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Report on EU-EGYPT relations in the framework of the revised ENP

Introduction

This report covers the period from January 2015¹ to May 2017. It assesses the achievements and policy developments in Egypt with a specific focus on priority areas of our cooperation.

The reporting period was marked by economic, political and security challenges for Egypt. In the economic field this included a worsening of Egypt's balance of payments and current account deficit in 2015 and 2016, which led the country to adopt an economic reform programme in mid-2016, as a basis for the gradual release by the International Monetary Fund (IMF) of a USD 12 billion loan, approved in November 2016. On the political track, the election of a new Parliament at the end of 2015 concluded the formal implementation of the country's transitional roadmap. Considerable challenges continued as regards the rule of law, the protection of human rights, fundamental freedoms and the space for civil society. Regarding security developments Egypt continued to suffer from a number of terrorist attacks, especially in the North Sinai but also in Cairo and the Western desert.

From a regional perspective, Egypt was able to reassert its role as a key player, notably by securing a two-year non-permanent seat in the United Nations Security Council (UNSC) for the period 2016-2018, and a three-year membership in the Peace and Security Council of the African Union (2016-2019).

The EU, together with EU Member States, supported Egypt's efforts to address a number of critical areas including economic development, education, health, energy, transport, environment, climate action, information society, research and innovation. People-to people contacts were also at the heart of EU-Egypt cooperation.

At the end of the reporting period, total ongoing EU financial assistance commitments to Egypt amounted to over EUR 1.3 billion in grants, with around 45% of the portfolio targeting the wider field of economic and social development including employment creation, 45% devoted to renewable energy, water and sanitation/waste management and environment, and 10% dedicated to support improving governance, human rights, justice and public administration. In 2015 and 2016, EUR 250 million of new bilateral EU funding was committed to Egypt from the bilateral envelope of the European Neighbourhood Instrument (ENI) and the financial envelope of the Neighbourhood Investment Facility (NIF). The combined volume of EU, Member States and European Financial institutions financial assistance to Egypt in its different forms (grants, loans and debt swaps) positions Europe as the first and most important donor in Egypt with a volume of ongoing European financial assistance to Egypt of over EUR 11 billion.

The resumption of the bilateral Association Agreement structures in 2015, through the holding of all the subcommittees between 2015 and 2016 and of the Association Committee in May 2016 allowed for increased dialogue and for joint identification of areas of potential cooperation.

The joint process of identification and negotiation of the EU-Egypt Partnership priorities (PPs) in the framework of the revised ENP was launched in February 2016 and the priorities were agreed ad referendum in December 2016. They will be adopted at the Association Council in July 2017. They set

¹ The last ENP progress report covered the period from 1 January 2014 to 31 December 2014
http://europa.eu/rapid/press-release_MEMO-15-4687_fr.htm

the basis for the bilateral partnership and cooperation for the coming three years. The identified priorities cover economic reforms, good governance, rule of law and human rights, but also migration and security/counterterrorism, as well as closer dialogue and cooperation on regional issues. They also aim to reinforce cooperation in support of Egypt's "Sustainable Development Strategy – Vision 2030" that attaches great importance to small and medium enterprises (SMEs) and to "Mega Projects" such as the Suez Canal Development Project.

This Country Report is structured on the basis of the future EU-Egypt PPs, in order to facilitate future reporting on the progress on their implementation.

1. Egypt's Sustainable Modern Economy and Social Development

a) Economic modernisation and entrepreneurship

In 2015 and 2016 Egypt witnessed a worsening of its balance of payments due to a number of factors, including worsening trade and current account deficits, significant reduction in the export of services due to the reduced inflow of tourists, lower remittances, slightly lower revenues of the Suez Canal due to reduced global trade and low Foreign Direct Investment (FDI) and portfolio investment in Egypt. As a result, Egypt's net International Reserves were also depleted and stood at three months of imports for most of 2016, despite financial support by certain Gulf States.

A number of fiscal reform measures were initiated in 2014/15 (cuts in energy subsidies, reform of other subsidies). For the fiscal year 2015/16, the budget deficit was 12.1%, making it the fifth consecutive year of double digit budget deficits. Public debt increased to 98% of GDP and the cost of servicing the debt now consumes over 30% of the State budget. These structural issues, coupled with reduced international growth and the consequences of the security situation, contributed negatively to economic growth. While 2014/2015 saw a pick-up in economic growth to 4.2%², this was not maintained in 2015/2016 when growth dropped to 3.8%³. Given Egypt's high population growth, this contributed to a stagnant or even decreasing level of GDP per capita.⁴ Unemployment rates have been decreasing slightly in recent years (from a peak of 13.4% in 2013 to 12% in March 2017⁵). These numbers only relate to official and registered employment. Most labour market surveys in recent years indicate an increase in informal employment levels.

In mid-2016, Egypt adopted an ambitious economic reform plan to address macroeconomic vulnerabilities and promote inclusive growth and job creation. This home-grown programme constitutes the basis of a USD 12 billion Support Programme from the IMF approved in November 2016 under the form of an Extended Financing Facility (EFF). The full flotation of the Egyptian pound in November 2016, as part of the IMF loan prior actions, led to an initial depreciation of the currency by 50%. This dried up the parallel market and led to an initial return of some portfolio investments in Egypt. The other prior actions were the increase of prices of electricity and fuel in November 2016 and the adoption of Value Added Tax (VAT) Law, which was approved in August and effective from September 2016. These measures were to contribute to the fiscal consolidation targets, but they also led to a rapid increase in inflation, which reached 25% at the end of 2016. To mitigate the impact of

² Source IMF Programme Document for EFF, November 2016

³ Id.

⁴ Source: World Bank Development Indicators Database: <http://data.worldbank.org/data-catalog/world-development-indicators>

⁵ Source: CAPMAS

economic measures on the most vulnerable, the programme also foresees an increase in spending on social programmes, particularly those that provide cash transfers to the poor.

In 2015, the EU continued supporting Egypt's efforts to achieve sustainable economic growth notably through committing a EUR 15 million bilateral programme aiming at improving the business environment and capitalising on Egypt's rich cultural heritage. This programme aims at creating positive, self-reinforcing synergies between cultural heritage, SMEs, and tourism. In 2016 the EU has deepened its support to private sector development, with a particular focus on SMEs, through the adoption of a EUR 60 million grant (leveraging EUR 360 million from European Financial Institutions) for the EU Facility for Inclusive Economic Growth and Job Creation. The facility focuses, on the one hand, on improving the enabling environment for business creation by supporting reforms, which will lower the administrative burden on SMEs (taxation and customs), facilitate financial inclusion (support to the Central Bank) and strengthen the protection of intellectual property rights. On the other hand, it focuses on supporting enterprise growth and competitiveness through facilitating SME access to long-term financing and know-how, facilitating business linkages, value chain development and fostering innovation, thanks to two blending programmes through the Neighbourhood Investment Facility (NIF) with the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD). This builds on previously adopted and ongoing programmes in support of SME development and support to access to finance for agricultural SMEs. In the economic sphere, the EU also continues to offer technical assistance in a number of areas, including to the Ministry of Finance on Public Financial Management.

The 7th EU-Egypt Macroeconomic Dialogue that took place in February 2015 – the first one since 2012 – offered a good opportunity to discuss macroeconomic developments and policy challenges in both the EU and Egypt.

b) Trade and Investment

The EU is the first commercial partner for Egypt. In 2016, the EU accounted for 30% of the total foreign trade volume of Egypt⁶. Between 2002 (the year preceding the provisional entry into force of the Association Agreement) and 2016, bilateral trade (in goods) between the EU and Egypt grew by 170% from EUR 10.1 billion to EUR 27.3 billion⁷. However, a reduction in Egyptian exports from 2011 onwards has resulted in a widening trade imbalance between the EU and Egypt. There are also trade and investment barriers and irritants in Egypt that affect EU businesses.

Law 5/2015 regarding national preferences for Egyptian products in government contracts (adopted on 17 January 2015) expanded the scope of application of national preferences to all supply and project agreements, and extended it to public companies and companies in which the state has a ruling share.

On 30 December 2015 and on 16 January 2016, respectively, the Egyptian authorities issued Decrees No. 991 and 43 (both in force since 16 March 2016) mandating special import requirements for a list of 25 categories of goods. These products are now subject to costly pre-shipment inspection of all consignments - except for commodities imported for personal and private use, - and registration

⁶ Source: IMF DoTS

⁷ Source: Eurostat COMEXT

requirements imposed upon manufacturing plants or trademark holders or distribution centres of the 25 categories of regulated products, in a register managed by the General Organization of Export and Import Control (GOEIC), in order to be allowed to export their products to Egypt for trading purposes. The most significant category of products covered by the Decrees in terms of value of EU exports to Egypt is milk and dairy products, amounting to EUR 280 million (1.5% of EU exports to Egypt and 22.6% of EU exports in the covered categories of goods).

In 2015-16, structural weaknesses in the balance of payments led to a supply shortage of foreign exchange and to reduced Net International Reserves (NIR), thus giving the Central Bank of Egypt limited resources to defend the value of the Egyptian pound, facing a downward pressure. In the second half of 2015 and the first half of 2016, the Central Bank and the Government of Egypt increasingly relied on administrative measures to defend the local currency (capital controls, foreign exchange rationing, administrative measures to block the parallel market; and a coordinated Government of Egypt-Central Bank of Egypt set of measures to reduce imports through the imposition of new import registration requirements, expansion of costly pre-shipment inspection requirements, higher customs rates and banking requirements). The Egyptian pound, however, continued to lose its value on the black market. On 3 November 2016, the Central Bank decided to float the pound freely.

The EU-funded Trade and Domestic Market Enhancement Programme (TDMEP) supported the Ministry of Trade and Industry to develop a Trade and Industrial Development Strategy, which was launched in November 2016. The Strategy acknowledges the importance of improving the quality compliance of Egyptian manufactured products and the potential of increased access to the EU market linked to the adoption of EU technical standards. A review of the Egyptian National Quality Infrastructure (NQI) was conducted in 2016, suggesting that the NQI was lacking market surveillance function and the technical regulations function was not compatible with the EU model.

The last meetings of the EU-Egypt subcommittee on Industry, Trade, Services and Investment (in February 2015) as well as the subcommittee on customs cooperation (in March 2015) allowed for constructive and useful discussions on various issues of mutual interest and concern. A technical follow-up meeting also took place in Brussels in February 2017 focusing on the issue of trade irritants on both sides.

c) Social development and social justice

With over 92 million inhabitants, Egypt's population has almost doubled since 1980. The average annual population growth rate during the period 2010- 2015 was estimated at 2.2%⁸, the total fertility rate per woman stood at 3.4⁹. This means almost two million additional inhabitants and 700.000 newcomers to the job market per year. In many regards, the pace of population growth represents one of the major challenges to the sustainable development of the country.

⁸ CAPMAS

⁹ CAPMAS

Egypt is ranked 108 in the Human Development Index (out of 188)¹⁰. 28% of the population still lived below the **poverty** line in 2015, with poverty rates as high as 60% in rural Upper Egypt (counting for around 40% of the country's overall population).¹¹ At national level, nearly half of the population is either poor or at risk of slipping into poverty¹² and about 16% of the population have poor access to food – 21.3% in rural areas and 8.8% in urban areas.¹³

The main EU programme in the sector of Employment and Social Protection is the "Emergency Employment Investment Project" (EEIP), which started in 2014 (EU contribution: EUR 69.8 million) and implemented by the Government's Social Fund for Development (SFD). Numerous other bilateral programmes aim to mitigate the negative effects of economic reforms on the poorest (enhancing access to education; school meals; urban and rural development; inclusive growth; basic services in water/energy etc.) and to improve employability through Technical and Vocational Education and Training (TVET). There are also a number of smaller contracts with Civil Society Organisations active in the employment and service delivery domains.

Around 56% of Egypt's people still live in **rural areas**¹⁴, where life remains characterised by poverty well above the national average and with limited access to basic services. Amid the predominance of the agricultural sector, important challenges include not only the pronounced fragmentation of landholding but also the scarcity of agricultural land and irrigation water. Over the past years, the EU has become an increasingly active partner in this sector, with a total contribution reaching over EUR 200 million for past and current EU aid programmes. In addition, Egypt has also been a regular beneficiary of trainings and workshops organised by the European Commission in order to ensure that Egyptian agricultural products are of appropriate quality, in particular for export (Egypt exports represented 16.5% of its total production in 2014¹⁵ and, in 2015-16, Egyptian agricultural exports to the EU amounted to EUR 908 Million¹⁶).

An estimated 37 million Egyptians live in **urban areas**¹⁷. Millions are living in informal urban areas characterised by poor access to basic services and sanitation, and a poor and highly polluted environment. Specific public initiatives for the resettlement of inhabitants of particularly unsafe or vulnerable slum areas have been developed by the government over the past decade, but do not cover 95% of Egypt's informal urban residents. The EU has three major bilateral interventions in the field of urban development (total contribution EUR 66 million), and is also involved in two blending operations in partnership with the EIB and the Agence française de développement (AFD) for the two pillars of the "Integrated Sustainable Housing and Community Development Programme" (total cost

¹⁰ UNDP Human Development Report (2015):

http://hdr.undp.org/sites/default/files/2015_human_development_report.pdf

¹¹ World Bank country overview (2016): <http://www.worldbank.org/en/country/egypt/overview>

¹² Programming of the European Neighbourhood Instrument (ENI) - 2014-2020 (2014):

https://eeas.europa.eu/sites/eeas/files/enp_wide_strategic_priorities_2014_2020_and_multi_annual_indicative_programme_2014_20.pdf

¹³ World food programme Egypt country report (2017) :

http://documents.wfp.org/stellent/groups/public/documents/ep/wfp273365.pdf?_ga=1.31929662.169624919.5.1490625534

¹⁴ FAO statistical yearbook 2014: <http://www.fao.org/docrep/019/i3591e/i3591e.pdf>

¹⁵ Id.

¹⁶ DG Agri EU agri-food trade Monthly newsletter, March 2016

¹⁷ FAO statistical yearbook 2014

of EUR 63.5 million and EUR 93.8 million respectively, with a total EU contribution of EUR 18.8 million and 15.3 million, respectively).

Public **healthcare** remains a challenge which leads most Egyptians to turn to private health operators. 75% of the country's total health expenditure is estimated to be privately-funded¹⁸, mostly from out-of-pocket contributions. The poor and people living in remote communities have almost no access to any basic health services. Against this background and based on the experience gained through the Health Sector Policy Support Programme (HSPSP) budget support, the EU focuses its efforts on primary healthcare (PHC) reform, as it provides most of the basic care to the poor.

Egypt has made progress towards achieving **Education** for All and the Millennium Development Goals (MDGs), particularly in expanding access to basic education, and closing the gap between the enrolment of boys and girls. For the school year 2014/15, the net enrolment rate was 91 per cent in primary education, and 84 per cent in preparatory school¹⁹. Despite this overall progress, socio-economic, geographical and gender disparities continue to limit access to primary education and according to a study conducted by UNICEF and the Ministry of Education, 3 per cent or 320,000 children at primary school age never enrolled for school or dropped out. Moreover, the UN estimates that about 2 million children live with disabilities in Egypt and less than 1.8 per cent of them receive the education services they need. The country's literacy rate (adults 15 years+) is at only 74%²⁰. A mismatch between the skills provided by the education sector – including Technical and Vocational Education and Training (TVET) - and the needs of the Egyptian labour market persists. The EU remains a strong supporter of the Egyptian education sector as a whole, with particular emphasis on increasing the access to, and quality of, education for the most vulnerable children. The current EU cooperation portfolio in education includes two complementary primary community schooling programmes (total EUR 90 Million). One of these strategic programmes was amended at the end of 2016 in light of the expected impact of the economic reforms, to provide meals to up to 500,000 children attending public schools in poor Governorates. In the area of TVET, the EU provides support through the TVET II programme (EUR 50 Million), which aims at improving and enhancing the structure and performance of the TVET system to better respond to the new socio-economic needs and increase competitiveness. In the field of Higher Education, Egypt participated in the third South Med regional dialogue in Brussels in 2016. Egyptian universities are also actively participating in the Erasmus+ programme. Under the 2015 and 2016 calls for proposals, 18 capacity building projects involving Egyptian universities were selected. In 2015-2016, 128 projects linking European and Egyptian universities have been selected to organise the mobility of around 1460 students and staff (1090 to Europe and 370 to Egypt), and 60 Egyptian students benefited from a full Erasmus Mundus Master level scholarship.

During 2015-2016, EU-Egypt relations continued to grow stronger also in the field of science, technology and innovation. Horizon 2020 has supported the participation of Egyptian organisations and researchers in various areas including food security and climate action.

In February 2016 Egypt stressed its commitment to join the forthcoming Partnership for Research and Innovation in the Mediterranean Area (PRIMA), a major initiative with a total budget of almost

¹⁸ Egypt National Health Accounts 2011-2012

¹⁹ UNICEF report school year 2014-2015

²⁰ UNICEF report school year 2014/2015

EUR 500 million which aims to foster regional cooperation in research and innovation on food systems and water resources.

Egypt continued being involved in the monitoring and formulation of the EU's research priorities with the non-EU Mediterranean countries, through its active participation in the Euro-Mediterranean Group of Senior Officials in Research and Innovation. Regarding the EU's research policy dialogue with Africa, Egypt and the EU co-chaired the third meeting of Senior Officials of the EU-Africa High Level Policy Dialogue on Science, Technology and Innovation in Addis Ababa in April 2016. This meeting adopted the roadmap on an EU-Africa Research & Innovation Partnership on Food and Nutrition Security and Sustainable Agriculture.

EU-Egypt relations strengthened further in the area of health research in September 2016, when the Academy of Scientific Research and Technology of Egypt officially joined the Global Research Collaboration for Infectious Disease Preparedness (GloPID-R).

The EU and Egypt are partners in Science Diplomacy initiatives such as the Synchrotron-light for Experimental Science and Applications in the Middle East (SESAME) and the Middle East Research and Innovation Dialogue – MERID.

People-to-People contacts have been promoted also through enhanced cooperation in the field of **culture and cultural heritage**, at bilateral level, through smaller scale projects financed under the EU's Global Allocation, as well as via strategic regional EU programmes.

Around 60 million – or two-thirds - of Egyptians are below 29 years of age.²¹ 33% of the population is younger than 15 years.²² Unemployment remains particularly high among the country's **youth** (33.4%).²³ Many EU programmes involve and directly benefit Egypt's youth in different cooperation sectors (employment, TVET, thematic projects etc). Over the 2015-2016 period, the Erasmus+ youth strand supported the mobility of 636 young people, volunteers and youth workers to Europe, while around 167 participants were hosted in Egypt. The Anna Lindh Foundation, which is based in Alexandria and is largely financed by the EU, continues to implement programmes directly targeting Mediterranean (including Egyptian) youth, with the aim of improving the dialogue between cultures and to support Mediterranean civil society.

EU-Egypt cooperation in these important areas was also discussed throughout the holding of the various subcommittees between 2015 and 2016, and notably in the 4th meeting of the subcommittee on Agriculture and Fisheries and the 5th meeting of the subcommittee on information society and audiovisual, research and innovation, education and culture, both of which took place in Cairo in February 2016.

d) Energy security, environment and climate action

The Egyptian **Sustainable Energy** Strategy for the period 2016-2035, funded by the EU, was approved and adopted by the Egyptian Supreme Energy Council in October 2016. Also within this framework,

²¹ UNDP Human Development Report (2015):

http://hdr.undp.org/sites/default/files/2015_human_development_report.pdf

²² World Bank Data (2015) : <http://data.worldbank.org/indicator/SP.POP.0014.TO.ZS?locations=EG>

²³ World Bank, Data Bank, World Development Indicators (2016): <http://data.worldbank.org/country/egypt-arab-rep?view=chart>

the EU, the *Kreditanstalt für Wiederaufbau* Development Bank, EIB and AFD have agreed to fund a new windfarm in the Gulf of Suez, for a total amount of EUR 340 million. In August 2016, the government announced, within the reforms of the Energy sector, substantial increases in electricity tariffs with prices rising around 35-40% on average. Fuel subsidies were also cut in November 2016, as part of the gradual cuts of subsidies to comply with the requirements linked to the approval of the IMF loan.

Over the last years, the finding of a number of important gas fields in Egypt, including the giant Zohr field, discovered in August 2015, (presented as the largest natural gas find in the Mediterranean Sea) and the Nooros field in the Nile Delta (found in July 2015) have ramped up oil and natural gas investment in this vastly energy-importing country. These important findings put Egypt on track to be energy independent in the coming years and also boosted its aspiration to become an energy hub in the region.

The EU is heavily involved in the field of energy in Egypt where several projects are being or are about to be implemented. The Egyptian Gas Connection Project signed in 2015 (EUR 68 million grant) is progressing. The Southern and Eastern Mediterranean Sustainable Energy Financing Facility (SEMED SEFF), rebranded Green Economy Fund, was officially launched. Lending agreements were signed between EBRD and local banks (Qatar National Bank Al Ahly and Kuwait National Bank). Another signature is expected to take place with a third local bank being identified through which the funds will be also channelled to the local market.

The downstream energy market is shaped primarily by tariffs reflecting less than cost. The figure ranged from 26% to 44% for industry and 43% to 51% for commercial users. Egypt's power sector suffers from familiar challenges seen in other subsidised markets, such as the inefficient use of energy, state utilities that struggle to generate enough revenue to fund their needs for capital and operating expenses, and a distorted impact of the subsidy in which many of the advantages flow to higher income users rather than to the poor who are targeted to benefit most. Revised prices for residential users were introduced by the Ministry of Electricity and Energy (MoEE) in August 2016, with hikes of 35-40% for low-intensity consumers.

Already in 2014, Egypt embarked on a reforms plan that includes a number of fiscal measures, including fuel subsidy cuts that increased prices by up to 78 percent, as well as new taxes to ease a growing budget deficit that hit 12.2 percent in the 2014-15 Fiscal Year. Fuel and food subsidies represent a quarter of Egypt's state budget. Egypt raised fuel prices for the second time in November 2016 since the start of a fiscal reform program in 2014, in an effort to curb a ballooning fiscal deficit hours after floating the exchange rate. A Mediterranean Energy Regulators (MEDREG) meeting took place in Cairo in April at the premises of the Egyptian Gas Holding company in order to exchange information between the regulators in the region, including Turkey, Albania, Greece and Italy and the newly formed Gas regulator in Egypt.

Egypt submitted, in November 2015, its Intended Nationally Determined Contribution for the implementation of the Paris Agreement on climate change to the United Nations Framework Convention on **Climate Change** (UNFCCC) and launched the process for ratification. It also submitted its third National Communication and a greenhouse gas inventory to the UNFCCC. The development of an Action Plan to implement the national climate change adaptation strategy was also launched. This work was partly supported by the EU through technical assistance via regional projects 'Clima

South', 'Capacity Building in Climate-related Monitoring Reporting and Verification' (MRV) and the 'Low Emission Capacity Building' programme. Over EUR 700 million of ongoing EU financial assistance to Egypt is climate relevant. This includes EU blending grants that are helping to leverage around EUR 4.65 billion of concessional loans in climate relevant sectors.

Prime Minister's Decree 3005/2015 was adopted on 22 November 2015 on the establishment of the Waste Management Regulation Agency with public legal personality and reporting to the Ministry of Environment, creating an independent public agency in charge of **solid waste management**, the Waste Management Regulatory Agency within the Ministry for Environment. Its role is to modernise the national policy framework and the implementation of the solid waste management programmes. The EU is supporting Egypt with an EUR 20 million project in the field of solid waste management. Industrial pollution has been addressed in 2016 by launching the third Phase of the Egyptian Pollution Abatement Programme (EPAP III), including a EUR 10 million NIF grant contribution complementing loans from the EIB, AFD and a KFW grant to support technologies achieving pollution abatement in the industry.

The EU is supporting the ongoing strategic reform of the Egyptian **water and sanitation sector** through EU-funded Technical Assistance under the Water Sector Reform programme - WSRP-II. Under this programme, the EU assisted in the preparation of the National Water Resources Plan till 2037 (NWRP 2017-2037), which will support the development and management of water resources in Egypt. The Government of Egypt launched the National Rural Sanitation Strategy in 2015, also prepared with EU assistance and aiming at providing universal access to sanitation in rural Egypt. Finally, the Government of Egypt approved a new gradual increased tariff restructuring plan in 2016. In this regard, the current Technical Assistance Programme funded by the EU supports the Development of a Financial Model and a Roadmap to improve the financial stability of the sector. EU-Egypt cooperation in the water sector stretches over a wide portfolio of programmes covering 10 Egyptian Governorates and total direct grant funds of nearly EUR 340 Million in six different programmes, leveraging funds of nearly EUR 1.3 billion in the sector.

Egypt participated in EU-funded regional projects including 'Switch MED' on sustainable production and consumption, the Sustainable Water Integrated Management project (SWIM), projects falling under the Horizon 2020 initiative for the **de-pollution of the Mediterranean** and the shared environmental information system support project led by the European Environment Agency.

For the regulatory reforms in the field of transport, Egypt is continuing to benefit from technical support under regional EuroMed projects funded by the EU (European Neighbourhood Instrument) and to cooperate with EU Transport agencies with a view to implement the Regional Transport Action Plan for the Mediterranean Region (RTAP) 2014-2020 as adopted in the framework of the Union for the Mediterranean. Egypt is also very much involved in the development of the regional transport network (the Trans-Mediterranean transport Network). From 2015 on, a number of reforms and projects have been initiated, targeting the entire **transport sector** from roads to rail to logistics zones. The national plan for developing the road network is also under implementation with three major roads almost completed (the Assiut New Valley road and the Minya Bahariya road), while the 30 June Suez Canal Axis is also nearly finished. Egyptian National Railways is currently improving rail services by acquiring modern energy-efficient rolling stock with loans granted by the European Finance Institutions. The support to the Egyptian National Railways (ENR) in its freight

sector reform and commercialization is in line with the EU Transport Sector Policy Support Programme and should provide a framework for future private sector involvement in the railway market.

2. Partners in Foreign Policy

Stabilising the neighbourhood and beyond

During this period, Egypt has been engaging in extensive foreign policy outreach at both bilateral, regional and multilateral level that allowed the country to reassert its role in the wider region and internationally notably by securing a two-year non-permanent seat in the UN Security Council for the period 2016-2018, and a three-year membership in the Peace and Security Council of the African Union (2016-2019). Libya, Syria, Yemen, Iraq, Middle East Peace Process (MEPP) as well as the Horn of Africa and the Red Sea are Egypt's main foreign policy priorities. Saudi Arabia and the United Arab Emirates remained Egypt's main backers in the Gulf since President Sisi was elected as President in 2014. Concurrently, understandings in interests and analysis on a number of regional issues were the basis of improved relations with Russia. Security cooperation has also continued with Israel as well as with the US, from which Egypt continued to receive the bulk of its military aid.

The EU and Egypt regularly consult on foreign and security policy matters. High Representative/Vice President Mogherini paid two visits to Cairo and met with the President and other representatives. Commissioners Hahn and Avramopoulos, EU Counter-Terrorism Coordinator de Kerchove, EU Special Representatives Lambrinidis and Rondos, and senior officials from the EU institutions and four delegations from the European Parliament (Foreign Affairs Committee, Mashreq Delegation, European People's Party, European Conservatives and Reformists) visited Egypt for discussions on a wide variety of topics, including the political, economic and social situation in the country, governance and human rights, bilateral assistance and cooperation, trade, migration, counter-terrorism and developments in the region and beyond.

Co-operation on international and regional issues was discussed in the 4th meeting of the Subcommittee on Political Matters held in Cairo in November 2015.

3. Enhancing stability

a) A modern, democratic state

The institutional steps foreseen by the transitional roadmap were completed in late 2015 when legislative elections were held. Of the 596 seats in the new parliament, 120 were assigned to party lists, with the rest allocated to independent candidates, 28 of whom were appointed directly by President Abdel Fattah Al-Sisi. Thanks in large part to quotas, women won 75 seats, and another 14 were appointed by the President. This was the highest number of female parliamentarians in Egypt's history.

Substantial challenges continued as regards the rule of law, the protection of human rights, fundamental freedoms and the space for civil society. In January 2014, a new Constitution entered into force which includes robust provisions on human rights and individual freedoms, though many of these provisions remain to be implemented and certain freedoms, such as freedom of association and assembly, are restricted. In December 2016, the Supreme Constitutional Court ruled that Article

10 of the 2013 Protest Law, granting authorities the right to ban or postpone a protest, was unconstitutional. It was amended by the Parliament in January 2017 but the rest of the Law remains in force. Concerns have been expressed about actions that seem intended to increase pressure on some journalists and civil society organisations, such as the raid by security forces on the press syndicate's building in May 2016 and the sentencing of its head and two of its board members to prison sentences, in November 2016, as well as the closure of the al-Nadeem Center for Rehabilitation of Victims of Violence, in February 2017. A number of prominent human rights defenders and organisations have had their assets frozen or have been banned from travelling in the framework of the ongoing so-called "Foreign funding case" (case 173). A new NGO law was ratified by the President and published in the official gazette in May 2017, six months after it was approved by the Parliament in November 2016. The law restricts the scope of registration and operation for non-governmental organisations and activities and contains provisions with relation to the procedure for receiving domestic and foreign funding which could affect European assistance to Egypt that relies on non-governmental organisations as implementing partners and in promoting and strengthening democratic governance.

The antiterrorism law of 2015 introduced heavy fines for the dissemination of "inaccurate" news on terrorist acts, amended the definition of terrorism and provided for sentences ranging from prison to capital punishment for terrorist acts. Use is still made of pre-trial detention with no formal charges (in some cases going beyond the legally mandated two-year limit), of military trials for civilians, and procedural deficiencies in the prosecution of opponents and dissenters, including mass sentences and rulings based on insufficient evidence, have been identified. A considerable number of death sentences are still pronounced, and though many are overturned on appeal, according to Amnesty International at least 22 executions were carried out in 2015. Reports of alleged torture and ill-treatment in detention, including deaths resulting from torture or medical negligence, continued to appear, in some cases leading to the prosecution of police agents. The National Council for Human Rights (NCHR) has been allowed to pay some announced visits to prisons, though they remain closed for inspection by other organisations, including the International Committee of the Red Cross. A report was also issued by the NCHR on enforced disappearances covering the period from April 2015 to March 2016.

In line with the August 2013 Foreign Affairs Council Conclusions, support to **civil society** remained a priority in EU bilateral assistance to Egypt, with a focus on women and young people. The holding of the fourth meeting of the Subcommittee on Political Matters in Cairo, in November 2015, enabled a detailed exchange on human rights policies as well as on specific cases. The visit of EU Special Representative for human rights, Stavros Lambrinidis, to Cairo in February 2017, allowed for active engagement with both the Egyptian authorities, civil society, including human rights organisations and defenders, and youth representatives and provided an opportunity to address all issues of EU concern.

EU assistance focuses on the promotion and protection of **human rights** in Egypt, both under its ongoing bilateral human rights programme with the government (EUR 17 million for 2011-2018) as well as under the European Instrument for Democracy and Human Rights (EIDHR), and Thematic Programmes. In 2016, a Financing Agreement was signed with the Government of Egypt ("Citizens' Rights" project; EUR 10 million – 2016-2019) under which support will be provided to the National Council for Human Rights (EUR 2.5 million).

Over the past years, Egyptian women have secured a number of legislative and legal gains, and the 2014 Constitution encompasses clear commitments towards gender equality, citizenship rights, equal access to basic services, and the prohibition of gender-based discrimination. 2017 was also declared "year of the Egyptian woman" by President Sisi. However, **women** in Egypt continue to face political, economic, social, and cultural barriers which impede their equal and full participation in public life as well as their equal access to basic services; a number of laws still contradict the Constitution, especially in personal affairs (family law) and in the Penal code. In 2015, Egypt ranked 136 out of 145 in the Gender Gap Index (GGI) of the World Economic Forum.²⁴ Egyptian legislation, policies, national plans and programmes do not refer to gender mainstreaming. Violence against women is widespread, both in the private and public sphere.²⁵ The prevalence rates of Female Genital Mutilation (FGM) nationwide among women aged 15-49 years is currently around 90%.²⁶ In April 2016 the Parliament adopted a law which criminalises FGM and mandates harsher punishments for those convicted of the act. Other important initiatives launched in recent years include the establishment of Equal Opportunity Units within some Ministries, efforts towards introducing gender-based budgeting, establishing a special unit for Violence against Women at the Ministry of Interior, and setting up a women's complaints office. The EU has been supporting women's rights through the "Promotion and Protection of Human Rights" programme (EUR 17 million – 2011-2018), which among others includes the initiatives "Securing Rights and Improving Livelihoods of Women" and the "Abandonment of FGM and Empowerment of Families". The 'Citizen Rights' project (EUR 10 Million) also aims to increase women's participation in public life and gender mainstreaming of selected public services. A new project 'Advancing Women's Rights in Egypt' (EUR 10 million) was signed with the Egyptian authorities in early 2017. It will support the Government's efforts towards abandoning FGM and access to justice for women. The 'Spring Forward - Regional Programme for the Economic and Political Empowerment of Women in the Southern Mediterranean Region' complements bilateral cooperation in this area from a regional perspective. Thematic programmes, EIDHR and the Civil Society Facility provide significant support to civil society initiatives addressing challenges that women are facing in Egypt (22% of total funds). Egypt also participates in regional EU projects which support women's rights and participation. In 2016, based on the launch of the **Gender Action Plan II (GAP II)** (2016-2020), the EU Delegation established an internal Gender Working Group for the development, implementation and monitoring of the Gender Action Plan II for Egypt.

Public administration reform, efficient governance and transparency have been in the focus of Egypt's public debate for several years, due to the complex structure of the current administrative system that is characterised by a large number of civil servants (around seven million) and high running costs, including one quarter of the state budget allocated for civil servants' salaries alone. In accordance with the 2014 public administration reform strategy, new civil service legislation was introduced in early 2015 by the Ministry of Planning, Monitoring, and Administrative Reform (MoPMAR). The new law was ratified by the President in March 2015, but rejected by the new Parliament in January 2016, following protests against measures to reduce the size of the civil service and its organisational complexity. Subsequently, an amended version of the law, mainly focusing on improved recruitment procedures and criteria for new civil servants, was approved in October 2016.

²⁴ World Economic Forum country profiles (2016): <http://reports.weforum.org/global-gender-gap-report-2015/economies/#economy=EGY>

²⁵ UNWOMEN (2016): <http://evaw-global-database.unwomen.org/en/countries/africa/egypt#4>

²⁶ UNICEF (2016): https://data.unicef.org/wp-content/uploads/country_profiles/Egypt/FGMC_EGY.pdf

The EU's "Support to the Administration Reform and Local Development" bilateral project (EUR 4.1 million) aims at strengthening national capacities to improve and measure performance of administrations delivering public services to citizens, as well as to reinforce national capacities to empower local administration and local development stakeholders to adopt decentralisation. The project beneficiaries are the MoPMAR and the Ministry for Local Development. Moreover, the EU-funded Organisation for Economic Cooperation and Development (OECD)/ Support for Improvement in Governance and Management (SIGMA) programme has supported reforms in several areas of the public governance system in Egypt, including civil service legislation, policy formulation and co-ordination, legislative drafting and regulatory reform, quality of public services, development of administrative procedures and internal audit. In 2015, SIGMA started supporting the Egyptian Regulatory Reform and Development Activity (ERRADA), which is actively engaged in the simplification of administrative procedures linked to business. Moreover, SIGMA provides assistance to the Ministry of Finance to design and draft the public procurement regulations necessary for implementing the legislative changes of the public procurement law in practice.

In the field of statistics, the Egyptian Central Agency for Public Mobilization and Statistics (CAPMAS), is developing a National Strategy for the Statistical System in cooperation with PARIS 21, the World Bank, the African Union and the African Development Bank. CAPMAS implemented a population census in 2016 using modern technology (tablets) for data collection, transmission and validation, Geographical Information System (GIS) maps in both urban and rural areas, and online forms. Furthermore, CAPMAS launched the first Geospatial Information Portal, which is a new dissemination tool, for better visualisation of official statistics through infographics.

In terms of **corruption**, Egypt was ranked 108 out of 176 countries and territories in Transparency International's 2016 Corruption Perceptions Index²⁷, reflecting the perceived weakness of official mechanisms for investigating and punishing corrupt behaviour, and the lack of transparency regarding government spending and operations. Through the EU programme 'Support to Political Development and Good Governance' (EUR 3 million) the EU and Egypt are working together to establish an effective mechanism to combat corruption and money laundering in all its forms and dimensions through the implementation of the United Nations Convention against Corruption (UNCAC). In 2014, the Administrative Control Authority was formally designated the main counterpart for the project.

b) Security and terrorism

Egypt continued to suffer from a number of terrorist attacks, especially in the North Sinai but also in Cairo and the Western desert. This includes attacks against military and police checkpoints, the bombing in December 2016 in Cairo of a church adjacent to St. Mark Coptic cathedral, as well as, the two deadly attacks, on 9 April 2017, on churches in Alexandria and Tanta that killed at least 45 people, which led to the declaration of the state of emergency.

In September 2016, an exploratory visit to Cairo by the EEAS Deputy Secretary General for CSDP and crisis response and the EU counter terrorism coordinator provided an opportunity for high level discussions on potential areas of cooperation in the fields of security and counterterrorism. In

²⁷ Transparency International Index (2016):
https://www.transparency.org/news/feature/corruption_perceptions_index_2016

addition, EUNAVFOR MED Operation SOPHIA and the European Border and Coast Guard Agency, as well as the EUROMED Police project have conducted exploratory visits to Cairo in order to advance information sharing and engagement in security related cooperation.

EU cooperation with Egypt in the area of **justice** and the **rule of law** is currently implemented under the "Support to the Modernisation of the Administration of Justice Project" (EUR 10 million) implemented by Justice Coopération Internationale (FR) jointly with specialised public bodies of Spain, Italy and Northern Ireland.

The holding of the 5th meeting of the Subcommittee on Justice and Security, in Cairo, in January 2016, allowed for constructive dialogue on potential areas of cooperation in the field of justice, security and counter-terrorism, against the backdrop of major security challenges faced by both sides.

c) Managing migratory flows for mutual benefit

Irregular **migration** and the protection of migrant and refugee populations remain issues of concern in Egypt due to the country being a sending, receiving and transit country.

According to UNHCR, at the end of February 2017 the total number of registered refugees stood at 202,209 including 120,154 Syrians (59.5%) and 82,055 Africans and Iraqis (40.5%). Among the latter, 34,671 were Sudanese, 12,829 Ethiopians, 7,872 Eritreans, 7,583 Iraqis and 19,100 of other nationalities. During January - February 2017, UNHCR has registered 9,617 individuals (4,523 Syrians and 5,094 others). This represents an increase of almost 80% if compared with the same period in 2016 (5,398 registered)²⁸.

Between January and December 2016, a total of 4,985 asylum seekers/refugees/migrants have been arrested and detained for attempting irregular migration, including 822 children and UASC (Unaccompanied or Separated Children). This represents a net 37% increase over 2015 figures. The percentage of unaccompanied and separate children (UASC) arrested and detained in 2016 (i.e. 440) has doubled when compared to 2015 statistics. This number has grown from 26% of all children detained in 2015 to 54% in 2016²⁹.

Amid recent developments in the region, an increase, though from a low baseline, of irregular movements by mixed flows departing from Egypt towards Europe via the Mediterranean, was observed. Data from the Italian Ministry of Interior report that 12,766 migrants arrived from Egypt to Italy until end of 2016. As a result, the flow of migrants coming from Egypt to Italy in 2016 was about 15% higher in 2016 than 2015.

While Egyptian migrants are not among the most represented nationalities arriving in the EU, the percentage of young people and unaccompanied minors is the highest of any nationality (representing 59% of all Egyptians arriving by sea to Italy in the period January-August 2016). In September 2016, a boat carrying an estimated 600 people – mostly of Egyptian nationality - capsized off Egypt's north coast, killing at least 202. The tragic incident prompted the adoption by the Parliament of an anti-smuggling law intended to curb illegal immigration and a crackdown on human

²⁸ UNHCR monthly statistical report

²⁹ UNHCR data

smuggling in October 2016. The law provides a shift in legislation through the criminalisation of smugglers (while considering irregular migrants as victims) and including a provision for the creation of a fund to assist smuggled individuals, in line with Egypt's international obligations. In line with the new law, the National Coordination Committee on Combating and Preventing Illegal Migration (NCCPIM) also presented a National Strategy for Combating and Preventing Illegal Migration 2016-2026. These increased efforts were clearly reflected on the ground as no single arrival in Italy from Egypt was recorded between October and December 2016.

In the past, the EU addressed the **migration** issue through regional programmes implemented by international organisations, through grants provided to Civil Society Organisations as well as to a limited extent under its bilateral programme with the Government of Egypt. Since the establishment of the European Union Emergency Trust Fund for Africa in 2015, work was undertaken to formulate enhanced cooperation actions in the field of migration to be funded under the North Africa window. These actions are part of the EU's broader migration cooperation with Egypt which will include interventions funded under multi-country programmes such as the Regional Development and Protection Programme (RDPP) for North Africa as well as regional and global programmes.

Several multi-country and/or regional programmes under various EU funding mechanisms continued to provide support to Egypt on migration related issues. Under the 2016 EIDHR "Country – based support scheme" Call for Proposals, two projects aim at addressing migration challenges as well. In addition, the Commission committed EUR 4 million for Egypt in 2016 and 3.8 in 2017 for the purpose of tackling migration/refugee-related needs including protection and health, as well as education in emergency for refugee children.

The holding of the 5th meeting of the EU-Egypt Working Group on Migration, Social and Consular Affairs in Cairo in January 2016 allowed for an in-depth dialogue notably on migration related challenges as well as on potential bilateral cooperation in this framework. In January 2017, an EU Senior Officials Mission on migration visited Egypt to identify avenues for a stronger, more strategic and comprehensive cooperation on migration based on the future PPs. On that occasion, the EU and Egypt agreed to launch a formal migration dialogue for which terms of reference are being jointly defined. The EU also engaged with Egypt on migration on a regional level, in the framework of the Valletta process.

Concluding remarks and perspectives

The EU-Egypt Partnership Priorities provide the framework for a further strengthening of the EU-Egypt relationship, in the context of the revised European Neighbourhood Policy. The priorities include support to Egypt's sustainable economic and social development, reinforcement of the partnership in foreign policy and cooperation in the stabilisation process, notably in the fields of governance, security and migration. They include commitments and references to democracy, rule of law, respect for human rights, fundamental freedoms and international obligations and acknowledge the key role of civil society.

These priorities are also the key points of reference for setting the priorities for EU assistance and will be reflected in the future bilateral assistance programme under the European Neighbourhood Instrument (Single Support Framework) for the period 2017 to 2020.

While a mid-term review of the impact of the EU-Egypt Partnership Priorities is foreseen, the Association Committee and the Association Council will remain the key bodies that will carry out the overall assessment of the implementation of the PPs on an annual basis.