



Brussels, 20.10.2016
C(2016) 6633 final

COMMISSION IMPLEMENTING DECISION

of 20.10.2016

**on the Annual Action Programme 2016 (Part 2) and Annual Action Programme 2017
(Part 1) in favour of Egypt to be financed from the general budget of the European
Union**

COMMISSION IMPLEMENTING DECISION

of 20.10.2016

on the Annual Action Programme 2016 (Part 2) and Annual Action Programme 2017 (Part 1) in favour of Egypt to be financed from the general budget of the European Union

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Regulation (EU) No 236/2014 of the European Parliament and of the Council of 11 March 2014 laying down common rules and procedures for the implementation of the Union's instruments for financing external action¹, and in particular Article 2(1) thereof,

Having regard to Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002², and in particular Article 84(2) thereof,

Whereas:

- (1) The Commission has adopted the Single Strategic Framework in favour of Egypt for the period 2014-2016³, point 3 of which provides for the following priorities:
 - Governance, Transparency and Business Environment (including Complementary support in favour of civil society and of EU Agreements);
 - Poverty Alleviation, Local socio-economic development and Social Protection;
 - Quality of life and environment.
- (2) The objectives pursued by the Annual Action Programme 2016 (Part 2) and Annual Action Programme 2017 (Part 1) in favour of Egypt to be financed under Regulation (EU) No 232/2014 of the European Parliament and of the Council of 11 March 2014 establishing a European Neighbourhood Instrument⁴ are to support Egypt's inclusive economic growth and the creation of decent jobs, as well as to encourage and support Egypt's process towards good governance and social justice.
- (3) The action entitled “EU Facility for Inclusive Growth and Job Creation” will contribute to stabilisation in Egypt by promoting sustainable economic development and hence improving the future prospects of its people. The specific objective is to facilitate inclusive economic growth and job creation through two complementary components focusing on: i) improving the enabling environment for business creation and economic development by supporting reforms which will lower the administrative burden on Small and Medium Enterprises (SMEs), facilitate financial inclusion among

¹ OJ L 77, 15.3.2014, p. 95.

² OJ L 298, 26.10.2012, p. 1.

³ C(2015) 9121 of 17.12.2015.

⁴ OJ L 77, 15.3.2014, p. 27.

SMEs in a sustainable manner and strengthen the protection of intellectual property rights; and ii) investing in the potential of SMEs to add value in the economy and to generate jobs by supporting enterprise growth and competitiveness through facilitating SME access to long term financing and know-how and by facilitating business linkages, value chain development and fostering innovation among SMEs, including young entrepreneurs. The action will be implemented in direct management.

- (4) It is necessary to adopt a financing Decision the detailed rules of which are set out in Article 94 of Commission Delegated Regulation (EU) No 1268/2012⁵.
- (5) It is necessary to adopt a work programme for grants the detailed rules on which are set out in Article 128(1) of Regulation (EU, Euratom) No 966/2012 and in Article 188(1) of Delegated Regulation (EU) No 1268/2012. The work programme is constituted by the Annex (sections 5.3.1 and 5.3.2).
- (6) The authorising officer responsible should be able to award grants without a call for proposals provided that the conditions for an exception to a call for proposals in accordance with Article 190 of Delegated Regulation (EU) No 1268/2012 are fulfilled.
- (7) It is necessary to allow the payment of interest due for late payment on the basis of Article 92 of Regulation (EU, Euratom) No 966/2012 and Article 111(4) of Delegated Regulation (EU) No 1268/2012.
- (8) Pursuant to Article 94(4) of Delegated Regulation (EU) No 1268/2012, the Commission should define changes to this Decision which are not substantial in order to ensure that any such changes can be adopted by the authorising officer responsible.
- (9) The measures provided for in this Decision are in accordance with the opinion of the European Neighbourhood Instrument Committee set up by Article 15 of the financing instrument referred to in Recital 2,

HAS DECIDED AS FOLLOWS:

Article 1

Adoption of the measure

The Annual Action Programme 2016 (Part 2) and Annual Action Programme 2017 (Part 1) in favour of Egypt, as set out in the Annex, is approved.

The programme shall include the following action:

- Annex: EU Facility for Inclusive Growth and Job Creation

Article 2

Financial contribution

The maximum contribution of the European Union for the implementation of the programme referred to in Article 1 is set at EUR 20 million and shall be financed for an amount of EUR 10 million from budget line 22.040102 of the general budget of the European Union for 2016 and for an amount of EUR 10 million from budget line 22.040102 of the general budget of the European Union for 2017.

⁵ Commission Delegated Regulation (EU) No 1268/2012 of 29 October 2012 on the rules of application of Regulation No 966/2012 of the European Parliament and of the Council on the financial rules applicable to the general budget of the Union (OJ L 362, 31.12.2012, p. 1).

The financial contribution provided for in the first paragraph may also cover interest due for late payment.

The implementation of this Decision is subject to the availability of the appropriations provided for in the draft budget for 2017 after the adoption of the budget for that financial year or as provided for in the system of provisional twelfths.

Article 3

Implementation modalities

The section “Implementation” of the Annex to this Decision sets out the elements required by Article 94(2) of Delegated Regulation (EU) No 1268/2012.

Grants may be awarded without a call for proposals by the authorising officer responsible in accordance with Article 190 of Delegated Regulation (EU) No 1268/2012.

Article 4

Non-substantial changes

Increases or decreases of up to EUR 10 million not exceeding 20% of the contribution set by the first paragraph of Article 2, or cumulated changes to the allocations of specific actions not exceeding 20% of that contribution, as well as extensions of the implementation period, shall not be considered substantial within the meaning of Article 94(4) of Delegated Regulation (EU) No 1268/2012, provided that they do not significantly affect the nature and objectives of the actions. The use of contingencies shall be taken into account in the ceiling set by this Article.

The authorising officer responsible may adopt such non-substantial changes in accordance with the principles of sound financial management and proportionality.

Done at Brussels, 20.10.2016

For the Commission
Johannes HAHN
Member of the Commission



This action is funded by the European Union

ANNEX 1

of the Commission Implementing Decision on the Annual Action Programme 2016 (Part 2) and Annual Action Programme 2017 (Part 1) in favour of Egypt to be financed from the general budget of the European Union

Action Document for EU Facility for Inclusive Growth and Job Creation

INFORMATION FOR POTENTIAL GRANT APPLICANTS

WORK PROGRAMME FOR GRANTS

This document constitutes the work programme for grants in the sense of Article 128(1) of the Financial Regulation (Regulation (EU, Euratom) No 966/2012) in the following sections concerning calls for proposals: 5.3.1. and in the following section concerning grants awarded without a call for proposals: 5.3.2

1. Title/basic act/ CRIS number	<u>EU Facility for Inclusive Growth and Job Creation</u> CRIS number: ENI/2016/039-543 financed under the European Neighbourhood Instrument
2. Zone benefiting from the action/location	Neighbourhood South, Egypt The action shall be carried out at the following location: Egypt.
3. Programming document	Single Support Framework for European Union (EU) support to Egypt (2014-2016)
4. Sector of concentration/ thematic area	Objective 2 "Governance, Transparency and Business Environment"
5. Amounts concerned	Total estimated cost: EUR 420,425,000 (this includes the foreseen EU contribution from the Neighbourhood Investment Facility (NIF) and its expected leverage effect from European Finance Institutions (EFIs), which is subject to a separate financing Decision). Total amount of European Union (EU) budget contribution: - The contribution is for an amount of EUR 10,000,000 from the general budget of the EU for financial year 2016 and for an amount of EUR 10,000,000 for financial year 2017, subject to the availability of commitment appropriations following the adoption of the relevant budget. Under the NIF, an additional contribution of EUR 40 million is

	<p>expected, subject to the adoption of the relevant NIF financing Decision and subsequent complementary Decisions.</p> <p>This action is co-financed by potential grant beneficiaries for an indicative amount of EUR 425,000 and will unlock an estimated EUR 360,000,000 of European Finance Institution and third party financing.</p>			
6. Aid and implementation modalities	<p>Project Modality, implemented through direct management of procurement of services, supplies, a Grant to a European public body and a call for proposals for Action Grants.</p> <p>Indirect management with European Financial Institutions is envisaged for the implementation of the NIF funding.</p>			
7. DAC codes	<p>32130 <i>Small and medium-sized enterprises (SMEs) development</i></p> <p>24030 <i>Formal sector financial intermediaries</i></p> <p>15114 <i>Tax policy and tax administration support</i></p>			
8. Markers (from CRIS DAC form)	General policy objective	Not targeted	Significant objective	Main objective
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Gender equality (including Women In Development)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade Development	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Reproductive, Maternal, New born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Climate change adaptation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
9. Global Public Goods and Challenges (GPGC) thematic flagships	<p>Flagship 10: Domestic Revenue Mobilisation for Inclusive Growth and Development</p>			

SUMMARY

Overall objective of the proposed Facility is to **contribute to stabilisation in Egypt by promoting sustainable economic development** and hence **improving the future prospects of its people**. The specific objective is to **facilitate inclusive economic growth and job creation**.

The Facility will be articulated through two complementary components focusing on

i) improving the enabling environment for business creation and economic development by supporting reforms which will lower the administrative burden on SMEs, facilitate financial

inclusion among SMEs in a sustainable manner and strengthen the protection of intellectual property rights; and

ii) investing in the potential of SMEs to add value in the economy and to generate jobs by supporting enterprise growth and competitiveness through facilitating SME access to long term financing and know-how and by facilitating business linkages, value chain development and fostering innovation among SMEs, including young entrepreneurs.

Resulting from a macro-identification exercise carried out in 2015/16 and given the importance of SME development as an engine for inclusive growth and an avenue to integrate the youth into the economy, this sector will continue to play a central role in our co-operation with Egypt. Hence we propose to conclude a multiannual financing Decision with use of 2016 and 2017 commitment appropriations and to brand this initiative as an **EU Facility for Inclusive Growth and Job Creation**.

The 2016 contribution will focus on supporting improved **tax and customs compliance** through support to Tax and Customs Authorities as well as on developing Central Bank of Egypt's Access to Finance approach and instrumentarium, promoting the provision of financial services, whilst safeguarding the soundness of the banking system. Further, support will be provided through a blending operation with European Financial Institutions to facilitate **SME access to long term financing** in a manner that facilitates business linkages, value chain development and competitiveness of the economy as well as the export potential of SMEs. In addition support will be provided to strengthening the **analytical capacity of key stakeholders** to better participate in **policy dialogue** on business reform issues, particularly those of relevance for SMEs.

The 2017 contribution will focus on supporting **simplified and streamlined processes for company registration** as well as on **strengthening the ecosystem for innovation among SMEs** as a driver of enhanced competitiveness. Furthermore, additional support is envisaged to be allocated for SME access to long-term finance and know-how with a focus on enhancing business linkages and value chains through a blending operation.

The proposed initiative builds on previous and ongoing EU funded programmes, including the Trade and Domestic Market Enhancement Programme, Technical and Vocational Education and Training (TVET) support programme and the upcoming programme on Inclusive growth, providing support services for SMEs. Furthermore, it is complementary to the "EU Initiative for Financial Inclusion" supported through the Neighbourhood Investment Facility.

1 CONTEXT

1.1 Sector/Country/Regional context/Thematic area

Egypt is a lower middle income country with a relatively diversified economy. The political and security turmoil of recent years has taken a toll on confidence, economic activity, investment and tourism. Egypt's real Gross Domestic Product (GDP) per capita growth over the last decade has been low, at around 2.8%, and insufficient to create enough jobs to absorb its young and growing population. Unemployment has been high (currently at 12.7%); and levels of informal employment have been increasing. Egypt also faces significant fiscal imbalances, including a very low tax revenue to GDP rate

and a narrow tax base, leading to also high public debt. Severe balance of payments constraints and energy shortages have also affected the business climate.

Recently the economy has been driven mainly by consumption, with investment low compared to peer countries at 19% of GDP. Foreign direct investment has decreased, and is mostly geared towards the energy sector. Exports consist mainly of energy and energy-intensive products.

The company population is characterized by a limited number of large companies (often with close linkages to the State economy through dependence on subsidized energy) and a great mass of small companies, fully or partially operating in the informal sector. Relatively few SMEs grow beyond certain thresholds that require significant investment and formalisation. The amount of SME's that export is low and decreasing. Existing establishments in Egypt hardly grow over time. The probability that a manufacturing establishment with less than 50 workers in 2007 has grown to employ more than 100 employees in 2011 is less than 2%.

The weak economic growth and limited inclusiveness of it has been influenced by the recent political turmoil and unfavourable global economic conditions. But it is also affected by longstanding structural constraints. Diagnostic assessments of the economic environment in Egypt broadly concur on these structural constraints, which include:

- low investment rates leading to low productivity increases;
- macro-economic risks arising from fiscal and external vulnerabilities. High public debt financed mostly domestically has led to out-crowding of private sector in credit;
- micro-economic distortions, linked to government interventions such as untargeted energy subsidies which bias capital and energy intensive industries;
- weak governance and difficult business environment; leading to uncertainty in investment and financing operations, and low incentives to formalisation of companies. This is reflected in the high cost of regulatory compliance for companies, and in particular SMEs; both in term of business registration and licensing; as in terms of tax and customs compliance;
- poor complementary factors resulting from inadequate electricity and infrastructure;
- high cost of finance for investors and difficult access to finance for SMEs;
- limited innovation in the economy and extensive reliance on out-of-date technology;
- low skills capital and inefficiencies in the labour market.

This difficult business environment is reflected in Egypt's position in different international rankings. Egypt's ranking in the World Bank (WB) Doing Business Index of 2016 was 131st out of 189 countries, marking a substantial fall from 2010. Egypt ranks particularly low in the areas of trading across borders (157th), enforcing contracts (155th), paying taxes (151st) and resolving insolvency (119th). Egypt performs slightly better in getting credit (79th) and starting a business (73rd), although the way of measuring does not fully account for the burdens that SMEs often face, as the procedures are relatively costly and time intensive.

Limited access to finance is considered as the third most important problem in doing business in Egypt (World Economic Forum (WEF) Global Competitiveness Report 2014-15). In the WEF Competitiveness index Egypt ranked 119th out of 144, and 129th

on "availability of financial services", 126th on "affordability of financial services", and 129th on "ease of access to loans". Elevated interest rates on government bonds suggest that firms face a high cost of credit. The fact that Egyptian firms rely heavily on their own resources to finance investments is another indication of difficult access to finance. This is exacerbated by general low levels of financial inclusion with few individuals having bank accounts (only 11% of adults), and low bank outreach (below five branches per 100.000 people). The high levels of informality and capacity constraints of companies also influence their demand for credit. Studies point out that credit provision is affected by the conservative nature of banks, with limited focus on SMEs; and high collateral requirements. Combined this has led to a situation where bank credit continues to be dominated by the public sector and large companies. The current ratio of credit provision to private sector (below 30% of GDP) for Egypt is lower than the level suggested by the country's level of development; and within this bank loans extended to SMEs are very low at about 5% of total loans.

With regard to innovation, Egypt ranked 120th on the Innovation sub-indicator in the WEF Competitiveness ranking. In relation to innovation ecosystems, the lack of proximity and trust between public and private sector stakeholders, ineffective legal framework for protecting intellectual property rights, rigid administrative frameworks, poorly trained Research & Development (R&D) managers and governance problems all represent major hurdles preventing Egypt from pushing forward dynamic innovation policies. Generally speaking, the private sector still shows relatively low commitment to innovation, but is also undergoing change. A new generation of entrepreneurs and innovative SMEs is coming up, the venture capital industry is developing and a network of incubators and accelerators promoting innovation among SMEs is emerging while in need of both technical and financial resources. Innovation, technology and quality issues are becoming a core concern for leaders of competitive enterprises and pose a major challenge to Micro, Small and Medium Enterprises (MSMEs) which have to operate in the context of a globalised economy. An improvement in the performance of the innovation ecosystems is thus essential for industrial competitiveness and job creation.

1.1.1 Public Policy Assessment and EU Policy Framework

The political turmoil of recent years has led to interruptions and sometimes limited consistency in policy initiatives on business environment and inclusive economic growth. With the political roadmap following the ouster of President Morsi now formally finalised, the institutional environment for a more coherent policy should be getting into place.

The Government recently adopted a long term strategic document, "Sustainable Development Strategy/ 2030 Vision", which puts forward a broad strategic vision regarding economic development, which commits to supporting a market-driven, competitive, diversified, knowledge-based economy, supported by a stable macroeconomic environment and a focus on maximizing value added and employment generating sectors. The document also acknowledges the importance of transparent and efficient governmental institutions in facilitating development.

In recent years the Government has taken a few important measures that start addressing some of the structural constraints mentioned above. Some of these measures still have an ad hoc feel; and some have not been followed through fully, but they nonetheless indicate intent on an economic reform agenda. The measures included:

- new investment law, intending to create one-stop shops for licensing;
- regulations setting guidelines for micro-credit institutions and new financial instruments;
- regulatory changes by the Central Bank of Egypt (CBE) promoting provision of credit to SMEs and particular sectors including a recent initiative that would oblige banks to increase their lending to SMEs to up to 20% of their credit portfolio, partially through subsidized credit;
- adjustment to energy and fuel pricing as well as changes to energy market regulations allowing companies to acquire energy independently;
- changes to the tax regime, aimed at increasing revenue, but also towards a more simplified tax regime. The introduction of the Value-added Tax (VAT) and a special tax provisions for SMEs are under consideration and changes to customs law are in preparation.

The co-ordination of policies at government level has often been suboptimal, due to the high number of involved entities. Positive elements have been the recent establishment of an Economic Advisory Council, albeit so far mainly staffed with external experts, and the recent set-up of an inter-ministerial committee to address the issue of Egypt's low position on the WB Doing Business ranking. It is also hoped that a new SME Law will be adopted which would introduce a new co-ordinating body to oversee the inclusion of SME concerns as a horizontal matter in all policies. The government is also preparing more specific strategic documents in areas such as industrial development, innovation and financial inclusion.

Nonetheless the policy environment will continue to be challenged by ongoing economic constraints and resistance to reforms (both from affected institutions; as from shielded parts of private sector). The reforms will also take place in an institutional environment characterized by a tradition of overlapping and sometimes contradictory regulations, an oversized and often lethargic administration and overlapping and often competing public administration entities.

Within the **EU Policy Framework**, the proposed initiative is aligned with the new European Neighbourhood Policy priority of **supporting economic development to improve stability**, with a particular focus on economic modernisation and entrepreneurship. Enhancing economic governance, supporting reforms of improved competitiveness and inclusive growth, fostering of innovation and creation of jobs are shared priorities of EU-Egypt partnership. In the context of the EU Single Support Framework for Egypt (2014-16) the Facility falls under Objective 2 "Governance, Transparency and Business Environment" and contributes to the specific objective 2.3 "Improve the legal and regulatory framework for conducting business and investment". The Facility has been inspired by the Commission Communication of May 2014 on the role of private sector in achieving inclusive and sustainable growth, where the Facility focuses on creating a business environment conducive to private sector initiative (Action 1) as well as on strengthening the access of SMEs to finance and deepening financial inclusion (Actions 4 and 5). The Facility will be co-ordinated with the work programme on Euro-Mediterranean industrial co-operation - in particular in relation to the goal to improve the business climate and promote entrepreneurship and SMEs on basis of the Small Business Act (SBA) for Europe and builds on the recommendations of the SBA review conducted in 2014.

1.1.2 Stakeholder analysis

The Facility will partially focus on supporting reforms in the business enabling environment which will reduce the administrative burden on SMEs (namely on taxation, customs, company registration and Intellectual Property Right (IPR) protection), and on improving the policy framework for credit provision to SMEs. The main direct beneficiaries are therefore the Ministry of Finance, the Egyptian Tax Authority (ETA), the Egyptian Customs Authority (ECA), different agencies involved with company registration (and particularly the Internal Trade Development Authority (ITDA)), the Egyptian Patent Office (EPO) and the Central Bank of Egypt and the Egyptian Banking Institute (EBI), the training institute under the CBE. These are well established institutions, with clearly outlined and stable responsibilities. In addition they are sizeable, with clear absorption capacity for large-scale technical support. The EU has previously worked with these institutions and well established working relations exist, apart from the ITDA with whom co-operation is envisaged to commence only in 2017/18. During the macro-identification and formulation phases extensive dialogue has taken place with the main beneficiaries and the demand for support was clearly established.

The Facility also foresees support to the strengthening of the analytical capacity of a number of non-state actors, to enhance their ability to provide a meaningful contribution to policy dialogue on business environment issues, particularly pertaining to SME issues. Furthermore, support will be allocated to non-state actor capacity to foster innovation in the SME sector. The beneficiaries here will be mainly business associations, Non-Governmental Organisations (NGOs), incubators/accelerators, think tanks and research institutions. The framework for supporting non-state actors (NGOs) in Egypt has not been easy due to new and additional restrictions put on NGO registration and foreign funding. However, the envisaged beneficiaries are generally well-established and the call for proposals would focus on their capacity on technical policy matters, and should therefore not be too controversial for the authorities.

The **final beneficiaries** of the Facility are Egyptian companies. Throughout the different Facility components a particular emphasis will be on activities in support of SMEs. Other final beneficiaries are the financial service providers that will benefit from an enhanced policy focus on access to finance and banking supervision. These include banks, credit guarantee institutions and other non-bank entities (such as micro finance entities, co-operative state banks, post office, mobile operators) providing financial services to SMEs.

1.1.3 Priority areas for support/problem analysis

The Facility will focus on providing technical support to address the following **structural constraints to inclusive economic development and job creation**:

- **the high administrative burdens imposed on companies, and in particular SME's**, focusing on easing the tax and customs compliance requirements through support to the tax and customs policy framework and its business friendly implementation, on simplifying and streamlining the process of company registration as well as on lowering the barrier to and ease of protecting intellectual property rights within the Egyptian economy.
- **the lack of access to finance for companies, and in particular SME's**. This will be addressed through technical support to the Central Bank in the development of an

Access to Finance policy and a broader set of instruments to promote access to finance for SMEs. In addition, support will be provided to the Central Bank in upgrading its banking supervision framework, to ensure that the soundness of the banking system is maintained.

Support will also be provided, through a call for proposals, to improve the analytical capacity of business associations, NGOs, think tanks and academic institutions to be able to provide a more meaningful contribution to policy dialogue on business environment matters, in particularly on issues pertaining to SMEs.

The policy level interventions will be complemented by a component of the Facility which will **facilitate the supply of long term financing coupled with know-how to SME's**, in selected economic sectors which show strong potential for increasing value addition and/or job creation in Egypt. Particular focus will be given to enhancing business linkages within the economy and to strengthening the competitiveness and the export potential of selected value or supply chains. Further, support will be provided to foster innovation among SMEs and young entrepreneurs. The formulation phase identified manufacturing, agro-processing and tourism as vertical sectors of high potential, while transport and logistics as well as energy efficiency/renewable energy were flagged as horizontal sectors with great potential for driving competitiveness within the economy.

These particular aspects were selected because they are consistently identified as binding structural constraints to broad and inclusive economic development and they rank highly in the constraints to doing business identified by Egyptian business and investors in different 'doing business' surveys. The proposed areas have also been identified as government priorities. The proposed focus is also complementary to previous EU activities and interlinked with ongoing programmes; so that interlinkages can be achieved. Finally, the activities focus on areas and beneficiaries where there is at present relatively limited assistance provided by other development agencies.

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Increased instability at country and regional level impacting negatively the political, social and economic conditions of the project	H	Instability is partly rooted in the lack of social and economic development prospects. The situation should improve thanks to the commitment of the Government to and the alignment of stakeholders around the Sustainable Development Strategy/Vision 2030. The situation will be closely monitored by the Delegation of the European Union to Egypt
Weak co-ordination between stakeholders	M	The Facility will strengthen co-ordination in the legislative and policy reforms and dialogue by supporting national strategies and implementation mechanisms.
Insufficient ownership, including involvement of the private sector	L	Continuous dialogue with representatives of the concerned Ministries during implementation: EU Delegation-led monitoring missions and high-level meetings as required. The Facility includes measures to promoted greater participation of the private sector both through the dialogue platforms and through calls for proposals to support policy supporting analytical work by stakeholder representatives.
Corruption and fraud	H	Overall risk for corruption and fraud in Egypt is considered high, as

	witnessed by low ranking of Egypt in international transparency and corruption perception rankings, high perceived corruption in population corruption surveys, a fragmented institutional framework of anti-corruption entities, incomplete legal framework and inconsistencies in judicial treatment of corruption cases. The government has adopted anti-corruption strategy. The project will mitigate exposure to corruption risks, through centralised implementation according to EU rules.
Assumptions	
<ul style="list-style-type: none"> • Regional instability does not affect Egypt and national political stability is secured. • The social and economic development agenda, including support to transparency in government operations and development of SMEs is implemented and not reversed. • Momentum within Government to strengthen policy reform and co-ordination is maintained. • The dialogue with the private sector, notably with the representatives of SMEs, remains a priority. • All concerned administrations will collaborate during the implementation and will grant all required permissions. 	

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

The EU has previous and ongoing projects related to improvement of business environment and access to finance issues. The EU previously worked with most of the beneficiary entities, and strong operational relations with those entities exist. Experience from these learn that the beneficiary entities are generally in demand of external technical support, even if the institutional complexity in Egypt sometimes complicates a structured implementation of reform measures. Project design therefore needs to allow flexibility over the project implementation period. The project design takes account of challenges experienced in implementation through the decentralised management mode and a centralised management mode is proposed. The technical support will be mainly provided through service contracts, but for the support to the banking supervision function at the CBE it has been deemed that a peer-to-peer co-operation with a European public body active in banking supervision is most useful, building on previous peer-to-peer support in the area.

The project will also draw on EU experience in providing support to non-state actors. This type of support is complicated within Egypt's current policy framework for NGOs, but it is felt that the added value of this support is highly relevant and that it should be feasible given the relatively established nature of the envisaged beneficiaries, which will primarily be recognised business associations.

3.2 Complementarity, synergy and donor co-ordination

The Facility is highly complementary to ongoing and planned interventions in the area of business environment reform and support to access to finance.

There is high complementarity between the foreseen support to the supply of long-term credit to SMEs (under the blending component of the programme) and the support to the Central Bank on access to finance; as it will ensure that both the policy framework will be developed as provide support to innovate approaches of providing access to finance with a strong value-chain focus. Complementarity also exists with the ongoing rural SME support programme (SASME) which includes support to the set-up of financial instruments (credit lines, credit guarantee funds), geared toward the agricultural sector;

as well as with EU Development Finance Institution (DFI) funded SME global loans and NIF supported regional finance facilities.

The proposed Facility is a natural continuum to the Inclusive Growth Programme (IEGP) approved as part of the Annual Action Programme (AAP) 2015, which has a strong focus on the strengthening of capacities of SMEs. While the IEGP will provide support to the policy level co-ordination of SME support initiatives championed by the Ministry of Industry and Trade as well as facilitate SME access to Business Development Services (BDS), the proposed new initiative will extend the remit of EU support to other important entities which have a high impact on the enabling environment for business development, such as the Customs and Tax Authorities, the Central Bank as well as the Internal Trade Development Authority. In addition the new programme will also have important synergies with the Trade and Domestic Market Enhancement Programme, which provides technical support to the Ministry of Trade and Industry on economic and industrial development policies as well as the facilitation of some of the administrative processes under the remit of the Ministry, including some import/export procedures that are interlinked with Customs procedures, foreseen to be addressed under the proposed programme. Additionally the programme is complementary to the EU's Technical and Vocational Education and Training (TVET) programme which focuses on the quality and productiveness of human resources, another major constraint to inclusive economic development.

Synergies will be built and complementary ensured with regional programmes focusing on improvement of business enabling environment (the "Enhancement of the Business Environment in the Southern Mediterranean" and the "Enhancing Investment, Innovation and Growth in South Neighbourhood" programmes in particular).

The proposed Facility is thus part of a holistic and sequential package of EU support to Inclusive Economic Growth in Egypt, capitalising on a broad array of support modalities. The programme is aligned with the European Neighbourhood Policy (ENP) review priority of supporting economic development to improve stability. Given the importance of SME development as an engine for inclusive growth and an avenue to integrate the youth into the economy, this sector will continue to play a central role in our co-operation with Egypt.

A mapping of the activities of the main donors in the broader area of business environment reform, access to finance and SME support has been undertaken as part of the identification of this programme. A number of important support activities are underway, including the business environment programme (EASE) of WB-Organisation for Economic Co-operation and Development (OECD), BDS support programmes from Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and USAID, and potential future Technical Assistance from WB in a number of areas. In the specific areas proposed for capacity building support under this programme, the support provided by other agencies is so far limited, and if provided quite topical and short-term (for example through topical International Monetary Fund (IMF) and WB support). Therefore there clearly is space and absorptive capacity for EU support in the proposed intervention areas. With regard to supply of credit there are already a number of European Financial Institution (EFI) funded SME global loans and NIF supported regional "EU Initiative for Financial Inclusion" in place. However, the proposed operations under this Facility will complement these with their specific innovative financial instrument composition and their particular focus on value-chains. The

proposed access to finance component of this Facility will be closely linked to the similar value-chain financing initiatives funded through the NIF in Morocco and Tunisia.

3.3 Cross-cutting issues

It is expected that the Facility could have a positive impact on the improvement of the decision-making processes of economic policies, in particular within the MSMEs sector.

The Facility will mainstream gender considerations and promote gender equality in the implementation of the activities. This will be particularly prominent in the support to the Access to Finance policy area, where gender aspects will be taken into consideration in the technical support to the definition of a strategic Access to Finance Approach by the CBE, and the collection of more gender-specific data will play an important role in the support to a financial demand survey and in upgrading of CBE's collection of data on financial service supply. Specific attention will also be paid to targeting women- and youth owned companies in the Access to Finance components and in the innovation support components of the programme.

Environmental aspects will be taken into consideration in the support to the Access to Finance, where the possibility of specific financing modalities for "Green economy" issues and energy efficiency measures could feature.

4 DESCRIPTION OF THE ACTION

4.1 Objectives and Results

The **overall objective** of the action is to contribute to stabilisation of Egypt by promoting sustainable economic development and hence improving the future prospects of its citizens. The **specific objective** of the action is to facilitate inclusive economic growth and job creation.

The Facility will be articulated through two complementary components focusing on i) improving the enabling environment for business creation and economic development and ii) investing in the potential of SMEs to add value in the economy and to generate jobs.

Component 1 will focus in particular on reforms which will lower the administrative burden on SMEs, facilitate financial inclusion among SMEs in a sustainable manner and strengthen the protection of intellectual property rights. The **expected results** of the component include:

- R1: Improved ease of tax and customs compliance for all tax payers, and in particular for SMEs;
- R2: Improved access to finance for SMEs while maintaining the soundness of the banking system;
- R3: Deepened dialogue on the policy framework for business environment, in particular on SME related issues;
- R4: Business registration processes streamlined and simplified;
- R5: Improved enabling environment for innovation within the Egyptian economy;

Component 2 will be complementary and focus on supporting enterprise growth and competitiveness through facilitating SME access to long term financing and know-how

and by facilitating business linkages and fostering innovation among SMEs, including young entrepreneurs. The **expected results** of the component include:

R6: Increased economic performance of the SMEs supported with facilitation of access to long-term finance and know-how (Funding for this result will be subject to separate NIF financing Decisions and complementary Decisions);

R7: Enhanced capacity of SMEs and entrepreneurs to innovate.

The proposed Facility is relevant in the context of the Sustainable Development Strategy/Agenda 2030 of Egypt. It contributes primarily to the progressive achievement of Sustainable Development Goal 8 "Promote inclusive and sustainable economic growth, employment and decent work for all", which particularly includes targets related to diversification of companies, and in particular SMEs, and improved access to finance.

At composite level the Facility will also contribute to the achievement of a number of other strategic objectives, such as the formalisation of economy, improved government fiscal policy, the fight against corruption through better government procedures and improved government efficiency.

4.2 Main activities

EU support to the programme is sequenced in contributions over two consecutive years.

Activities to be supported through the 2016 annual appropriations are outlined below. These activities will contribute the achievement of the Facility's expected results as follows:

R1: Improved ease of tax and customs compliance for all tax payers, and in particular for SMEs;

- technical assistance and capacity building support to the Ministry of Finance (as entity responsible for tax and customs policies) and to the two implementing agencies: the Egyptian Tax Authority (ETA) and the Egyptian Customs Authority (ECA). A limited budget for supplies in support of strategic automation and communication processes is envisaged. Particularly important areas for reform in the coming years which can be supported include, inter alia, the introduction of a simplified tax regime for small companies, the introduction of VAT and the updating of the Customs Law. In addition support to re-engineering of processes involving interaction with taxpayers and traders and improvement of communication practices will feature prominently.

R2: Improved access to finance for SMEs while maintaining the soundness of the banking system;

- technical assistance and capacity building support to the Central Bank of Egypt, and a number of affiliated entities that are involved in the implementation of CBE policies such as the Egyptian Banking Institute (EBI), for the development and implementation of a financial inclusion strategy by CBE, focusing in particular on the access to finance for SME's aspects, to be complemented by technical advice

on the banking supervision aspects, in particular the adoption of Basel III principles¹ into Egypt's banking regulations.

R3: Deepened dialogue on the policy framework for business environment, in particular on SME related issues;

- provision of grants to entities that contribute to policy dialogue on reform of the business environment. The call for proposal will be targeted to representative organisations of businesses, in particular SME's; academic research institutes and think tanks working on business reform issues. The purpose of the call for proposals would be to support them in their analytical work and capacity building around business environment reform initiatives, in particular where it regards issues involving the business environment for SMEs.

R6: Increased economic performance of the SMEs supported with facilitation of access to long-term finance and know-how;

- channelling of long-term financing and technical advisory services to SMEs in economic sectors which have high inclusive growth potential in Egypt (such as agribusiness, manufacturing, services and energy efficiency). These activities will be implemented through a blending operation with EFIs which will provide long-term financing and targeted technical assistance to SMEs (directly or indirectly) in order to enhance business linkages (value/supply chains, clustering, etc.) and increase the export potential as well as the value added produced by and the competitiveness of the SME segment of the economy. Funding for this activity will be subject to separate NIF financing Decisions and complementary Decisions.

Activities to be supported through the 2017 annual appropriations are outlined below. These activities will contribute the achievement of the Facility's expected results as follows:

R4: Business registration processes streamlined and simplified;

- technical assistance and capacity building support to different agencies involved in company registration process within the Government of Egypt. A limited budget for supplies in support of strategic automation and communication processes is envisaged. A particular focus is foreseen to be on the Internal Trade Development Authority, in the design and implementation of a simplified company registration system in order to establish a single company ID. Such a single company ID will have important positive implications on the general business environment as it will also ease payment of taxes, customs duties, social security payments etc.

R5: Improved enabling environment for innovation within the Egyptian economy;

¹ **Basel III** is a comprehensive set of reform measures in banking prudential regulation developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector. The Basel III principles should be implemented by all parties by 2019.

- technical assistance and capacity building support to the Government of Egypt in strengthening the regulatory framework for protection of intellectual property rights as well as the capacity of the Government to enforce these rights. A limited budget for supplies in support of strategic automation and communication processes is envisaged.

R7: Enhanced capacity of SMEs and entrepreneurs to innovate;

- technical and financial support to non-state actors – incubators/accelerators, private sector representative bodies and research community – to foster innovation within the real economy, in particular among SMEs and young entrepreneurs. The support will be channelled through grants to be awarded through a call for proposals.

4.3 Intervention Logic

The Facility aims to achieve its objectives through the provision of technical support to key institutions in the Egyptian context as well as by channelling support to SMEs and entrepreneurs via financial and non-financial intermediaries.

The support to the Ministry of Finance, ETA and ECA will have a particular focus on improving the administrative procedures and communication practices of these entities toward tax payers, focusing in particular on their service delivery towards companies and SMEs. At the same time support will also be provided in the policy preparation and regulatory reform related to new and existing tax policies, as these could provide important ways to create a clearer and more simplified taxation approach, that could help broaden the tax base in a sustainable manner.

The support to the CBE will provide technical assistance to the development of a more coherent and evidence based financial inclusion approach; including through supporting the availability of more data on financial service demand and supply. This is complemented by support to the banking supervision function of the CBE, acknowledging that the expansion of financial services to SMEs and other underbanked segments, needs to be accompanied by a continued upgrading of the banking supervision regulations to ensure that the soundness of the banking system is maintained.

Support to the government agencies involved in company registration processes and intellectual property rights will be delivered primarily in form of technical assistance. The focus will primarily be on improving the company registration processes, in particular through the ITDA which is developing a unique company system; and regulatory, institutional and process re-engineering support to the agencies involved in Intellectual Property Rights registration (ITDA, EPO).

Economic reforms, and particularly business environment reforms, should be developed in close interaction with the business community and other stakeholders. The Facility will support policy development capacity at the government side, but through the call for proposal for business associations and think tanks the Facility also aims at strengthening the policy demand side in its policy analysis capacity, so that the overall quality of policy dialogue is ensured.

Finally, the institutional level support will be complemented by support to enhancing the competitiveness and productivity of SMEs by facilitating SME access to long-term financing and technical assistance. This will be implemented on the one hand through

blending of EU grant financing and EFI loan financing and channelled in particular to value-chain and business linkage initiatives in economic sectors with high growth potential; and on the other hand through non-state actors to strengthen innovation capacities within the SME sector.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.2. will be carried out and the corresponding contracts and agreements implemented, is 84 months from the date of where financing agreement is concluded.

Extensions of the implementation period may be agreed by the Commission's authorising officer responsible by amending this Decision and the relevant contracts and agreements; such amendments to this Decision constitute technical amendments in the sense of point (i) of Article 2(3)(c) of Regulation (EU) No 236/2014.

5.3 Implementation modalities

5.3.1 Grant: 2 calls for proposals - 1) "Strengthening of analytical capacity of stakeholders participating in policy dialogue on business reform, particularly in relation to SMEs"; 2) "Strengthening innovation capacities among SMEs" (direct management)

(a) Objectives of the grants, fields of intervention, priorities of the year and expected results

Related to the third expected result, the objective of the call is to deepen the policy dialogue on the policy framework for business environment, in particular for SME's, through improved input and analytical work by stakeholders. The call will be targeted to representative organisations of businesses, in particular SME's; academic research institutes and think tanks working on business reform issues. The purpose of the call for proposals would be to support them in their analytical work and capacity building around business environment reform initiatives, in particular where it regards issues involving the business environment for SMEs.

Related to the seventh expected result, the objective of the call is to enhance the capacities among Egyptian SMEs and entrepreneurs to innovate and through innovation improve the competitiveness of Egyptian enterprises.

(b) Eligibility conditions

The Calls for Proposals might be open to applicants who are:

- legal persons and
- specific types of organisations such as: non-governmental organisations and other Non-State actors, public sector operators, local authorities, international

organisations, or economic operators working in field of MSMEs development, and

- effectively established in an eligible country as defined for the European Neighbourhood Instrument: the Member States of the European Union, the partner countries benefitting from the European Neighbourhood Instrument (Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, Palestinian Authority of the West Bank and Gaza Strip, Syria, Tunisia, Ukraine), the contracting parties to the Agreement on the European Economic Area (Iceland, Lichtenstein, Norway), the Developing countries and territories, as included in the list of Official Development Assistance (ODA) recipients published by the OECD-DAC, which are not members of the G-20 group, the overseas countries and territories covered by Council Decision 2001/822/EC, or in the former Yugoslav Republic of Macedonia, Turkey, Albania, Bosnia and Herzegovina, Montenegro or Serbia, including Kosovo. This obligation does not apply to international organisations, and
- directly responsible for the preparation and management of the action with the co-applicant(s) and affiliated entity(ies), not acting as an intermediary.

Subject to information to be published in the call for proposals, the indicative amount of the EU contribution per grant is EUR 150,000 – EUR 1,000,000; and the grants may be awarded to sole beneficiaries and to consortia of beneficiaries (co-ordinator and co-beneficiaries). The indicative duration of the grant (its implementation period) is **48** months.

(c) Essential selection and award criteria.

The essential selection criteria are financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(d) Maximum rate of co-financing.

The maximum possible rate of co-financing for grants under this call is 90% of the eligible costs of the action.

In accordance with Articles 192 of Regulation (EU, Euratom) No 966/2012, if full funding is essential for the action to be carried out, the maximum possible rate of co-financing may be increased up to 100 %. The essentiality of full funding will be justified by the Commission's authorising officer responsible in the award decision, in respect of the principles of equal treatment and sound financial management.

(e) Indicative timing to launch the calls

The call related to result 3 is to be launched during the 3rd trimester of the first year of implementation, following the signing of the Financing Agreement while the call related to result 7 will indicatively be launched within 12 months from signature of an addendum to the Financing Agreement, subject to allocation of 2017 commitment appropriations.

5.3.2 *Grant – direct award for "Support to CBE on Banking Supervision" (direct management)*

(a) Objectives of the grant, fields of intervention, priorities of the year and expected results

For expected result 2 under Component 1, a grant will be concluded in order to provide technical assistance and capacity building support to the CBE and affiliated entities for the development and implementation of a financial inclusion strategy, focusing in particular on the access to finance for SME's aspects, to be complemented by technical advice on banking supervision aspects, and in particular the adoption of Basel III principles into Egypt's banking regulations.

(b) Justification of a direct grant

Due to the specific nature of the targeted intervention in relation to the "Support to CBE on Banking Supervision", where the peer-to-peer support approach is deemed particularly relevant, it will be implemented through a grant contract to be signed with a European public and not-for-profit body active in banking supervision. Under the responsibility of the Commission's authorising officer responsible, the grant may be awarded without a call for proposals to the ECB and/or Member State Central Banks and other entities involved in banking supervision in the Member States.

Under the responsibility of the Commission's authorising officer responsible, the recourse to an award of a grant without a call for proposals is justified because in accordance with Article 190 of Commission Delegated Regulation (EU) No 1268/2012 the action has specific characteristics requiring a specific type of beneficiary for its technical competence and specialisation. The ECB is in a legal / factual monopoly situation in this domain. Member State Central Banks and/or other entities involved in banking supervision in the Member States possess the specific technical competence and specialisation in this domain.

(c) Essential selection and award criteria

The essential selection criteria are the financial and operational capacity of the applicant.

The essential award criteria are relevance of the proposed action to the objectives of the call; design, effectiveness, feasibility, sustainability and cost-effectiveness of the action.

(d) Maximum rate of co-financing

The maximum possible rate of co-financing for this grant is 100%.

In accordance with Articles 192 of Regulation (EU, Euratom) No 966/2012 full funding is considered essential for the action to be carried out.

(f) Indicative trimester to conclude the grant agreement

The indicative timing for the awarding of the grant is 2nd to 3rd trimester of Year 1.

5.3.3 *Procurement (direct management)*

Subject in generic terms	Type (works, supplies, services)	Indicative number of contracts	Indicative trimester of launch of the procedure
Support to Ministry of Finance, Egyptian	Services	2	Year 1, 2 nd trimester

Tax Authority and Egyptian Customs Authority			
Supplies for ETA and ECA	Supplies	1	Year 2, 3 rd trimester
Support to CBE on Access to Finance	Services	1	Year 1, 2 nd trimester
Support to on Company registration and IPR	Services	2	Year 2, 3 rd trimester
Supplies for company registration and /or IPR	Supplies	1	Year 3, 2 nd trimester

5.4 Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission's authorising officer responsible may extend the geographical eligibility in accordance with Article 9(2)(b) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or in other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

5.5 Indicative budget

AAP 2016 and AAP 2017			
	EU contribution in 2016 (EUR)	EU contribution in 2017 (EUR)	Indicative third party contribution (in EUR)
<i>1. Component 1 – Improved enabling environment for business creation and economic development</i>	9 100 000	6 000 000	
5.3.3. Procurement (direct management) – Call for tenders/Supplies: Support to MoF, ECA, ETA, CBE, ITDA/EPO	6 700 000	6 000 000	N/A
5.3.2. Grant (direct management) – Support to CBE on Banking Supervision	1 600 000		N/A
5.3.1. Call for proposals (direct management) – Strengthening of analytical capacity of stakeholders participating on policy dialogue on business reform, particularly in relation to SMEs	800 000		90 000
<i>2. Component 2 – Increased potential of SMEs to add value in the economy and generate jobs (please see separate table below for NIF contribution)</i>	0	3 000 000	
5.3.1. Call for proposals (direct management) – Strengthening innovation capacities among SMEs	0	3 000 000	335 000
<i>3. Other</i>	900 000	1 000 000	
3.1. Evaluation and Audit	200 000	200 000	N/A
3.2. Communication and Visibility	200 000	300 000	N/A
3.3. Contingencies	500 000	500 000	N/A
Sub-Total	10 000 000	10 000 000	425 000

NIF			
	EU contribution in 2016 (EUR)	EU contribution in 2017 (EUR)	Indicative third party contribution (in EUR)
<i>2. Component 2 – Increased potential of SMEs to add value in the economy and generate jobs</i>			
Component 2.1. Contribution to the Neighbourhood Investment Facility ²	40 000 000	TBD	360 000 000
Overall total (AAP + NIF)	50 000 000	10 000 000	360 425 000

5.6 Organisational set-up and responsibilities

Apart from the part of the action to be channelled through the Neighbourhood Investment Facility (activities related to result area 6), this initiative (EU Facility for Inclusive Growth and Job Creation) will be directly managed by the European

² Subject to the approval of the relevant NIF financing Decision and subsequent complementary Decisions.

Commission through its Delegation in Egypt. All contracts and payments are made by the Commission on behalf of the Beneficiary. In order to ensure leadership and ownership, the technical assistance teams will be located at relevant beneficiary administrations and these administrations will be consulted in all stages of programme implementation.

The programme will be governed by a Steering Committee, which will oversee and guide the overall direction and policy of the programme. It shall meet twice a year as a general principle and can be convened whenever the project's implementation requires strategic decision or changes. The project steering committee shall be chaired by the Ministry of International Co-operation (MoIC) and made up of representatives of the following entities:

- The Ministry of Finance, Egyptian Tax Authority and Egyptian Customs Authority
- Ministry of Internal Trade and Supplies, Internal Trade Development Authority, Egyptian Patent Office
- Central Bank of Egypt
- Representative of the EU Delegation (observer).

The Steering Committee has the right to invite further members of any of the stakeholders whenever deemed appropriate.

Operational steering committees will be set up at the level of the different programme components for the practical management of the contracts; and will consist of representatives of the beneficiary organisation, the contractor and the EU Delegation and MoIC.

5.7 Performance monitoring and reporting

The day-to-day technical and financial monitoring of the implementation of the Facility will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the logframe matrix. The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.8 Evaluation

Having regard to the nature of the action, a mid-term, final and/or ex-post evaluation will be carried out for this action or its components via independent consultants contracted by the Commission.

The mid-term evaluation may be carried out for problem solving, learning purposes, in particular with respect to the gathering of information, review of the Results Oriented Framework (RoF – Annex I) and assessing the project's implementation progress towards the objectives.

A final or ex-post evaluation may be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the impact and sustainability of the Programme.

The Commission shall inform the implementing partner at least 15 days in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively, one contract for evaluation services shall be concluded under a framework contract in the second year and one in the sixth year of the implementation of the programme.

5.9 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

Indicatively, one contract for audit services shall be concluded under a framework contract the sixth year of implementation of the Programme.

5.10 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated at the start of implementation and supported with the budget indicated in section 5.5 above.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

The different grant and procurement contracts under this Facility will include funding for visibility and communication actions. In addition a budget of EUR 500 000 for

communication and visibility actions at the level of the overall Facility is foreseen, to be implemented via procurement contracts. Indicatively, two contracts shall be concluded under a framework contract during the first and third year of implementation of the Facility.

6 ANNEXES

Annex 1: Results Oriented Framework (ROF)

	Results chain	Indicators	Baseline (incl. Ref. year)	Targets (incl. reference year)	Sources & verification	Assumptions
Overall obj: Impact	Contribute to stabilisation of Egypt by promoting sustainable economic development and hence improving the future prospects of its citizens.	<ul style="list-style-type: none"> ▪ Economic Growth – GDP growth rate ▪ Unemployment ▪ Youth unemployment 	<ul style="list-style-type: none"> • 4.2% ('14-15) • 12.7% (2016) • 26.3% (2016) 	<ul style="list-style-type: none"> • avg rate of 7% • 5 – 10 % <p>Improved</p>	CAPMAS WB	Political and security risks remain under control despite the volatile security environment in the region
Specific objective	Facilitate inclusive economic growth and job creation by focusing on the specific objective of improving the enabling environment for business creation and economic development and investing in the potential of SMEs to add value in the economy and to generate jobs.	<ul style="list-style-type: none"> ▪ Doing Business Ranking ▪ SBA Policy Index ▪ SME employment in overall employment ▪ SME contribution to GDP 	<ul style="list-style-type: none"> ▪ 131st (2016) ▪ 2.6 (2013) ▪ TBA ▪ TBA 	<ul style="list-style-type: none"> ▪ improved (GoE target) ▪ improved ▪ increased ▪ increased ▪ 	WB EU/OECD CAPMAS CAPMAS	

Component 1: Improved enabling environment for business creation and economic development						
Outputs	1.Improved ease of tax and customs compliance for all tax payers, and in particular for SMEs	<ul style="list-style-type: none"> ▪ (non state) corporate tax revenue/GDP ▪ Doing Business Rank (Paying Tax) ▪ Doing Business Rank (Trading Abroad) ▪ OECD Trade Facilitation Indicator 	<ul style="list-style-type: none"> ▪ 5.4% ▪ 151st (2016) ▪ 157th (2016) ▪ 0.4 - 1.1 (2015) 	<ul style="list-style-type: none"> • Increased • Improved ranking • Improved ranking • Improved score 		•
	2.Improved access to finance for SME's; while maintaining the soundness of the banking system	<ul style="list-style-type: none"> ▪ Financial Inclusion / AtF Approach ▪ Share of SME loans in total bank balance sheets ▪ # of SMEs that obtain financial services ▪ Basle III principles adapted ▪ E-banking Regulations in line with international best practice allowing for increased banking instruments safely available to the market 	<ul style="list-style-type: none"> ▪ Not existing ▪ 9% (estimate) ▪ n/a ▪ under development ▪ some regulations but in need of development 	<ul style="list-style-type: none"> ▪ Adopted and institutionally anchored in CBE ▪ Ratio to reach 20% at end of 2020 ▪ Measured and increased ▪ The Basle III principles adapted to Egypt environment through new or improved circulars. ▪ E-Banking regulation have been up-graded by end 2020 	CBE	
	3.Deepened dialogue on the policy framework for business environment, in particular for SME's, through improved input and analytical work by stakeholders	<ul style="list-style-type: none"> ▪ Quality of stakeholder input in policy dialogue on business environment ▪ Number and intensity of policy dialogue on business environment matters 	<ul style="list-style-type: none"> ▪ <i>Qualitative assessment</i> 	<ul style="list-style-type: none"> ▪ <i>Qualitative assessment</i> 	Stakeholder papers, dialogue initiatives	

4. Business registration processes streamlined and simplified	<ul style="list-style-type: none"> ▪ Number of procedural steps to register a company 	<ul style="list-style-type: none"> ▪ 8 (2016) 	<ul style="list-style-type: none"> ▪ reduced 	WB DBI	
5. Improved enabling environment for innovation within the Egyptian economy	<ul style="list-style-type: none"> ▪ Intellectual Property Rights Subindex of the International Property Rights Index 	<ul style="list-style-type: none"> ▪ 4.3 (2015) 	<ul style="list-style-type: none"> ▪ improved 	Property Rights Alliance	
Component 2: Increased potential of SMEs to add value in the economy and generate jobs					
6. Increased economic performance of the SMEs supported with facilitation of access to long-term finance and know-how	<ul style="list-style-type: none"> ▪ % of supported SMEs reporting increase in turnover during period of investment ▪ % of supported SMEs reporting increase in employment during period of investment ▪ % of supported SMEs are established or have significant operations outside of Cairo ▪ % of supported SMEs are owned/operated by female or youth entrepreneurs 		<ul style="list-style-type: none"> ▪ 75% ▪ 50% ▪ 20% ▪ 20% 	Reporting by implementing EFIs	
7. Enhanced capacity of SMEs and entrepreneurs to innovate	<ul style="list-style-type: none"> ▪ Number of SME innovation clusters/initiatives supported ▪ Number of young or women entrepreneurs supported ▪ % of supported SME innovation clusters/initiatives reporting increase in turnover after 2 years of receiving support 	<ul style="list-style-type: none"> ▪ Proposals submitted through the calls for proposals will define the baseline 	<ul style="list-style-type: none"> ▪ Proposals submitted through the calls for proposals will define the targets 	Reporting by beneficiaries	