I. Project Context

Country Context

The proposed Emergency Employment Investment Project (EEIP) is a grant in the amount of €67.60 million (USD92.53 million equivalent) to be financed by the European Union, as stand-alone complementary financing to the World Bank-funded Emergency Labor Intensive Investment Project (ELIIP; $200 million). The proposed project responds to the growing economic crisis in Egypt that has disproportionately impacted poor households and the unemployed. The EEIP supports the creation of short-term employment opportunities through labor-intensive community service and small scale infrastructure projects in selected areas in Egypt; and improves employability of young men and women in urban and rural areas through wage and self-employment programs.

Since the revolution, Egypt’s political instability has contributed to economic turmoil where prospects remain uncertain. Although financial market uncertainty has been partly mitigated by a package of financial assistance pledged by Arab Gulf states, expected economic growth remains weak. An unprecedented series of aid packages totaling US$16 billion have been earmarked in
support of Egypt. These include cash grants of US$3 billion, in-kind transfers of US$4 billion, interest-free deposits of US$6 billion with the Central Bank of Egypt (CBE), and project financing of US$3 billion. The impact of such packages can be seen in the short-term fiscal planning where a stimulus approach has been signaled by the current government.

Economic performance continues to underperform in the short-term while prospects remain uncertain. Output growth remained subdued during FY13 at 2.1 percent, similar to the year before (about 2.2 percent). This has pushed the unemployment rate higher, reaching over 13.3 percent as of June 2013. Sizeable stimulus packages totaling about 3 percent of GDP are being implemented or have been announced (though not all additional spending relative to the FY14 budget), mainly a sharp increase in public investment and a near doubling of minimum wages for public sector workers. These commitments would entail substantial additional fiscal costs and could cause spillover to negatively impact private sector growth.

Against a back-drop of shrinking investments and growth in real terms, the employment and poverty picture is expected to deteriorate and human capital indicators are at risk of worsening. As has been the case in Egypt, the working poor make up the majority of poor people in Egypt. Those who are vulnerable (~17 percent) are dependent on unreliable sources of income and seasonal work. This is especially true during crises. During the fuel and food crisis in 2008/2009, as many as 5.1 million Egyptians were severely food deprived. Furthermore, 31 million (around 40 percent of the population) were poor or near poor.

The Government of Egypt (GoE) aims to smooth consumption for the poor and vulnerable, increase skills and employability of low-skilled labor, and promote social inclusion. The Government aims to increase human capital through training programs and increasing labor productivity. The GoE has initiated a program for short-term employment creation in poor areas to increase access to income opportunities and maintain social stability during the transition period. This programmatic approach has already begun through the ongoing Bank-financed ELIIP. The ELIIP supports the implementation of a public works and community services program which adopts labor-intensive methods to address Egypt’s short-term employment needs. The proposed EIEP will similarly support the creation of short-term employment opportunities for unemployed workers in selected locations in Egypt, as well as the creation of more sustainable jobs. This will be carried out through the creation and/or maintenance of community services and infrastructure using labor-intensive techniques, and employability programs for youth in urban and rural areas.

**Sectoral and institutional Context**

Egypt’s social protection system, broadly defined, accounts for a substantial share of public spending, but does not have a commensurate impact on poverty reduction and human capital development. Energy subsidies, although not strictly considered as social protection measures, are available for all consumers and producers, and account for the largest share of spending at around 6 percent of GDP, followed by food subsidies at around 2 percent of GDP. Spending on ration card subsidies comprised about 0.5 percent of GDP, while expenditures on cash transfers to the poor were about 0.1 percent of GDP in 2010. Despite this, Egypt’s human development indicators remain poor and a large share of the population is either poor or vulnerable.

Even before the food, fuel and financial crises hit, the Government had taken strong measures to improve its cash transfer programs; however, policies aimed at helping households withstand the
effects of the crises were not sufficient to prevent an increase in poverty. The Government increased both the number of beneficiary households in the social solidarity program (the unconditional cash transfer program) and the value of their monthly cash payment. It also extended additional cash assistance to beneficiary families with children enrolled in school (EGP 20/child for a maximum of four children). However, the number of beneficiaries remained much below the estimated poverty headcount, and the amount of the cash transfers was well below what was needed to lift many of the recipients out of poverty. Further, the targeting accuracy (which is largely a mixture of self-targeting, income and categorical targeting) does not address inclusion (leakage) and exclusion (under-coverage) errors. More recently, Egypt introduced other important innovations in targeted social transfer programs.

Egypt’s labor market continues to face many difficulties. Official unemployment figures in Egypt have reached 13.3 percent in June 2013—more than four percentage points higher than the level in the second quarter of 2010. Out of the 3.6 million currently unemployed persons in Egypt, around 74 percent are youth aged 15-29 years. Male and female unemployment rates increased to 9.8 percent and 25 percent, respectively, in June 2013. Further, the informal sector is estimated at 58 percent of total private sector employment and has risen sharply between 1998 and 2006. Although it can be assumed that the impact is larger on the informal sector given that it is private, less information is available on the extent to which the sector and the informally self-employed are impacted. This is further exacerbated by the difficulty in accessing information on labor market statistics in Egypt.

The proposed EEIP supports the scaling-up of Egypt’s labor intensive public works and community services programs, and implementation of programs that would complement the cash-for-work activities by facilitating transitions into wage and self-employment. Even though the majority of the project activities are aimed at meeting the needs of the emergency situation, the project will also pilot programs to support the employability of unemployed rural and urban youth. In addition, the project will build the institutional capacity for labor intensive public works and community service programs in Egypt, tools that are likely to be used frequently in the medium term and as an important social protection instrument. The inclusion of public works programs as an essential part of Egypt’s safety net system was recommended in 2005, to be scaled up or down quickly to respond to shocks based on the country’s situation and continues to be an excellent tool for smoothing consumption, providing temporary income to the working poor, and an opportunity for skill development.

II. Proposed Development Objectives
The project objective is to: i) create short-term employment opportunities for the unemployed, unskilled and semi-skilled workers in selected locations in Egypt; ii) contribute to the creation and/or maintenance of community infrastructure and services; iii) improve access to basic infrastructure and community services among target population; and iv) improve the employability of young men and women through short-term training or other support services to facilitate transitions to wage and self-employment.

III. Project Description
Component Name
Employment-intensive Small-scale Infrastructure Subprojects - (€ 1 million)
Comments (optional)
This component will finance labor-intensive small community infrastructure.

**Component Name**
Intensive Community Service and Youth Employment Sub-projects (€ 56.8 million)

**Comments (optional)**
This component will support labor-intensive community service subprojects through the provision of grants to local communities (NGOs/CDAs).

**Component Name**
Improving Workers’ Employability (€ 6 million)

**Comments (optional)**
The component will finance urban and rural youth employment support activities to facilitate transitions into wage- or self-employment.

**Component Name**
Project Implementation and Capacity Building (€ 3 million)

**Comments (optional)**
This component will support various project supervision, M&E, implementation, communications, outcome verification and capacity building activities.

### IV. Financing *(in USD Million)*

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<th>Total Project Cost: 92.53</th>
<th>Total Bank Financing: 0.00</th>
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### V. Implementation

Institutional and Implementation Arrangements. The implementation arrangements for this project will be similar to those of the World Bank financed ELIIP, with the SFD as the main implementing agency for the proposed project. The SFD will be responsible for the overall program, using its own fiduciary management systems that are in compliance with World Bank regulations and procedures. The SFD will rely on its Human and Community Development Central Sector (HCD) and the capacities of the Financial Management Department, the Internal Audit Department, the Environmental Safeguards Department, and the Planning, Monitoring, and Evaluation Department in implementing this project. There will be no separate project implementation unit (PIU) established within the SFD Headquarters. The SFD will work in close partnership with the governorates, sectoral ministries at the governorate level, local authorities, NGOs, and Community Development Associations (CDAs). The SFD will be responsible for implementing and coordinating the activities of the project with the support of its 27 regional offices which will support implementation, monitor and report on project progress.

The SFD will be responsible for financial management and reporting, using systems and procedures acceptable to the World Bank. Procurement will be a joint responsibility of SFD and the Sponsoring Agencies, which will be the ministries and governorates, for the infrastructure sub-
projects; and of SFD for the contracting of NGOs to deliver community services, youth employment initiatives and workers employability programs.

VI. Safeguard Policies (including public consultation)

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Comments (optional)

VII. Contact point

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