

Action Fiche for Arab Republic of Egypt

1. IDENTIFICATION

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

2. RATIONALE

2.1. Sector context

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

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

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

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

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

2.2. Lessons learnt

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

2.3. Complementary actions

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

2.4. Donor coordination

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

3. DESCRIPTION

3.1. Objectives

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

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

3.2. Expected results and main activities

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

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

Component 1: Foreign trade and trade agreements

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

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

R 1.3. Stronger reinforcement of IPR

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

Component 2: Industrial policy and quality infrastructure

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

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

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

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

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

3.3. Risks and assumptions

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

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

3.4. Crosscutting Issues

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

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

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

3.5. Stakeholders

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

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

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

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

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

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

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

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

Works	Supplies	Services	Grants
< EUR 300,000	< EUR 150,000	< EUR 200,000	≤ EUR 100,000

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

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

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

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

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

4.2. Procurement and grant award procedures

1) Contracts

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

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

2) Specific rules for grants

The essential selection and award criteria for the award of grants are laid down in the Practical Guide to contract procedures for EU external actions. They are established in accordance with the principles set out in Title VI 'Grants' of the Financial Regulation applicable to the General Budget and Regulation (EC) No 1638/2006 - European Neighbourhood and Partnership Instrument. When derogations to these principles are applied, they shall be justified, in particular in the following cases:

- Financing in full (derogation to the principle of co-financing): the maximum possible rate of co-financing for grants 80%. Full financing may only be applied in the cases provided for in Article 253 of the Commission Regulation (EC, Euratom) No 2342/2002 of 23 December 2002 laying down detailed rules for the implementation of the Financial Regulation applicable to the general budget.
- Derogation to the principle of non-retroactivity: a grant may be awarded for an action which has already begun only if the applicant can demonstrate the need to start the action before the grant is awarded, in accordance with Article 112 of the Financial Regulation applicable to the general budget.

3 Specific rules on programme estimates:

All programme estimates must respect the procedures and standard documents laid down by the Commission, in force at the time of the adoption of the programme estimates in question (i.e. the Practical Guide to procedures for programme estimates).

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

4.3. Indicative budget and calendar

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

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

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

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

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

4.4. Performance monitoring

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

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

The PSO will report to the PEC.

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

4.5. Evaluation and audit

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

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

4.6. Communication and visibility

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

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