

# PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC2810

<b>Project Name</b>	Strengthening Social Safety Net Project (P145699)
<b>Region</b>	MIDDLE EAST AND NORTH AFRICA
<b>Country</b>	Egypt, Arab Republic of
<b>Sector(s)</b>	Other social services (70%), Public administration- Other social services (30%)
<b>Theme(s)</b>	Social safety nets (70%), Social Inclusion (30%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P145699
<b>Borrower(s)</b>	Government of Egypt, Ministry of International Cooperation
<b>Implementing Agency</b>	Ministry of State for Administrative Development
<b>Environmental Category</b>	C-Not Required
<b>Date PID Prepared/ Updated</b>	08-Jan-2015
<b>Date PID Approved/ Disclosed</b>	08-Jan-2015
<b>Estimated Date of Appraisal Completion</b>	27-Feb-2015
<b>Estimated Date of Board Approval</b>	28-May-2015
<b>Concept Review Decision</b>	Track II - The review did authorize the preparation to continue

## I. Introduction and 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 more than three 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, though Parliamentary elections remain to be held. 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 as the period since military intervention in July 2013 has been characterized by political polarization.

Due to political instability, the macroeconomic situation has continued to deteriorate and been accompanied by increases in poverty, food insecurity and unemployment. In addition, 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, as 68 percent of total energy subsidies accrue to the richest two quintiles of the population. Therefore, the Government has launched an ambitious economic reform program, including energy subsidy reform initiative aimed at liberalizing energy prices over the coming 5-10 years. The latest July subsidy cuts yielded fiscal savings of around 2 percent of GDP. The Government has also made commitment to improve its pro-poor investment to protect the poor and address the historical regional and social disparity.

Recent years' political turmoil and economic shocks had claimed their poverty toll over the last few years. At the household level, the poverty incidence has increased from 16.7 percent in FY 1999/2000 to 26.3 percent in 2012/13, with close to half of the population remaining poor or vulnerable (49 percent). Economic regional disparities also continue to widen; the poverty rate in Upper Rural Egypt exceeded 50 percent in 2010, which compared to less than 15 percent in metropolitan Egypt. During the last quarter of fiscal year 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.

Despite good progress in human development indicators over the past two decades, data suggest a need for further attention in specific areas of human development and especially of the poor and lagging behind regions. Around 21 percent of Egyptian children aged 0-4 are stunted and 8 percent are wasted. Stunting is also more prevalent in Upper Egypt at 26 percent compared to Lower Egypt or metropolitan Egypt, at 18 and 19 percent respectively.

People's inability to have adequate and nutritious food is largely attributed to rising poverty rates and a succession of crises from 2005 -- including the avian influenza epidemic in 2006, the food, fuel and financial crises of 2007-09 and a challenging macroeconomic context in recent years". Additionally, inadequate feeding and childcare practices among young mothers are believed to associate with repeated diarrheal episodes and malnutrition. On the education front, while there is nearly full enrollment for children in the richest quintiles, the poorest quintile still registers enrolment rates of about 73 percent in basic education and below 50 percent in 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.

### **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 6-9 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 from 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.

Egypt lacks well-designed, non-subsidy social safety nets (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 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 income group, and has been deemed one of the least efficient programs in the world. Egypt requires an integrated approach of strengthening its Social Safety Nets system (Cash Transfer programs, Labor intensive Programs for unskilled and semi-skilled, and food subsidy programs) along with improving its targeting mechanisms.

Recognizing the current deficiencies in the existing system, the Government of Egypt (GoE) has made a commitment to reform its SSN system with emphases on improving Targeting and delivery systems. However, given the political economy challenge of reforming existing programs, the Government has chosen a phased approach to the reform, starting with establishing a well-targeted and evidence-based cash transfer program. The Gov. reform plan is to improve coverage of the poor under the new CT Program in the short-term; while in the medium to long term use the evidence generated to inform policy dialogue and future reforms of the old ineffective SSN programs. To support the long-term reform, the Government has launched a Unified National Registry (UNR) Initiative. 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 towards 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: financing the new national targeted social safety net program – Takaful and Karama – currently under design; free health insurance for the poor; targeted food subsidy; and increase spending in health and education, especially in poor regions.

The Ministry of Social Solidarity (MOSS) has been mandated to reform the SSN system and expand its coverage, with a long-term plan to reach 3 million poor HHs. MOSS reform plan includes establishing Takaful and Karama, with emphasis on building effective targeting and efficient operational systems; reaching newly identified 1.5 million HHs to be enrolled in the new Program; and retargeting the current beneficiary HHs under SSP and integrate those eligible into Takaful and Karama, once the new Program is well established.

The proposed project will serve to implement and scale up work done by the World Bank to support the ongoing reform efforts from the Government of Egypt. In particular, Programmatic Technical Assistance on Social Safety Nets has provided support to the Ministries of Social Solidarity, Finance and MoPAR to build capacity and receive technical advice, especially in initial phases of the preparation of Social Safety Nets Reforms. A US\$2.0 million component of a US\$6.5 million grant financed by the MENA Transition Fund has financed the technical work to design the new Cash Transfer programs – Takaful and Karama, develop the targeting methodology and launch the Unified National Registry (UNR) as a platform for better targeted cash transfer and other social programs in the future. Regional and global learning activities on Subsidy and Social Safety Nets reform were also offered to the Government of Egypt through these projects, as well as through a

regional series of knowledge-sharing events financed through the Multi-Donor Trust Fund. While all these efforts contributed to support the ongoing reform efforts of the GoE, a fast implementation will need scaling up technical work (particularly in the areas of beneficiary identification, enrollment and the multi-year tasks necessary to complete the ongoing work of the UNR). In addition to the technical and implementation tasks, the proposed project will finance a first wave of benefits while the fiscal space for an expansion of Takaful and Karama Programs is assured from the savings of the current and future phases of the energy subsidy reform.

### **Relationship to CAS**

The proposed project is aligned with the World Bank’s 2012 Interim Strategy Note (ISN) for Egypt, and is specifically linked with Pillar 3 - inclusion and fostering access to services (Report No. 66443-EG, May 31, 2012); it is consistent with MNA Regional Strategy Update (Report no. 59364, January 22, 2013); and contributes to objective 3.4 “develop targeted and sustainable safety nets” of the third Strategic Objective – Inclusion – in the proposed Country Partnership Framework (2015-18). Although this operation was not envisaged in the 2012 ISN, it builds on the TA on social safety net to improve the effectiveness of the SSN system, under pillar 3.

The proposed operation is expected to assist Egypt to move away from an inefficient and untargeted social protection system to a more effective and targeted one; as well as to contribute to the human development outcomes of the poor. Therefore, this operation would potentially have a contribution to poverty reduction and protection against falling into extreme poverty in the medium-term. It also enhances access to human development opportunities by the poor, contributing directly to the inclusion agenda and to the World Bank’s twin goals of reducing extreme poverty and promoting shared prosperity.

## **II. Proposed Development Objective(s)**

### **Proposed Development Objective(s) (From PCN)**

The project development objective (PDO) is to support 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 poorest quintile, behavioral change in selected areas of health and education.

### **Key Results (From PCN)**

The key performance indicators that will be used to track progress towards these objectives are:

- Percentage of the Program’s beneficiary HHs who are under the poverty line (to measure targeting efficiency) - Target: 60%
- The share (percentage) of HHs in the poorest quintile covered by the Program – Target: 20%
- Percentage of HHs participating in the CCT who demonstrate behavioral change in areas related to health and education (Specific behavioral changes will be identified during preparation and described in the Results Framework) - Target: 40%

The number of CT beneficiaries with gender disaggregation (core WB SP indicator) will be captured, among other indicators related to Key building blocks of a cash transfer program (PMT, MIS and Grievance Redress systems), in the intermediary results indicators.

### III. Preliminary Description

#### Concept Description

Takaful and Karama Program is being developed as a national targeted SSN program aiming at protecting the poor through income support and with a vision to gradually replace existing inefficient programs, e.g. SSP. In the medium term, Takaful and Karama will be rolled-out in a phased approach in a few consecutive waves (phases) to register and enroll poor households. Targeting and operational processes in each wave will benefit from the implementation assessment and lessons learned from the previous wave to ensure improved design and processes, following a “learning-by-doing” approach before full expansion. The GoE plans to cover 1.5 million HHs through these waves and has made a commitment to fund the program expansion from the expected savings from the energy subsidy reform. In the longer-term, the GoE intends to re-certify the 1.5 million HHs currently under SSP and move those eligible into Takaful and Karama and gradually remove the inefficient SSP.

The proposed project, over a four year period, is expected to support the implementation of two to three waves of registration and enrollment; evaluation of operational and targeting performance of the first two waves, and support fine-tuning the design and operational processes after incorporation of the learning from early waves; and support Program systems (e.g. MIS, e-payment, grievance handling, etc). By the end of project implementation period, the number of Program beneficiaries is expected to reach 700,000 – 1.0 million households covering a number of the poorest districts in Upper Egypt Governorates; and the national Program would be fully functional and ready for national expansion. The GoE is planning to increase the budget of social assistance programs, to expand and sustain Takaful and Karama, to eventually reach an annual budget about US\$1.2 billion.

The bulk of the proposed project would partially use a results based approach to focus the attention to and provide incentives for achieving results towards systems development and efficient targeting and delivery of benefits and services to poor households. Under Component 1, the Project would disburse funds based on satisfactory achievement of an agreed set of outputs and results, as measured by pre-defined set of Disbursement Linked Indicators (DLIs) and a detailed results chain and corresponding funds disbursement arrangement, these will be further defined during project preparation. Disbursements would reimburse the GoE for funds spent on the Takaful and Karama Program cash transfers - and after verification of achieving DLIs. Components 2 and 3 will follow normal IPF investment procedures. The project will consist of three components: (i) provision of conditional and unconditional cash transfers - this component would support the two sub-programs under the national Takaful and Karama Program; (ii) supporting SSN targeting and operational systems; and (iii) project management, monitoring and evaluation.

Component 1: Provision of Conditional and Unconditional Cash Transfer (estimate IBRD funds US \$385 million)

The component will finance cash transfers of the initial 10-12 months to an estimated 500,000 HHs. Targeting will follow a combined approach of geographical and household level targeting. Geographical targeting based on poverty mapping techniques would result in the selection of districts in each wave where poverty incidence is high (proposed as 60 percent or more); and Proxy Means Testing (PMT) method will be used to identify eligibility of applicant households (HHs) in the selected districts based on an agreed cut off line associated with the poverty line. The PMT would use poverty predictors from the Household Income, Expenditure, and Consumption Survey

(HICES) 2012/13, the latest household budget survey for Egypt. Eligible HHs will be enrolled in the Program for 5 years with possible re-enrollment if deemed eligible after recertification. A comprehensive Communication and Outreach program will be implemented prior to registration to ensure access to information about the program by the poor and vulnerable. At the time of registration, households will self-report to the questions on the intake form. At enrollment, HHs will be issued an e-payment card. An appeals process will be established. Verification of targeting efficiency will be undertaken by a third party entity prior to the launch of wave two.

Government funds are expected to partially take over in 2014/15 and fully fund the Program from 2015/16 onward. Takaful is a family income support sub-program aiming at producing human development outcome (health and education) and indirectly decrease child labor. To be eligible for Takaful Program (CCT), households must be living in poverty and have one or more child below 18 years of age. HHs would be expected to meet pre-defined targets associated with utilizing maternal and child health care services; and school enrolment and attendance. Service delivery and monitoring of HHs compliance with the conditionality will be the responsibility of Ministries of health and education, respectively. Assessment of the adequacy of the supply side of these services will be done during appraisal and only districts with adequate supply will be selected. The project will support development of an operational protocol and provide Technical Assistance (TA) to develop the reporting and monitoring arrangement. Karama is an unconditional income support and social inclusion sub-program that aims at the protection and inclusion of the poor elderly (above age 65) and persons with permanent disability. Based on MoSS current draft of the Program's design, benefit size starts from basic amount of 350 LE (US\$50) per HH per month and increases depending on the number of children (in Takaful) in the HH while providing higher incentive for school participation in higher grades, and number of elderly and persons with disability (in Karama). The maximum amount a HH can receive is capped at 800 LE (US\$110) per month for Takaful, representing about 54 percent of the consumption expenditure per capita of the poor; and 480 LE (US\$68) in Karama, about 26 percent of the consumption expenditure for the poor.

Component 2: Supporting SSN Targeting and Operational Systems (estimated IBRD funds US\$12.0 million)

This component will support the development and implementation of Takaful and Karama targeting and operational systems including: poverty-based targeting approach using PMT, including targeting verification survey and adjusting the targeting system accordingly; management information system (MIS) including modules to track payments and compliance; communication and outreach program; registration and enrollment processes; beneficiary data update system; compliance monitoring system; Program monitoring and evaluation system; electronic payment system including issuance of HH Program cards; and set-up of a grievance redress and reporting system. The component will support the development of these systems, improve the administrative infrastructure (equipment) of social units (the lowest administrative level of MOSS), and training officials and staff. Additionally, the component will support the ongoing efforts of Ministry of Planning, Monitoring and Administrative Reform (MoPAR), which is primarily responsible for database, registries, and technological modernization of Egypt's governmental capacities, in developing a Unified National Registry (UNR) using MoPAR's Family Smart Card (FSC) system. GoE is committed and has started initial measures to utilize the UNR for rationalizing food subsidies and improve data exchange and hence efficiency among SSN and other social and service delivery programs. The component will fill in the financing gap of the ongoing support to MoPAR

under Egypt's Transition Fund for the design and implementation of the technological infrastructure associated with building such an integrated system, which will include, (i) increase in bandwidth for database coverage, (ii) ease of integration with other programs, (iii) improving capacity of staff, (iv) improve data quality for targeting. The component will finance goods, consultancy, training, non-consultancy services and operational cost including travel cost of MoSS social workers and staff.

Component 3: Project Management and Monitoring and Evaluation (estimated IBRD funds US\$3.0 million)

This component would 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). The component would finance: project implementation unit staff (non-civil servants) salaries; equipment, operating costs for the Project Implementation Unit (PIU) directly linked to the daily management of the project (office space, utilities and supplies, bank charges, communications, vehicle operation, maintenance and insurance, building and equipment maintenance costs, travel and supervision costs, etc.); and (iii) regular internal audits and annual external audits (as per Bank legal requirements audits of financial and procurement aspects). Within the framework of the monitoring cycle, a mid-term review will involve project stakeholders and civil society in the review of project performance, intermediary results, and outcomes. The progress and impact of the Project will be measured using the evaluation conducted in at the mid-term review and at the end of the Project.

#### IV. Safeguard Policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
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	

#### V. Financing (in USD Million)

Total Project Cost:	400.00	Total Bank Financing:	400.00
Financing Gap:	0.00		
<b>Financing Source</b>			<b>Amount</b>
Borrower			0.00
International Bank for Reconstruction and Development			400.00
Total			400.00

## **VI. Contact point**

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