

# **EPF Operating Manual General Principles**

**July 2007**

# EPF: Operating Manual – General Principles

July 2007

## Contents

|   |           |
|---|-----------|
| <b>1. INTRODUCTION.....</b>   | <b>4</b>  |
| Objective of the Operating Manual.....  | 4         |
| Organization of the Operating Manual.....                                     | 4         |
| <b>2. ACRONYMS AND DEFINITIONS.....</b>                                       | <b>7</b>  |
| Acronyms .....  | 7         |
| Definitions.....  | 7         |
| <b>3. STRATEGY AND OBJECTIVES .....</b>                                       | <b>11</b> |
| Goals of the Fund .....   | 11        |
| Principles.....   | 11        |
| Expense Budget of the EPF.....  | 12        |
| Revenues of the EPF .....   | 13        |
| <b>4. FUND STRUCTURE AND MANAGEMENT.....</b>                                  | <b>15</b> |
| Introduction.....   | 15        |
| Internal Structure of the EPF.....  | 15        |
| The Fund Management Committee.....  | 17        |
| Internal Ministry of State for Environmental Affairs and EEAA Relations ..... | 17        |
| External Governmental Relations .....   | 18        |
| External Relations with Applicants and Those Tendering Offers.....            | 18        |
| External Relations with the Financial Sector .....                            | 18        |
| <b>5. DISBURSEMENT MECHANISMS.....</b>  | <b>19</b> |
| General Guidelines.....   | 19        |
| Grants .....  | 19        |
| Soft Loans .....  | 20        |
| Shareholder.....  | 20        |
| Interest Rate Subsidies .....   | 20        |
| Loan Guarantees.....  | 21        |
| NGO funding program.....  | 21        |
| Tender Method.....  | 21        |
| EPF Flow of Fund.....   | 21        |
| <b>6. PROJECT CYCLE MANAGEMENT PROCEDURES.....</b>                            | <b>26</b> |
| Introduction.....   | 26        |
| Identification of Projects .....  | 26        |
| Application Procedure.....  | 27        |
| Project Information Form Screening.....                                       | 28        |
| Project Application Form Appraisal .....                                      | 28        |
| Tender Procedure .....  | 29        |
| Selection.....  | 29        |
| Negotiation and Award .....   | 30        |
| Implementation And Monitoring .....   | 30        |
| Reviews and Evaluations .....   | 31        |

|   |           |
|---|-----------|
| <b>7. EPF BUSINESS PLAN.....</b>                                  | <b>32</b> |
| <b>8. ANNUAL OPERATING PLAN .....</b>                             | <b>33</b> |
| Objectives.....   | 33        |
| Components .....  | 33        |
| Preparation of/and Adjustments to the Annual Operating Plan ..... | 33        |
| <b>9. ANNUAL REPORT.....</b>                                      | <b>34</b> |
| Purpose.....  | 34        |
| Preparation and Timing.....                                       | 34        |
| Content .....   | 34        |
| Distribution .....  | 34        |
| <b>10. MONITORING SYSTEM.....</b>                                 | <b>36</b> |

## **Annexes**

|         |  |
|---------|--|
| Annex 1 | EPF Annual Operating Plan                                |
| Annex 2 | Modified Financial Regulations (still draft)             |
| Annex 3 | Terms of Reference for FMC members                       |
| Annex 4 | Terms of Reference for EPF staff                         |
| Annex 5 | Model agreement between the Fund and the Bank            |
| Annex 6 | Model Notifications of acceptance letter                 |
| Annex 7 | Model Notifications of rejection letter                  |
| Annex 8 | Model contract between EPF and successful project holder |
| Annex 9 | EPF Business Plan  |

# INTRODUCTION

There are three working levels for the Environmental Protection Fund EPF; the first level, the strategic level which is developed to clarify the mission and vision of the EPF till the year 2010. A Business plan for the EPF was developed through the Support of the Environmental Sector Programme ESP with a strategic focus to direct EPF towards becoming a revolving fund that generates income from its own lending and investments.

The second level is the Annual Operational Plan (Annex 1) which should describe the Fund's scope of activities and annual budget. It describes the Environmental priorities of the specified year. The Annual Operating Plan (excluding the budget) is considered a public document that can be obtained from the Fund by interested parties.

The third level is the Operating Manual (the document in hand) which describes the working procedures of the EPF and the day to day operations.

## **Objective of the Operating Manual**

This manual entitled the “Operating Manual – General Principles” addresses the institutional and organizational frameworks defining the mandate and activities of the Environmental Protection Fund (EPF). The Operating Manual Report – including all annexes – has been developed within a legal framework which is defined by law no. 4/1994 and its executive regulations that describe the Fund’s overall structure, organizational framework, financial resources, and scope of activities. Law no. 4/1994 is expected to be modified and amended within the coming 2 months so as to provide a well-designed EPF that can improve governance and institutional capacities in project development and appraisal, thereby increasing the number of financially feasible environmental projects in Egypt to the benefit of the country.

The overall objective of the EPF is to support and stimulate investment in the area of Environmental protection by mobilizing the implementation of both investment and non investment environmental projects mechanisms.

## **Organization of the Operating Manual**

This Operating Manual - General Principles” is organized around 10 sections including this introductory section and 9 annexes.

Section 2 includes all acronyms and definitions used throughout the Operating Manual.

Section 3 outlines the Fund’s overall strategy, objectives, and principles, and establishes the general guidelines for the Fund’s expense budget and revenue sources. Moreover, Section 3 presents the Fund’s Competitive Project Program (CPP), which utilizes several disbursement mechanisms to provide financial support to environmental initiatives. Annex 2 includes the modified Financial Regulations which are still in a draft form and expected to be finalized within the coming period.

Section 4 presents a detailed description of the Fund’s internal and external management structures

in accordance with the legal framework of the modified Law 4/1994 and its executive regulations. The internal structure of the EPF includes the following:

1. **The Fund Management Committee (FMC)** - appointed by the Prime Minister according to the new amended law of environment and chaired by the Minister of State for Environmental Affairs. and,

2. **The Fund Manager** - responsible for the management of the Fund including its four functional departments, namely; the Projects Department, the Financial Department, the Communication Department and the Carbon Fund Unit.

Moreover, Section 4 defines the organizational procedures for the Fund's external relationships, specifically with: i) the Ministries of Finance and Economic Development; ii) targeted beneficiaries through both the application and tender methods; and iii) the financial sector represented by participating banks. Annex 3 includes the Terms of Reference defining the responsibilities of the FMC members.

The Terms of Reference defining the activities and responsibilities of the Fund's staff is included in Annex 4.

Section 5 presents the various disbursement mechanisms utilized by the Fund to support investment and non-investment environmental initiatives in a specific year. Mechanisms include: grants, interest rate subsidies, soft loans and loan guarantees, share capital and open tenders. Specific program priorities and funding levels vary from year to year, depending on the Fund's budget and environmental priorities set for the year.

Moreover, for each disbursement mechanisms, specific terms and conditions are defined for project selection and funding in cooperation with the participating banks. Annex 5 includes a Model Agreement between the Fund and the participating Egyptian Banks.

Section 6 presents the various project cycle management procedures followed by the Fund to make decisions concerning funding of projects for which the Fund has received applications under the CPP. The project cycle includes the following stages:

1. Project identification which includes the initial identification of projects and solicitation of applications under the CPP or the open tender method;
2. Project appraisal which covers the review and ranking of final project applications according to the established evaluation criteria with assigned numerical scores;
3. Ranking of final project applications and presentation to the FMC for endorsement;
4. Negotiation and award of contract;
5. Monitoring of the various phases of project implementation; and,
6. Final review and evaluation of project upon completion.

This Operating Manual includes several annexes, which are directly linked to the project cycle management procedures. Annexes 6 and 7 include Model Notifications of application rejection and acceptance, respectively. Annex 8 includes a Model Contract between the Fund and the successful project holder.

Section 7 presents an overview of the EPF Business Plan. Annex 9 includes the EPF business plan 2007-2010.

Section 8 includes a detailed description of the various components of the Annual Operating Plan. The Operating Plan defines the Fund's activities during each project cycle (which coincides with the fiscal year). Moreover, Section 8 describes the procedures for preparing and approving the Annual Operating Plan, and how it may be adjusted if necessary. Annex 1 includes the Annual Operating Plan describing the various disbursement programs the EPF will support during the year.

Section 9 presents procedures for reporting and dissemination of EPF's Annual Report. The Annual Report provides an overview of the Fund's activities during the previous fiscal year, specifically the main results achieved; the various environmental projects supported, and implemented demonstration projects. The objective of the Annual Report is to create awareness both internally and externally concerning the Fund's efforts in improving the environment in Egypt.

Finally, Section 10 describes the Fund's system for monitoring the various stages of the project cycle. This section has to be further elaborated.

## 2. ACRONYMS AND DEFINITIONS

### Acronyms

The following acronyms are used in this document:

|        |  |
|--------|--|
| BoD    | Board of Directors (e.g., BoD of EEAA)                 |
| CBE    | Central Bank of Egypt                                  |
| CEO    | Chief Executive Officer (e.g., CEO of EEAA)            |
| CPP    | Competitive Projects Program                           |
| DANIDA | Danish International Development Assistance            |
| EEAA   | Egyptian Environmental Affairs Agency                  |
| EPF    | (Egyptian) Environmental Protection Fund               |
| FMC    | Fund Management Committee                              |
| IFI    | International Financial Institution                    |
| MSEA   | (Egyptian) Ministry of State for Environmental Affairs |
| NEAP   | National Environmental Action Plan                     |
| PAF    | Project Application Form                               |
| PIF    | Project Information Form                               |
| RBO    | Regional Branch Office                                 |

### Definitions

Following are definitions of selected terms used in this Operating Manual Report:

|  |   |
|--|---|
| <p><b><i>Law 4/1994 of the Environment and its Executive Regulations issued by Ministerial Decree 338/1995</i></b></p> | <p>Article 14 of Law 4/1994 sets the legal foundation for establishing a special fund to be called the “Environmental Protection Fund” within the Environmental Affairs Agency and defines the various sources of the Fund’s budget. According to Article 16 of Law 4, the EEAA shall set the internal statutes of the Fund, in agreement with the Minister of Finance. Moreover, all works and dealings of the Fund shall be subject to Control by the Central Audit Agency. Articles 7 and 8 define the Fund’s legal sources of revenue, and the various purposes for disbursing the Fund’s budget. Surplus budget is carried forward from one year to another.</p> <p>Article 16: The Agency shall lay down the internal regulations of the fund in agreement with the Minister of Finance. All the activities and transactions of the fund shall be subject to the control of the Central Audit Agency.</p> <p>Article 17: The agency shall, in collaboration with the Ministry of Finance, establish a system of incentives that the Agency and the competent administrative departments can present to other agencies, establishments, individuals and others for their</p> |
|--|---|

|   |  |
|---|--|
|   | <p>environmental protection activities or projects.</p> <p>Article 18: The system of incentives mentioned in the preceding Article shall be submitted to the Board of Directors of EEAA and approved by the Prime Minister.</p>  |
| <p><b><i>National Environmental Action Plan 2002-2017 (NEAP) (NEAP can be obtained from EEAA)</i></b></p> | <p>The NEAP seeks to assist in integrating the environmental dimension in national policies, programs, plans and projects with an immediate focus on the reduction of pollution rates to mitigate health hazards, and the protection of natural resources, biodiversity, and the historical and cultural heritage, within the framework of sustainable development. The NEAP identifies environmental priorities that need immediate action on the national level to assist in meeting international environmental agreements and conventions. The Fund has defined its environmental priorities during the pilot phase based on recommendations of the NEAP, which is currently being prepared.</p> |
| <p><b><i>Competitive Projects Program (CPP)</i></b></p>   | <p>The Fund's program for providing financial support to both investment and non-investment environmental projects that have submitted applications and have been selected based on established eligibility and evaluation criteria. The CPP utilizes several disbursement such as grants, interest subsidies, soft loans, etc</p>   |
| <p><b><i>Protectorate Fund</i></b></p>  | <p>According to Law 102/1983 concerning Natural Protectorates, resources of the Protectorates Fund include budget allocations, donations, and aid ascribed to protectorates, in addition to user fees, and fines as ruled for violating the law.</p>   |
| <p><b><i>Fund Management Committee (FMC)</i></b></p>  | <p>The Fund Management Committee (FMC) is composed of nine members and is chaired by the Minister of State for Environmental Affairs as per the modified law 4. The FMC is the higher authority for EPF responsible for setting EPF overall strategy.</p>  |
| <p><b><i>Grants</i></b></p>   | <p>Is the Fund's mechanism to support priority non-investment environmental projects submitted by any of the following organizations: non-governmental organizations, government agencies, and educational and research institutions. Financial support is provided in accordance with defined guidelines and conditions enumerated in Section 5 of the Operating Plan.</p>  |
| <p><b><i>Interest Rate Subsidies</i></b></p>  | <p>Is the Fund's mechanism to support environmental projects that are</p>  |

|  |   |
|--|---|
|  | <p>financially viable and sustainable allowing the project holder to recover both investment and operating costs. EPF support is a grant in the form of an interest rate subsidy. Financial support is provided in accordance with defined guidelines and conditions enumerated in Section 5 of the Operating Plan.</p>   |
| <b><i>Soft Loans</i></b>                     | <p>Is one of the Fund's mechanisms to support environmental projects. The loans are financed by the Fund and managed by cooperating banks. These soft loans offer attractive loan terms compared to those available in commercial capital markets (i.e., reduced interest rates, extended repayment terms, or provisions for grace periods)</p>   |
| <b><i>Loan Guarantees</i></b>                | <p>Is one of the Fund's financing mechanisms. Loan guarantees are a legally binding commitment by the Fund to pay lenders (banks) some or all of the loan principle and interest if the borrower (the project holder) is unable to pay.</p>   |
| <b><i>Share capital</i></b>                  | <p>The EPF shares in the financial capital investment in private sector companies implementing unusual and innovate environmental projects</p>  |
| <b><i>Participating Banks</i></b>            | <p>Are banks that have signed cooperation agreements with the Fund to become partners in implementing the various disbursement mechanisms.</p>  |
| <b><i>Annual Operating Plan</i></b>          | <p>The Operating Plan is prepared annually by the Fund and is approved by FMC. The Plan includes the EPF departments Work plans and defines the types of projects the Fund will target during the specified year under the various disbursement mechanisms. For each disbursement mechanisms, the Plan defines the terms and conditions used by the Fund for evaluating and selecting projects.</p> |
| <b><i>Project Cycle</i></b>                  | <p>The project cycle includes the following phases: project identification and development, project selection and approval of financial support, award of financial support and project implementation, project monitoring and evaluation.</p>  |
| <b><i>Project Information Form (PIF)</i></b> | <p>Is the preliminary short application form completed and submitted by the various organizations to receive financial support from the Fund's CPP. Based on the information provided in the PIF, the Fund determines whether the applicant has satisfied the Fund's established eligibility criteria for financial support.</p>  |
| <b><i>Project Application Form (PAF)</i></b> | <p>Is the application form completed by the eligible applicant upon the Fund's acceptance of the PIF. The form includes detailed information concerning the applying organization and the proposed project. The Fund reviews and evaluates the PAF based on established evaluation criteria. This is followed by selection of projects for funding by the Fund's Management Committee.</p>          |

|   |  |
|---|--|
| <b><i>Eligibility Criteria</i></b>              | Are conditions set by the Fund to determine whether a project application is eligible or not for financial support.  |
| <b><i>Evaluation and Selection Criteria</i></b> | Are criteria defined by the Fund for evaluating project applications on a competitive basis. Based on the evaluation of applications, the Fund selects projects that will receive financial support. |

## **3. STRATEGY AND OBJECTIVES**

### **Goals of the Fund**

The EPF has a two-fold focus:

- To act as the instrument of the National Environmental Policy of Egypt, the latter setting the goal to achieve sustainable development through the balancing of economic, social, and environmental challenges. This is reflected in the mission of the Ministry of State for Environmental Affairs and EEAA’s strategic objective to incorporate the environmental dimension in all national policies, plans, programs, and projects with an immediate focus on the reduction of pollution rates to mitigate health hazards, and the protection of natural resources, biodiversity, and the historical and cultural heritage, within the framework of sustainable development. The National Environmental Action Plan (NEAP) translates this vision into environmental objectives and targets that reflect current environmental and developmental conditions, the existing institutional framework, and environmental priorities that need immediate action. The National Environmental Action Plan provides the context within which the EPF seeks to achieve its objectives.
- To act as a new financial instrument that provides strategic stimuli and financial support for environmental protection initiatives during the transitional phase of the economy until prevailing financing instruments and mechanisms reach maturity. The EPF will leverage the resources of polluters, capital markets, investors, and donors to ensure that the most effective environmental investments are achieved both in terms of environmental and economic benefits.

The specific objectives of the EPF are:

- Support environmental activities and regions that are insufficiently funded by other resources
- Focus support for projects featuring pollution prevention and cleaner production measures involving changes in management, processes or inputs as opposed to “end-of pipe” technology based alternatives
- Adopt a proactive approach for project identification to improve the quality of environmental investments, realized primarily through competitions along with geographically and institutionally focused programs
- Support the transfer of modern and innovative environmental technologies for development and introduction on the Egyptian Market, thus adding a demonstration value to the projects
- Support projects that yield significant environmental benefits
- Generate and mobilize financial resources from various sources to finance environmental initiatives and advocate participation and partnerships among the various sectors of civic society in environmental protection and development.
- Provide consistent and ongoing financial support for the internal capacity building and infrastructure needs of the Egyptian Environmental Affairs Agency in its efforts to fulfill its legislative responsibilities as defined by Law 4/1994.

### **Principles**

The EPF will formulate and implement policies and procedures based on high standards of

***objectivity, accountability, and transparency.*** The EPF's use of clearly defined and communicated environmental priorities, eligibility and selection criteria, as well as rigorous appraisal procedures will contribute to the Fund's adherence to these principles. Information about the Fund's activities will be communicated to applicants, government institutions, and the public through a number of mechanisms, application materials, and written correspondence.

The EPF supports a range of environmental projects proposed in applications submitted to the Fund for evaluation on a competitive basis. The Fund recognizes that there is great variation in the capacity of applicants to co-finance project costs. The type of financial support required to make an investment or carry out a non-investment project also varies from applicant to applicant. To accommodate the range of applications and applicants, the Fund manages a Competitive Projects Program (CPP) that utilizes a number of disbursement mechanisms: grants, interest subsidies, soft loans, share capital, open tender and loan guarantees.

Specific program priorities and funding levels vary from year to year, depending on the Fund's budget and environmental priorities set for the year.

## **Expense Budget of the EPF**

3.3.1 The EPF annual expense budget will be determined according to the Annual Operating Plan. The general guidelines for the expense budget are as follows:

The total budget amount will represent the amount of money to be spent for the year.

A reserve account will be maintained to address environmental disasters and pollution from unknown sources. The amount of the reserve account will have a ceiling of 2 % from the Capital of the EPF in the Central Bank of Egypt.

Expenses allocations will take place in the form of:

- The Competitive Project Program CPP which should be equal to 60 % of the EPF budget for the year. The disbursement mechanisms vary and may include Grant, Soft loans, Loan guarantee and Interest rate subsidies. Mechanisms are described in chapter 5.
- The Support for EEAA activities and infrastructure should not exceed 25 % of the EPF budget for the year. The disbursement mechanism should be the Tender Method which is described in chapter 5.
- EPF administrative and operational cost which are equal to 15 % of the EPF budget of the year. Administrative and operational costs should cover EPF staff salaries, conduction of workshops, training of staff, consultancy services such as the formulation of new area which EPF should target, new application forms, enabling EMUs and RBOs to develop appropriate applications etc...

Allowable expenses that may be supported by the EPF are summarized below:

- Addressing environmental emergencies
- Pilot projects in natural resource preservation and protection of the environment from pollution
- Transfer of low-cost technology that has proven effective in environmental protection
- Funding of the production of prototypes of waste management equipment
- Construction and operation of environmental monitoring stations
- Establishment and management of natural protectorates
- Addressing pollution of unknown or non-specific source
- Funding of research for environmental programs and environmental impact assessments as well as for the setting of standards and specifications for environmental protection
- Co-financing of environmental protection projects undertaken by local administrations and NGOs. Financial contributions to these activities should also be made by the beneficiaries (i.e. public participation)
- Awards for outstanding achievements in the field of environmental protection
- Pollution prevention projects
- Support for the EEAA's infrastructure and activities
- Other environmental protection activities approved by EEAA's Board of Directors

### **Revenues of the EPF**

Sources of revenue for the Fund are specified in modified Law for Environment of the Executive Regulations.

Allowable revenue sources are as follows according to the law 4/94:

- State budget allocations to consolidate the Fund
- Aid and donations extended by national and foreign organizations for purposes of protecting and developing the Environment, as shall be accepted by the EEAA Board of Directors
- Fines and compensations as ruled by the Court, or as shall be agreed upon, for the damages and harms affecting the Environment
- Resources of the Protectorates Fund, as prescribed in Law No. 102 of the year 1983.
- Resources include budget allocations, donations, and aid ascribed to protectorates, in addition to user fees, and fines as ruled for violating Law No. 102.
- The share of the Environmental Affairs Agency from the 25% of the proceeds of dues imposed on travel tickets issued in Egypt, in Egyptian currency, according to Article 1 of Law No. 5/1986, and Prime Minister's Decree No. 697/1986, with a minimum of 12.5% of the total proceeds of dues referred to here above.
- The yield of experimental projects undertaken by EEAA
- Charges or services rendered by EEAA to third parties against fees.
- Fees on licenses as issued by EEAA
- New revenue sources should be added as per the modified law 4 which includes;

- Environmental stamps revenues

These revenue sources include those which the Fund automatically receives (e.g., compensation for marine damage), those which are discretionary (e.g., budget transfers, a share of airline tax revenue), and those which are potential sources of revenue (e.g., grants from donors, revenue from pilot projects).

EPF should be notified by EEAA on a monthly basis on its revenue.

## 4. FUND STRUCTURE AND MANAGEMENT

### Introduction

The structure of the Environmental Protection Fund is established within the framework of the modified Law for the Environment and its Executive Regulations.

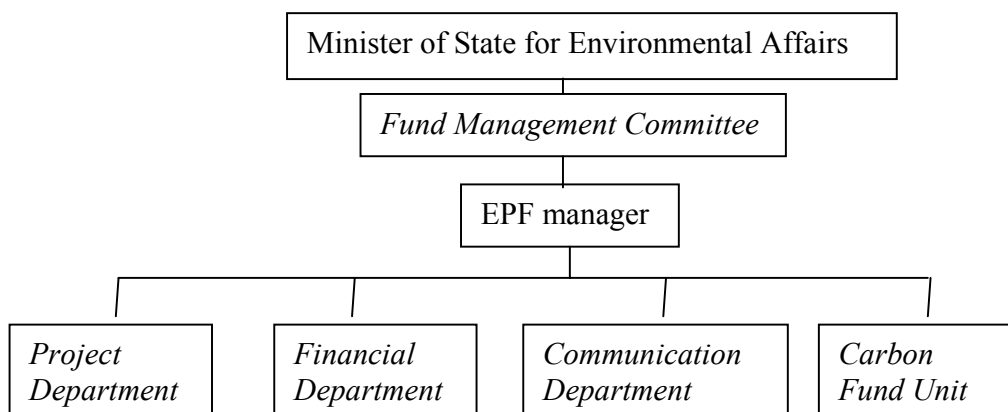
This section covers the structure of management for the Fund, including management relation to external parties to the Fund. The Fund's internal and external structures are illustrated in figure 1 and 2.

### Internal Structure of the EPF

The EPF consists of a Fund Manager, supported by a secretary and an office assistant, and four functional departments with responsibilities executed by the Fund's professional staff. The four functional departments include the Projects Department, the Financial Department, the Communication Department and the Carbon Fund Unit.

Functional departments do not necessarily correspond to staff positions; one staff person may carry out responsibilities in one or more functional departments. Detailed descriptions of staff member qualifications are provided in the Terms of Reference for Core Staff Members in Annex 4.

**Figure 1 Internal Structure and Relations of the EPF**



*Fund Manager* – the Fund Manager is appointed upon FMC decision and is responsible for executing the Fund's policies and implementing decisions of the Fund Management Committee (FMC). The Fund Manager is responsible for the following:

- Issuing executive decrees to implement FMC decisions
- Implementing plans, systems, decrees, and regulations issued by higher authorities

- Organizing the Fund’s work, including development of instructions for that purpose
- Carrying out tasks delegated by the FMC or its Chair
- Supervising Fund personnel and managing all Fund activities
- Proposing the Fund’s plans for revenue enhancement and presenting it to the FMC
- Developing the Annual Operating Plan and submitting it to the FMC
- Proposing the Fund’s overall policy and strategy and preparing the expense budget to be presented to the FMC
- Authorizing EPF fund disbursement

**Projects Department** - The Projects Department is responsible for management and implementation of the project cycle for the various funding mechanisms. Activities include:

- i) project identification;
- ii) handling of applications, including communications with applicants;
- iii) review and evaluation of projects;
- iv) negotiations with applicants;
- v) coordinating among the various involved parties such as banks and technical expertise,
- vi) supervision of the transfer of funds to projects; and,
- vii) project monitoring.

The Projects Department cooperates with participating banks on interest rate subsidy and soft loan applications. In addition, the Projects Department supports the Fund Manager and other functional departments in developing the Annual Operating Plan, preparing the Annual Report, and conducting external communications.

**Financial Department** - The Financial Department is responsible for day-to-day administration and financial transactions of the Fund in coordination with the EEAA’s Administrative and Financial Department. This Department is responsible for the following activities:

- i) monitoring and updating all EPF’s expense and revenue items;
- ii) preparing the Fund’s yearly budgets;
- iii) preparing all administrative and financial reports;
- iv) evaluating the Fund’s financial and administrative performance,
- v) developing and amending administrative and financial procedures; and
- vi) maintaining the Fund’s databases (financial, statistical data related to the projects).

**Communication Department** – This Department’s functions include a lead role in external communications including public awareness campaigns to publicize the Fund and its various funding programs. Moreover, this Department is responsible for supporting the Fund Manager in developing EPF policies and strategies and act as FMC secretariat. This includes providing information and other support to FMC members, organizing FMC meetings and following up on FMC decisions as well as assisting the EPF manager in the reporting on the EPF progress.

**Carbon Fund Unit** - The Carbon Fund Unit (CFU) is part of the EPAP II project and is located and managed by the EPF. The Unit will finance pollution abatement activities and other legitimate sustainable development activities through the Sustainable Development (SD) premium which will be transferred to a special Carbon Fund account under EPAP II. The Unit aims at financing small

and medium sized polluting enterprises and small-scaled, informal industrial sector companies with no access to loans from commercial banks, and catalyzes both the CDM market and pollution abatement investments to be financed from commercial bank's own funds. The CFU will function in accordance with Law 4-1994 and any amendments for this law. The CFU will manage the money generated through SD premiums by providing soft loans and grants to environmental projects.

### **The Fund Management Committee**

The Fund Management Committee (FMC) is composed of nine members and chaired by the Minister of State for Environmental Affairs.

Members include four representatives of EEAA's senior management (Minister of State for Environmental Affairs, CEO of EEAA, head of a department and EPF manager as FMC executive Officer) and five external professional experts (representatives from ministry of finance, ministry of economic development, ministry of local administration, an NGO and from legal administration).

Observers can be invited but they will have no right to vote.

The FMC is appointed by the Prime Minister according to the modified Law no. 4.

The FMC's responsibilities are enumerated in the Financial Regulations (Annex 2) and include the following:

- Formulating the Fund's policies, objectives and strategic plans in accordance with the national plan for protection of the environment.
- Authorizing all internal systems (technical, financial and administrative) to ensure effective operation of the Fund.
- Authorizing the EPF budget and financial statements.
- Approving the Fund's Revenue Enhancement Strategy in accordance with governing laws and regulations.
- Authorizing applications and project proposals to be funded by the Fund in accordance with its defined plan.
- Approving the Fund's auditing and monitoring systems including standards for the Fund's award of grants, loans, etc.
- Approving the Fund's plans and programs to enhance the overall performance of Fund activities.
- Reviewing the quarterly follow-up and progress reports and the Fund's financial position.
- Reviewing all matters and issues presented by the FMC chair that are of relevance to the Fund's activities.
- Appointing EPF manager.

The FMC may delegate part of its responsibilities to the Chair or one or more of its members.

### **Internal EPF/ EEAA relations**

EEAA technical departments provide technical assistance for the EPF. Technical assistance consists of the technical evaluation as well as the environmental impact assessment for projects

which are submitted to the EPF and requesting funding.

### **External Governmental Relations**

The Environmental Protection Fund co-operates with two Ministries:

The Ministry of Finance authorizes the amount of money requested by the EPF from its own account in the Central Bank of Egypt, approves the EPF financial regulations and approves recurrent expenditures that exceed the estimated budget.

The Ministry of Economic Development approves the Environmental Protection Fund’s investment expenditures.

External government relations are shown in figure 2.

### **External Relations with Applicants and Those Tendering Offers**

All public, private and non-profit sectors and groups carrying out projects in the field of Environmental protection and development may apply for financial support from the EPF.

The specific forms of interactions between the EPF and these groups, including the process for submitting applications or tendered proposals, communications, and implementation of EPF-funded projects, are described in Section 6 of this Manual.

### **External Relations with the Financial Sector**

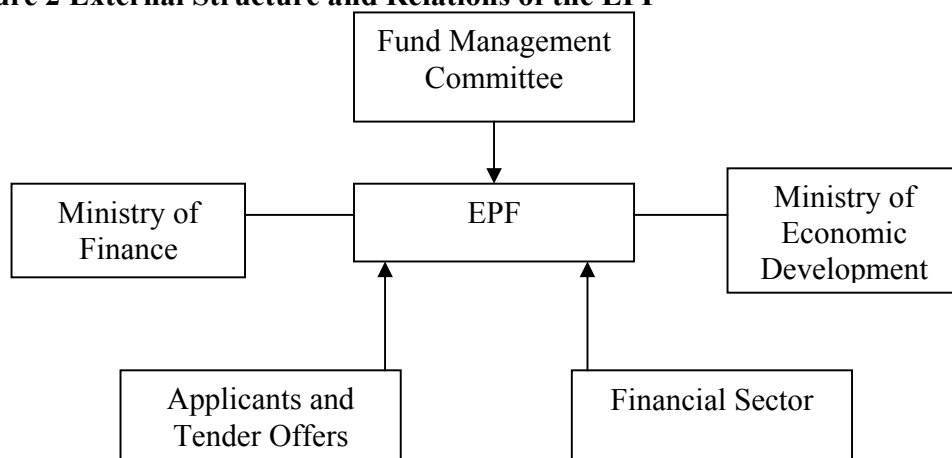
The EPF cooperates with Egyptian banks in providing loans for investment projects.

Generally, this cooperation involves one of three forms:

- commercial loans with interest rate subsidies provided by the EPF,
  - “soft” loans provided by the EPF, with Banks assisting with appraisal and management,
- or
- loan guarantees provided by the EPF for commercial loans.

Specific elements of EPF relations with participating banks are described in Section 6 of this Manual.

**Figure 2 External Structure and Relations of the EPF**



## 5. DISBURSEMENT MECHANISMS

### General Guidelines

Terms and conditions for disbursements may vary from year to year depending on the availability of funds and environmental priorities.

The EPF will consider the following general guidelines in developing disbursement terms and conditions:

- Establish the share of EPF expenditures to be allocated for each disbursement mechanism in the Competitive Projects Program
- Establish the applicant profile for each disbursement mechanism
- Establish the project profile for each disbursement mechanism
- Establish eligibility criteria for each mechanism
- Establish the limits on EPF support for each project and disbursement mechanism
- Establish the priorities for each disbursement mechanism
- Establish terms and conditions for payment (if applicable)
- Establish application and processing procedures

*Cooperation with banks* – All disbursement mechanisms will be implemented in cooperation with banks. Any bank operating in Egypt may be a candidate for becoming an implementation partner of the EPF. The role of banks acting as EPF implementation partners is defined in the following points:

- Provide checking on the applicants based on the specific Bank's involvement in the project or on the request of EPF,
- Provide financial analysis and evaluation of projects where the banks expect to take a financial role in support of the project.
- Provide financial support per agreement with EPF, as determined by the type of disbursement mechanism and its associated financing package.
- Assist in the monitoring and evaluation of the supported projects and report findings to the EPF.

### Grants

The Fund supports priority non-investment projects through grants. There is no requirement for repayment and the Fund covers up to 60% of project costs, with the applicant's own resources (including other sources of external project funding) accounting for 40% or more of project costs.

#### Disbursement Procedure

Grants are disbursed in accordance with the project implementation time-schedule. Disbursement is conditional on fulfillment of all conditions stated in the contract agreement between the project (project holder) and EEAA (the EPF).

Funds can be disbursed up to the allocations made in each item.

No transfer of cash allocations among the various items is authorized without the EPF's approval.

Upon contract agreement and the Fund's approval, a bank account is opened for the project in one of the banks.

All receipts and bills pertaining to the various expenditures must be maintained by the project holder.

For each payment, the project holder is responsible for submitting to the Fund an original copy of all bills and receipts along with a detailed expenditure statement.

### **Soft Loans**

These are loans financed by the Fund and managed by cooperating commercial banks and other financial intermediaries. These soft loans feature attractive loan terms compared to those available in commercial capital markets, as follows:

- Reduced interest rates, similar to net interest rates for commercial loans for which interest rate subsidies have been applied.
- Longer repayment terms – either through provisions of grace periods or extended repayment periods.

#### Expenditures

The loan may be used to finance the purchase of equipment, machinery, construction, and working capital (to the extent approved by EPF) as well as any other pollution reduction equipment. This does not include any taxes or customs imposed.

### **Shareholding**

Shareholding includes any organization that plans to undertake a project within the Fund's environmental priorities, provided that the applying organization is legally established, and demonstrates seriousness, sound reputation, and capacity for project execution and long-term project sustainability.

#### Expenditures

The share capital investment may be used to finance the purchase of equipment, machinery, construction, and working capital as well as any other pollution reduction equipment. This does not include any taxes or customs imposed.

### **Interest Rate Subsidies**

Another type of EPF project support is a grant in the form of an interest rate subsidy for investment projects. The interest rate subsidy is attached to a commercial loan to reduce the interest charges levied on the borrower. Interest rate subsidies will be extended to loans provided by banks that have signed agreements with EPF or by banks with which applicants maintain a banking relationship.

While the technical analysis and evaluation of all interest rate subsidy applications will be conducted by the EPF staff or consultants, all final financial and credit analysis will be completed by the cooperating bank. Procedures governing interest rate subsidies are provided in Section 6 of this Manual and are enumerated in signed agreements with banks (see

Annex 5).

### **Loan Guarantees**

Loan guarantees are a legally binding commitment by the Fund to pay lenders some or all of the loan principle and interest if the borrower is unable to pay. Although no up front disbursements are incurred by the EPF, issuance of loan guarantees should be subject to the same financial analysis as applications for interest rate subsidies or soft loans.

As a general rule, the total amount of loan guarantees should not exceed 10% of the EPF expense budget at any point in time. Loan guarantees will be issued to secure loans extended to project applicants by banks cooperating with the EPF.

### **NGOs Funding Program**

Fund is allocated from the EPF budget to support NGOs Unit in the EEAA. The NGO unit supports environmental projects implemented by the NGOs in governorates through a steering committee.

### **Tender Method**

The objective of the tender application method is to assist in achieving national environmental objectives and policies by providing financial support for implementing priority environmental projects, for which the Fund has not received applications from other organizations through the application method. Accordingly, the EEAA will take the initiative to prepare for such projects. Thus, the tender method pertains to the identification of environmental projects that need to be implemented to contribute towards achieving national environmental policies and objectives. Preparation of the project concept document will be carried out by EEAA and upon approval, EEAA will tender project execution and operation according to general tender procedures.

### **EPF Flow of Fund**

#### **Mechanism for collecting the EPF revenues**

The EPF revenues are collected and deposited on monthly basis in the two following bank accounts at CBE

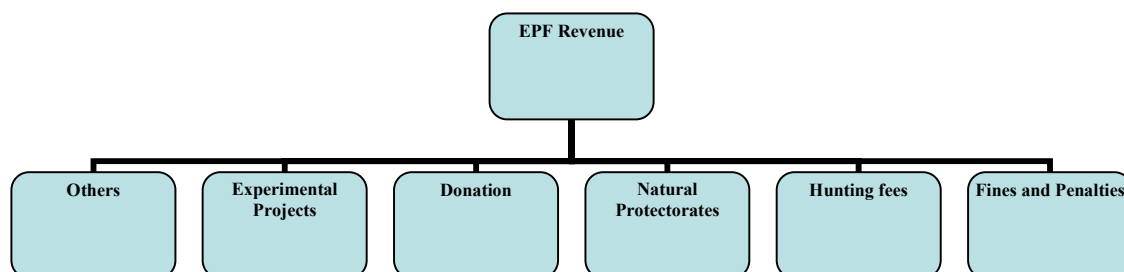
LE bank account no. **9/450/81608/1**

USD bank account acc no. **4/15/28261/5**

The revenues are collected by EEAA staff in protectorates, legal and financial department and RBO staff. Other external parties also participate in collecting the revenues such as EMU staff and environmental police.

The EPF is only informed through the EPF revenue ledger kept in EEAA financial department (**since the EPF does not have a separate accounting unit**) about the amount of money credit in the bank account.

The following chart explains the sources of the EPF revenues.



## EPF Budget

The EPF budget is divided into 4 types of expenses as follows:-

Projects implemented by EPF (grants – soft loans) 58% - 60%.

Operational expenses 15%

Support for EEAA infrastructures 25%

Reserves for environmental disaster 2%

## Mechanism for approving and disbursing the EPF budget

- The EPF budget is presented to the FMC before the beginning of each financial year (the financial year start from 1/7/2007 till 30/6/2008).
- After the approval of the FMC, the EPF or EEAA asked the MoF and MoED for their approval for the amount which will be spent on projects according to the FMC approval. The MoF and MoED approval means that the MoF will allocate the amount of money for projects implementation.
- By the beginning of the new financial year the MoF will inform EEAA and EPF with its approval for allocating the money for projects implementation. ( the expected date for the approval from MoF is mid of July 2007)
- After receiving the MoF approval the EPF **project and financial department** start draft the projects documents and make the necessary action (grant agreements and other necessary documents) with different beneficiaries.
- After signing the contracts or the agreements with beneficiaries a disbursement memo will be prepared by the EPF projects department.
- The EPF financial department forwards the memo to the EPF financial department to certify that there are enough funds available for disbursement.
- Submit the disbursement form with the attachment for EPF manager for approval.

- After the approval of EPF manager the memo will be forwarded to EEAA financial department for disbursement and issuing the checks.

The following charts will explain the process of approving the EPF budget

EPF manager submit the annual budget for FMC approval

The FMC approved the budget and Submitted to MoF for money allocation

By mid of July the MoF advise the EPF about the approval

The EPF Project department and financial department prepare the project department and get it signed by the beneficiaries.

The Disbursement memo is prepared by the EPF projects & financial department and submitted to EPF manager for approval with all the attachments

The EPF manager approved for disbursement and issue the checks

## Incentives System

One of the most important factors to enhance the EPF revenues is to encourage the parties who collect the revenues through providing them with a percentage from the collected revenues.

The calculation of the EPF incentive system aims at providing the disbursements and incentives which will enable the concerned parties – who are responsible for the collection of the EPF revenues - to perform effectively as well as enhance their role in order to achieve an increase in the EPF revenues.

1. The incentive system is divided into two sections:
  - a. Incentives for EEAA staff.
  - b. Incentives for external parties.

**The incentives are not calculated upon all types of EPF revenues, but upon the following revenues:**

| <b>Revenue Type</b>   | <b>Percentage calculated for EEAA staff</b> | <b>Percentage calculated for external parties</b> |
|---|---|---|
| Natural protectorates (utilization rights – exploitation – entrance fees) | 10 %  | 0%  |
| Fines and penalties   | 3%  | 7%  |
| Hunting fees  | 0%  | 10%   |

### **Incentives calculated for EEAA staff**

Regarding the incentives of EEAA staff, the following is taken into consideration:

1. It's essential to fund the social and health care systems for EEAA staff so as to achieve maximum benefit for EEAA as well as the Ministry's employees from both systems.
2. Participation of the employees in the health and social care systems.
3. Allocation of 50% from the calculated incentives for the employees' health and social care.

As for the net revenues generated from fines and penalties, 3% is calculated for EEAA staff.

As for the revenues generated from Natural Protectorates (utilization rights – exploitation – entrance fees), 10% is calculated for EEAA staff.

### **Incentives calculated for external parties**

As for the net revenues generated from fines and penalties, 7% is calculated for external parties.

As for the revenues generated from the fees imposed by EEAA on the hunting fees, 10% is calculated for external parties.

EPF submits a disbursement memo every 6 months for the Minister and EEAA CEO as a list of the parties who contributed in the collection of the EPF revenues. The memo also serves as a disbursement document for these parties.

EPF submits a disbursement memo every 6 months for the Minister and EEAA CEO to distribute the cash incentives over EEAA staff.

## 6. PROJECT CYCLE MANAGEMENT PROCEDURES

### Introduction

The project cycle management procedures describe the process by which the Fund makes decisions on funding disbursements in response to applications under the CPP.

The project-cycle is composed of the following stages:

- The first stage, *identification of projects*, covers the initial identification of projects and solicitation of applications for financial support from the Fund.
- During the second stage, *project appraisal*, applications under the CPP are reviewed by the EPF and endorsed by the Fund Management Committee. The appraisal includes two evaluation steps:
  - Evaluation of the Project Information Form
  - Evaluation and scoring of the Project Application Form
- The third stage, covers *final selection of applications* by the FMC based on input from the Fund's management and cooperating banks (if banks are involved)
- The fourth stage involves the Fund *negotiating and awarding contract* to selected projects.
- This is followed by the fifth stage, which involves *project implementation* by the project holder, with the Fund monitoring progress.
- The last stage of the project cycle involves *project evaluation*.

Although the Fund may employ different disbursement mechanisms, the project cycle procedures for each mechanism are generally identical with some differences between investment and non-investment projects with respect to application and project selection procedures.

### Identification of Projects

The Fund identifies the types of projects it will support over the course of preparing the Annual Operating Plan. Key components of the Operating Plan which serve to convey information to potential applicants on project characteristics are the elaboration of priorities for each disbursement mechanism, eligibility requirements, selection criteria, and disbursement guidelines.

Once the Operating Plan has been prepared and approved, the Fund will prepare material describing in detail specific features of the CPP for the upcoming project cycle and distribute them to potential applicants through a variety of delivery mechanisms. Fund staff will organize outreach events and training sessions for potential applicants, meet with industry groups, NGOs, and regional and local governments to promote the Fund and provide information about the types of projects and forms of support available from the Fund. In addition, materials such as brochures and applications will be provided to participating banks.

The Fund's outreach strategy will be developed on an annual basis and is included in the Annual Operating Plan.

The Fund will identify and award projects in two different ways:

- *The application method* – Projects are evaluated, selected and awarded to the project holder on a competitive basis based on defined evaluation criteria.

– *The tender method* – Projects submitted by the various departments of EEAA are evaluated and selected on a competitive basis. EEAA will then tender selected project and award project implementation to the successful bidder. The Fund participates in co financing the project.

## **Application Procedure**

The Fund employs an application process requiring the submission of two application forms:

1. The project information form (PIF); and
2. The project application form (PAF).

The PIF is a short form, which the EPF evaluates to check fulfillment of eligibility criteria. The EPF will not review the more detailed PAF unless the PIF meets the eligibility criteria described in the Operating Plan.

Applicants may submit both the PIF and PAF at the same time, but should recognize that the PAF will only be evaluated if the PIF is accepted. Thus, the EPF encourages applicants to submit the PIF for evaluation before submitting the PAF. By screening proposals at this early stage, the Fund believes that time and resources of both applicants and the Fund will be utilized more effectively. In addition, the Fund may be able to identify any deficiencies in the proposed project that the applicant should correct before submitting the PAF.

Every interested potential applicant is entitled to request an information package, the PIF and the PAF, plus instructions for completing these forms.

The PIF may be submitted at any time during the project cycle. However, the Fund establishes deadlines for submission of applications to coincide with evaluation and selection schedules. These deadlines are elaborated in application instructions sent to applicants. The Fund notifies applicants with rejected applications. Applicants may resubmit applications, once revised, for consideration by the Fund, as long as they do not miss deadlines specified for submitting applications. Applicants should be aware that missed deadlines at the end of the project cycle may require the applicant to submit a new PIF and PAF since the Fund's priorities, eligibility requirements and disbursement guidelines may change from year to year.

Throughout the application process, applicants may contact Fund staff to ask questions pertaining to the process of completing applications. The Fund will schedule training sessions (announced in newspapers and/or other media) at which applicants also may obtain assistance in preparing the PAF applications.

Application forms may change from one year to the next. Model PIF and PAF are attached to the Annual Operating. The PIF is much shorter and requires the applicant to provide information needed by the Fund to screen the PIF and review eligibility criteria, and to facilitate correspondence between the applicant and the Fund.

Depending on project type, the PAF is a project document which may include some or all of the following major documents: i) a baseline study describing the existing environmental situation; ii) list of expected environmental impacts of the project; iii) names and experience of the project's organization and administration set-up; iv) a feasibility study; v) an environmental impact

assessment (according to Law 4/1994); vi) the project study; vii) implementation plan or time schedule, and viii) an estimated budget and approved project budget (in the case of existing projects).

## **Project Information Form Screening**

PIFs submitted by applicants are reviewed by the Fund staff to check completeness. Incomplete PIFs are returned to the applicant if there is missing information or the information provided is insufficient to enable the Fund to check whether the PIF meets established screening criteria.

Upon completion of PIF screening, the Fund takes a decision on the PIF and is not required to obtain FMC concurrence. The Fund should report to the FMC at its regular meetings on the status of PIF evaluations. The PIF screening criteria are as follows:

- The applicant must demonstrate that the proposed project addresses one or more of the environmental priorities established by the Fund for the current project cycle;
  - The applicant's institution must satisfy the eligibility requirements;
  - In the case of applications for grants, potential projects must be non-investment projects; and,
  - Applicant must demonstrate ability to co-finance the minimum share of project costs.
- Any PIF meeting the minimum standard for all criteria will receive a favorable evaluation.

The applicant is subsequently invited to submit the PAF. Annex 6 provides an example of the acceptance letter. If the applicant submitted the PIF and PAF together, he will be notified that the PAF is under review.

If the PIF does not meet one or more of the screening criteria, the PIF is rejected. The Fund notifies the applicant in writing of the rejection and summarizes the basis for the rejection (Annex 7) provides an example of the rejection letter). If the PAF has been submitted with the PIF, it will be returned to the applicant, since resubmission of the PIF will require changes to the PAF. The applicant may revise and resubmit the PIF to address the weakness noted by the Fund.

The time period between the Fund's dead line for receipt of a properly completed PIF and the date that notification letters are mailed to both successful and unsuccessful applicants is specified in the Annual Operating Plan.

Once the PIF has been approved, the Fund will conduct a complete investigation about the applicant and his legal structure.

## **Project Application Form Appraisal**

After the PAF has been prepared, the applicant submits two copies to the Fund. Upon receipt, the Fund will check the application for completeness and contact the applicant if the PAF is incomplete. The deadline for submitting the PAF is specified and included with the instructions for completing the PAF.

The PAF should be submitted at least 45 days prior to the scheduled FMC selection meeting. If the completed PAF is received after this deadline, it will not be evaluated until the following FMC selection meeting.

Fund staff will evaluate the technical merits of all projects and develop a numerical score for each project (see next section). The scoring system is adjusted according to EPF priorities on an annual basis and is described in detail in the Annual Operating Plan. The specific criteria applied by the Fund appear in the Annual Operating Plan and are provided to applicants in the special instructions to complete applications.

All CPP applications will be evaluated on a 100-point scale. The score is based on specific criteria established by the Fund to reflect environmental priorities in a specific year. The total point awarded to each criterion is defined on an annual basis to reflect its relative significance (weight).

For soft loans and interest rate subsidies, an initial financial assessment will be completed by the Fund, while the final financial and credit assessment will be completed by the participating bank. In the event the bank rejects project, the Fund will decline its support to the project.

Prior to the FMC selection meeting, Fund staff will prepare for each project independently a summary report of the project's evaluation attached with a complete project profile including the project's total evaluation score, its ranking, and the Fund's recommendation for funding. Fund staff will provide this information to members of the FMC at least 15 days prior to the scheduled FMC meeting.

### **Tender Procedure**

Independent from the CPP, the MSEA, EEAA, or EPF may identify projects that are among the EPF priorities, for which the Fund has not received applications through the CPP. In these cases, a project concept paper, including a proposed budget, would be submitted to the FMC. Approval by the FMC would authorize the EPF (EEAA) to conduct an open tender and reserve funds to support the proposed project following award.

Following FMC authorization, the tender documents will be prepared to conform with the requirements of Law 89/1998 and its executive regulations concerning the Organization of General Tenders and Auctions.

As part of the tendering process, EPF/EEAA will establish technical criteria for tenders on a tender-by-tender basis.

The recommendations of the tender review panel would be submitted to the FMC for approval, after which the successful tender proposals would be processed similarly to successful applications to the CPP.

### **Selection**

Following the EPF's evaluation of CPP applications or proposals under the open tender option, the Fund Manager will present to the FMC the evaluation results and recommendations of the portfolio of projects, which the Fund deems worthy of support to the FMC. The FMC is responsible for

selecting projects that will receive financial support from the EPF.

The FMC will select CPP applications or proposals under the open tender option to receive funding based on the results of the evaluation procedure established. In the event that projects are rejected that had received higher scores than some of the accepted projects, the FMC will provide an explanation to be included in the minutes of the FMC selection meeting.

The Fund Manager will be responsible for providing an explanation for the rejection of an application or tendered proposal. An indicative list of reasons for rejecting an application or tendered proposal and a model of the letter of rejection are provided in Annex 7.

The letter of acceptance will include an invitation for the applicant to meet with Fund staff to negotiate the contract. A draft contract will be attached to the letter Annex 8.

### **Negotiation and Award**

The major issues to be agreed by the Fund and applicant pertain to the timing of project implementation and disbursements, repayment schedule in the case of soft loans, provisions for inspection by Fund staff during and at the completion of project implementation, and reporting requirements imposed on the applicant. In addition, agreement must be reached on contingencies such as abandonment of the project, unanticipated modifications to project design, disbursements, or implementation schedule.

Contracts for grant disbursements will be signed by the EPF manager and a designated senior official of the applicant's institution. In the case of interest rate subsidies and soft loans, contracts will also be signed by a designated official of the participating bank (or separate agreements between the various parties as agreed upon with the bank). Model contracts are provided in Annex 8.

Once the contract is signed, the Fund will transfer Funds denominated in LE to the recipient according to the disbursement schedule described in the contract. In the case of interest rates subsidies, the lender (the bank) will request periodic transfers from the Fund according to agreement between bank and the Fund. The contract for the interest rate subsidy will indicate the amount of the subsidy to be disbursed as well as disbursement schedule and procedure.

### **Implementation And Monitoring**

Projects will be implemented according to schedule in the contract by the applicant and/or agents or contractors retained by the applicant. During implementation, the applicant should submit progress reports that describe the execution of the project and summarize project expenditures. Standard monitoring report forms will be provided to applicants by the Fund.

Monitoring will be based on indicators and milestones established in the project's work plan. During the project implementation, the project holder is responsible for the production of the reports specified in the project contract, principally progress reports and a completion report. Progress reports address project implementation progress and will normally be submitted on a quarterly basis. They should be brief in summarizing implementation details and should highlight any problems and deviations from the work plan. The completion report will summarize the overall project achievements.

Fund staff will monitor project implementation, review progress reports prepared by applicants and conduct periodic site inspections. The major purpose of monitoring is to ensure the project's objectives described in the project document are realized in a timely manner. The Fund recognizes

that continuous management oversight of projects by the Fund is costly. Accordingly, Fund staff will visit the project site once during implementation and at the conclusion of the project. The necessity for site visits for grant projects will be determined during negotiation and modified as needed.

### **Reviews and Evaluations**

Reviews are more limited in scope, time, and focus than evaluations and take place midway between monitoring and evaluation, hence are called “interim reviews.” Interim reviews are conducted on projects with duration of more than one year. They may be carried out by the EPF staff or by external consultants appointed by the EPF.

End-of-project evaluations are conducted at the end of projects to assess the effectiveness, the impact, and sustainability of the project. They also aim at serving to improve the quality of EPF support through better knowledge of the content and consequences of projects in addition to documenting the results to governmental authorities, concerned agencies and the general public. Evaluations are conducted by EPF staff or by external consultants appointed by the EPF.

## 7. EPF Business Plan.

EPF business plan is a strategic framework for EPF scope of work for the years 2007-2010. The Business Plan outlines the strategic vision and mission of the fund in order to stimulate environmental investment for the coming 3 years. The EPF should be seen as an attractive revolving fund providing grants, loans with low interest rate for borrowers as well as other mechanisms which are described in the plan.

The Business Plan lists the broad lines of the Environmental challenges as per the National Environmental action plan NEAP and the priority areas which need focus from EPF.

The Business plan describes the organizational structure of the EPF. The Fund Management Committee is the highest authority responsible for formulating the fund policy, authorizing budget, revenues and plans.

The Business plan also describes the various departments of the EPF, their roles and key performance indicators. The plan also describes the human resources development and the training needs for the current EPF staff.

A balanced score card was developed setting the strategic targets and indicators for EPF till 2009.

A simple profit and loss budget was developed within the EPF business plan illustrating the various sources of revenues and expenditures and a projection till end of 2009. An implementation plan with milestones was developed showing major activities for the EPF till 2009.

Some key financial figures from the business plan are:

| <b>Year (in million L.E)</b> | <b>2007/2008</b> | <b>2008/2009</b> | <b>2009/2010</b> |
|------------------------------|------------------|------------------|------------------|
| Expected Revenues            | 90,8             | 90,1             | 99,6             |
| Expected Expenditures        | 102,9            | 90,3             | 77,7             |

The EPF business plan is attached Annex 9

## **8. ANNUAL OPERATING PLAN**

### **Objectives**

The Annual Operating Plan describes the Fund's scope of activities for each project cycle (to coincide with the fiscal year). The Annual Operating Plan is developed by the Fund .

Most of the Annual Operating Plan is considered a public document that can be obtained from the Fund by interested parties. In addition, excerpts from the Annual Operating Plan pertaining to the competitive projects program are provided in the Application Package to prospective applicants.

The Annual Operating Plan serves three purposes.

- First, it provides input into the annual budgeting process by which all Egyptian ministries and agencies and their subordinate institutions elaborate planned expenditures under the three Sections specified in Law 53/1973 concerning the State's General Budget.
- Second, it provides the basis for communicating the specific dimensions of the Fund's competitive projects program to prospective applicants.
- Third, it provides a baseline for reviewing the Fund's disbursement program at the end of each project cycle.

### **Components**

The Annual Operating Plan provides the general guidance for allocating resources during the project cycle.

The Annual Operating Plan includes the following components:

- *EPF priorities* – these pertain to specific priorities the EPF has established for the project cycle according to the Egyptian National Environmental Action Plan, and discussions with MSEA, EEAA, other government entities, and various stakeholders.
- *Disbursement mechanisms*– this section describes the specific disbursement mechanisms to be employed during the project cycle year.
- *Evaluation and selection criteria* – evaluation criteria are modified annually to reflect established environmental priorities and the fund's total allocated annual budget.
- *Public awareness* – describes the mechanisms and targeted groups for the public awareness campaign the EPF will carry out to publicize the Fund and its disbursement programs.
- *Applicant training* – describes the types of training services that the Fund plans to provide during the project cycle to potential project applicants.
- *Project Cycle Schedule* – provides a list and time schedule of planned activities, meetings, and deadlines during the project-cycle year.
- *Budget* – an indicative budget, including allocations for the various disbursement programs as well as the Fund's management.

### **Preparation of/and Adjustments to the Annual Operating Plan**

The Annual Operating Plan is prepared by the EPF staff in advance of the Fund's project cycle. The draft Plan is submitted to the FMC for review and approval.

The Annual Operating Plan provides an indicative proposal for disbursing the EPF's funds during the course of the project cycle. However, it may be necessary to make adjustments in either the shares allocated to each expenditure category (or within categories) or in the total amount of disbursements during the year. Adjustments may be made for any of the following reasons: i) unanticipated needs for EEAA support; ii) expenditures to address emergency environmental problems (for which the Fund maintains a reserve); iii) inadequate demand for certain types of Fund support (e.g., shift of allocations to soft loans or grants because of low demand for interest subsidies); or vi) changes in revenue projections.

Adjustments to the Annual Operating Plan are made in three ways.

– *First*, changes in allocations necessitated to support unanticipated expenditures may be proposed by the Chair of the FMC and discussed at a regular or special meeting of the FMC.

– *Second*, the Fund Manager will report to the FMC on Fund income and expenditures projections. The Fund manager may propose disbursement adjustments to the Annual Operating Plan as needed based on the performance results obtained from the implementation of the current annual plan.

– *Third*, during the FMC's review of competitive project applications, allocations among soft loans, interest subsidy and grant disbursements may be made on the basis of the number, quality, and costs of applications.

None of these adjustments requires the Fund to modify the current year's approved Annual Operating Plan. In the event that the adjustments have a significant impact on the competitive projects program (for example, significantly fewer projects are selected and supported than expected), this information will be communicated by the Fund to applicants of projects under consideration.

## **9. ANNUAL REPORT**

### **Purpose**

The EPF Annual Report describes the Fund's activities during the previous year. Its primary purpose is to foster awareness of the Fund, its programs, and achievements in promoting improved environmental quality in Egypt.

While the Annual Report fulfills an external communication function, it is not a substitute for nor does it absolve the Fund of its responsibility to prepare reports required of government entities.

### **Preparation and Timing**

The Annual Review will be prepared by EPF staff and consultants under the direction of the Fund Manager.

Generally, the Annual Report will be prepared and finalized within 3 months after the end of the 12-month period covered by the Annual Operating Plan.

### **Content**

The Annual Report provides an overview of the Fund's goals and strategy. It provides a summary of the Fund's financial activities including the types of disbursement mechanisms employed during the year, and the results of the Fund's review of applications to the CPP and tendered proposals. In addition, the Report provides information on the number of accepted and rejected applications and tendered proposals, the types of projects funded and expected benefits, as well as a list of funded projects and banks cooperating with the EPF.

The Annual Report may also describe special activities, as well as pilot and demonstration programs carried out by the Fund. Case studies illustrating "success" stories, short summaries of pilot and demonstration programs, and findings of the Fund's external reviews may be included as appropriate.

The Annual Report is prepared in both Arabic and English to facilitate its external communications function.

### **Distribution**

The Annual Report will be provided to selected government officials, donors, trade and industry organizations, participating banks, and others identified by the Fund Manager or FMC to receive the report. Additional copies will be distributed to organizations and individuals in response to requests received by the Fund.

The Fund will also establish a link to the EEAA Web Page so that a summary of the Annual Report may be received electronically.

## **10. MONITORING SYSTEM**

This Section of the Operating Manual will be further developed to provide a description of the Fund's system for monitoring all stages of the project cycle, with particular emphasis placed on the project application and implementation. The Monitoring System will be developed, tested and evaluated.

The development of this section will make use of the experience gained by the EMG component in the governorates of Aswan and Beni Suef. The description of the monitoring program and supporting annexes will be inserted into this Operating Manual upon approval by the FMC.