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PROJECT INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

Report No.: PIDA24539

Project Name	Strengthening Social Safety Net Project (P145699)
Region	MIDDLE EAST AND NORTH AFRICA
Country	Egypt, Arab Republic of
Sector(s)	Other social services (70%), Public administration- Other social services (30%)
Theme(s)	Social Safety Nets/Social Assistance & Social Care Services (70%), Social Inclusion (30%)
Lending Instrument	Investment Project Financing
Project ID	P145699
Borrower(s)	Government of Egypt, Ministry of International Cooperation
Implementing Agency	Ministry of Social Solidarity
Environmental Category	C-Not Required
Date PID Prepared/Updated	07-Apr-2015
Date PID Approved/Disclosed	24-Mar-2015, 13-Apr-2015
Estimated Date of Appraisal Completion	27-Feb-2015
Estimated Date of Board Approval	10-Apr-2015
Appraisal Review Decision (from Decision Note)	

I. Project Context

Country Context

Egypt continues to be in a period of transition with political uncertainties. The January 2011 Egyptian people’s revolution ushered in a sea change of political transformation that continues to unfold four years later. A political roadmap was announced in July 2013, leading to the ratification of a newly amended constitution and the election of former Field Marshall Sisi to president in May 2014. The parliamentary elections initially planned to be held in two rounds, beginning March 21–22, 2015, and ending May 6–7, 2015 have been recently postponed. The new election dates are expected to be announced in March/April 2015. The removal of Morsi (one year after his presidential election in June 2012) has fueled tensions across the country that have occasionally spilled over into violent clashes and caused social instability. The progressing political roadmap has helped to partially contain the political and social unrest. However, this relative stability seems fragile in the face of the ongoing attacks on the police and the military, and the period since military intervention in July 2013 has been characterized by political polarization.

Growth in Egypt over the past three decades has been moderate and insufficient to catch up to more

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advanced middle-income countries and to absorb the rapidly growing population and labor force. Average per capita growth has been limited to around two percent per year since 1980. Though growth accelerated sharply during 2003–2008 and remained strong through 2010, this did not prevent a rise in poverty. Between 2005 and 2010, poverty increased by nearly five percentage points and has likely increased further since then. While regional disparity in poverty is an enduring feature in Egypt with rural Upper Egypt hosting nearly half of the poor population, the metropolitan region poverty headcount rate tripled in the five-year period, from 5.7 percent (the lowest in 2005) to 15 percent in 2010. The income growth of the bottom 40 percent (that is, the shared prosperity indicator) was also negative in this period, at -1.5 percent, whereas the country's average income fell faster at -2.0 percent. These results explain the slight decrease in inequality in Egypt. The observed increase in poverty and decrease in the income of the bottom 40 percent reflect that gross domestic product (GDP) growth did not translate into household income growth.

The political turmoil and economic shocks have increased poverty over the last few years. Since the period covered by the data above, Egypt has undergone a profound economic, social, and political upheaval. This uncertainty has been reflected in significantly lower economic growth, which has likely further worsened the welfare of the lower-income groups. At the household level, the poverty incidence has increased from 16.7 percent in FY1999/2000 to 26.3 percent in FY2012/13, with close to half the population remaining poor or vulnerable (49 percent). Economic regional disparities also continue to widen; the poverty rate in rural Upper Egypt exceeded 50 percent in 2010, which compared to less than 15 percent in metropolitan Egypt. During the last quarter of fiscal 2014, 3.7 million Egyptians (13.4 percent of Egypt's 27.6 million labor force) were unemployed, of which 70 percent were between 15 and 29 years old. The macroeconomic profile has limited the ability of growth to benefit the less well-off. The squeeze on fiscal space from interest payments, subsidies, and higher wages has constrained spending on social sectors which would benefit the poor. Over 7 percent of GDP in 2013/14—more than the combined spending on health, education, and public investment—went to finance energy subsidies. Subsidies largely benefit the non-poor: 68 percent of total energy subsidies accrue to the richest two quintiles of the population.

The post-July 2013 governments embarked on a major economic stimulus and initiated an ambitious social and economic reform program. The stimulus spending has contributed to early signs of an economic recovery but macroeconomic imbalances remain large. Capitalizing on the country's improved stability, the Government took important steps in early FY2015 to launch critical reforms and begin fiscal consolidation. Early in July 2014, the newly elected president approved long-awaited structural reforms, including increasing existing taxes, enacting new ones, and streamlining electricity and fuel subsidies. These measures should bring the fiscal deficit down to 10.5–11 percent of GDP in FY15. The drop in oil prices since the end of 2014 provides a suitable environment to control the fiscal deficit. The Government has also made a commitment to improve its pro-poor investment to protect the poor and address historical regional and social disparities. The energy subsidy reform initiative, undertaken by the Government, aims at liberalizing energy prices over the coming 5–10 years and allow for the necessary fiscal space to implement and sustain pro-poor in vestments. In July 2014, the Government introduced comprehensive price increases for fossil fuels and electricity and announced the allocation of EGP 27 billion (US$3.6 billion) of the total EGP 51 billion of fiscal savings from these reforms to health, education, scientific research, and social protection programs, particularly reform and expansion of the social safety net (SSN).

Despite good progress in human development indicators over the past two decades, further attention

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is needed in specific areas of human development and especially in the poor regions. In the health sector, in spite of significant overall progress in maternal and child mortality, in lagging regions, 46 per cent of births in the lowest quintile took place without trained staff and 55 per cent of births took place outside of health facilities. Several health indicators have worsened across the country, including childhood malnutrition (stunting, underweight, wasting), but these are particularly worrisome in Upper Egypt. Stunting is also more prevalent in Upper Egypt, at 26 percent, compared to Lower Egypt or metropolitan Egypt, at 18 and 19 percent, respectively. While a strong family planning program managed to reduce the annual population growth rates to 1.9 percent between 1980 and 2010, population growth rates rebounded to 2.3 percent by 2013 and 3 percent in rural Upper Egypt. People's inability to have adequate and nutritious food is largely attributed to rising poverty rates and a succession of crises from 2005. Additionally, inadequate feeding and childcare practices among young mothers are believed to be associated with repeated diarrheal episodes and malnutrition. As for education, while there is nearly full enrollment for children in the richest quintiles, the poorest quintile still registers enrollment rates of about 73 percent in basic education and below 50 percent at secondary levels. Girls in rural Upper Egypt make up the largest group of those left behind in education. An analysis of their situation emphasizes that they face major mobility constraints for cultural reasons related to norms of gender propriety. Another study shows that girls are 2.3 times more likely not to have ever been to school than boys.

Addressing the challenge of inequality in health and education gains would require tackling both demand and supply side constraints. The supply side in both health and education suffers from irregularity of service delivery, distorted distribution of service providers, low quality of inputs, and governance and accountability issues. While a well-designed SSN can help address the demand side by promoting human development and providing the funds and incentives to access services, addressing the supply side challenge in Egypt would require a holistic approach and cross-sectoral transformation. In recent years the Government has established the 'Ministerial Committee for Social Justice', headed by the prime minister, with a policy formulation and coordination mandate to transform social policies and social programs for proactively tackling social inequality.

Sectoral and institutional Context

Egypt's social protection programs are highly fragmented and do not provide adequate protection to the poor. Egypt has a complex social protection system that relies heavily on fuel and food subsidies. These subsidies cost between 6 and 9 percent of GDP, dwarfing the funding for non-subsidy SSN programs (at 0.2 percent of GDP), but are very poorly targeted: the top 20 percent of Egyptian households, by income, receive 36 percent of total energy subsidies, and 73 percent of non-poor Egyptian households have access to food ration cards. There are also tremendous leakages in the food subsidy system, estimated at 29 percent in 2008. Nevertheless, food subsidies have played an important role in protecting the poor from the impact of high food prices, and it is estimated that removing food subsidies would increase the national poverty rate by 9 percentage points. Recent efforts have improved the leakages in the food subsidy system as a result of the use of technology where recipients are using smart cards, thereby reducing waste.

Egypt lacks well-designed, non-subsidy SSNs directed to the extreme poor and that can be scaled up to protect against shocks. The existing safety net programs are characterized by low coverage rates, poor targeting, fragmentation, and poor coordination and therefore, low impact on poverty. Egypt's largest cash transfer (CT) program (the Social Solidarity Pension [SSP]) reaches less than 10 percent of the poorest quintile and less than a quarter of the program's resources accrue to this

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income group; it has been deemed an inefficient program. Egypt requires an integrated approach of strengthening its SSN system (CT programs, labor-intensive programs for unskilled and semiskilled, and food subsidy programs) along with improving its targeting mechanisms.

The Government is committed to reforming its SSN. Recognizing the current deficiencies in the existing system and within the framework of the post-2011 revolution social and economic reform program, the government of Egypt (GoE) has made a commitment to reform its SSN system with emphasis on improving targeting and delivery systems before further expansion in coverage and launching significant reforms to legacy (but inefficient) programs. Given the political economy challenge of reforming existing SSN programs, the Government has chosen a phased approach to the reform, starting with quick wins and less politically challenging steps. The overarching nature of the reform is to gradually move from universal subsidies to targeted programs to protect the poor and vulnerable and enhance the quality of social services they receive.

In 2014, the Government introduced changes to the food subsidy system which has improved the supply chain by introducing output-based financing. In the new system, the government is no longer subsidizing flour for bakeries to produce subsidized Baladi bread, but instead is subsidizing the actual loaves of bread distributed by the bakeries to the citizens through the smart card system. The new system introduced a capping mechanism whereby each citizen is allowed a maximum of 5 loaves of bread per day, thus minimizing the consumption abuse of subsidized bread in the old system.

The Government also introduced changes to the ration food system by moving away from subsidized commodities to an allowance-based system. In the old system, each citizen was allowed a specific monthly quantity of subsidized basic food commodities (cooking oil, sugar, rice, and macaroni), leading to poor quality products and an active black market. The new system provides a monthly allowance of EGP 15 (US$2) per citizen and the individual is free to buy any product from a basket of 20 food commodities. The unused monthly allowance of Baladi bread can be converted into points and used to buy other food commodities within the same smart card system. This offers an incentive for citizens to ration their use of Baladi bread while allowing them to set their consumption priorities of available food commodities.

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To improve targeting of the poor and delivering targeted safety net, the Government has taken concrete steps. In 2012, the Government established a Labor Intensive Works Program, implemented by the Social Fund for Development (SFD) (supported by the World Bank and the European Union), targeted at the able-to-work poor and unemployed youth, with focus on lagging regions. The Government has made the commitment to establish a well-targeted and evidence-based CT program—Takaful and Karama—targeted at poor families with children and the poor elderly and severely disabled. To support the long-term reform, the Government has launched a Unified National Registry (UNR) initiative, led by the Ministry of Planning and Administrative Reform (MoPAR). The objective of the UNR is to establish a national database platform to support consolidation of SSN programs and facilitate coordinated targeting and delivery mechanisms. The UNR initiative has already made some progress toward linking the Family Smart Card (food subsidy), SSP, and social security databases through the national ID.

The Government intends to set aside 10–15 percent of savings from structural subsidy reforms for social investments including, among other things, financing the new national targeted CT program, Takaful and Karama. The Ministry of Social Solidarity (MoSS) has been mandated to establish and

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implement the new CT Takaful and Karama (‘Solidarity and Dignity’) program, with emphasis on building effective targeting and efficient operational systems; reaching newly identified 1.5 million households to be enrolled in the new program. The Ministry of Finance (MoF) has already allocated an additional EGP 500 million (US$67 million equivalent) in fiscal year (2014 -2015) and began disbursing to the MoSS, which has been directed to fund the initial round of the new Takaful and Karama program.

The Government has launched a communication campaign targeting a wide range of stakeholders from the academia, civil society, youth groups, and private sector to gain public support for the social and economic reforms and for the new targeted CT program. Multiple channels are being used in the campaign, including talk shows and debates, media conferences, information dissemination through printed and visual media, meetings with community and religious leaders, and public hearings. Key messages include, among others, how the new CT program supports the post-2011 social and economic reforms and the importance of energy subsidy reform to allow the fiscal space to launch and sustain pro-poor service and benefit delivery.

The GoE is seeking technical and financial support from the Bank as it rolls out the new Takaful and Karama program. Takaful and Karama is being designed based on best practice. Therefore, the GoE has requested that the Bank provide technical support as well as advances to partially co-finance the first 4 years of the program benefits while the fiscal space for gradual expansion is secured.

The proposed project will build on and scale up the ongoing Bank support to the reform efforts by the GoE. In particular, the Programmatic Technical Assistance on Social Safety Nets has provided support to the MoSS, MoF, and MoPAR to build capacity and receive technical advice, especially in the initial phases of the preparation of the SSN reforms. A US$2.0 million component of a US $6.5 million grant financed by the Middle East and North Africa Transition Fund has financed the technical work to design the new CT program, Takaful and Karama; develop the targeting methodology; and launch the UNR. Additionally, a recently approved grant under Energy Sector Management Assistance Program (ESMAP) will provide complementary technical assistance (TA) to the implementation of the Takaful and Karama program, as needed.

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II. Proposed Development Objectives

The project development objective (PDO) is to support the Borrower to establish an efficient and effective Takaful and Karama Cash Transfer Program.

“Efficient” is defined and measured by good targeting of the poor.
“Effective” is defined and measured by coverage of the poor and having basic administrative building blocks of the Program.

III. Project Description

Component Name

Provision of Conditional and Unconditional Cash Transfers

Comments (optional)

This Component will finance payments to eligible beneficiaries under the Takaful and Karama cash transfer Program. It will use a results-based approach with eligible expenditures comprising cash transfers under the Takaful and Karama program. As such, dsbursements under this Component will

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be triggered by achievement of specific, jointly-agreed results (Disbursement Linked Indicators or DLIs).

Component Name

Support SSN Targeting and Operational Systems

Comments (optional)

Component 2 will use a traditional investment financing approach with disbursements against eligible expenditures for specific activities set out in the procurement plan. It will support technical assistance and investments that will support achievement of the results under Component 1. Specifically, it will support the development and implementation of Takaful and Karama targeting and operational systems: registration; database cross checking; enrollment; conditionality verification; case management and beneficiary data update; payment delivery; grievance redress; and performance monitoring.

Component Name

Project Management and Monitoring and Evaluation

Comments (optional)

Component 3 will use a traditional investment financing approach. It will support project management and ensure that the Project is successfully and efficiently implemented in conformity with the Financing Agreement, the Project Appraisal Document and the Operation Manual (OM).

IV. Financing *(in USD Million)*

Total Project Cost:	4507.00	Total Bank Financing:	400.00
Financing Gap:	0.00		

For Loans/Credits/Others	**Amount**
Borrower	4107.00
International Bank for Reconstruction and Development	400.00
Total	4507.00

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V. Implementation

The Ministry of Social Solidarity will be the institutional home for the Takaful and Karama program and in turn for project implementation. The project will be implemented through the MoSS' existing structure, supported by a PIU which together with MoSS permanent staff, forms the Program Task Force (PTF). The Central Unit for Social Pension (CUSP) under the Social Protection Department (SPD) will be responsible for day-to-day management of the project, reporting to the minister of Social Solidarity and supported by the PIU team. The PIU is headed by an experienced project director and includes specialists in FM, procurement, MIS, field operations support, communications, research and program coordination, M&E, and payment control. At the regional level, the project is supported by regional directorates of the MoSS, district offices, and MoSS' social units which exist in each large village or a group of villages. The social units, where MoSS social workers operate from, are responsible—with the support of community-development associations (CDAs) and NGOs—for social mobilization, outreach activities, and maintaining of continuous contact with beneficiary households. With the support of participating schools and health clinics, the social workers will ensure adequate monitoring of households' compliance with the co-responsibility obligations and support the process of updating beneficiary data. The MoSS has signed Memoranda of Understanding (MOUs) with the MoH and Ministry of Education (MoE) to support monitoring and reporting regarding the conditionality.

The Ministry of Planning, Monitoring and Administrative Reform (MoPAR) will be an integral part of the implementation of component two, and the long-term consolidation and strengthening of the SSN system through the establishment of the 2nd version of the Unified National Registry (UNR). That is, MoPAR will be technically responsible for building the UNR under component 2 of the project, while fiduciary (financial management and procurement) management will be the responsibility of the PIU.

At the policy level, the GoE has established a high-level Ministerial Committee for Social Justice, chaired by the Prime Minister and includes several ministers from MoF, Ministry of International Cooperation (MoIC), MoPAR, MoH, MoE, and MoSS, among others. The committee is overseeing progress of the Social Protection Reform and ensures sectoral coordination.

VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
Environmental Assessment OP/BP 4.01		x
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

Comments (optional)
World Bank safeguard policies are not triggered as a result of proposed activities under the components. The project will not include the construction of physical infrastructure or civil works.

VII. Contact point

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