



THE AFRICAN DEVELOPMENT BANK GROUP

PROJECT: Sovereign Partial Credit Guarantee (PCG) to support The Arab Republic of Egypt's Samurai Bond on International Capital Markets

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ENVIRONMENTAL AND SOCIAL ASSESSMENT OF THE ARAB REPUBLIC OF EGYPT'S SOVEREIGN SUSTAINABLE FINANCE FRAMEWORK

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1 INTRODUCTION TO THE PROJECT

1.1 Introduction to the Samurai Bond PCG Project

The project is a provision of an African Development Bank (AfDB) Partial Credit Guarantee (PCG) to support the Government of Egypt (GoE) in the issuance of a USD 500 million equivalent in JPY Sustainable Samurai Bond (SB) on the Japanese capital markets. GoE would like to issue the envisaged privately placed bond in 2026. The PCG will provide critical comfort to investors, as a credit enhancement, amidst continued heightened risk aversion and reduced appetite for emerging market issuances, enabling the GoE to secure longer maturities and more competitive pricing.

The Bank's PCG will cover a portion- of the proposed USD 500 million equivalent in JPY bond issuance principal. In accordance with international credit rating agencies requirement for guaranteed sovereign bonds credit enhancement, Egypt will seek, if required to do so, an additional guarantor to cover the remaining portion to achieve a 100% credit wrap for the transaction to obtain the necessary credit rating uplift.

The proceeds from the project will be exclusively allocated to projects under Egypt's Sovereign Sustainable Financing Framework (SSFF), which focuses on green and sustainable development. These include renewable energy projects, clean transportation, energy efficiency, climate adaptation, sustainable water and wastewater management, pollution control, biodiversity conservation, MSME financing, affordable infrastructure and housing, and access to essential services such as healthcare.

This project will be the Bank's second assistance to Egypt to facilitate the mobilization of sustainable financing governed by the country's SSFF and aligns with the country's long-term strategy to advance sustainable and inclusive development. It is also aligned to the country's ongoing fiscal consolidation project whose objective is to reduce the general government debt-to-GDP ratio from 96.4% in FY 2024/25 to 80% by FY 2026/27. By providing investors with added comfort of the Bank's PCG, the project ensures the success of Egypt's fundraising efforts on international debt capital markets, also allowing the country to better plan its resources mobilization programs to stabilize government financing into transformative sustainable development initiatives.

1.2 Link between the Panda Bond PCG and Samurai Bond PCG Project

The Samurai PCG Project will be the Bank's second¹ assistance to Egypt to facilitate the mobilization of sustainable financing governed by the country's SSFF and aligns with the country's long-term strategy to advance sustainable and inclusive development. In October 2023, the Arab Republic of Egypt issued a RMB 3.5 billion, 3.51% sustainable panda bond, with a maturity of 3 years and guaranteed by the Bank and the Asian Infrastructure Development Bank (AIIB). The Panda Bond is governed by the SSFF, and the first allocation report has been disclosed to regulators and investors on 31 December 2024². The bond proceeds were allocated to support seven sub-projects across three ministries: Ministry of Communication and Information Technology; Ministry of Electricity and Renewable Energy and Ministry of Transport.

¹ The Bank approved the Panda Bond PCG project on 17 May 2023 <https://www.afdb.org/en/news-and-events/press-releases/egypt-african-development-bank-approves-345-million-partial-credit-guarantees-bolster-funding-green-and-social-initiatives-61277>

² Sustainable Panda Bond PCG Impact Allocation Report disclosed on 31 December 2024. <https://assets.mof.gov.eg/files/6fd874f0-08a8-11f0-9cd8-4333dd3d0a8d.pdf>

1.3 Overview of Egypt's Integrated National Financing Framework (INFF) (2024)

Egypt has established ambitious development goals through its national development plan, Sustainable Development Strategy: Egypt Vision 2030 (SDS) and to achieve the SDS objectives and the Sustainable Development Goals (SDGs) by 2023, Egypt has prioritized investing in 7 critical sectors i.e. education, health, social protection, water and sanitation, and transportation.

Egypt's Integrated National Financing Framework (INFF) (2024)³ which is based on the findings of the Development Finance Assessments sets out strategies to ensure that the costing of the SDS objectives and the assessment of the existing financing landscape inform the development of public and private financing policies⁴. The Strategy identifies all financing instruments which the Government of Egypt can use for mobilizing financing to address the funding gap for development.

2 AFDB E&S RISK CATEGORISATION AND DISCLOSURE REQUIREMENTS

2.1 Project Description

The proceeds from the project will be exclusively allocated to projects under Egypt's Sovereign Sustainable Financing Framework (SSFF), which focuses on green and sustainable development. These include renewable energy projects, clean transportation, energy efficiency, climate adaptation, sustainable water and wastewater management, pollution control, biodiversity conservation, MSME financing, affordable infrastructure and housing, and access to essential services such as healthcare. This project will be the Bank's second assistance to Egypt to facilitate the mobilization of sustainable financing governed by the country's SSFF and aligns with the country's long-term strategy to advance sustainable and inclusive development.

The specific projects that would benefit from the Bank's PCG coverage are not known at this stage. The project locations are not also known as this stage. However, a number of environmental and social risks can be anticipated.

2.2 Potential E&S Risks

Key environmental risks that could occur during the construction phase of the eligible projects includes risks to occupational health and safety (particularly with regard to the use of high-powered equipment and, heavy construction plant, excavations, transportation amongst others, including fire and pollution releases), generation of hazardous and non-hazardous waste streams, risks to public safety, biodiversity loss and pollution. Additional risks for the communities are associated to heavy traffic on public roads caused by delivery of materials and equipment to the project site, generation of rubble waste due to excavations, packaging wastes, and fuel containers, spent paint cans, lubricant cans and oil cans, vehicle/plant maintenance wastes.

Key social risks that could occur during the construction phase are associated with risks due to worker influx, occupational health and safety risks, such as injuries, sunstroke, dehydration, handling of hazardous products, exposure to noise, scorpion or snake bites, and electrocution. There are also risks of sexual and gender-based violence, including harassment and assault, as well as tensions between local communities, especially in terms of employment, use of local resources, and cultural and racial differences. There could also be involuntary displacement risks.

2.3 E&S Risk categorization.

Under the Sustainable Finance Framework, Egypt, acting through the Ministry of Finance, can issue Green, Social, Sustainability or Thematic Bond(s), Sukuk(s), Loans and any other types of debt instruments (collectively "Sustainable

³ Integrated National Financing Framework of Egypt.

<https://mped.gov.eg/adminpanel/sharedFiles/EGYPT%20%99s%20Integrated%20National%20Financing%2016-9-2024%20ab5.pdf>

⁴ <https://inff.org/country/egypt>

Debt Instruments") to finance high, medium and low risk E&S categories as per the Egypt Environmental law [Law 4/1994] (category A, B, Scoped B and C) across a number of sectors, specifically: (i) clean transportation; (ii) renewable energy; (iii) pollution prevention and control; (iv) energy efficiency; (v) climate change adaptation; (vi) sustainable water and wastewater management; (vii) affordable infrastructure and housing; (viii) access to essential services such as health care. Based on the fact that the Bank's PCG could support high risk projects (Category 1; Category C per national legislation), the project has been classified as a Category 1 project per the requirements of the Bank's Integrated Safeguards System (ISS). The E&S category was validated in the Bank's Integrated Safeguards Tracking System (ISTS) on 30 March 2025 and confirmed in SAP on 30 March 2025.

2.4 E&S Disclosure Requirements

At this stage there are no specific subprojects with known locations for the specific programme to be supported by the Bank. The Bank's Environmental and Social Due Diligence (ESDD) is linked to an assessment the Arab Republic of Egypt's Sustainable Financing Framework including reviews, clearance, and disclosure on the Bank's website after authorization by the Ministry of Finance. The Bank's disclosure is accompanied by an Environmental and Social Assessment Report of Egypt's SSFF prepared by the Bank and including an assessment of the existing procedures for E&S risk management through the life of the project as well as recommendations, where applicable, for the improvement of the framework to achieve material compliance with the requirements of the Bank's Integrated Safeguards System (ISS). The Ministry of Finance is also required to prepare an Environmental and Social Management Plan (ESMP)⁵, a summary of all E&S measures to be implemented during the life project and to be included in the guarantee agreement (ESMP-GA). All publications of the E&S instruments (i.e., the Sustainable Finance Framework or elements of it, the ESMP of the guarantee agreement) must be made (by both Ministry of Finance and the Bank) before the start of the project appraisal mission; during which the implementation and reporting modalities will be discussed and finalized. Egypt's Sustainable Finance Framework (November 2022) has been disclosed on the Ministry of Finance's website since the **11 November 2022**⁶. As part of the processing of the Panda Bond Transaction by the Bank, which was approved by the Bank's Board of Directors on **17 May 2023**, the Ministry of Finance authorized the Bank to disclose the SFF on its website on **15 November 2022** and the Bank disclosed on **6 December 2022**⁷. The SSFF has not been updated since it was first disclosed in 2022. The Ministry of Finance (MoF) prepared the Environmental and Social Management Plan (ESMP) of the guarantee Agreement (ESMP of the GA) to be disclosed on its website and on the Bank's website. The disclosure of this SFF E&S Assessment report would complete the disclosure requirements for the Bank, per its Integrated Safeguards System (ISS).

3 SCOPE OF THE E&S ASSESSMENT OF THE ARAB REPUBLIC OF EGYPT'S SUSTAINABLE FINANCE FRAMEWORK

3.1 Introduction

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

⁵ As referred to in section III.2.3 of the Bank's Environmental and Social Policy (ESP) of the Integrated Safeguards System (ISS). <https://www.afdb.org/en/documents/african-development-bank-groups-integrated-safeguards-system-2023>

⁶ <https://assets.mof.gov.eg/files/2024-01/04e0af50-bdb8-11ee-b3f8-9dc3ae2f33b1.pdf>

⁷ <https://www.afdb.org/en/documents/egypt-egypt-green-panda-bond-es-documents-p-eg-h00-013>

as other national objectives. The SDS is supported by the Sustainable Finance Framework⁸ (SFF) as well as the entire suite of environmental and social legislation in Egypt.

The Environmental and Social Safeguards and Compliance Department (SNSC) of the African Development Bank (AfDB) has assessed the Arab Republic of Egypt's Sustainable Finance Framework (SFF) in relation to compliance with E&S country systems and the requirements of the Bank's Integrated Safeguards System (ISS). The evaluation focused on the key pillars of a robust E&S risk management system (mirroring an ESMS a private sector or para-statal entity) which has to be operationalized by the Ministry of Finance in the identification and management of E&S risks and impacts, including monitoring and reporting for projects that would be covered by the Bank's PCG. These key pillars include:

1. Presence of a high-level policy approved by the relevant ministry's / company's Senior Management
2. Existing E&S management procedures for handling each of the E&S aspects of the project as well as its project social responsibility.
3. Institutional capacity (existence of clear E&S specialist) in the ministry's organogram, including skilled and appropriate staffing commensurate to the E&S challenges; and an adequate sustainable financing (permanent budget line) for the operation of the E&S function.
4. Environmental and social governance (ESG) in the organization, including the level of independence of the E&S Function, E&S and safety performance as well as the preparation and publication of E&S performance reports.

This assessment reviews the Sustainable Financing Framework of a sovereign Regional Member Country and considers the same pillars, for an environmental and social management system (ESMS) that would be deployed by the country in the identification and management of E&S risks and impacts associated with the current operation.

3.2 Findings of the Assessment

The Government of Egypt is committed to achieving the United Nations Sustainable Development Goals (SDGs). This commitment is embodied in Egypt's national strategy (launched in 2023), "**Sustainable Development Strategy: Egypt Vision 2030**" (SDS)⁹ which reflects the three dimensions of sustainable development: economic, social and environmental. The strategy is a national framework that guides and sets policies and programs in order to achieve the SDGs, as well as other national objectives. The SDS is aligned with the 17 Sustainable Development Goals (SDGs), as well as the African Agenda 2063¹⁰, and acts as the governing framework for all development programs and projects that will be implemented by the Government of Egypt up to 2030. The launch of the SDS in 2023, was followed by the establishment of a national committee, the **National Committee for Monitoring the Implementation of the Sustainable Development Goals. The current Egypt SDS had been published 2023, while in 2016, Egypt launched its first version of the Sustainable Development Strategy.**



The Egypt's National Committee for Monitoring the Implementation of the Sustainable Development Goals is an inter-ministerial committee established primarily in December 2015 by Prime Ministerial Decree to oversee the implementation of the Sustainable Development Goals (SDGs) and renewed after. This committee was created to enhance public bodies' internal auditing, strategic planning, and monitoring and evaluation functions, ultimately strengthening the institutional framework needed for effective SDG implementation. The committee, composed of

⁸ Note that private sector entities, in place of a Sustainable Finance Framework, they would typically have an environmental and social management system (ESMS) helps companies integrate into their core operations procedures and standards allowing them to anticipate environmental and social risks posed by their business activities and avoid, minimize, and compensate for such impacts as necessary. By implementing an effective ESMS, a financial institution can enhance its understanding of environmental and social risks and opportunities associated with each transaction and identifying measures for mitigating and managing them, which can be included in the decision-making process before proceeding with a transaction.

⁹Sustainable Development Strategy: Egypt Vision 2030" https://mped.gov.eg/Files/Egypt_Vision_2030_EnglishDigitalUse.pdf

¹⁰ <https://au.int/en/agenda2063/overview>

representatives from 17 ministries and state entities, aims to ensure that Egypt is on track to achieve the 2030 Agenda, according to Egypt's 2021 Voluntary National Review.

3.3 Environmental and Social legislation in Egypt

Egypt has a good system of laws and regulations in place for the protection of the environment and people. These includes the Environmental Law (Law 4/1994) which sets out provisions for the protection of land, water and air from pollution. There are also legislation for the management of waste, water resources management and irrigation, labour laws governing occupational health and safety and working conditions for women and children (before the ages of 15 years of age). The country systems also have legislation that requires the environmental and social risks and impacts of all development projects to be assessed, and adequate mitigation measures put in place. **There is the need to develop, implement and enforce specific legislation related to the introduction of social safeguards risks in project development and implementation, including involuntary resettlement as well as social risk management tools such as stakeholder engagement plans and project grievance redress mechanism as a complement to national systems.**

3.3.1 Green financing Framework (September 2020)

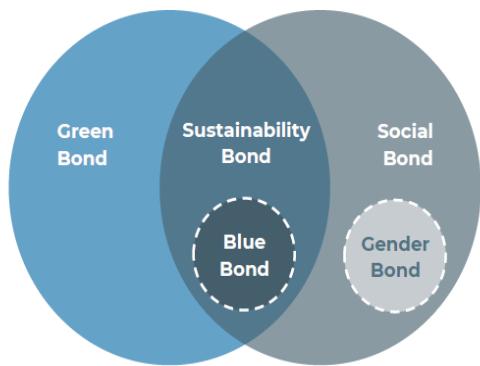
To complement the existing national regulatory framework (constitution, policies, laws and decrees) on environmental and social risk management, and to support de delivery of the SDS and Egypt's Vision 2030, the Egyptian government established its Green Financing Framework in September 2020 and its Environmental Sustainability Criteria Guidelines in 2021. This is complemented by regulations and guidance established by Egypt's Financial Regulatory Authority (FRA) such as the Green Bond Guidelines launched in 2018, as well as the Decrees 107 and 108 in 2021 that mandate companies listed in the Egyptian Stock Exchange and companies operating in the nonbanking sector to **submit environment, social and governance disclosure reports related to sustainability** and the financial impacts of climate change. This is mainly directed to the Banking Sector and unrelated to the PCG operations that the Ministry of Finance handles on the sovereign side of green or sustainable finance.

In Egypt's Green Financing Framework "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. Egypt successfully issued its green bond in international market in October 2020 (the first sovereign green bond in MENA region and North Africa) which was very well perceived by the investors and well recognized by the international institutions)

While for the banking sector in July 2021, the Central Bank of Egypt "the responsible regulator for banking sector" issued the Guiding Principles for Sustainable Finance in light of its keenness in supporting sustainable development and with the aim of keeping pace with international best practices in establishing rules in the Egyptian banking sector in this regard, which aims to start planning and developing the general framework for applying sustainable finance in Egyptian banks, capacity-building, and providing the resources needed to implement those principles.

3.3.2 Egypt's Sustainable Financing Framework (November 2022)

To further demonstrate its strong commitment to sustainable development and meeting the objectives set out in the SDS (Egypt Vision 2030), the Government of Egypt created the **Sustainable Financing Framework** in accordance with the ICMA Green Bond Principles (GBP) 2021, ICMA Social Bond Principles (SBP) 2021, ICMA Sustainability Bond Guidelines (SBG) 2021, LMA Green Loan Principles (GLP) 2021 and Social Loan Principles (SLP) 2021. Under the Framework, Egypt, acting through the **Ministry of Finance**, can issue Green, Social, Sustainability or Thematic Bond(s) (i.e Blue, Gender or other thematic labels focused on specific environmental, social and sustainability objectives), Sukuk(s), Loans and any other types of debt instruments (collectively “Sustainable Debt Instruments”).



The framework sets out modalities for the use of proceeds of any sustainable debt instrument issued by Egypt including eligible expenditures and examples of the types of projects that can benefit from the proceeds. It also includes a list of excluded activities. Specifically:

- a. **Eligible green project categories (aligned to SDGs)** include:
 - i. **Under the Environmental Projects Category:** clean transportation (SDG11 and SDG13), renewable energy (SDG7 and SDG13), energy efficiency (SDG11 and SDG13), climate change adaptation (SDG13), pollution prevention and control (SDG12), sustainable water and waste water management (SDG6), terrestrial and aquatic biodiversity conservation (SDG 14 & 15)
 - ii. **Under the Social Projects Category:** affordable basic infrastructure (SDG1, SDG6, SDG9), access to essential services – financial services (SDG8, SDG10); access to essential services – equal access to education and quality healthcare services (SDG3 and SDG4), affordable housing (SDG10, SDG11), socioeconomic advancement and empowerment (SDG5, SDG8, SDG10), MSME financing to support employment generation and/or alleviate unemployment (SDG5, SDG8), food security and sustainable food systems (SDG2 and SDG8)

In accordance with the requirements of national legislation in Egypt (e.g. Law 4/1994) projects in these sectors could be Category A (low risk), Category B (moderate risk) and Category C (high risk). This risk classification approach is aligned with the requirements of the Bank's Integrated Safeguards System (ISS) which also classifies projects per 3 categories – Category 1 (high risk), Category 2 (moderate risk) and Category 3 (low risk).

- b. **Excluded Activities under the SFF.**
 - i. **Egypt's Sustainable Financing Framework includes a list of assets for which proceeds of sustainable debt instruments will not be used** i.e. exploration/production/distribution and transportation of fossil fuels, alcohol/weapons/tobacco/gaming or palm oil industries.
 - ii. However, the Exclusion List is not as comprehensive as the Bank's Exclusion List (Expenditures not eligible for financing by the Bank) in the Non-Sovereign Operations Policy¹¹ and the Environmental and Social Exclusion List (complementary to the Negative List) in Annex 3 of the Operational Safeguards 1 (Environmental and Social Risk Management) of the Bank's Integrated Safeguards System¹².

There is therefore the need to ensure that in addition to the Excluded activities in Egypt's SSFF, the proceeds from the debt instruments resulting from the Bank's deployment of its Partial Credit Guarantee (PCG) product does not support projects on the Bank's Exclusion and Negative List.

¹¹ www.afdb.org/fileadmin/uploads/afdb/Documents/Policy-Documents/NSO_Policy-En.pdf

¹² <https://www.afdb.org/en/documents/african-development-bank-groups-integrated-safeguards-system-2023>

3.4 Key Pillars of Egypt's Sovereign Sustainable Finance Framework

Under the Sustainable Finance Framework, Egypt asserts that for each Sustainable Debt Instrument issued, it will adopt the 4 key pillars set out in the framework (**(i) Use of Proceeds; (ii) Process of Project Evaluation and Selection; (iii) Management of Proceeds; and (iii) Reporting**) as well as an external review of the framework and its implementation (see insert).

A brief description of the key pillars of the SFF in comparison to the requirements of the Bank's ISS is presented in Table 3.1 below.

The **Sustainable Finance**¹³ **Framework**¹⁴ is subject to change following a review by the **Sustainable Finance Working Group (SFWG)**; and subject to the approval of the Ministry of Finance (MoF), Ministry of Planning and Economic Development and Ministry of Environment, the updated version will be published on the Ministry of Finance website. The Second Party Opinion by MOODY's on the SFFF is also disclosed on the Ministry of Finance's website¹⁵

The 5 pillars of the Government of Egypt's Sustainable Financing Framework (issued November 2022)



Table 3.1. Summary of the key pillars of Egypt Sustainable Finance Framework compared to the requirements of the Bank's Integrated Safeguards System (ISS)

Pillars of the SFF	Findings of the Bank's E&S Assessment
Process of Project Evaluation and Selection	<p>The SFF sets out a rigorous process for project evaluation and selection in line with the use of proceeds criteria. An Inter- Ministerial Working Group, the Sustainable Finance Working Group (SFWG) has been set up to carry out the evaluation and selection process.</p> <p>The SFWG is chaired by the Ministry of Finance and includes members of the Ministry of Planning Economic Development (MoIC), Ministry of Environment as well as Sectoral Ministries and Government Entities responsible for identify eligible projects.</p> <p>The SFWG reviews on a semi-annual basis the allocation of proceeds to the Eligible Use of Proceeds and makes a determination if changes are necessary (e.g. replace projects no longer meeting the criteria for green or social projects). It also reviews the management of proceeds and facilitates reporting.</p>
Management of Proceeds	<p>Egypt's Ministry of Finance (MoF) is responsible for the issuance of the Sustainable Debt Instrument and maintenance of a Sustainable Financing Asset Register. The Ministry of Finance (MoF) and the Ministry of Planning and Economic Development oversee the allocation and tracking of Eligible Expenditures up to an amount equal to the net proceeds of the Sustainable Debt Instrument issued.</p> <p>The Sustainable Financing Asset Register is to be reviewed annually by the Ministry of Finance and Ministry of Planning and Economic Development.</p> <p>During the ESDD, the following was verified:</p>

¹³ <https://mof.gov.eg/en/posts/publicDept/65b159745eb6d90008a17e5c/Sustainable%20Financing>

¹⁴ <https://assets.mof.gov.eg/files/2024-01/04e0af50-bdb8-11ee-b3f8-9dc3ae2f33b1.pdf>

¹⁵ <https://assets.mof.gov.eg/files/2022-11/dddabc30-6032-11ed-b999-638206bd437c.pdf>

	<ul style="list-style-type: none"> The Egyptian Ministry of Finance issued decree no 17/2023 in relation to forming a ministerial committee (the “Committee”) amongst the following ministries MOERE, MOHP, MALR, MAWRI, MOE(EEAA), MOHUC, MOT, MPED, MLD, MOSS, MOP, MCIT, MOHESR The SFWG meets on a regular basis as confirmed by MoF The Committee is responsible for reviewing and selecting projects under the Sovereign Sustainable Financing Framework (SSFF), collecting required environmental and financial data, preparing related reports and strategies, conducting technical and compliance studies, coordinating with international institutions, and participating in meetings. It also handles any tasks assigned by the committee head. To note the SFWG has not approved the removal of any project in the authorized list Under the Panda Bond programme, the MoF has undertaken 2 site visits to the LRT and HSR project sites.
Reporting	<p>Under the SFF, Egypt is committed to reporting on the allocation and impact of proceeds from any Sustainable Debt Instrument on an annual basis, until full allocation and in the event of any material changes. An annual allocation report will be made publicly available within one year of issuance of any Sustainable Debt Instrument, which details the allocation of the net proceeds from any outstanding issuance.</p> <p>In December 2024, the first allocation report for the Panda Bond programme was published on the MoF's website</p>
external reviews of the framework and its implementation.	<p>Egypt has engaged Moody's Investors Service to provide an External Review in the form of a Second Party Opinion on the Egypt Sovereign Sustainable Financing Framework, and confirm alignment with GBP 2021, SBP 2021, SBG 2021, GLP 2021 and SLP 2021. This Second Party Opinion is to be made public at Ministry of Finance website.</p> <p>Egypt is committed to engage an External Reviewer to assess the allocation of net proceeds to eligible expenditures and impact reporting, on an annual basis until full allocation. The resulting report will be made public on Ministry of Finance's website.</p> <p>Moody's Second Party Opinion of the SFFF dated 9 November 2022 is disclosed on the Ministry of Finance's (MoF) website. The second party opinion on the Annual allocation report for the Sovereign Panda Bond report issued on 31 December 2024 was also prepared by Moody's</p>

3.4.1 Environment and Social Risk Assessment and Management Approach in the SSFF

3.4.1.1 Egypt Environmental and Social Laws

As per national regulation in Egypt (Law 4/1994), development projects are categorized in one of 4 Categories which are aligned with the Bank's E&S categorization system i.e. Category A (equivalent to low risk/Category 3 per AfDB ISS); Category B & B Scoped (equivalent to medium risk/Category 2 per AfDB ISS) and Category C (equivalent to high risk/Category 1 per AfDB ISS). The Egyptian Environmental Assessment Authority (EEAA) is the national authority responsible for environmental permitting, including reviewing and approving EIAs and issuing permits, as well as monitoring the implementation of the resulting action plans. EEAA has the authority to request additional information or assessments from project owners, if it determines that this is required to adequately assess and manage E&S risks due to a project. EEAA also has the authority to impose fines and suspend permits in the case of violations of the project's permit conditions.

As set out in the SFF, the SFWG will assess any known risks of negative environmental or social impacts for Eligible Projects to ensure that: (i) E&S risks and impacts are adequately assessed in the studies and managed during the construction and operational phase of the projects; (ii) the project meets its desired environmental and social outcomes in design and implementation.

3.4.1.2 E&S Capacity and Implementation Arrangements

Over the years, the Government of Egypt has demonstrated strong commitment towards environmental protection. In 1982, the Egyptian Environmental Affairs Agency (EEAA) was established and in 1997, the Ministry of State for Environmental Affairs was created. The EEAA has been playing a crucial role in supporting Egypt meeting its environmental and social obligations, including regulatory enforcement and actions.

Under the SFFF, the Ministry of Finance has been acting as the coordinating entity overseeing the implementation of the SFFF. The Debt Management Unit has 2 focal points who have acted as E&S officers under the Panda Bond PCG Project and regularly provided the Bank with E&S information in the periodic reports to keep the Bank informed on the projects that have benefited from the Bank's PCG deployment as well as key performance indicators. The MoF has also prepared in a timely manner the annual impact location report for the Panda Bond Project.

Overall, it is assessed that the institutional arrangements are in place for the deployment of the SFFF, including monitoring and reporting. To further enhance efficiency and sustainability, there is the need for the SFWG to meet regularly (including involvement of EEAA) and prepare its periodic reports to complement the information collected by the MoF and transmitted to the Bank. There is also the need for continuous capacity building on E&S for the project implementation unit and members of the SFWG in order to help enhance the sustainability outcomes of the projects that would benefit from the Bank's PCG coverage in Egypt.

4 SCOPE FOR IMPROVEMENT

4.1 Overall Assessment of Egypt's Sovereign Sustainable Finance Framework

Overall Egypt's Sustainable Financing Framework is assessed as being **GOOD** because: (i) it sets out a clear approach for the identification of eligible projects for the use of proceeds; (ii) a clear process of the screening of projects and their E&S impact assessment; (iii) a clear approach for the management of proceeds including a Sustainable Financing Register with key indicators to facilitate performance reporting; (iv) a good system for reporting on the use of proceeds with good sustainable performance indicators. In addition, the SFF is reviewed externally by Moody's who provide a third-party opinion.

Areas of additional consideration during the processing of the project benefiting from bank support includes:

- i. Alignment of the exclusion lists in the SSFF and the Bank's Environmental and Social Exclusion List and its Negative List;
- ii. Preparation of periodic E&S reports to be submitted to the Bank; and the annual reports on the use of proceeds;
- iii. E&S capacity in the EEAA and the Ministry of Finance to oversee the implementation and reporting on the E&S aspects of the project.

These actions for improvement as well as those that will be applicable through the life of the Bank's financing are set out in the Environmental and Social Action Plan (ESAP) listed in the table below.

Table 1: Proposed Environmental and Social Action Plan (ESAP)

Actions	Indicators	Deadlines
1. Ensure that ensure that in addition to the Excluded activities in Egypt's SSFF, the proceeds from the debt instruments resulting from the Bank's deployment of its Partial Credit Guarantee (PCG) product does not support projects on the Bank's Negative List or the E&S Exclusion List	Periodic E&S reports confirming the non-projects on the Bank's Exclusion or Negative List received the Bank's PCG coverage	Quarterly E&S periodic reports submitted to the Bank at most fifteen (15) days after the due period
2. E&S capacity strengthening to its portfolio as well as internal stakeholders	Training sessions/tools developed	Bi-annually after first disbursement and updates to be included in the

		quarterly E&S reports to be prepared and submitted to the Bank
3. Prepare and submit to the Bank, quarterly E&S monitoring reports	Quarterly E&S monitoring reports	Quarterly E&S periodic reports submitted to the Bank at most fifteen (15) days after the due period
4. Preparation of an Annual Environmental and Social Reports (AESRs) on the implementation of the SFFF, including its E&S procedures as well as the E&S performance of the portfolio of subprojects. <i>The combination of the Annual Allocation Report, Impact Report and Second Party Opinion of the Annual Allocation report would provide the data that would materially meet the Bank's reporting requirements.</i>	Annual E&S Report prepared by MoF and shared with the Bank	Annual basis and no later end of the first quarter of the following year.

5 CONCLUSION

As part of the processing of the proposed Samurai Bond PCG transaction with the Republic of Egypt, the Bank reviewed Egypt's Sustainable Financing Framework in relation to compliance with the requirements of the Bank's Integrated Safeguards System (ISS).

Overall, the SFFF was assessed to be **GOOD** and comprehensive, comprising the main components of the four pillars that make a robust ESMS. Three of the key pillars of a robust ESMS are in place however, some pillars need some improvements (See ESAP Matrix) and evidence of adequate resourcing plan for the operation of the E&S unit/function, with satisfactory provisions for effective ESG monitoring and reporting on activities at both the Bank and portfolio company or project level which needs to be in an improved on. In accordance with the requirements of the Bank's Integrated Safeguards System (ISS), the Ministry of Finance has also prepared, agreed with the bank and disclosed the *ESMP of the guarantee agreement* which will be appended to the guarantee agreement.

As part of the Bank's Project Appraisal, the Bank will agree with the Ministry of Finance any specific requirements related to E&S (as set out in the ESAP) to be included in the financing agreement between the Bank and the Ministry of Finance, which will also need to be cascaded to subprojects that benefit from the Bank's partial credit guarantee coverage.