

**Environmental Sector Programme
Arab Republic of Egypt - Danida**

**AIDE MEMOIRE
from a
Joint Review of the proposed Reshaped ESP
25th April – 5th May, 2005**

**Complementary to the Review AIDE MEMOIRE of
October 2004**

Summary of Recommendations

Overall assessment

1. Activities of mutual synergy between the Danida supported regional programme “Partnership on Progress and Reforms” and the Environmental Sector Program should be identified and promoted. Also coordination with the Danida Private Sector Development Programme should be considered.

Egyptian Environmental Agencies Affairs (EEAA)

2. All strategic support to EEAA should be institutionally anchored in the EEAA section responsible for strategic development.
3. According to the organisational structure of EEAA, the ESP would give technical assistance to organisational development according to needs identified.
4. The position of ESP National Coordinator should be extended up to the end of the programme period and the title and job description adjusted to clearly reflect the responsibility of strategic support to EEAA, he/she supporting the EEAA section responsible for strategic development.
5. A provision should be included in the ESP for technical and financial assistance to the enhancement of a vision and an overall strategy for the EEAA (including the National Strategy for Decentralised Environmental Management), if requests may be received from the Minister of MSEA.

Environmental Protection Fund (EPF)

6. The ESP should support the institutional analysis of the EPF and the legal context in which it operates. The aim should be to make its legal status more responsive to the needs of the environmental sector including making its financial management independent of EEAA.
7. The ESP should support EPF in developing a business plan. The aim should be to modernise the Fund with a clear focus on strengthening the financial management, communication and project cycle management functions. The EPF should be a lean organisation with core competence in financial analysis and management. Other competences, such as technical appraisal of project proposals, monitoring and evaluations, should be carried out by EEAA technical departments, regional branch offices, environmental management units and consultants under the overall responsibility of EPF.
8. Based on the needs established in the EPF business plan for financial management systems and related capacity building, it should be decided whether, or not, it is appropriate to transfer the ESP financial management function – or parts thereof - to EPF.

Programme Management Unit (PMU)

9. The PMU functions relating to Danida regulations automatically cease to exist at the end of the programme period, except for the financial management functions, which may be transferred to the EPF to support the implementation of the new EPF business plan.
10. Strategic monitoring of critical factors in the national framework is the responsibility of EEAA (e.g. Central Department for Branch Affairs, General Department for Planning and Follow-up). The PMU should provide technical assistance/guidance to these departments, as appropriate.
11. In addition to the PMU servicing the Programme Steering Committee (reporting on the implementation of the ESP) and coordinating the Danish support to the environmental sector in Egypt, the PMU is also to ensure that Danida cross-cutting issues – gender, good governance, poverty reduction – are strengthened in the Programme.

Regional Branch Offices (RBOs) and Environmental Management Units (EMUs)

12. The Memorandum of Understanding between the Minister of State for Environmental Affairs and the Minister of State for Local Development be signed.
13. The document on RBOs – EMUs Cooperation Procedures be finalized.
14. Support to Decentralised Environmental Management (SDEM component) to continue support to RBOs and EMUs in accordance with their mandates.
15. In collaboration with other donors and within the ESP budget, SDEM to provide for a limited capacity building support to the remaining four RBOs using the well functioning RBOs as mentors and trainers.

Decentralised Environmental Management

16. The EMU pilot project to continue as part of the “Support to Decentralised environmental Management” component of the ESP.
17. The calculation of governorates’ percentage of co-funding of projects to be based upon the total project costs, i.e. also value of land, staff salary, equipment, etc.
18. Competition between the governorates to be promoted.

Federation of Egyptian Industries (FEI)

19. Depending on the Royal Danish Embassy’s disbursement pattern of 2005 and 2006, the possibility of meeting FEI’s request (spending more funds in 2005 and 2006 and less in 2008) will be looked into.
20. The possibility of transferring some of the funds, allocated to the original ESP, to the Cleaner Production Revolving Fund should be considered between the Egyptian Authorities and Danida.

Allocation of Danida Advisers

21. With the consent of the Egyptian Authorities, Danida should consider to prolong the contracts with the present advisers for the rest of the Programme period, provided the advisers in question agree to this.

1. Background

A Government to Government Agreement between Denmark and the Arab Republic of Egypt was signed in December 2000 for an Environmental Sector Programme (ESP) and the Agreement was ratified by the Egyptian Parliament in March 2001. An Aide Memoire signed on 28th October 2004 between HE Minister of State for Environmental Affairs, Egypt and HE Ambassador of Denmark agreed on the need to reshape the ESP in view of obtaining sustainability through a phasing in of Egyptian counterpart staff and resources and focusing on two major areas: (i) capacity building for decentralised environmental management and (ii) Cleaner Production in the industry. The Aide Memoire and the Process Action Plan were agreed upon and endorsed by the Programme Steering Committee on 7th April, 2005. The present Joint Review has assessed the proposed draft reshaped ESP.

The recommendations of this Aide Memoire are complementary to the one signed on 28th October 2004. The issues treated in the present Aide Memoire are to be more clearly described in the Final ESP and its Component Descriptions. The Joint Review Team expresses its sincere thanks to the Egyptian Authorities at all levels and Private Sector stakeholders for its very valuable and highly appreciated inputs to and cordial receipt of this mission.

2. Overall assessment of the reshaped ESP

The Draft reshaped ESP Document, which is based on an immense work by the Egyptian Environmental Affairs Agency (EEAA) and Programme staff assisted by consultants, various sustainability notes and feasibility studies, is being modified in order to be in compliance with the agreed issues of the Aide Memoire of October 2004. Based upon detailed comments from the Egyptian Partners and the Royal Danish Embassy to the draft reshaped ESP document, the ESP and its components will be finalised before July 1, 2005 .

Finding

The ten major recommendations of the October 2004 Aide Memoire have been met and the actions of the Process Action Plan taken as stated up to April 2005. Since October 2004, the progress in the Environmental Sector is remarkable. EEAA and the Federation of Egyptian Industries (FEI) have made enormous progress in clarifying political issues and resolving outstanding problems mentioned in the Aide Memoire of October 2004. However, even with a sustainable decentralised environmental management in Egypt, a well functioning EEAA with the Environmental Protection Fund (EPF) as financing facility, a strong Federation of Egyptian Industries and the already established Revolving Fund for Cleaner Production, Egypt will continue to need financial support from external partners to implement environmental projects .

Egypt has a national aim of creating 1 million jobs per year, and financial support to the environment sector is one way of contributing to stimulate decentralised investment both at public and private level and to improve living conditions for the population of Egypt.

Denmark is engaged in a regional programme called “Partnership on Progress and Reforms” with important activities in Egypt. (e.g. support to improved good governance). Many of the activities carried out under the Environmental Sector Programme suit perfectly well into Danida’s policy of supporting “Partnership on Progress and Reforms”. Likewise activities under the Danida supported Private Sector Development Programme could benefit from as well as contribute to the implementation of the objectives of the ESP.

Recommendations

- Activities of mutual synergy between the Danida supported regional programme “Partnership on Progress and Reforms” and the Environmental Sector Program should be identified and promoted. Also coordination with the Danida Private Sector Development Programme should be considered.

3. Strategic Support to EEAA

Issue: A common vision and an overall strategy for EEAA will enhance a fully harmonised and coordinated approach to achieving the objectives of the Agency.

The overall planning framework for EEAA is the National Environmental Action Plan (2002–2017) and the EEAA Five-Year Plan (2002–2007). Strategic development within EEAA is currently taking place at departmental level, while an overall vision and strategic plan for the Agency needs further enhancement. The Draft reshaped ESP document includes elements of strategic support to different EEAA departments, including (i) organisational development; (ii) quality assurance systems; (iii) information systems; (iv) project development; and (v) finance and planning.

Findings

A new Minister for MSEA has recently been appointed. The Minister has instructed to review the law governing the EEAA (Law 4/94) with the aim of making EEAA more effective and responsive to the needs of the environmental sector. Further, the Minister has requested support from the ESP for strategic development of the EEAA. This high political level of engagement is reflecting a strong institutional ownership and commitment to the process of improving EEAA’s performance and delivery of public services. To be effective, the support must be based on the overall vision and strategy for the Agency. Since 2003, the Programme Management has employed a National Coordinator responsible for providing strategic and policy support to the ESP components.

The logical sequence of steps towards EEAA being a success could be:

- The Minister of MSEA gives guidance for enhancement of the vision for EEAA
- Based upon the above mentioned review, EEAA proposes an organisational structure to meet the vision objectives
- The Minister approves the new organisational structure of EEAA
- The new organisational structure is implemented by EEAA

Recommendations

- All strategic support to EEAA should be institutionally anchored in the EEAA section responsible for strategic development.
- According to the organisational structure of EEAA, the ESP would give technical assistance to organisational development according to needs identified.
- The position of ESP National Coordinator should be extended up to the end of the programme period and the title and job description adjusted to clearly reflect the responsibility of strategic support to EEAA, he/she supporting the EEAA section responsible for strategic development.
- A provision should be included in the ESP for technical and financial assistance to the enhancement of a vision and an overall strategy for the EEAA (including the National Strategy for Decentralised Environmental Management), if requests may be received from the Minister of MSEA.

4. Business Development Support to the Environmental Protection Fund (EPF)

Issue: The EPF is meant to channel funds to environmental projects in the governorates. So far, the impact of the EPF has been low as limited funds have been available for investments at decentralised level due to low revenue generation, a high proportion of funds spent on internal EEAA operations and infrastructure, and limited availability of donor funds.

The EPF has been established with the objective of promoting and providing financial services for investments in environmental projects in the governorates of Egypt. Funds are raised through environmentally related fees, fines and penalties, collected in the governorates, and grants and soft loans obtained from donors. The EPF is perceived as having a public sector management style, lack of transparency and lack of international accounting standards. The governorates perception of EPF is that the funds transferred to the EPF are not coming back to benefit the governorates.

Within the ESP, EPF is used to channel funds from the Royal Danish Embassy to the components. The draft reshaped ESP document includes technical assistance support to the EPF in the areas of institutional analysis, financial management, and business planning.

Findings

The above mentioned review of EEAA (ministerial decree) is also expected to address the legal and institutional status of the EPF. This is indicating that there is a political will to attain a strategic role, which would allow the Fund to develop into one of the key institutions promoting and providing financial services for environmental investments in the governorates.

Recommendations

- The ESP should support the institutional analysis of the EPF and the legal context in which it operates. The aim should be to make its legal status more responsive to the needs of the environmental sector including making its financial management independent of EEAA.
- The ESP should support EPF in developing a business plan. The aim should be to modernise the Fund with a clear focus on strengthening the financial management, communication and project cycle management functions. The EPF should be a lean organisation with core competence in financial analysis and management. Other competences, such as technical appraisal of project proposals, monitoring and evaluations, should be carried out by EEAA technical departments, regional branch offices, environmental management units and consultants.
- Based on the needs established in the EPF business plan for financial management systems and related capacity building, it should be decided whether, or not, it is appropriate to transfer the ESP financial management function – or parts thereof - to EPF.

5. The Programme Management Unit (PMU)

Issue: The PMU has been established to address specific programme management functions stipulated by the Danida regulations as well as to provide support to the Egyptian partner institutions.

The PMU is housed in the EEAA building with its own office premises and staffed with technical advisers and administrative and support staff. The draft reshaped ESP proposes that the PMU be tasked with capacity building relating to the strategic level at EEAA, institutional development of EPF and enhancing public-private partnership in the ACI component. The PMU exit strategy concerning functions stipulated by Danida regulations will be different from the exit strategy related to functions of building capacity within the Egyptian partner organisations. The draft reshaped ESP document is including an exit strategy for the PMU, which should be finalised incorporating the below recommendations.

Findings

The following PMU functions are addressing specific needs of Danida regulations:

- Programme planning and reporting
- Secretariat to the Programme Steering Committee
- Quarterly technical meetings with component management
- ESP performance monitoring
- Contract management of outsourced services e.g. procurement
- Recruitment and contract management of short-term consultants for *inter alia* the strategic support to EEAA and the business development support to EPF
- Liaison with the Royal Danish Embassy

The following PMU key functions are supporting the development of Egyptian partner organisations:

- Strategic support to EEAA (cf. Strategic Support to EEAA)
- Business development support to EPF (cf. Business Development Support to EPF)

- Strategic monitoring of critical factors in the national framework including monitoring environmental activities in the Governorates

Since October 2000, the responsibility for donor coordination is anchored in the General Department for International Affairs of the EEAA. The public-private dialogue supported by the Environmental Compliance Office, Federation of Egyptian Industries, is in the process of being mainstreamed by the ACI component with collaboration of EEAA.

Recommendations

- The PMU functions relating to Danida regulations automatically cease to exist at the end of the programme period, except for the financial management functions, which may be transferred to the EPF to support the implementation of the new EPF business plan.
- Strategic monitoring of critical factors in the national framework is the responsibility of EEAA (e.g. Central Department for Branch Affairs, General Department for Planning and Follow-up). The PMU should provide technical assistance/guidance to these departments, as appropriate.
- In addition to the PMU servicing the Programme Steering Committee (reporting on the implementation of the ESP) and coordinating the Danish support to the environmental sector in Egypt, the PMU is also to ensure that Danida cross-cutting issues – gender, good governance, poverty reduction – are strengthened in the Programme.

6. Roles and responsibilities of and communication between the public stakeholders in decentralised environmental management, EEAA, Regional Branch Offices (RBOs) and Environmental Management Units (EMUs)

Issue: Clarity about the division of roles and functions between the EEAA, its RBOs and the EMUs of the governorates as well as their internal communication are prerequisites for sustainable environmental management.

As the name indicates, RBOs are Regional Branch Offices of EEAA. The intention of EEAA is that the RBOs support the EMUs in the governorates and liase between the central level (EEAA) and the decentralised level (the governorates). One of the risks related to sustainability mentioned by the 2004 Joint Review was the inability to develop consensus between EEAA, Ministry of Local Development (MLoD), Governorates and other stakeholders on the role and responsibilities between RBOs and EMUs within the framework of decentralized environmental management.

Findings

The Minister of State for Environmental Affairs and the Minister of State for Local Development have mutually agreed to sign a Memorandum of Understanding on decentralised environmental management. A document on RBOs – EMUs Cooperation procedures is under elaboration, defining the roles and responsibilities of each stakeholder.

Till date eight RBOs have been established and one more is under establishment. With support from external donors including the ESP, five of the RBOs are well underway in developing their capacity to perform their roles. However, the remaining four RBOs do not have the capacity to undertake the foreseen roles and functions. At present, a good collaboration between RBOs and EMUs exists in governorates where both RBOs and EMUs have been capacitated. It is noticed, that in Suez and in

Alexandria the RBOs and EMUs harmonise their environmental action plans and coordinate inspections and capacity building. Also roles and responsibilities were practically clear.

It is important that the remaining four RBOs become well functioning too. When building capacity in new RBOs, EEAA has been using staff from well functioning RBOs as trainers and mentors. This approach is cost effective and will increase the sustainability of the ESP supported interventions.

Governorates and RBOs both express that communication between the EMUs and the RBOs is well developed. EEAA, with support from the ESP, is vesting huge efforts in strengthening the 27 EMUs. At present, all parties express that the communication between the central and decentralised levels is functioning satisfactorily without major bottlenecks.

Recommendations

- The Memorandum of Understanding between the Minister of State for Environmental Affairs and the Minister of State for Local Development be signed.
- The document on RBOs – EMUs Cooperation Procedures be finalized.
- Support to Decentralised Environmental Management (SDEM component) to continue support to RBOs and EMUs in accordance with their mandates.
- In collaboration with other donors and within the ESP budget, SDEM to provide for a limited capacity building support to the remaining four RBOs using the well functioning RBOs as mentors and trainers.

7. Sustainable Decentralised Environmental Management

Issue: Governorates' access to funds for environmental management and technical and financial appraisal of project proposals from the governorates.

Access to funds as well as increased co-funding of environmental projects and the ability of governorates to maintain the investments are key factors to the sustainability of the decentralised activities. For the remaining programme period, DKK 20 millions are earmarked for environmental projects in the governorates of Beni Suef and Aswan. In July 2004, a pilot project for support to EMUs was included in the ESP with the aim of promoting decentralised environmental management. If successful, the EMU pilot project was meant to continue under the "Support to Decentralised Environmental Management" component of the ESP. Danida funds to the governorates are channelled through the EPF, however without the EPF having a role in appraising the technical and financial viability of the proposals from the governorates. The appraisal has been done by the decentralisation sub-components of the EPS. In future, governorates will still receive funds from EPF, if the proposals for investment are found feasible. As mentioned in the chapter about EPF, this organisation will receive technical assistance to be capable of making the financial appraisal and delegate the technical appraisal to others.

Findings

The EMU pilot project has successfully assisted 18 EMUs. A clear process is established through which governorates develop environmental action plans and eventually start implementing environmental projects. So far, the governorates have been able to mobilise their counterpart contribution to the investments. HE the Governor of Aswan budgets for maintenance of the

implemented projects. It is still to be seen to which extent, the national funds from the EPF will be available for support to the EMUs.

The steps in decentralised environmental investments are as follows:

- Project proposals elaborated by the EMU of the governorate
- Proposals for investments in accordance with the Governorate Environmental Action Plan presented to and approved by the respective Committee mandated with this in the governorate, presided by the Governor.
- Proposals with request of funds sent to EPF.
- EPF to appraise the proposals in accordance with the outline described in chapter 4 of this Aide Memoire.
- Funding approved if technically and financially feasible and co-funding by governorate provided
- The governorate to follow Egyptian tender procedures for implementation of the projects (contractors and supervisors).
- Monitoring of the projects by EMUs reporting to EEAA/EPF. EPF to carry out random checks.

Recommendations

- The EMU pilot project to continue as part of the “Support to Decentralised environmental Management” component of the ESP.
- The calculation of governorates’ percentage of co-funding of projects to be based upon the total project costs, i.e. also value of land, staff salary, equipment, etc.
- Competition between the governorates to be promoted.

8. Achieving Cost Effective Compliance in Industry – ACI

Issue: A funding facility to implement projects for environmental compliance of industry and enhanced communication between industry and EEAA.

The October 2004 Aide Memoire recommended to strengthen efforts of ACI to facilitate the dialogue between FEI and EEAA. It also recommended resolving the remaining issues regarding the revolving fund (e.g. legal framework, representation in Fund Management, credit worthiness assessment, and the relationship between the Fund Management Committee and the Component Steering Committee).

Findings

On 20th February 2005, a Cooperation Agreement was signed between the National Bank of Egypt, the EEAA and the FEI with an amount of Egyptian Pounds equivalent to 69 million DKK. On a soft loan basis, the amount will be funding purchase of machinery, equipment, construction works, structures and designs necessary for the project, and any other items relevant to environmental compliance of small and medium sized Egyptian private sector industries. The Facility is referred to as the “Cleaner Production Revolving Fund” and is a sustainable way of funding private sector environmental investments. By April 2005, the FEI has forwarded to the National Bank of Egypt accepted project requests for loans amounting to 17.6 million DKK. FEI foresees that the demand for loans will increase substantially during 2005 and 2006, for which reason it requests the Royal Danish Embassy to review the possibility of spending more funds during 2005 and 2006 and less by

the end of the Programme (2008). FEI is coordinating the ACI activities with other donor support (i.e. CIDA, JICA, EU). The Egyptian parties, FEI, National Bank of Egypt, and EEAA as well as their advisers are commended for this immense achievement in a very short time.

Recommendations

- Depending on the Royal Danish Embassy's disbursement pattern of 2005 and 2006, the possibility of meeting FEI's request will be looked into.
- The possibility of transferring some of the funds, allocated to the original ESP, to the Cleaner Production Revolving Fund should be considered by Egyptian Authorities and Danida.

9. Allocation of Danida Advisers

Over and above the ESP grant, the Programme is supported by the following Danish advisers:

A Coordinator at the Royal Danish Embassy, whose contract expires in August 2005

A Chief Technical Adviser with a contract expiring in November 2005

A SDEM Senior Adviser whose contract expires in August 2006

Finding

Upon expiry of the current three contracts, a balance of 98.4 person-months is available for the remaining lifetime of the Programme. The Draft reshaped EPS document proposes the following prolongations of contracts:

Embassy Coordinator for the ESP: 08/2005 – 04/2009

Chief Technical Adviser: 11/2005 – 12/2008

SDEM Senior Adviser: 8/2006 – 12/2007

In the Danida system, a normal prolongation of an Adviser would be two years. However, a change of e.g. Chief Technical Adviser one year before expiration of a programme would be little usefull.

Recommendation

- With the consent of the Egyptian Authorities, Danida should consider to prolong the contracts with the present advisers for the rest of the Programme period, provided the advisers in question agree to this.

10. Process Action Plan

Time	Task	Responsible
End of May 2005	Comments to adjusted ESP programme document and SDEM component description	GoE, RDE, ESP
1 June 2005	Endorsement of Aide Memoire, Joint Review of Reshaped ESP, May 2005	ESP Steering Committee
15 June 2005	Finalisation of programme document and SDEM component description	RDE
1 July 2005	Endorsement of Reshaped ESP	EEAA, RDE
1 July 2005	SDEM steering committee established	EEAA
1 July 2005	Extension of the position for ESP National Coordinator	EEAA, ESP
1 July 2005	Extension of Danida Advisers' contracts	EEAA, RDE, Danida Copenhagen
1 June 2005	Starting of support from ESP to development of EPF business plan	EPF, ESP
1 July 2005	Description of support to EPF if relevant	EPF, ESP
September 2005	High Level Consultations	GoE, Danida

Signed in Cairo 4th of May, 2005

.....
Dr. Mohamed Sayed Khalil

Chief Executive Officer of EEAA

.....
Bjarne H. Sørensen

HE Ambassador of the Kingdom of Denmark

May 4, 2005