

The Arab Republic of Egypt

**Sovereign Green Financing Framework
September 2020**

1. Introduction

Egypt is highly vulnerable to the impacts of climate change. According to the assessment reports of the Intergovernmental Panel on Climate Change (IPCC), Egypt's Nile Delta¹ is one of the world's three hot spots for "extreme" climate vulnerability. Future projections indicate that Egypt will suffer from the following climate change impacts: sea level rise; water scarcity and deficiency, and an increase in the frequency and intensity of extreme weather events such as heat waves, flash floods, heavy rains, sand and dust storms. This is expected to have a major impact on infrastructure, beaches and fertile land in the Nile Delta as they are subject to erosion, salt water intrusion and inundation. Consequently, food security, human health, economy and ecosystems in Egypt are at risk. Sectors which are projected to be particularly affected include water resources, agriculture and fisheries, health, housing and settlements, biodiversity, telecommunications, energy, tourism, as well as coastal zones and coral reefs.

In light of these potentially devastating effects, Egypt has taken action to mitigate the impacts of climate change. Egypt is committed to becoming a leader in green development, setting an example for the rest of Africa and the Middle East.

In recent years, a growing and significant interest has been undertaken from the Egyptian government to shift towards the green economy. This is in light of the constitutional entitlements that affirm the importance of anchoring to sustainable development and balanced growth in terms of geography, sector and environment, as well as the optimum utilization of natural resources without harming the ecosystem and taking into account the rights of future generations. Although the country contributes approximately 0.6% of global greenhouse gas emissions, Egypt has taken many actions to reduce greenhouse gases emissions, including a target to increase the share of renewable energy in the electricity mix by 2022 to 20% and 42% by 2035.² Additionally, Egypt is pursuing an ambitious plan to upgrade its infrastructure across all sectors and all regions within the country for greater energy efficiency and resource conservation.

In line with these efforts, in July 2018, the Chairman of Egypt's Financial Board Regulatory Authority announced approval to establish an article to regulate the issuance of Green Bonds and contribute to eco-friendly projects. Following the announcement, the Egyptian government established this Green Financing Framework (the "Framework"), which will enable Egypt to finance existing and future Eligible Green Projects.

The government of Egypt believes that the entry of the Egyptian sovereign in the Green Bond market will establish a market precedent and encourage the private sector to start using sustainable finance instruments. It has also become important to take advantage of the proceeds of sovereign green bonds in financing adaptation projects in different sectors according to their priorities, in light of the difficulty of obtaining financing for adaptation compared to mitigation projects.

Any achieved GHGs emissions reductions will be counted for the government of Egypt, and Egypt has the right to decide on its use in its reporting requirements such as Nationally Determined Contributions (NDCs) at Egypt's discretion.

2. Egypt's strategy for Sustainable Development

The Government of Egypt is committed to achieving the United Nations Sustainable Development Goals (SDGs)³. This commitment is reflected in its understanding of the intertwined nature of sustainable development and is embodied in the framework of Egypt's national strategy, "**Sustainable Development Strategy: Egypt Vision 2030**" (SDS).⁴ The strategy reflects the three dimensions of sustainable development: economic, social and environmental. The plan is a national framework that guides and sets policies and programs in order to achieve the SDGs, as well as other national objectives.

¹This region accounts for more than 50% of Egypt's economic activity through agriculture, industry and fisheries. The Nile Delta contributes about 20% of the Egypt's GDP and account for the largest source of employment, around 30% of the labor force.

²<https://www.irena.org/publications/2018/Oct/Renewable-Energy-Outlook-Egypt>

³ <https://sdgs.un.org/goals>

⁴ <http://www.arabdevelopmentportal.com/publication/sustainable-development-strategy-sds-egypt-vision-2030>

The SDS is not only a strategy for the Government, but also a plan for all stakeholders, including the private sector, civil society and international organizations.

SDS is aligned with the 17 SDGs, as well as the African Agenda 2063⁵, and acts as the governing framework for all development programs and projects that will be implemented until 2030. The launch of the strategy was followed by the establishment of a national committee, the National Committee for Monitoring the Implementation of the Sustainable Development Goals, as the result of a prime ministerial decree.

In addition to that, the *Government Program (2018/2019 – 2021/ 2022)*⁶ includes several development programs, taking into consideration the different aspects of sustainability; including water consumption rationalization, coasts protection, developing renewable energy resources, transformation to green economy, establishment of environmentally compatible industrial clusters, expansion of establishing the smart and fourth generation cities, improving the environmental conditions in the most vulnerable villages, developing slums, improving water and air quality, waste management, solid wastes disposal, and linking the scientific research with environmental improvement.

Accordingly, the *Sustainable Development Plan of the Fiscal Year 2020/2021* has focused on prioritizing the finance of green investment projects, which represent about 14% of total public investments (as of 2020). These projects span sustainable transportation, generation of renewable energy, solid waste management, water desalination plants, and sewage treatment plants. In addition, a guide has been prepared by Ministry of Environment and Ministry of Planning of the sustainability criteria to be taken into account when preparing the Sustainable Development Plan of the Fiscal Year 2021/2022 to increase the proportion of green investment projects' proportion to 30% by 2022 and eventually 100% by 2024/2025.

3. Background on Egypt's efforts to addressing climate change

Egypt ratified the United Nations Framework Convention on Climate Change (UNFCCC) in 1994, the Kyoto Protocol in 2005, the Paris Agreement in 2017, and Doha Amendments of Kyoto Protocol in 2020. Egypt has fulfilled its reporting requirements to UNFCCC, it has submitted its 1st, 2nd and 3rd national communication reports in 1999, 2010 and 2016 respectively and working currently on its 4th national communication, and has submitted its first nationally determined contribution (NDC) in 2015⁷ to UNFCCC as well as its 1st biennial update report in 2019⁸.

Egyptian Cabinet Information and Decision Support Center (IDSC) has developed a national adaptation strategy for climate change and disaster risk reduction⁹ in 2011. This strategy aims to improve the country's capacity to manage risks and disasters caused by climate change and is regularly updated to integrate new scientific information and ongoing research findings

3.1 National Policies for Climate Change

Egypt is among the first Arab countries to join the cooperative global efforts to confront climate change threats according to the principles of equity and common but differentiated responsibilities (CBDR) and respective capabilities. The establishment of the Egyptian Environmental Affairs Agency (EEAA) in 1982 followed by the creation of the Ministry of State for Environmental Affairs in 1997 signified Egypt's commitment towards environmental protection. The Climate Change Unit was established at EEAA in 1996 and has been upgraded to a Climate Change Central Department (CCCD) in 2009 to strengthen the climate change institutional structure on the national level. CCCD has three general departments (Vulnerability and Adaptation GD, Mitigation and CDM GD, Technology and Research GD).

In order to improve the governance of climate change in Egypt, in 2015 the Prime Minister established the National Council on Climate Change (replacing the pre-existing National Committee on Climate Change, established in 2007). The NCCC was restructured in 2019 to be chaired by the Prime Minister

⁵ <https://au.int/en/agenda2063>

⁶ <https://cabinet.gov.eg/Arabic/GovernmentStrategy/Pages/GovernmentPrograms.aspx>

⁷ <https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Egypt%20First/Egyptian%20INDC.pdf>

⁸ <https://unfccc.int/sites/default/files/resource/BUR%20Egypt%20EN.pdf>

⁹ http://www.eeaa.gov.eg/portals/0/eeaaReports/N-CC/Adaptation_Strategy_-_Final_22-05-2011.pdf

and consists of members representing sector ministries with input from national experts (scientists, practitioners, and academic researchers), civil society (NGOs and union representatives), and the private sector. The NCCC allows for centralized policymaking efforts related to climate change, including the development and review of a national strategy for climate change, recommendations for the required plans, policies related to climate change & sustainable development, and oversight of the synergy between national efforts to combat climate change, in terms of mitigation & adaptation measures and the required means of implementation.

Egypt's first NDC report, published in 2015, acknowledged the need for Egypt to develop and implement a strong and economically feasible mitigation program in the near future, which would achieve the proposed emission reductions for 2030 at the lowest cost to the national economy. Hence, a comprehensive emission reduction program for Egypt should be based on three main initiatives:

- 1) Stimulate mitigation actions through a portfolio of strong and coordinated policies for the efficient reduction of GHGs across industry sectors and different geographic areas
- 2) Pursue energy efficiency and low-cost options through fast development of the infrastructure required for low-carbon energy systems; and encouraging research and development in promising technologies, which are suitable for the local context and stimulate their deployment.
- 3) Develop a national monitoring, reporting, and verification system

4. Egypt's Green Financing Framework

In order to meet the commitments described above, Egypt has elected to create a Green Financing Framework (the "Framework"), which is in accordance with the 2018 ICMA Green Bond Principles¹⁰, and under which Egypt can issue Green Bond(s) or Sukuk(s).

For each Green Bond/Sukuk issued, Egypt asserts that it will adopt the following, as set out in this Framework:

- (i) Use of Proceeds
- (ii) Project Evaluation and Selection
- (iii) Management of Proceeds
- (iv) Reporting

This Framework may be updated and amended from time to time in the manner described in Section 6 (Amendments to this Framework) below. Any such updated and amended Framework will be published on the Ministry of Finance's website¹¹ and will replace this Framework.

I) Use of Proceeds

An amount equal to the net proceeds of any Green Bond/Sukuk issued by the Egypt will be allocated to finance new or re-finance existing¹² projects/expenditures, in part or in full, which qualify under as an Eligible Green project categories as set out below.

Eligible expenditures will include investments expenditures, operating expenditures, and tax expenditures, insofar as any expenditure contributes to the Egypt's climate change mitigation and adaptation policies. Eligible Green Projects will exclude any state disbursements to a local agency or local authority that participates in capital markets to raise financing, such as the issuance of Green Bond/Sukuk.

Eligible Green Project Categories:

¹⁰2018 Green Bond Principles: <https://www.icmagroup.org/green-social-and-sustainability-bonds/green-bond-principles-gbp/>

¹¹ <http://www.mof.gov.eg/English/Pages/External-Debt.aspx>

¹²Existing projects/expenditures refer to projects which have been undertaken up to 36 months before the issuance of any Green Bond

Eligible Green Project category	UN SDGs alignment	Eligibility criteria	Examples projects
Clean transportation	 	Investment in electric rail and related infrastructure Projects incentivising public transport and related infrastructure, leading to reduced emission from transportation activities	- Electric train linking the new administrative capital (NAC) to other cities in the country through the fourth stage of the third line for Cairo Metro - Third line for underground Metro (Tharwa Line) - Upgrading and Modernization of Cairo Metro Line1 (Helwan - ElMarg)
Renewable energy	 	Renewable energy facilities such as solar energy, wind energy, hydro (<25MW), and biomass Transmission and distribution infrastructure associated with renewable energy facilities	- 240 M.W wind farm project in GabalElzayt - 50 M.W Photovoltaic project in komEmbo - Wind Projects In Gulf Of Suez - NagahHamadi Industrial Pipeline / Benban 3 Solar Park - Electric stations with Wind power (Gulf of Suez)
Pollution prevention and control		Waste collection, waste recycling and composting facilities	- Investments in Municipal Solid Waste (MSW) composting facilities (Mechanical Biological Treatment, MBT)
Climate change adaptation		Projects increasing resilience and adaptive capacities and reducing risk and vulnerabilities	- Adaptation projects in all sectors such as early warning systems, development of crop species resistant to salinity and temperature increase, coastal zone management, etc.
Energy efficiency	 	Projects leading to increase in energy efficiency of buildings	- Energy efficiency - Selection of building systems and materials - Indoor environmental quality improvement - Design and innovation process
Sustainable water and wastewater management		Infrastructure for transportation and treatment of wastewater, including for example, building new wastewater treatment plants (WWTP), sewer systems and pumping stations and maintaining and optimizing existing ones	- Sewage treatment plants - Sea water desalination plants - Sludge treatment facility of Abu Rawash W.W.T.P

		Infrastructure for sewage sludge treatment, including for example, using anaerobic fermentation of sludge in generating electric power Seawater desalination plants with most energy-efficient technologies Projects that reduce water consumption or improve the efficiency of resources e.g., collection, treatment, recycling or reuse of water, rainwater, or wastewater,	
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Excluded Projects

For each Green Bond/Sukuk issued, Egypt asserts that it will not use the proceeds for:

- Burning of fossil fuels for power generation and transportation
- Rail infrastructure dedicated for the transportation of fossil fuels
- Nuclear power generation
- Alcohol, weapons, tobacco, gaming, or palm oil industries
- Renewable energy projects generating energy from biomass using feedstock originating from protected areas
- Waste incineration activities:
 - waste to energy facilities that incinerate recyclable or reusable materials or that divert waste from other usage
- Landfill projects

II) Project Evaluation and Selection

The Project Evaluation and Selection Process will ensure that the proceeds of any Egyptian Green Bond/Sukuk are allocated to new lending or existing projects/expenditures that meets the criteria set out above in Use of Proceeds (Section I).

Egypt will establish a Green Finance Working Group (GFWG) to carry out the evaluation and selection process. The GFWG will consists of members from:

- Ministry of Finance
- Ministry of Planning and Economic Development (MPED)
- Ministry of Environment (MoE)
- Ministry of Transportation (MOT)
- Ministry of Housing, Utilities & Urban Communities (MoHUUC)
- Ministry of Electricity and Renewable Energy (MOEE)
- New and Renewable Energy Authority (NREA)
- Egyptian Electricity Transmission Company (EETC)
- Construction Authority for Potable Water & Wastewater (CAPW)

The GFWG will be chaired by Ministry of Finance.

On a semi-annual basis, the GFWG will consult with other Government departments (as necessary) to identify and recommend eligible projects or expenditures for inclusion as Eligible Use of Proceeds.

On a semi-annual basis, the GFWG will review all proposed Eligible Use of Proceeds to determine their compliance with the Egypt Green Financing Framework in order to approve the allocation of proceeds. GFWG will ensure the compliance of the selected projects with the criteria set out above in Use of Proceeds (Section I) for the lifetime of the bond.

On a semi-annual basis, the GFWG will review the allocation of the proceeds to the Eligible Use of Proceeds and determine if any changes are necessary (for instance, in the event that projects or expenditures have been cancelled, sold or otherwise become ineligible).

The GFWG will also review the management of proceeds (as described in Section III) and facilitate reporting (as described in Section IV).

III) Management of Proceeds

The Arab Republic of Egypt, acting through the Ministry of Finance will be responsible for the issuance of Green Bonds/Sukuk. The proceeds of each Egyptian Green Bond/Sukuk will be deposited in the general funding accounts and earmarked for allocation in the Green Financing Register. Egypt will aim to allocate 100% of the bond/Sukuk proceeds within 24 months from the date of issuance.

Pending its allocation to Eligible Green Projects, Egypt will temporarily hold an amount equal to the unallocated proceeds of any Green Bond/Sukuk issuance in its Treasury. The Ministry of Finance and Ministry of Planning and Economic Development will oversee the allocation and tracking of expenditures on Eligible Green Projects up to an amount equal to the net proceeds of Green Bond/Sukuk issued.

To manage this process, Egypt will establish a Green Financing Register.

The Green Financing Register will be reviewed annually by the Ministry of Finance and Ministry of Planning and Economic Development.

The Green Financing Register will contain relevant information including:

- (1) Details of the Bond(s)/Sukuk: ISIN, pricing date, maturity date, etc.
- (2) Details of Eligible Use of Proceeds, including:
 - Eligible Green Projects
 - Amount of allocation made
 - Other necessary information so that the aggregate of issuance proceeds allocated to the Eligible Use of Proceeds is recorded at all times
 - Estimate of impact of the Eligible Use of Proceeds

IV) Reporting

An annual allocation reporting will be made publicly available within one year of issuance of any Egyptian Green Bond/Sukuk, which details the allocation of the net proceeds from any outstanding issuance. The allocation report will include the following details:

- Total amount allocated to Eligible Green Projects;
- Total amount allocated per Eligible Green Project Category;
- The amount remaining unallocated;
- Breakdown of refinancing versus new financing.

In addition, impact reporting on the expected environmental impacts of the Eligible Green Projects will be provided and will be made available on at least an annual basis, subject to the availability of the relevant data.

Potential key environmental impact indicators include: ¹³

¹³ Using Egypt's Vision 2030 document <http://www.arabdevelopmentportal.com/publication/sustainable-development-strategy-sds-egypt-vision-2030>

Eligible Green Project Categories:

Eligible Project Categories	Potential Impact Metrics
Clean transportation	Passengers using public transportation growth rate Number of new train lines created/maintained (in km) GHG emissions reduced or avoided (tCO2e)
Renewable energy	Estimated annual energy production (MWh) GHG emissions reduced or avoided (tCO2e) Change in primary fuel mix Change in primary fuel mix for electricity production
Pollution prevention and control	Amount of waste recycled (tons) Amount of waste collected (tons)
Energy efficiency	GHG emissions reduced or avoided (tCO2e) Energy savings (MWh or %)
Climate change adaptation	Estimated number of beneficiaries from adaptation projects Estimated cost of losses due to climate change impacts Estimated number of vulnerable people Estimated total area of protected lands Estimated cost of Infrastructure and built environment established for protection (E.g. sea walls, resilient road networks, etc.) Estimated benefits/costs of protected Ecosystem and ecosystem services provided/lost (E.g. ecosystem conservation and management, ecotourism, etc.)
Sustainable water and wastewater management	Increase in the efficiency of water production and consumption (m3 per day or %) Amount of treated water reused or recycled (in litres) Amount of seawater treated (in litres) Amount of energy generated from sludge treatment (kWh)

All reporting will be made public on the Ministry of Finance's website.

5. External Review

5.1 Second Party Opinion

Egypt has engaged Vigeo-Eiris to provide an External Review in the form of a Second Party Opinion on the Egypt Sovereign Green Financing Framework, and confirm alignment with GBP 2018.

This Second Party Opinion will be made public at Ministry of Finance website.

5.2 External Verification

Egypt is committed to engage an assurance provider, or an External Reviewer to assess the compliance the bonds issued against the Egypt Sovereign Green Financing Framework on annual basis.

The resulting report will be made public on Ministry of Finance's website.

6. Amendments to this Framework

The GFWG will review this Framework on a regular basis and such review may result in this Framework being updated and amended. The updates, if not minor or technical in nature, will be subject to the prior approval of the Ministry of Finance, in addition to that of the Ministry of Planning and Economic Development and Ministry of Environment.

If the framework is updated, it will be published on the Ministry of Finance's website with the date of update and will replace this Framework.