; Target (2027): 8648* **Results Indicator 10b:** Share of the private sector in the capacity of renewable energy in the generation mix (percent). *Base (2023): 33; Target (2027): 53*

Prior Actions under Program 1 (2024)		Triggers for Program 2 (2025)	Triggers for Program 3 (2026)	Results
Improve the governance and financial viability of the national power utilities.	**Prior Action 10.** The Borrower, through a decision of the board of directors of the Egyptian Electricity Holding Company (EEHC), has approved a loss reduction plan with annual distribution loss reduction targets for the distribution companies owned by EEHC, and mandating said electricity distribution companies to achieve set targets.	**(Indicative) Trigger 10:** The Borrower has issued the first-year audit report on the status of achievement of loss reduction targets by distribution companies and approved a financial viability plan of the electricity sector including tariff adjustment and optimization of operating costs.	**(Indicative) Second Trigger 10.** The Borrower has (i) issued agreed measures in the financial viability plan towards reaching cost-recovery for the electricity sector; and (ii) issued an agreement between the State and public electricity utilities to enforce the operational and commercial performance of the utilities.	**Results Indicator 11a:** Reduction of distribution losses (in percent). *Base (2023):* 21.2; *Target (2027): 15* **Results Indicator 11b:** Financial viability plan of the sector implemented. *Base (2023): No; Target (2027): Yes* **Result indicator 11c:** Number of electricity SOEs with performance agreement signed. *Baseline (2023): 0; Target (2027): 3*
Improve climate adaptation and financial sustainability of the water and sanitation sector.	**Prior Action 11.** The Borrower has submitted to the Parliament a draft law on regulating drinking water and sanitation utilities, which brings in reforms to strengthen the regulator's role, implement cost reflective tariffs, and enable private sector participation.	**(Indicative) Trigger 11.** The Borrower has issued the executive regulation for the drinking water and sanitation utilities law.	**(Indicative) Second Trigger 11.** The Borrower has revised standards/codes pertaining to allocation of water to different uses.	**Results Indicator 12:** Reduction in required per capita water consumption rate used in the production of water supply. The rate was greater than international best practice leading to overproduction of water supply and higher production cost and over-requirement of freshwater, the availability of which has been declining. Baseline (2023): 150–350 liters per capita depending on the settlement; Target (2027): 5 – 15 percent reduction depending on the type of agglomeration in the revised code.

Annex 2: The Borrower's Development Policy Letter

وزارة التعاون الدولي

الـــوزيـــر

٥٩٥٩

٢٩ مايو ٢٠٢٤

وزارة التعاون الدولي

صادر

مركزي

May 29, 2024

Mr. Ajay Banga
President
World Bank Group
Washington, DC

The Arab Republic of Egypt
Competitive, Resilient and Green
Letter of Development Policy

Dear President Banga,

I would like to extend our appreciation for the constructive cooperation and longstanding partnership between the Government of Egypt and the World Bank.

Despite unprecedented shocks to the global economy first due to the COVID pandemic and then to the war in Europe and, more recently, the war in the Middle East, Egypt has continued to move forward with the implementation of its homegrown Economic Reform Program 'Egypt Takes Off' which aims to boost job creation, improve living standards, and enhance government efficiency. This program will ultimately help Egypt achieve its ambitious Sustainable Development Strategy (SDS), 'Egypt Vision 2030', and further foster economic, social, and environmental progress. Moreover, our government launched in April 2021 the three-year National Structural Reform Program (NSRP), which builds on the first phase of the National Economic and Social Reform Program of 2016.

The NSRP aims to strengthen the economy through comprehensive and sustainable growth and targets the real sectors with fundamental structural reforms. It aligns with the UN Sustainable Development Goals (SDGs), supporting pillars on the economic, social, and climate fronts, and focuses on aspects related to (a) improving the business environment and boosting trade; (b) increasing competitiveness; (c) promoting labor market efficiency; (d) maintaining human capital development; (e) widening the scope of financial inclusion; and (f) guaranteeing effective governance of public and financial institutions, promoting transparency of fiscal policies and debt management, and strengthening digitalization across the economy. The policy reforms implemented under 'Egypt Takes Off' and the NSRP have yielded positive results in terms of real growth, primary surplus, unemployment, and poverty. They were also critical in helping Egypt build buffers and weather the global economic shocks.

The policy reforms were coupled with social protection and human development initiatives to provide focused support for low-income and vulnerable groups, while beginning to address challenges in health and education. Important progress has been made to address inclusion and quality of services through several parallel programs and initiatives, including the Takaful and Karama poverty-targeted cash transfer program (TKP), development of informal settlement areas, an education reform program, and ongoing efforts to expand the accessibility and quality of health services and introduce universal health care through the Universal Health Insurance System (UHIS). These programs include targeted interventions to benefit women. The multidimensional social and economic development program, Hayat Karima (Decent Life), consolidates the efforts of the state, civil society, and the private sector to address multidimensional poverty and provide a decent life with sustainable development for the groups in Egypt's governorates that are most in need.

وزارة التعاون الدولى
الوزير

Despite major efforts to restore the economy, recent economic shocks have underscored the need for continued reforms to address long-standing challenges. Global financial market developments, the war in Europe, and the war in the Middle East have triggered large-scale portfolio outflows from emerging markets, and Egypt has been hit particularly hard as a result of these external factors. In response to these shocks, exchange rate, monetary, and fiscal adjustments were undertaken to restore macroeconomic stability and stem reserve losses, contain inflationary pressures, and provide social mitigation. On March 6, 2024, the Central Bank of Egypt (CBE) renewed its commitment to a durably flexible exchange rate regime, allowing the exchange rate to depreciate. In tandem, the CBE raised key policy rates to curb inflationary pressures following the depreciation of the exchange rate. Meanwhile, we have announced a series of social mitigation packages to help alleviate the impact of rising prices. These include rapidly expanding coverage of the TKP, hikes in pensions and public sector wages, tax relief measures, and additional exceptional targeted cash transfers, among others.

Within this context, our government remains committed to achieving its reform program. To support the country's endeavors for a competitive, resilient, and green economy, we are requesting a loan to support policy measures aimed at (1) enhancing economic competitiveness, (2) building macro-fiscal resilience, and (3) supporting the green transition. Indeed, we are working hard to increase the economy's competitiveness by improving the investment climate and supporting the private sector's role as a pivotal partner in various sectors. We are also committed to improving the macroeconomic framework and building economic resilience in a long-lasting way to avoid future external shocks from disrupting the economy. Lastly, since Egypt hosted the UN COP27 in November 2022, special attention has been provided towards reforms to plan and manage climate change and build a green economy. Implementing these reforms will undoubtedly require time, underscoring the importance of maintaining steadfastness in our approach. Proper sequencing is also crucial for the successful execution of these reforms, highlighting the importance of a three-year programmatic lending framework to facilitate a gradual uptake. This approach, focused on structural improvement and long-term achievements, will also provide a platform for other partners to support Egypt through additional financing to foster a more resilient, competitive, and green economy. This mirrors the example of Egypt's Country Platform for the Nexus of Water, Food and Energy (NWFE), which was launched in July 2022. The program aims at accelerating the national climate agenda and provides opportunities for mobilizing concessional climate finance and private investments to support Egypt's green transition reflecting the interlinkages and complementarity between climate action and development efforts. It was developed on the back of the announcement of Egypt's 2050 Country Climate Strategy, and the Nationally Determined Contribution (NDC).

Reforms enhancing economic competitiveness

Realizing the full potential of a productive private sector is a main priority for our government to boost jobs and improve economic inclusion in Egypt. After a first wave of successful reforms aiming at strengthening macroeconomic fundamentals and restoring confidence in the economy, we are now turning to reforms that can trigger a marked and sustained increase in non-extractive private investment and exports. Increasing export competitiveness, combined with the depreciation of the Egyptian pound after flotation, will help improve the trade balance. To that end, we have recently adopted new reforms to increase domestic competition, enhance the investment climate, and improve the customs clearance process. These reforms will support the country in realizing its considerable potential to be a regional trade and logistics hub. They should also help attract strong Foreign Direct Investment (FDI) inflows aiming to harness the large domestic market or to connect Egypt to the global value chain-based international trade, which is impactful in reducing poverty and creating productive jobs.

The State Ownership Policy (SOP), issued in December 2022 and followed by a **draft law submitted to the Parliament in 2024 to regulate its ownership in State Owned Companies**, focuses on recalibrating the role of the state to enable and empower private sector-led growth. It includes the state's rationale for holding assets, and adheres to principles of corporate governance of state-owned enterprises (SOEs) and supports competitive neutrality as well as the creation of a central unit for listing and monitoring state owned enterprises. The unit will put regulating programs to SOEs, monitor its implementation, through obligatory and restricted timelines in line with the state ownership policy framework document. To further support this reform, we plan to introduce regulations on the establishment of the SOE unit as mandated by the Law on State Owned Companies, and introduce a corporate governance code for SOEs. The SOP with clear criteria for the state's involvement in commercial and strategic business activities contributes to increasing policy predictability and private sector participation in multiple sectors and to improve governance and efficiency of SOEs. Moreover, it provides a roadmap for the state's gradual exit from many sectors, thereby allowing for revenues from privatization, reduced fiscal exposure, and increased private sector participation.

Additionally, the High Committee for Competition Policy and Competitive Neutrality headed by the Prime Minister with the membership of a number of ministers and relevant authorities has been established through Prime Ministerial Decree No. 2195 of 2022. The technical aspects of the Committee are handled by Egyptian Competition Authority (ECA), headed by ECA's chairperson. ECA, specifically the Competition Policy and Competitive Neutrality Department, is responsible for all technical manners, providing its opinion on state-measures that may affect competition and competitive neutrality in accordance with the provisions of ECL. Establishing such a committee should expedite access to proactive and effective solutions for issues relating to competitive neutrality. The high-level membership of the Committee should ensure that decisions issued by the Committee are followed and enforced by all state agencies. This would have a positive impact on investment as well as the national economy.

The implementation of pro-competitive policies in Egypt are at the heart of reforming the investment and business climate. The **executive regulations of Law 152/2022 amending some provisions on competition and the prohibition of monopolistic practices** are a major improvement to the Egyptian regulatory framework. Additional amendments to the competition law are currently being discussed to further increase ECA's independence similar to the level of independence that the Constitution grants to the CBE and the Financial Regulatory Authority (FRA) according to Articles 215 and 216 of the Constitution. The potential to impose administrative sanctions will strengthen ECA's decision-making on anti-competitive behavior and reinforce competition enforcement. The adoption of the executive regulations of the amended law will ensure its effective implementation.

Lastly, we took important actions to improve the access to court services and the effectiveness of the judicial system, as part of our effort to foster a good business environment and to support economic growth. We recently **submitted to the Parliament a draft Small Claims Law**, which specifically provides simplified proceedings and tracks to SMEs. The draft law aims to improve court-user experience, provide greater access to services, reduce caseload, enhance efficiency, free up court resources, and increase the public's trust and confidence in the judicial system. The simplified procedures specifically provide a segment of court users with a cost-effective and efficient alternative that does not require them to undergo the customary adjudication process and incur the high cost often associated with resolving disputes. Going further, we will use our recent study of the legal framework governing the processing of commercial cases to revise the Code of Civil & Commercial Procedures (CPC) and submit the amended CPC to the Parliament. This should serve as the basis for a comprehensive revamping of the legal and regulatory framework for commercial justice in Egypt and represents the first effort of its kind to be carried out since 1968.

Reforms improving macro-fiscal resilience

At the heart of our economic reform program lies the continued commitment to increased resilience through fiscal consolidation and debt sustainability. Despite the severe challenges of COVID-19, and the impacts of the consecutive external shocks discussed above, resulting in higher expenditures and constrained revenue mobilization, we are still projecting a positive primary balance (of 2.5 percent of GDP) during FY2023/24. While pressures on the budget have intensified during FY2023/24 due to lower economic activity, and as subsidies and interest payments increased, we are committed to fiscal consolidation over the medium term. Government debt will, in turn, also increase to 98 percent of GDP at end-FY2023/24 (from an estimated 95.2 percent a year earlier) due to both the higher deficit and the adverse valuation impact stemming from the currency depreciation, before declining gradually to around 90 percent of GDP within 3 years. This ongoing consolidation is driven by a wide-ranging reform agenda.

On tax, our government made important efforts to increase domestic revenue mobilization, by broadening the tax base while increasing the equity of the tax system and enhancing tax collection. In this respect, the Ministry of Finance has promulgated Law 159/2023 that **eliminates preferential treatment in taxation and payment of fees to state entities that operate in commercial and investment activities**, which is a step toward instilling the principles of competitive neutrality and is also expected to raise tax revenues by widening the tax base. Regarding the tax on wages and salaries, **a new electronic payroll tax payment system will be set up to ensure that the tax rules are applied accurately by employers**—starting with the large companies. At present there is significant variation in the application of tax rules by different employers, which results in significant revenue leakage. These reforms are expected to bring into the tax net economic activity that is at present not being captured. Going forward, the Ministry of Finance will streamline key tax expenditures highlighted in the annual tax expenditure report. We also remain dedicated to broadening the tax base by proposing a new Income Tax Law. This law aims to clarify and simplify income tax enforcement, unifying and consolidating previous amendments that have fragmented the income tax system, and dispersing the information across multiple laws and amendments.

On the debt front, **the reform of the primary dealer system** represents a significant improvement of the government debt placement model, encouraging primary dealers to perform more competitively in the primary market while fulfilling their primary and secondary duties. Egypt's investor base is mostly limited to banks and a small number of institutional investors, which reduces further competition in the government securities market and limits local long-term financing in local currency. The revision of the primary dealer decree is a critical step toward strengthening the government securities market, improving price formation in the financial sector, and enabling smoother functioning of the financial sector. Going forward, our government will establish the enabling regulatory environment for the development of a broader and larger investor base, with a first step consisting in allowing banks to establish asset managers for money market and fixed-income mutual funds. At the same time, we plan to enact an insurance law, facilitating the establishment of voluntary private pension funds.

In terms of fiscal reporting, we aim to achieve a more comprehensive understanding of general government recurrent expenditures, capital investments, and revenues. To accomplish this, **we have promulgated amendments to the Unified Public Finance Law, which mandate the presentation of consolidated general government financial reports** alongside the traditional reports of the state budget and individual economic authorities (EAs). Looking forward, the Ministry of Finance will start issuing consolidated general government budgets and final accounts starting from FY2024/2025.

Finally, we will focus on enhancing the redistributive impact of our fiscal policy. The gradual implementation of the Universal Health Insurance System (UHIS) and Takaful and Karama (T&K) stands as pivotal measures aimed at safeguarding the vulnerable, fostering human capital development, and enhancing health outcomes. However, there exists an opportunity to streamline the enrollment process for social and health insurance programs by establishing a regulatory framework for their automatic enrollment into eligible programs. Furthermore, the 2018 UHIS Law mandates the financial sustainability of the UHIS, necessitating additional resources as coverage expands. Hence, we will propose amendments to the UHIS Law to ensure sustainable revenue generation, efficient benefit management by the UHIS, and the establishment of an effective institutional framework to oversee the comprehensive implementation of UHIS reforms nationwide in Egypt.

Reforms supporting the green transition

As mentioned above, our government is committed to implementing new reforms to move to a green low-carbon development. This ambition is reflected in Egypt's Sustainable Development Strategy Vision 2030 and in the National Climate Change Strategy 2050 (NCCS). In addition, we announced the National Medium-Term Plan for Sustainable Development (2022–2026) in January 2022, as a green plan aiming at reaching 50 percent of green projects by 2025. Other national climate-related strategies include the Integrated Sustainable Energy Strategy 2035, the Egypt Water Strategy 2050, and Integrated Waste Management Strategy. Our government submitted the first National Determined Contributions (NDCs) in June 2022 and provided a further update in June 2023, which highlight progress on mitigation actions in several sectors. In November 2022, Egypt held the Presidency of the 27th UN Climate Change Conference of Parties (COP27), further demonstrating our determination to move toward green growth. The Country Climate and Development Report (CCDR) published by the World Bank in November 2022 identifies adaptation and mitigation measures that will help our government target specific reforms to reduce emissions and enhance efficiency, while boosting resilience.

The main instrument for operationalizing the green transition is the NCCS, approved on May 26, 2022, which places significant emphasis on accountability, reporting, and transparency. Aligned with the principles outlined in the NCCS, the GoE has advanced climate action by issuing decree 415/2023 **for the establishment of a working group to support the national monitoring, reporting, and verification (MRV) system, and to allow Egypt to collect data on GHG emissions, and track progress on mitigation and adaptation measures**. Such measures are fully in line with the Enhanced Transparency Framework of the Paris Agreement. Looking ahead, we will issue guidelines for the application of the national MRV system in key sectors such as transport, electricity, and oil and gas. Subsequently, we will finalize the draft of the revised environmental law no. 4/1994 to integrate climate change aspects in the environmental law and submitting it to the parliament. This amendment sets the stage for enhanced coordination and effectiveness in addressing environmental challenges through carbon market mechanisms by detailing the obligations of governmental bodies, relevant agencies, and the private sector.

وزارة التعاون الدولي
الـــوزيــر

As part of the effort to green the economy, voluntary carbon markets (VCMs) can be an important tool to attract global capital into decarbonization projects and be a first step for countries to start developing the ecosystem and infrastructure needed to introduce carbon pricing policies to support the implementation of their NDCs. **The decrees issued by the FRA are critical to develop the main building blocks of Egypt's carbon markets domestic ecosystem** covering the following aspects: (a) The registration requirements for validation and verification bodies (VVBs), (b) the requirements for approving the domestic voluntary carbon registries by FRA; and (c) the listing and delisting rules for voluntary carbon credits. Going forward, the main elements of the ecosystem for a domestic VCM will be defined and developed by the Voluntary Carbon Market Oversight and Supervision Committee. These include the priority sectors and industries for the private sector to invest under Article 6 of the Paris Agreement and under the VCM, and a framework for domestic carbon crediting programs. We will also issue decrees that align Egypt with IOSCO's and UNFCCC's principles on financial and markets integrity of carbon markets.

In the area of energy, as explained in the NCCS and NDC, we have made a choice for a clear shift toward the decarbonization of the energy sector through the transition to renewable energy and efficient use of energy. In that context, to create enabling conditions for the private sector to scale up renewable energy, **we operationalized direct renewable electricity supply between private producers and eligible consumers (business-to-business).** The Private-to-Private project represents a positive step towards liberalizing the electricity market, as it is the first stage of opening the competitive production of electricity to renewable energies, in line with Egypt's vision 2030 as well as the freedom of choice of the qualified consumer to its own production source. In implementation of the provisions of electricity Law no. 87/ of 2015, the EgyptERA's Board of Directors agreed on March 28, 2024, to approve the regulatory rules for bilateral agreements between the private sector for production and consumption (P2P). In addition, these projects will contribute to the implementation of green hydrogen projects and in similar manner have a positive impact on electricity prices. Egypt is rich in Renewable Energy resources especially wind and solar that qualify it to be one of the major renewable energy producers. To utilize this potential, the Energy Strategy until 2040 is being updated in light of global developments related to renewable energy technologies, energy storage and hydrogen. Going forward, we will issue regulations on certification of the origin of energy to contribute to the framework for private demand-driven clean energy and regulations for private sector-led supply and distribution of renewable electricity through mini-grids in large and high demand centers.

In the electricity sector, our government is pushing for further efficient use of energy and consolidation of the financial position of utilities required to attract private investment in renewable energy development. To that end, **we approved a loss reduction plan with annual distribution loss reduction targets for the electricity distribution companies**. The loss reduction schedule will be supported with a plan to improve management, dedicated tools, and investments. Our reform program will pave the way for the resumption of the subsidy reform through the issuance of the first-year audit report, evaluating the progress made by distribution companies in achieving loss reduction targets. Looking ahead, we will continue our efforts to enhance the financial viability of the electricity sector by implementing tariff adjustments and optimization of operating costs.

Annex 3: International Monetary Fund Assessment Letter[21]

INTERNATIONAL MONETARY FUND

IMF Executive Board Completes the Third Review of the Extended Arrangement under the Extended Fund Facility for Egypt

July 29, 2024

Today the IMF Executive Board completed the third review under the Extended Arrangement under the Extended Fund Facility (EFF) for Egypt, allowing the authorities to draw the equivalent of about US$820 million (SDR 618.1 million).

The Egyptian authorities' recent efforts to restore macroeconomic stability have started to yield positive results. Inflation remains elevated but is coming down. A flexible exchange rate regime remains a cornerstone of the authorities' program.

But the regional environment remains difficult, and complex domestic policy challenges require decisive implementation of the authorities' reform program. Continued fiscal consolidation, with strengthened revenue mobilization, to create the space needed to expand social programs. Accelerating structural reforms to help raise private sector growth will also be key.

Washington, DC: The Executive Board of the International Monetary Fund (IMF) completed the third review of Egypt's EFF arrangement. This enables the authorities to immediately draw about US$820 million (SDR 618.1 million). Egypt's 46-month EFF arrangement was approved on December 16, 2022.

Macroeconomic conditions have started to improve since the approval of the combined first and second reviews of the program in March. Inflationary pressures are gradually abating, foreign exchange shortages have been eliminated, and fiscal targets (including related to spending by large infrastructure projects) were met. These improvements are beginning to have a positive effect on investor confidence and private sector sentiment. At the same time, the difficult regional environment generated by the conflict in Gaza and Israel and tensions in the Red Sea, as well as domestic policy and structural challenges, call for continued implementation of program commitments.

Maintaining a flexible exchange rate regime and a liberalized foreign exchange system will be imperative to avoid a buildup of external imbalances. At the same time, a data-driven approach by the Central Bank is needed to lower inflation and inflation expectations. Ongoing fiscal consolidation efforts will help place public debt on a decisive downward path. To ensure that resources are still available to meet vital spending needs to help Egyptian families, including

[21] This document was prepared by the International Monetary Fund.

on health and education, particular attention will be needed to strengthen domestic revenue mobilization and contain fiscal risks from the energy sector. This will also assist in generating some fiscal space to expand social spending in support of vulnerable groups.

While there has been progress on some critical structural reforms, greater efforts are needed to implement the State Ownership Policy (SOP). Such measures include accelerating the divestment program, pursuing reforms to streamline business regulations to set up new firms, expediting trade facilitation practices, and creating a “level playing field” that avoids unfair competitive practices by state-owned companies. Bolstering financial sector resilience and the governance practices and competition in the banking sector should also be key priorities. These measures are crucial for steering Egypt toward private-sector-led growth that can generate jobs and opportunities for everyone.

At the conclusion of the Executive Board’s discussion, Ms. Antoinette M. Sayeh, Deputy Managing Director, and Acting Chair, made the following statement:

“Strengthened reforms under the EFF-supported program are yielding positive results. The unification of the exchange rate and the accompanying monetary policy tightening have curtailed speculation, brought in foreign inflows, and have moderated price growth. With signs of recovery in sentiment, private sector growth should be poised for a rebound.

“Policy settings are expected to help maintain macroeconomic stability. A sustained shift to a flexible exchange rate regime and a liberalized foreign exchange system, continued implementation of a tight monetary policy stance, and further fiscal consolidation coupled with proper implementation of the framework to monitor and control public investment should support internal and external balance. The allocation of a portion of the financing from the Ras El-Hekma deal to reserve accumulation and debt reduction provides an additional cushion against shocks.

“Looking ahead, implementation of the structural reform agenda is key to achieving more inclusive and sustainable growth. Reforms that boost tax revenue, deliver a more robust debt management strategy, and bring additional resources from divestment to debt reduction would create space for more productive spending, including additional targeted social spending. Restoring energy prices to their cost recovery levels, including retail fuel prices by December 2025, is essential to supporting the smooth provision of energy to the population and reducing imbalances in the sector. Enhancing the governance of state-owned banks, advancing the state-ownership policy, increasing fiscal transparency, and leveling the economic playing field are critical to securing greater private investment.

“Risks remain significant. Regional conflicts and uncertainty about the duration of disruption of trade in the Red Sea are important sources of external risk. Maintaining appropriate macroeconomic policies, including a flexible exchange rate regime, would help ensure economic stability. Meaningfully advancing with the structural reform program would significantly improve growth prospects. Managing the resumption of capital inflows prudently will also be important to contain potential inflationary pressures and limit the risk of future external pressures.”

Annex 4: Environmental and Social Assessment of the Prior Actions Supported by the Program's Reform Area 3

Prior Action (PA)	Likely Environmental Impacts	Likely Social Impacts
PA 7 The Borrower has issued decree no. 415 of 28 December 2023 for the establishment of a working group to support the national monitoring reporting, and verification system (MRV), and to allow Egypt to collect data on Greenhouse Gas (GHG) emissions, track progress on mitigation and adaptation measures.	Yes, positive impacts. The MRV system will enable accounting of the GHG emissions from various economic sectors and assist in setting up realistic and achievable GHG emission reduction targets.	No. There is no social impact from the PA 7 which supports the setting up of the national MRV system.
PA 8 The Borrower has issued three decrees on the main Building Blocks of the domestic carbon markets: (i) the requirements for Validation and Verification Bodies (VVBs) approved by the Financial Regulatory Authority (FRA) for both international and domestic bodies; (ii) the requirements for domestic voluntary carbon credit registries approved by FRA; and (iii) the listing and delisting rules for voluntary carbon credits.	Yes, positive impact. This PA will encourage reduction in GHG emission which can be traded in carbon markets.	No. There is no social impact from this PA which builds basic structure of the domestic carbon trading market.
PA 9 The Borrower, through the board of directors of the Egyptian Electric Utility and Consumer Protection Regulatory Agency, has issued a circular agreed at its 14th session of 28 March 2024, governing direct renewable electricity supply between private producers and consumers (private-to-private) including the use of transmission networks.	Yes, positive environmental impacts from this PA. The transition to clean and green source of energy leads to avoidance of environmental pollution and emissions leading to adverse health impacts from power plants relying on fossil fuel. However, potential adverse environmental impact may arise from downstream scaling up of renewable electricity supply which is subjected to the national laws and regulation requiring Environmental Impact Assessment for all projects depending on their impact classification. As a precaution, the Government of Egypt (GOE) has been working in	No social impact from the PA9. However, potential social impacts may arise from downstream investment in renewable electricity projects located in the targeted area. Typical social impacts include land acquisition and resettlement as a result of installation of renewable electricity generation equipment, overhead transmission lines, substations, and other associated infrastructures. As a part of an ongoing WB supported TA, the Ministry of Electricity and Renewable Energy has developed Guidelines for Land Acquisition in the Electricity Sector including the transmission. The guidelines relied on the existing country system and the

Prior Action (PA)	Likely Environmental Impacts	Likely Social Impacts
	collaboration with the World Bank (WB) to prepare a Strategic Environment and Social Assessment (SESA) for the targeted geographic locations for renewable electricity investments and corridors of transmission lines while undertaking feasibility studies. The preparation of the SESA is a part of a broader Technical Assistance (TA) provided by the WB to also strengthen the national capacity to develop and review SESAs.	Ministry Procedures for Land Acquisition and to bridge some gaps through suggested measures and procedures.
PA 10 The Borrower, through a decision of the board of directors of the Egyptian Electricity Holding Company (EEHC), has approved a loss reduction plan with annual distribution loss reduction targets for the distribution companies owned by EEHC, and mandating said electricity distribution companies to achieve set targets.	Yes, positive impacts. Reduction in electricity distribution losses conserves natural resources and reduce pollution and emissions from fossil fuel-fired power plants.	No social impact from the PA10 which aims to reduce distribution loss by the electricity distribution companies while avoiding passing the costs to end users.
PA 11 The Borrower has submitted to the Parliament a draft law on regulating drinking water and sanitation utilities, which brings in reforms to strengthen the regulator's role, implement cost reflective tariffs, and enable private sector participation.	Yes, Positive impacts. Increasing water efficiency measures conserve Egypt's scarce freshwater resources that are currently under stress.	No social impact from the PA11 which focuses on water efficiency improvement. However, moving toward tariffs reflective of the service provision cost would have impacts through a tariff increase for most consumers in the immediate and short terms.

Annex 5: Egypt Sovereign Credit Fact Sheet

1. **Background**. Egypt is a lower-middle income country, with a population of 107 million and an income per capita of around USD3,200 strategically located between Asia, Africa, and Europe. The economy is relatively well-diversified, with important role played by energy resources, foreign tourism, remittances, and public investment. However, a legacy of heavy state involvement in the economy and the underdevelopment of the private sector have led to insufficient job creation, weak external competitiveness, dependence on imports, over-reliance on foreign financing, and vulnerability to periodic balance-of-payment stress. Most recently, during 2020-23, Egypt has been battered by a series of external shocks, including the COVID pandemic and sharp tightening of global financial conditions and spillover from regional tensions. As policies were slow to adjust, Egypt came under severe macroeconomic stress, from which it is currently recovering under a large IMF program. The main policy pillars are flexible exchange rates, revenues-based fiscal consolidation, and structural reforms for private-sector-led growth. With that, Egypt's medium-term economic outlook remains robust, at around 5-6 percent per year, supported by its strategic location, large and diverse economy, export potential, growing labor force, and improving education attainments.

2. **Recent Economic Developments.** In the past few years, Egypt has been battered by a series of external shocks. In 2020, buffers were depleted by the Covid pandemic. In 2022, the geopolitical tensions in Europe led to large capital outflows, draining FX reserves. The subsequent sharp tightening of global monetary conditions made Egypt’s external financing strategy untenable. As confidence evaporated, Egypt lost access to international markets. In 2023, the geopolitical tensions in the Middle East exacerbated the situation further. The country faced FX shortages, a cost-of-living crisis, and large upcoming debt redemptions. The initial policy response—which included several devaluations and an interest rate hike—was insufficient and plagued by delays. Floating the exchange rate has proven difficult, due to the perceived risks of overshooting, runaway inflation and social hardship.

3. **Economic Program.** In March 2024, the authorities moved forcefully to restore macroeconomic stability, supported by a sizable, coordinated financial package from official and bilateral partners, including a multibillion FDI commitment from UAE and the augmented IMF program. Measures taken include: (i) a devaluation, unification and floating of the exchange rate, to fix the FX market; (ii) a large interest rate hike (to 27.25 percent), to counter inflation and support the currency; (iii) commitment to fiscal tightening and reforms to control off-budget public investment; and (iv) a social mitigation package. These measures are bringing results. FX reserves have rebounded sharply, interbank FX turnover and capital inflows have resumed, FX backlog has been cleared, inflation, at 26 percent as of August, has been gradually declining (from 38 percent at the peak in late 2023) and spreads have come down. The three major rating agencies have promptly upgraded Egypt’s sovereign outlook.

4. **Growth outlook.** Despite shocks, growth has been remarkably resilient in recent years. Still, the economy has slowed to 2.7 percent in FY24 (from 3.8 percent in FY23), because of weak confidence, supply bottlenecks (due to FX shortages) and high inflation, which eroded household demand and raised costs for firms. A strong recovery is expected from FY25, initially benefitting from favorable base effects and investments (such as those financed by the UAE deal), and improved private consumption. With restored macroeconomic stability and better environment for private sector-led growth, the medium-term growth outlook remains

positive, at around 5.6 percent per year. The main risks to this scenario are (i) new or intensified external shocks and (ii) potential slippages in reforms. Short-term uncertainty in the external environment remains high.

5. **Egypt's sovereign credit ratings** have been relatively stable for the past several years, but due to the 2022-23 macroeconomic turbulences, all three major rating agencies downgraded Egypt in Q4 2023, to B- (S&P and Fitch), and Caa1 (Moody's), quoting external liquidity stress, worsening debt affordability, FX shortages, delays to the reform program and damaged policy credibility. However, during 2024, with the recent decisive improvement in the policy mix, Fitch upgraded Egypt to B stable, while the two other agencies revised the rating outlook from stable to positive.

Key Economic Indicators	**FY22**	**FY23**	**FY24***	**FY25***	**FY26***	**FY27***
GDP growth 1/	6.7	3.8	2.7	4.1	5.1	5.1
Inflation (e.o.p.) 1/	13.2	35.7	29.3	14.9	12.3	8.4
Budget overall balance	-6.2	-6.0	-7.1	-9.2	-6.8	-4.3
Public debt 2/	88.5	95.9	90.5	82.8	77.5	71.8
Gross public financing needs	31.1	28.5	38.4	42.7	41.5	37.0
Current account balance	-3.5	-1.2	-6.5	-4.9	-4.0	-3.6
External debt	32.8	41.8	37.9	40.7	34.7	29.8
Gross external financing needs	7.8	2.9	10.4	9.2	6.4	5.7
Net international reserves (USD billion) 3/	33.4	34.8	46.4	46.7	..	..
Exchange rate (EGP/USD, e.o.p.) 3/	18.8	30.9	48.0	49.1	..	..

Source: IMF country report 24/274; in percent of GDP unless stated otherwise; FY is Jul 1 to Jun 30; '*' = projections
Notes: 1/ percent change, year-on-year; 2/ IMF definition; 3/ data from the central bank; for FY25 as of Nov 5, 2024

Annex 6: Egypt Financing Request Letter

٤٨٤١
٢ مايو ٢٠٢٤
وزارة التعاون الدولى
صادر
مركزى

وزارة التعاون الدولى
الوزير

Mr. Konstantin Limitovskiy
Vice President, Investment Operations (Region 2)
The Asian Infrastructure Investment Bank (AIIB)

Dear Mr. Limitovskiy,

May2nd, 2024

At the outset, I would like to express my sincere appreciation for the mutual exerted efforts to promote and strengthening the unique partnership between the Government of the Arab Republic of Egypt and the Asian Infrastructure Investment Bank (AIIB).

Following to our letter dated February 1st, 2024 with regards to AIIB's potential support to proceed with a joint Development Policy Finance (DPF) operation with the World Bank, especially within the Climate-Focused Policy-based Financing instrument.

And in light of our discussions and coordination on this front, we would highly appreciate proceeding with the next steps to extend a loan to the Egyptian government with an amount of 300 Million U$ in 2024 within the framework of the 3 year Joint DPF program (2024-2026).

We look forward to receiving your positive and prompt feedback, and we take this opportunity to convey our highest consideration.

Sincerely,

Dr. Rania Al-Mashat
Minister of International Cooperation
Arab Republic of Egypt

Annex 7: Alignment with the Climate Goals of the Paris Agreement and Climate Finance Assessment for the Prior Actions under the Reform Area 3

Paris Alignment Based on the Joint Framework

1. The Paris Agreement alignment assessment was carried out based on the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New Operations – Policy-Based Lending (PBL), version 1.0, June 2023. An operation needs to be aligned with both the mitigation and climate adaptation and resilience goals of the Paris Agreement to be considered "Paris-aligned". The following steps were followed with the corresponding assessment results provided below.

Step 1: Assessing consistency of the PBL-supported government reform program with the country's priorities on climate change.

2. Yes, the RA3 and all its PAs are supporting the country's priorities on climate change as stated in the second updated NDC and the NCCS 2050 by creating carbon market to encourage GHG emission reductions from both private and public sector, increasing the share of renewable electricity, improving energy efficiency of the electricity transportation through the transmission and distribution systems, and improving efficiency of the water supply system.

Step 2: **Assessing the mitigation and adaptation alignment of the reform program.**

Step 2-Mitigation Alignment – Criterion 1a: Does the PBL reform program consist of policy actions that support activities that actively contribute or do-no-harm to decarbonization pathways in line with the mitigation goals of the Paris Agreement in all circumstances? (i.e., 'universally aligned activities')?

3. Yes, the PA7 to PA10 consist of policy actions that contribute to decarbonization pathways in line with the mitigation goals of the Paris Agreement as stated in the NDCs and NCCS 2050. Furthermore, the PA9, PA10, and P11 directly supports universally aligned activities (Table 1: Energy and Water Supply and Wastewater) [22] in renewable energy, energy efficiency of the transmission and distribution, and water efficiency.

Step 2-Adaptation Alignment – Criterion 1a: Are risks from climate hazards likely to have an adverse effect on the development objective(s) of the PBL reform program's policy actions?

4. No, climate hazards are not expected to affect the development objective of the policy actions under the RA3. Creating the MRV system and carbon market (PA7 and PA8) should not be affected by the climate hazards. For PA9 and PA10, climate hazards are unlikely to affect the PA's contribution to the development objective of the RA3. For PA11, climate change is projected to increase the variability in the availability of water resulting in more frequent wet and dry years. The PA11 builds resilience in the water supply system by improving its efficiency.

5. Furthermore, PA11 helps lower GHG emissions through lower energy requirement for water production because of lowering the per capita water supply requirement to be on par with an international practice.

[22] Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New operations – Direct Investment Lending - List of Activities Considered Universally Aligned with the Paris Agreement's Mitigation Goals or Not Aligned with the Mitigation Goals, Version 1.0, June 2023.

6. The assessment's results confirm that the Program aligns with the climate mitigation and climate adaptation and resilience goals of the Paris Agreement, according to the Joint MDB Methodological Principles for Assessment of Paris Agreement Alignment of New Operations – Policy-Based Lending (PBL), version 1.0, June 2023.

7. Climate Finance According to the Annex C.5 of the 2022 Joint Report of Multilateral Development Banks' Climate Finance, policy-based lending which includes the climate-related prior actions can be reported as climate finance. The proportion of the reported climate financing is the same as the proportion of the climate-related policy actions. Since the Bank's support is focused on the RA3, according to the 2023 Common Principles for Climate Mitigation Finance Tracking, four out of five (80 percent) Prior Actions (PAs) are directly supporting the climate mitigation including:

a. PA7 and PA8: Creating the MRV system to track GHG emissions and voluntary carbon market[23];

b. PA9: Increasing share of renewable electricity generation by allowing private-to-private sales of renewable electricity which is included in the list of eligible activities for climate mitigation finance[24];

c. PA10: Reducing losses in the transmission and distribution system[25].

8. For the climate adaptation finance, one PA (PA11) out of five PAs accounts for 20 percent of the total climate finance. PA11 is directly supportive of climate adaptation by improving the efficiency of the water supply system and addressing the country's climate vulnerability of the climate induced water scarcity due the country's primary reliance on the Nile River. The Program Scope also clearly stated that the Program supports the implementation of the NDCs and the NCCS 2050 on both mitigation and adaptation activities.

9. The Program contributes 100 percent of the total financing of USD300 million toward the Bank's climate finance target. The climate mitigation and adaptation finance accounts for 80 percent (USD240 million) and 20 percent (USD60 million), respectively.

[23] 2023 Common Principles for Climate Mitigation Finance Tracking – List of Eligible Activities: Table 12: Cross-Sectoral Activities – 12.17 Carbon trading or financial services or instruments.

[24] 2023 Common Principles for Climate Mitigation Finance Tracking – List of Eligible Activities: Table 2: Energy – 2.1 Generation of renewable energy.

[25] 2023 Common Principles for Climate Mitigation Finance Tracking – List of Eligible Activities: Table 2: Energy – 2.11 Brownfield efficiency improvement in transmission or distribution of electricity.

Annex 8: **Prior Actions (PAs) under the Reform Area 3, Rationale, Significance, Expected Outcomes and Analytical Underpinnings.**

1. The Bank's financing through a Climate-Focused Policy-Based Financing (CPBF) loan will be made for Prior Actions (PAs) under the Reform Area 3 (RA3) "*Supporting the green transition by strengthening resilience to climate change, promoting low carbon development, scaling up renewable energy and increasing electricity, water and sanitation sectors efficiency*", which are directly supporting the Member's implementation of the National Climate Change Strategy (NCCS) 2050 to achieve the goals of the Nationally Determined Contributions (NDCs). This Annex presents the rational and significance of each Prior Action under RA 3 of the first operation, the significance of the indicative triggers under RA 3 of the subsequent operations, expected outcomes, and the underpinning analytical works. The Results Indicators for each expected outcome to be achieved at the end of the Program are in Annex 1 - Policy Design and Monitoring Framework. Common to all PAs under RA3 are the analytic works from the World Bank's Egypt Climate Change and Development Report (CCDR) 2022 and Technical Assistance (TA) "Supporting Egypt in Its Green Transition and the Preparation for COP 27," and the International Monetary Fund (IMF) Climate Public Investment Management Assessment (C-PIMA) 2023. The Bank's assessment presented in this Annex builds on the assessment of the World Bank Program Document "Egypt: Generating Resilience, Opportunities, and Welfare for a Thriving Egypt, June 3, 2024."

PA7 *The Borrower has issued decree 415 of 28 December 2023 for the establishment of a working group to support the national monitoring reporting, and verification system (MRV), and to allow Egypt to collect data on Greenhouse Gas (GHG) emissions, track progress on mitigation and adaptation measures.*

2. **Rationale:** The establishment of a Monitoring, Reporting, and Verification (MRV) system will help level the playing field among sector actors to efficiently and transparently account for emission reduction and lay the foundation of carbon markets. The WB's TA is supporting the Government's effort in the preparation of the MRV system consistent with international standards. The Article 13 of the Paris Agreement also requires adherence to the enhanced transparency framework for climate action and support, which necessitates the strengthening of MRV systems in countries.

3. **Significance of PA7**: In addition to establishing a cross-ministerial working group to support the implementation of an effective and efficient MRV, the decree 415 also clarified the procedures and activities of the working group on national MRV for climate action in line with the requirements of the Paris Agreement.

4. **Significance of the (indicative) Triggers**: To operationalize the MRV system that has been established, the design of the critical MRV elements need to be finalized for at least three priority sectors, (electricity, oil and gas, and transport) and relevant guidelines be issued. The revised Environmental Law No. 4/1994 will integrate climate change aspects in the existing environmental law.

5. **Expected Outcome**: Establish a management system to account for climate change mitigation and adaptation.

6. **Analytical Underpinning**:

a. United Nations Framework Convention on Climate Change (UNFCCC), 2020, National MRV systems in the context of UNFCCC and Paris Agreement.
b. World Resources Institute, 2016, MRV 101: Understanding Measurement, Reporting, and Verification of Climate Change Mitigation, Working Paper.
c. The second updated NDC 2023.

d. The World Bank Technical Assistance (TA) “Supporting Egypt in Its Green Transition and the Preparation for COP 27.”

***PA8** The Borrower has issued three decrees on the main Building Blocks of the domestic carbon markets: (i) the requirements for validation and verification bodies (VVBs) approved by the Financial Regulatory Authority (FRA) for both international and domestic bodies; (ii) the requirements for domestic voluntary carbon credit registries approved by FRA; and (iii) the listing and delisting rules for voluntary carbon credits.*

7. **Rationale:** The growth of Voluntary Carbon Credit (VCC) markets is being fueled by a rising number of companies in advanced economies that are making commitments to achieve net-zero emissions. These companies recognize the importance of taking voluntary action to reduce their carbon footprint beyond regulatory requirements. VCCs serve as a valuable tool to attract global capital into decarbonization projects, enabling companies to offset their emissions by investing in sustainable initiatives. For Egypt, the establishment of a VCC market presents an opportunity to leverage this global trend and drive investments towards decarbonization projects within the country. By developing a robust domestic ecosystem for VCCs, the Egyptian government can ensure an orderly and sustainable growth of the market.

8. **Significance of PA8**: The decrees issued by FRA are critical to develop Egypt’s carbon markets ecosystem covering the following: (a) licensing requirements for VVBs responsible for auditing projects generating carbon credits; (b) licensing requirements for Registries of Voluntary Carbon Credits; and (c) listing and trading requirements for Voluntary Carbon Markets (VCMs). These are private capital enabling measures as they incentivize private capital mobilization into decarbonization projects.

9. **Significance of the (indicative) Triggers**: To further build the key elements of the voluntary carbon market ecosystem, the Borrower has issued decrees through the “Supervisory and Control Committee for Carbon Emissions Reductions” establishing (i) priority sectors for Article 6; (ii) priority sectors/industries in which the private sector can invest to generate VCMs; and (iii) a framework for “domestic standards” in the VCM.

10. **Expected Outcome**: Enable the development of the voluntary carbon market.

11. **Analytical Underpinning**:

a. Ongoing WB’s TA on Carbon Credit Markets and State and Trends of Carbon Pricing, various years.

b. Paris Agreement, especially the Article 6.

***PA9** The Borrower, through the board of directors of the Egyptian Electric Utility and Consumer Protection Regulatory Agency, has issued a circular agreed at its 14th session of 28 March 2024, governing direct renewable electricity supply between private producers and consumers (private-to-private) including the use of transmission networks.*

12. **Rationale**: Egypt’s Integrated Sustainable Energy Strategy (ISES) 203525 issued in 2015 sets an ambitious target of 42 percent renewable energy share in the energy mix by 2030, yet in 2021/2022, the share of thermal generation was 88.2 percent while non-hydro renewable energy (solar, wind) accounted for only 4.9 percent and hydro 6.8 percent in the electricity mix. Egypt is updating the ISES to support a greener economy with higher targets of 62 percent renewables share by 2040. Furthermore, the Energy pillar of the Nexus of Water, Food, and Energy (NWFE) country program prioritizes the decommissioning of 5 Gigawatt (GW) inefficient thermal power plants to be replaced with 10 GW of renewable energy capacity. To expedite the deployment of renewable energy, there is a need to set regulations that allow

renewable energy supply from private producers to private consumers using the national grid. This is also aligned with the NDC and CCDR—that the scale-up of renewable energy will be driven by the private sector seeking green electricity supply to increase its competitiveness to export to Europe and by the economic retirement of thermal power plants and electrification.

13. **Significance of the PA9**: The proposed reform action will help create the enabling conditions for the private sector to scale up renewable energy. Egypt opted for a stepwise approach in electricity market creation, owing to the current surplus generation capacity and related financial liabilities. The prior action provides the regulatory architecture to allow private-to-private renewable electricity supply using the transmission and distribution lines.

14. **Significance of the (indicative) Trigger**: To further advance the green energy transition and create the framework for private demand driven clean energy, the Government has issued regulations on certification of the origin of energy. The certification scheme (including methodologies, standard, registry, verification) will support companies willing to export their products to demonstrate the green nature of energy inputs of their industrial processes or businesses as it will be aligned with the requirements of the European Carbon Border Adjustment Mechanism (CBAM). The government will continue to take measures to implement the energy sector strategy.

15. **Expected Outcome**: Increase the share of renewable energy in the generation mix and private sector participation and reduce the carbon footprint for a competitive economy.

PA10 *The Borrower, through a decision of the board of directors of the Egyptian Electricity Holding Company (EEHC), has approved a loss reduction plan with annual distribution loss reduction targets for the distribution companies owned by EEHC, and mandating said electricity distribution companies to achieve set targets.*

16. **Rationale**: Egypt's electricity sector continues to face some challenges that require greater levels of efficiency including reduction of energy subsidies in the sector, which will have significant positive sectoral and broader economic impacts as they are tackled. The distribution losses have remained high for years—on average 22 percent in FY2020/21 and FY2021/22 compared to similar systems where losses do not exceed 10–12 percent. Furthermore, electricity tariffs are below cost recovery level and the gas price for electricity sector does not reflect its opportunity cost. The Government carried out reforms of energy subsidies, reducing its share from 6 percent of GDP in 2014 to 0.3 percent in 2021. Since then, subsidies have reemerged because tariffs were not adjusted in response to the consecutive external shocks and the depreciation of Egyptian pound to US dollar. A January 2024 tariff increase indicates the government commitment to the tariff adjustment plan. Previous reforms were focused on tariff adjustments while this operation aims to tackle sectoral inefficiencies and would result in lower tariff increases. According to the Government's estimate, a reduction of distribution losses by 1 percent could bring around EGP 2 billion per year of additional revenue to EEHC.

17. **Significance of the PA10**: Inefficiencies in the electricity sector include technical and nontechnical losses, quality and reliability of services quality, tariff below costs, and related subsidies. The current operation will strive to reduce distribution losses and mandate the nine state-owned electricity distribution companies to implement their loss reduction program (PA10). The loss reduction schedule will be supported with targets, methodology, investment plan and activities, monitoring and reporting responsibilities.

18. **Significance of the (indicative) Trigger**: To further build on the subsidy reform program, the first-year audit report on the status of achievement of loss reduction targets by distribution companies and a regulation approving financial viability plan of the electricity

sector including tariff adjustment and optimization of operating costs will be issued. These regulatory measures will reflect loss reduction targets to incentivize distribution efficiencies and reduce subsidies. Furthermore, the financial viability plan with corresponding tariff adjustment to reach cost recovery for the electricity sector and an agreement between the state and public electricity utilities on the operational and commercial performance of the utilities will be issued.

19. **Expected Outcome**: Improve the financial viability and sustainability of the electricity utilities.

20. **Analytical Underpinning (common to PA9 and PA10 above)**:
   a. The WB Egypt Infrastructure Sector Assessment Program (SAP) Climate Module 2023
   b. Energy Efficiency Strategy in oil and gas sector 2022
   c. First report on Energy Efficiency in Egypt 2022.

***PA11** The Borrower has submitted to the Parliament a draft law on regulating drinking water and sanitation utilities, which brings in reforms to strengthen the regulator's role, implement cost reflective tariffs, and enable private sector participation.*

21. **Rationale**: The NDC 2022 illustrated that the annual freshwater availability in Egypt was around 560 cubic meter per capita which was just above the absolute water scarcity threshold of 500 cubic meter per capita[26]. If available water resources remain constant and population growth continues, it is projected to fall to 386 cubic meter per capita by 2037. The CCDR highlights the need for improved water management to adapt. Egypt plans to expand desalination capacity from 1 million cubic meter (MCM) per day at present to 9.7 MCM by 2050 to augment freshwater supplies. However, Egypt has one of the lowest water supply tariffs in the region with high inefficiency in the water supply system and the cost of desalinated water is much higher than that of surface water.

22. **Significance of the PA11**: The new Water and Sanitation Law focuses on transforming the roles of the various sector institutions and facilitates private sector participation. The amendments enable the determination of tariffs that are reflective of the cost-of-service provision, and improve water use efficiency, thereby reducing GHG emissions. Finally, the law allows for a better targeted subsidy mechanism by differentiating between economic and social tariffs and having explicit provision for the state to cover the difference.

23. **Significance of the (indicative) Trigger**: To operationalize the law, it is critical to establish the necessary supporting regulations and subsequent adjustment in water supply standards and code of practices for various sector. These regulations and adjusted standards/codes focuses on efficiency in water use and build resilience to water scarcity and reduce the GHG emissions from the sector through lower energy usage.

24. **Expected Outcome**: Improve climate adaptation and financial sustainability of the water and sanitation sector.

25. **Analytical Underpinning**:
   a. The WB TA and Advisory Services and Analytics (ASA) include: (i) Egypt InfraSAP Climate Module 2023; (ii) Irrigation modernization, ASA; (iii) Egypt Water Dialogue, ASA; and (iv) TA for addressing the demand supply in the Suez irrigation canal region.
   b. World Health Organization Water Supply per capita.

[26] Falkenmark, M. et al, 1989, “Macro-scale water scarcity requires micro-scale approaches,” *Natural Resources Forum*, Vol. 13, Issue 4, pp. 258–267 (1989).

c. European Environment Agency, 2023, Water use in Europe — Quantity and quality face big challenges.