I. Introduction and Context

Country Context

Egypt is undergoing a major political and social transformation, which started in January 2011 revolution. Socially inclusive economic development, job creation, poverty, transparency, citizen participation, and governance have come to the forefront of the political and social debate. Experience in other countries suggests that such transformation, fraught with significant risks and uncertainties, may unfold over a relatively long period of time and that external assistance during the transition supporting transformational reform agenda can yield significant social and economic returns.

Sectoral and Institutional Context
Egypt’s energy sector contributed to economic growth. Egypt is the largest energy consuming country in North Africa and the second in Africa after the Republic of South Africa. Oil had a dominant role in primary energy supply until 1990s, after which oil production and exports declined, leveling off in recent years. At the same time, production of natural gas increased and is now dominating primary energy supply in Egypt especially for power generation.

The availability of reliable energy supply is not only considered a pre-requisite for economic growth but also for attracting private sector investments in Egypt. Although Egypt was earlier considered an important exporter of oil and gas, it is now struggling to meet its own energy needs. The unreliability of energy supply threatens the already fragile prospects for economic expansion, job creation and social prosperity. The unreliability of energy supply has become very tangible in the power sector where some electricity shortages have been experienced in the last three years. The shortage of electricity supply is in turn caused by the lack of sufficient availability of natural gas to fuel the country’s power plants.

Electricity and gas sectors in Egypt have in the past survived through various types of subsidies. However, there is now a strong conviction that the government cannot afford to continue providing energy subsidies as before. This in turn converts the electricity and gas sectors into financially unviable businesses based on the prevailing prices of electricity and gas. It is also clear that even if domestic energy prices are appropriately adjusted the public sector’s cash flow would not be sufficient to meet the investment requirements of the gas and electricity sectors.

The above complex picture of gas and electricity financial unviability has led the government to consider preparation of a transformation plan that comprises three interrelated tracks: (i) energy subsidies reform through a coordinated program of price adjustments; (ii) moving away from a subsidized public supply of electricity and gas to a public-private supply that would operate on commercial basis with transparent and targeted subsidy when and where needed; and (iii) putting in place a social protection scheme that would protect the vulnerable groups of the Egyptian population. These tracks of transformation would need to be prepared and implemented in a well-designed, consistent and calculated manner.

This technical assistance proposed by the Government of Egypt for financing by the MENA Transition Fund will focus on pursuing the above three tracks of transformation through the technical assistance three components.

- Component 1: Power Sector Institutional Development and Financial Viability
- Component 2: Energy Pricing and Fuel Switching Reform
- Component 3: Social Safety Nets Strengthening

In each of these components the proposed program takes account of the work supported by other donors and identifies the required assistance for formulating policy and implementation plans. It is particularly noted that the EU is funding a series of partnerships with Egypt to strengthen the reform mechanism. A main program is the EU Energy Sector Policy Support Program (EU ESPSP) that aims at improving the policy and regulatory framework in the gas sector, promote energy efficiency, mitigate GHG emissions, and update Egypt’s long term energy strategy. A parallel technical assistance will be provided by the EU to EgyptERA to strengthen its institutional capacity for implementation of the electricity law. The EU in partnership with the KfW is also supporting the

While the EU funded technical assistance activities are focusing on development of energy market policy and regulations, and capacity building of EgyptERA, this technical assistance proposed for financing by the MENA Transition Fund is aimed at transformation of electricity and gas sector to financial viability while protecting the poor from undesirable impacts of energy subsidy reform.

Relationship to CAS
The proposed project is consistent with the ISN for Egypt and supports its three pillars of: (i) improving economic management through control of the fiscal deficit and initiating reforms to enhance transparency in government operations; (ii) job creation, through direct emergency lending and initiating steps to improve the environment for private sector led growth and job creation; and (iii) fostering inclusion, which involves ensuring broader access by disadvantaged segments of the population.

The proposed project supports mainly the objectives of the first and third pillars by identifying barriers to, and setting strategic plans for, energy sector reforms in order to ensure a sustainable growth of the energy sector and hence the economy, promote an enabling environment for private sector participation in energy sector development, and reduce the fiscal burden of fuel subsidy on the government deficit while mitigating its social impact on vulnerable and poor households.

The proposed project with its three tracks of transformation aiming to reform the fuel subsidy in Egypt while improving the financial viability of the energy sector institutions and strengthening the social safety nets conforms with the eligible activities supported by the MENA Transition Fund and is consistent with the Fund objective of supporting country-led policy and institutional reforms for strengthening governance and public institutions and fostering sustainable and economic growth.

II. Proposed Development Objective(s)

Proposed Development Objective(s) (From PCN)
The proposed project will assist the Government of Egypt in reducing barriers for improving the financial viability of the energy sector and strengthening the social safety nets.

Key Results (From PCN)
The project development objective will be measured using the following indicators:

(i) development of a strategy and detailed action plans to improve financial viability and governance of the power sector utilities;
(ii) development of a long term policy for the fuel supply to power generation;
(iii) establishment of an Energy Efficiency Unit and the Ministry of Electricity and implementation of the National Energy Efficiency Action Plan (NEEAP);
(iv) development of a comprehensive energy pricing and fuel switching strategy for Egypt including detailed action plans for compensatory measures to mitigate the impact of subsidy removal;
(v) development of a communication strategy for fuel subsidy reform including public consultation; and
(vi) development of the social safety net database of the poor and vulnerable families.

III. Preliminary Description
Concept Description

This technical assistance project is recipient executed proposed by the Government of Egypt (GoE) for grant financing from the MENA Transition Fund. Upon the request of the GoE the World Bank acts in the role of its Implementation Support Agency (ISA). The project aims at assisting the GoE in reducing barriers to energy sector and fuel subsidy reforms by developing strategies and action plans to improve the sector’s institutions, operations, governance and financial performance and to support strengthening social safety nets (SSN) in order to mitigate social impact of future fuel subsidy reforms. The project will have the following components:

Component 1: Power Sector Institutional Development and Financial Viability which includes the following subcomponents:
- Subcomponent 1: Electricity Utilities Financial Management and Governance
- Subcomponent 2: Fuel to Power Strategy
- Subcomponent 3: Establishment of an Energy Efficiency Unit at the Ministry of Electricity and Energy

Component 2. Energy Pricing and Fuel Switching Reform which includes the following subcomponents:
- Subcomponent 1: Energy Pricing and Fuel Switching Reform Strategy
- Subcomponent 2: Development of a Communication strategy fuel reform

Component 3: Social Safety Nets Strengthening

IV. Safeguard Policies that might apply

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V. Financing (in USD Million)

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<td>MNA VPU Free-standing Trust Funds</td>
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VI. Contact point

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