DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT

Approved by the Board of Directors on 10 November 2021[1]

EGYPT

GRCF2 W2 – ALEXANDRIA METRO

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

1 As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

TABLE OF CONTENTS

Page

ABBREVIATIONS / CURRENCY CONVERSIONS

Abbreviation	**Name**
AFD	Agence Francaise de Developpement or French Development Agency
AIIB	Asian Infrastructure Investment Bank
APTA	Alexandria Pubic Transport Authority
CBE	Central Bank of Egypt
City	Alexandria
E&S	Environmental and Social
ECM	Egyptian Company for Metro
EETC	Egyptian Electricity Transmission Company
EIB	European Investment Bank
EIRR	Economic Internal Rate of Return
ENR	Egyptian National Railways
EPC	Engineering, Procurement and Construction
ESAP	Environmental and Social Action Plan
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
GBVH	Gender Based Violence and Harassment
GCAP	Green Cities Action Plan
GET	Green Economy Transition
GHG	Greenhouse Gas
GoA	Governorate of Alexandria
GoE	Government of Egypt
GrCF2	Green Cities Framework 2
GrCF2 W2	Green Cities Framework 2 Window II
FDI	foreign direct investment
MOIC	Ministry of International Cooperation
MoT	Ministry of Transportation
MoU	Memorandum of Understanding
NAT	National Authority for Tunnels
NTS	Non-Technical Summary
O&M	Operations & Maintenance
PIA	Project Implementation Agreement
PP&R	Procurement Policies & Rules
PSC	Public Service Contract
PRs	Performance Requirements
RAP	Resettlement Action Plan
RF	Resettlement Framework
SSF	Shareholder Special Fund
SEP	Stakeholder Engagement Plan
SUP 2032	Strategic Urban Plan 2032 for Alexandria

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Arab Republic of Egypt for the benefit of the National Authority for Tunnels ("NAT"), a state-owned implementing entity incorporated in Egypt, are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan to the Arab Republic of Egypt in the amount of up to EUR 250 million. The Project is part of a total financing package of EUR 1.76 billion, which is expected to include [REDACTED] co-financing from the European Investment Bank ("EIB"), [REDACTED] the Agence Francaise de Developpement ("AFD"), [REDACTED] the Asian Infrastructure Investment Bank ("AIIB") as well as a government contribution [REDACTED].

The operation will enable the upgrade and electrification of an existing rail line connecting downtown Alexandria and north-eastern town Abou Qir into the first high capacity metro system in Alexandria. The Project is a trigger investment under the EBRD's Green Cities Framework, which formally initiates Alexandria's participation in the programme and paves way for the development of a Green City Action Plan ("GCAP") for the City. The Project is presented to the Board in conjunction with the extension of the Green Cities Framework 2 – Window II, confirming the outreach of the EBRD Green Cities into new geographies. The expected transition impact of the Project is primarily Green as it is expected to result in a modal shift from more polluting road-based modes of transport onto a sustainable, electric transport network, thus contributing to significant Greenhouse Gas ("GHG") savings and air pollutants reductions. As such, the Project is consistent with the Green Economy Transition ("GET") Approach and is 100 per cent GET eligible. The Project will also promote the Well-governed objective given that it will support the introduction of a long-term operations and maintenance ("O&M") contract with an experienced metro operator to strengthen the role of the private sector in maximizing the efficiency and quality of services.

Post-signing Technical Cooperation ("TC") assignments to support (i) implementation of the Environmental and Social Action Plan ("ESAP"), (ii) lender supervisory services, and (iii) preparation and award of an O&M contract for the new metro are proposed to be financed by High Impact Partnership on Climate Action ("HIPCA") and the EBRD's Shareholder Special Fund ("SSF"). Additionally, the TC support for the development of the GCAP will be funded by the Austria-EBRD CREATE Fund Programme Account.

I am satisfied that the operation is consistent with the Bank's Strategy for Egypt , the Municipal and Environmental Sector Strategy , the Green Economy Transition Approach 2.1, the Strategy for the Promotion of Gender Equality and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed loan substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

EGYPT – GrCF2W2 – Alexandria Metro - DTM 49905 Framework: REGIONAL - Green Cities 2 - Window II - DTM 50674	
Transaction / Board Decision	Board approval[2] is sought for a sovereign loan of up to EUR 250 million in favour of the Arab Republic of Egypt (the "Borrower") for the benefit of the National Authority for Tunnels ("NAT") to finance the upgrade and electrification of an existing rail line connecting downtown Alexandria and north-eastern town Abou Qir into a high capacity metro system (the "Project"). The operation is a trigger investment under the Green Cities Framework 2 – Window II ("GrCF2 W2") allowing for the development of a Green City Action Plan ("GCAP") for Alexandria. The Project is part of an overall investment package of EUR 1.76bn proposed to be co-financed by EIB, AFD and AIIB.
Client	NAT, the state-owned executive agency under the jurisdiction of the Ministry of Transport ("MoT"), will be responsible for the Project implementation. The Governorate Alexandria ("GoA") will be responsible for the development and implementation of the Alexandria GCAP.
Main Elements of the Proposal	<u>*Transition impact*</u>*:* ***Primary Quality*** **-** The Project will promote the **Green** quality by facilitating the shift to sustainable, accessible and inclusive modes of public transport and contributing to significant reductions in GHG and air pollution emissions. The investment is the "trigger project" for the GoA under GrCF2 W2 and will support the City in the development and implementation of a GCAP as well as identification of projects within the scope of Green Cities. ***Secondary Quality*** **-** The Project will support the **Well-governed** quality through the introduction of a long-term operations & maintenance ("O&M") contract with an experienced metro operator, supported by a dedicated TC assignment under the Project, to strengthen the role of the private sector in maximizing the efficiency and quality of public transport services. <u>*Additionality*</u>: (i) The loan is part of a large scale investment programme of EUR 1.76bn. Hence, the Bank will provide a long-term financing not available from commercial banks [REDACTED]; (ii) The Project will contribute to significant reductions in GHG and air pollution emissions and is 100% GET eligible; (iii) The Bank has relevant sector and municipal knowledge and will provide support to the GoA in the development and implementation of the GCAP, which includes enhanced inclusion and gender considerations. <u>*Sound banking*</u> – The Project satisfies sound banking due to the acceptable quality of the sovereign risk.
Key Risks	*Sovereign risk*: The immediate short-term risk to Egypt's economy is from the tourism sector, which was severely affected by the COVID-19 pandemic. However, Egypt was able to weather the global economic recession and managed to maintain positive growth (3.3 per cent expected in fiscal year 2021)- led by improvements in wholesale and retail trade, agriculture, telecommunications and construction. Egypt's credits ratings are B2 Stable by Moody's, B Stable by S&P, and B+ Stable by Fitch. *Project implementation risk* will be mitigated through a loan-funded *Project Implementation Support and Contract Management* services to provide oversight of all the construction activities and appointment of a *Lender's Monitor* by the Bank to provide additional project monitoring. *Environmental and Social risk* will be mitigated through inclusion of an *Environmental and Social Action Plan ("ESAP") Implementation Support* TC to assist NAT in the implementation of the ESAP, which will form part of the loan agreement.
Strategic Fit Summary	The Project is in line with the Bank's Strategy for Egypt, the Municipal and Environmental Infrastructure Sector Strategy, the Green Economy Transition Approach 2.1, the Strategy for the Promotion of Gender Equality and with the Agreement Establishing the Bank.

2 Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	Up to EUR 250 million sovereign loan to the Government of Egypt ("GoE") to finance the upgrade and electrification of an existing rail line connecting downtown Alexandria and north-eastern town Abou Qir ("Abou Qir line") into a high capacity metro system (the "Project"). The loan will finance (i) infrastructure works for the upgrade and the electrification of the line, (ii) relevant rail systems (including the upgrade of signalling, telecommunications and centralised control systems), and (iii) rolling stock to be operated on the new metro system. The loan will also finance Project Implementation Support and Contract Management services to ensure efficient implementation of the Project. Alexandria is a fast-growing industrial city with strong needs for green investments and in particular energy-efficient modes of transport. As such, the proposed Project will be Alexandria's "trigger investment" under the Green Cities Framework 2 Window II ("GrCF2 W2"), formally initiating the City's participation in the programme and enabling the development of the Green City Action Plan ("GCAP").
Existing Exposure	The sovereign portfolio is EUR million 1.6bn [REDACTED].
Maturity / Repayment	Tenor of up to 18 years [REDACTED].
Potential AMI eligible financing	None.
Use of Proceeds	*Project Scope* The loan is part of a EUR1.76bn investment programme that will finance (i) the upgrade and electrification of the Abou Qir line into a high capacity metro system and (ii) rolling stock to be operated on the new line. The investment programme also includes a loan-funded *Project Implementation Support and Contract Management* services. The EBRD loan is expected to be co-financed with an EIB loan [REDACTED], an AFD loan [REDACTED], and an AIIB loan [REDACTED]. *Implementation* The Project will be implemented directly by NAT, which will receive support from project implementation consultants in procurement preparation, contract management, environmental and social management, financial control monitoring and reporting. The Project preparation is well-advanced as it is following an advance procurement process under EBRD's PP&R. The procurement of two separate EPC contracts (the first for infrastructure works and the second for rolling stock) have been tendered out for pre-qualification on an EPC basis on 24 Nov 2020 and successfully completed on 30 Jul 2021. [REDACTED].
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	*Borrower*: the Arab Republic of Egypt *Beneficiary or the Implementing Entity*: NAT *GCAP counterpart*: the Governorate of Alexandria
Conditions for Effectiveness of the Loan Agreement	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	Sovereign loan.

Other material agreements	Project Agreement between the Implementing Entity and the Bank Grant Agreement between the Borrower and the Bank. [REDACTED].
Associated Donor Funded TC and co-investment grants/concessional finance	***<u>Pre-signing TCs:</u>*** **TC 1: Technical Due Diligence review** [REDACTED]. **TC 2: Economic Due Diligence review** [REDACTED]. ***<u>Post-signing TCs:</u>*** **TC 3: Lender Supervisory Services** to monitor and report to the Bank on the effective implementation and completion of the Project in line with the Bank's requirements. The estimated cost is up to EUR 600,000, proposed to be financed by High Impact Partnership on Climate Action ("HIPCA"). **TC 4**: **Preparation and Award of Operational Contract** to support NAT in the introduction of a long-term O&M contract with an experienced metro operator. The estimated cost is up to EUR 300,000, proposed to be financed by an international donor or the SSF. **TC 5: Environmental and Social Action Plan ("ESAP") Implementation Support** to assist NAT in developing and improving its Environmental, Health and Safety performance to meet the Bank's Environmental and Social Policy as well as the ESAP requirements, which will form part of the loan agreement. The estimated cost is up to EUR 300,000, proposed to be financed by HIPCA. **TC 6: Green City Action Plan ("GCAP")** to support the GoA to identify and prioritise its most pressing environmental challenges and develop a plan for investments to pursue the green agenda. The GCAP methodology includes inclusion, digital and gender considerations. The estimated cost is up to EUR 350,000, to be financed by the Austria - EBRD City REgenerATion and Environment ("CREATE") Fund Programme Account. **Reimbursement**: The above TC assignments are non-reimbursable transactional TCs, with a total cost of up to EUR 1.7 million, required to structure the Project and achieve the Project objectives. **Cost Sharing**: NAT will make a Parallel Contribution to the Project in the form of financing the cost of the required Project Implementation Support and Contract Management services which will partially be financed by the proceeds of the loan. In addition, NAT will be responsible for paying any VAT and other indirect taxes that are applied to the post-signing TC assignments as a parallel contribution to the project (VAT is levied at 14 per cent in Egypt).

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

Alexandria (the "City") is Egypt's second largest city with a population of circa 5 million inhabitants. It is a fast growing industrial city, which is home to Egypt's largest seaport serving 75 per cent of Egypt's imports and exports. In light of the rapid expansion of population, urbanization and mobility, Alexandria is facing significant environmental challenges related to water, air quality and waste.

In particular, Alexandria is facing growing congestion problems with large and adverse effects on quality of life, the economy and the environment. The City has suffered over the last 30 years from lack of adequate planning and coordination, improper regulation and severe under-investment in all transport modes. This has increased reliance on petroleum-based modes of transport for urban mobility, including shared taxis and cars, which account for 54 per cent and 39 per cent of trips respectively with only 7 per cent made by train, tram and bus. The predominance of car and shared taxi usage not only increases road congestion and worsens air quality, but also indicates a significant latent demand for quality and energy-efficient public transport modes.

To address the challenges, the Egyptian government developed the Alexandria Strategic Urban Plan 2032 ("SUP 2032") in 2015, which identified a comprehensive list of urgent investments in the sector. The electrification of the Abou Qir line was identified as one of the short-term high priority projects that will substantially improve the quality of public transport for Alexandria's growing population, improve air and noise quality and reduce GHG emissions.

The proposed Project will be the first modern metro system in the city of Alexandria connecting the City's densely populated north-eastern town Abou Qir to downtown Alexandria. The investment will transform the existing 22km railway line into a high capacity electrified metro system, thereby generating substantial economic and environmental benefits and supporting the transition towards an energy efficient, low carbon economy, notably through CO2 emissions benefits and reduced congestion. The Project will also improve service availability; significantly reduce the headway [REDACTED] and increase capacity and level of service necessary to cater for future demand [REDACTED].

1.1 STRATEGIC CONTEXT

The investment is a sub-project under the GrCF2 W2 and is Alexandria's 'trigger investment' that formally initiates the City's participation in the EBRD Green Cities and allows for the start of a GCAP development. [REDACTED]The second investment is the rehabilitation of Cairo Metro Line 2 (OPID 52385), which will be the trigger investment for Cairo[3]. [REDACTED].

The Project is eligible for EBRD Green Cities due to its significant impact on GHG savings resulting from the expected modal shift from more polluting road-based modes of transport onto a sustainable, electric transport network, which will result in climate mitigation benefits and significant environmental improvements, including control of air pollution, CO2 emissions benefits and reduced congestion. The Project paves way for the green cities agenda in one of Egypt's biggest cities where infrastructure needs are substantial and, therefore, typically large in size. The development of the GCAP for the City will then enable identification of other green projects at the level of the City.

[3] Clarificatory note: As of the date of publication of this report, the Project is at Concept Review stage, and has not been approved.

The City's commitment to develop a GCAP is reflected in a Memorandum of Understanding ("MoU") signed on 22 April 2021 between the EBRD, the City and the Ministry of Local Development ("MOLD"), which overlooks the City. The Project will support the City to develop a GCAP that will (i) identify the City's priority environmental challenges, (ii) articulate the City's vision and strategic objectives concerning environmental issues, and (iii) propose priority actions and green investments the City can pursue to address their identified challenges. The GCAP will also include a gender assessment to support the City in identifying and addressing gender challenges. The City and the MOLD will be responsible for the development and implementation of the GCAP with support from the Borrower represented by the Ministry of International Cooperation ("MOIC").

Considering the above, the Project is consistent with the Green Economy Transition Approach 2.1, the Bank's Strategy for Egypt, and the Municipal and Environmental Infrastructure Sector Strategy, which emphasize the need to support Egypt's Green Economy Transition and to drive the Green City development. The Project is also aligned with the Paris Agreement as it supports electric passenger transport, as recognised in the joint-MDB list of Paris aligned activities.

The Municipal and Environmental Infrastructure Strategy also identifies efficient and streamlined project implementation as a key strategic direction and calls for innovative solutions in project delivery. The Project is in line with the strategy as it is adopting an advance procurement approach with active involvement of the Bank's procurement experts, which is expected to lead to considerable savings in time and resources and help avoid implementation delays.

The Project will also support the introduction of a long-term contract, to be signed between NAT and an experienced metro operator, to enable more commercialized and efficient operations. The Project is therefore fully in line with the Egypt Country Strategy, which particularly calls for supporting *"the development of a modernized urban transport system in Cairo and Alexandria"*. [REDACTED].

1.2 TRANSITION IMPACT

The Project is proposed as a trigger investment under the Green Cities Framework 2 ("GrCF2"). The GrCF2 represents a strategic and multi-project approach seeking to help identify and address environmental challenges in selected large cities in EBRD's countries of operation. The primary goal is to achieve significant environmental improvements and to promote the Green transition quality within the relevant cities. In addition to the environmental objective, the GrCF2 also promotes sustainable cities through inclusive, resilient, well-governed and smart urban development. Depending on which area can generate the strongest and most relevant transition impact, either **Well-governed, Inclusive, Resilient or Competitive** will be pursued and presented as the secondary transition quality for each sub-Project under the framework. These transition objectives are supported by the development and implementation of a city-specific GCAP aiming to identify environmental challenges, facilitate better coordination and buy-in among stakeholders and help to prioritise and develop the best ways to address the environmental challenges through targeted investments, services and policy instruments.

The Project will primarily help to promote the Green transition quality through the upgrade and electrification of an existing rail line and, thereby, facilitating a shift from individual polluting modes of transport to sustainable, accessible and inclusive modes of public transport and contributing to significant reductions in GHG and air pollution emissions. Alexandria has suffered over the last 30 years from a lack of adequate planning and coordination, efficient regulation and severe under-investment in all transport modes. This has increased reliance on shared taxis and cars for urban mobility 7 per cent of

trips made by train, tram and bus. The introduction of a modern metro system is expected to result in [REDACTED] saving of [REDACTED] CO2 [REDACTED]. In addition, the investment is the "trigger project" for the GoA under EBRD Green Cities and, as such, the Project will support the Governorate in the development and implementation of a GCAP as well as identification of sustainable investment projects and policy measures.

The Project will also support the **Well-governed** objective [REDACTED] paving the way for much needed private sector participation in the sector and ensuring efficient O&M of the system. [REDACTED]. The sector is strongly centralised with NAT having been established as the executing entity for the metro projects in Egypt, while the Egyptian Company for Metro ("ECM"), a government entity, is responsible for the O&M of the Cairo Metro Lines 1 and 2. The Government has recently embarked on a strategy to promote private sector participation in the operation of transport services, which provides an opportunity for the Bank to add value to this strategic direction and support the process in line with international best practice. Therefore, successful contracting of Alexandria Metro O&M to an independent operator will support private sector involvement in urban transport service provision and contribute to the commercialisation of the sector, which will have high demonstration effect not only for other centralised sectors in Egypt, but also in the region.

Delivery Risks: The main risks to delivery of the transition impact are related to: [REDACTED] willingness to introduce a long-term contract with an independent metro operator. These risks are mitigated by the [REDACTED] technical cooperation support where appropriate.

1.3 ADDITIONALITY

Identified triggers	**Description**
A subsequent/consecutive transaction (issuance) with the same client/group either with the same use of proceeds or in the same destination country (repeat transaction).	The Project is a critical, high priority investment for the GoE in light of the growing congestion in Alexandria, which has large and adverse effects on quality and life and the economy. In addition, the Bank's previous engagements with the NAT involved projects in Cairo, namely Cairo Metro Line II Purchase of trains (OPID 46875) and Cairo Metro Line 1 Modernisation (OPID 48298), and it will be the Bank's first project with NAT in Alexandria. In addition, this is the Bank's first involvement with the GoA as the proposed investment is the "trigger project" for Alexandria under EBRD's Green Cities Programme, which will enable the Governorate to identify and prioritise subsequent Green projects.

Additionality sources	**Evidence of additionality sources**
Financing Structure - Public sector: EBRD investment is needed to close the funding gap. At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.	The EBRD loan is part of a large scale investment programme of EUR 1.76bn that is expected to be co-financed by EIB, AFD, and AIIB. Hence, the Bank will provide, along with the other co-financiers, a long-term foreign-currency financing not available from commercial banks [REDACTED].
Risk mitigation EBRD helps the client to mitigate carb**on transition risks** and take climate action, such as to move along a low carbon transition pathway.	The lack of efficient public transport exacerbates the growing congestion in Alexandria with adverse effects on both the quality of life and the economy. The proceeds of the EBRD loan will finance the upgrade and electrification of an existing rail line and, thereby, facilitate a shift from individual to sustainable, accessible and inclusive modes of public transport and contribute to significant reduction in GHG and air pollution emissions. The Project is 100 per cent GET.

Knowledge, innovation, and capacity building EBRD provides expertise, innovation, knowledge and/or capabilities that are material to the timely realisation of the project's objectives, including support to **strengthen the capacity of the client**.	The Bank has relevant sector and municipal knowledge and will mobilise TC funding to support the Client in implementing the Project as well as support the Governorate in the development of a GCAP. The Project will be procured under EBRD's PP&R. In addition, the TC package under the proposed Project includes a TC assignment to support NAT in the preparation and award of an O&M contract for the Alexandria metro system upon completion.
Standard-setting EBRD helping the client to achieve higher standards	The Client makes use of EBRD expertise on higher gender standards as part of the GCAP development, which includes a gender assessment to support the City in identifying and addressing gender challenges.

1.4 SOUND BANKING - KEY RISKS

Risks	**Prob/ Effect**	**Comments**
Sovereign risk	Medium / High	Growth in fiscal year 2020-21 was 3.3 per cent, following 3.6 per cent in fiscal year 2019-20, despite the COVID-19 challenges. There were improvements in the wholesale and retail trade, agriculture, telecommunications and construction but sluggish manufacturing activity, coupled with weak tourism, slowed the recovery. Egypt's credits ratings are B2 Stable by Moody's as given on 17 April 2019 and confirmed on 29 July 2021, B Stable by S&P as given on 11 May 2018 and confirmed on 7 May 2021, and B+ Stable by Fitch as given on 21 March 2019 and confirmed on 10 March 2021.
Project implementation risk	Medium / High	The Project is technically complex and will be implemented by NAT alongside two existing projects, Cairo Metro Line II Purchase of trains (OPID 46875) and Cairo Metro Line 1 Modernisation (OPID 48298) as well as a new project, GrCF2 W2 - CML2: Sustainable Urban Transport Loan (OPID 52385)[4] [REDACTED] [P]roject implementation risk is expected to be manageable given (i) NAT has previous experience with the Bank and its procurement process, (ii) the Project is using advance procurement procedures [REDACTED] (iii) steps have been taken to increase the procurement and project management capacity of NAT [REDACTED], and (iv) a loan-funded *Project Implementation Support and Contract Management* services to ensure an oversight on all the construction activities and the EBRD appointed and grant funded *Lender's Monitor* to provide additional Project monitoring. The Project will also require coordination with the Egyptian Electricity Transmission Company ("EETC") in relation to power supply. NAT is coordinating with EETC on the required works to mitigate this risk in line with other projects NAT implemented in coordination with EETC. [REDACTED].
O&M contract award risk	Medium / Low	There is a risk associated with the willingness of the Government and NAT to introduce a long-term contract with an independent metro operator and the timing thereof. The risk is mitigated by the strong commitment of the GoE to strengthen the role of the private sector in maximizing the efficiency and quality of services provided to its citizens as demonstrated by (i) the award of the newly constructed metro in Cairo (Cairo Metro Line 3) to a French operator RATP in September 2020 and (ii) the signing of two PSCs between NAT and ECM for the O&M of the existing metro lines in Cairo (Lines 1 and 2) in an effort to improve the service orientation of the operator and target efficiency gains. This was supported by the Bank under its existing project with NAT.

4 Clarificatory note: As of the date of publication of this report, the Project is at Concept Review stage, and has not been approved.

		[REDACTED] The Bank will support the operator selection and contract award process through an attached TC assignment to ensure that process is in line with international best practice and standards and that there are no delays.
Environmental and Social risk	Medium / Medium	The Project is ESD Category A. The risk will be mitigated through inclusion of an *Environmental and Social Action Plan* ("ESAP") as well as a dedicated TC assignment to support NAT in the implementation of the ESAP.

2. MEASURING / MONITORING SUCCESS

Overall objectives of project	***Monitoring benchmarks***	***Implementation timing***
- On-time project implementation	- Completion according to the timeline and within the budget	[REDACTED]
- GCAP development	- Development and approval of GCAP by the Governorate of Alexandria	[REDACTED]
- Environmental Compliance	- Compliance with the ESAP	[REDACTED]

Obj. No.	**FW Monitoring Indicator**	**Corresponding Sub-Project Monitoring Indicator**	**Details (FW)**	**Details for Specific Sub-Project**	**Baseline (Sub-Project)**	**Target (Sub-Project)**	**Due date (FW)**
1.1	Number of recommended policy or strategy agreed by relevant stakeholder(s)	Recommended policy or strategy agreed by relevant stakeholder(s)	**New Green City Action Plans:** [REDACTED] new GCAPs finalised and submitted for approval by relevant authorities, and includes priority actions and a monitoring strategy in each participating City. [REDACTED].	The Governorate's GCAP sent to the Governorate Council (or equivalent) for approval including an implementation and monitoring strategy	[REDACTED]	[REDACTED]	[REDACTED]
1.2	Performance or action plan implemented by the client	Performance or action plan implemented by the client	**Strong follow-on support:** [REDACTED] transactions (under GrCF2 and future extensions) are follow-on investments addressing priority environmental challenges identified in the GCAPs.	The Project is the Governorate's first involvement with EBRD Green Cities (trigger project), and includes a GCAP that will enable follow on opportunities.	[REDACTED]	[REDACTED]	[REDACTED]

1.3	Performance or action plan implemented by the client	Performance or action plan implemented by the client	**Multiple green investments:** Each participating city makes [REDACTED] investments (with or without EBRD financing) that address priority environmental challenges identified by the GCAP, where all EBRD financed projects will meet the extended Framework's eligibility criteria for investments.	The Project will be signed and implemented and meets the eligibility criteria for investments under GrCF2. The Project is expected to results in GHG emission reductions [REDACTED].	[REDACTED]	[REDACTED]	[REDACTED]
1.4	Performance or action plan implemented by the client	Performance or action plan implemented by the client	**Effective GCAP implementation:** The Framework achieves [REDACTED] verifiable targets, set in the GCAP [REDACTED].	The Project will support the Governorate to develop a Green City Action Plan that sets verifiable targets.	[REDACTED]	[REDACTED]	[REDACTED]
1.5	Improved environmental standards	Improved environmental standards	**Environmental impact:** The Framework achieves significant environmental improvements for at least one priority environmental challenge, i.e. the promotion or protection of certain performance levels (colour codes) for priority environmental challenges as specified in the GCAPs [REDACTED].	While the Project will contribute to significant reduction in GHG and air pollution emissions, the relevant environmental improvements within the respective cities will not be monitored at project level.	[REDACTED]	[REDACTED]	[REDACTED]

Secondary quality: Well-governed							
Obj. No.	**FW Monitoring Indicator**	**Corresponding Sub-Project Monitoring Indicator**	**Further Details Sub-Project level**	**Details for Specific Sub-Project**	**Baseline (Sub-Project)**	**Target (Sub-Project)**	**Due date (Sub-Project)**
2.1	Number of Public service contract or Public Service Obligation signed and implemented	Public service contract or Public Service Obligation signed and implemented	A new service contract in line with international practice is developed and signed (not a revision to an	Award of the O&M of the future metro line to an independent metro operator in line with international best practice and standards	[REDACTED]	[REDACTED]	[REDACTED]

			existing PSC) and respected by the parties [REDACTED]				

Additional Indicators

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date	Donor
Gender SMART Indicator	Recommended policy or strategy agreed by relevant stakeholder(s)	The GCAP for the City of Alexandria includes a gender assessment, which aggregates the analysis and information gathered throughout the GCAP development (such as gender-disaggregated data, and the analysis the gender specific needs and barriers in access to services and infrastructure in cities in the various sectors covered by the GCAP 2.1 methodology), and the recommendations to address gender and inclusion in the City (as subset of Green city actions) that are the results of the analysis.	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Project Monitoring Indicators

Indicator	Projected Impact	Implementation Timing
Green		
Total Population benefitting from improved access to public transit (individuals)	[REDACTED]	[REDACTED]
Annual reduction in tonnes of CO_2 equivalent savings (tonnes CO_2 eq / yr)	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

The transaction is a sovereign loan. Egypt is currently B-rated (Moody's: B2, S&P: B and Fitch: B+). The credit rating was maintained at "B" by S&P, kept as B2 by Moody's and sustained at "B+" by Fitch with a stable outlook for the three agencies as of September 2021. The main economic drivers are described below:

Economic growth in the fiscal year 2020-21 has slightly slowed down. Egypt weathered the global economic recession and was one of the few economies worldwide to maintain positive growth (1.5 per cent in the calendar year 2020). However, growth in fiscal year 2020-21 was 3.3 per cent, following 3.6 per cent in fiscal year 2019-20. There were improvements in the wholesale and retail trade, agriculture, telecommunications and construction but sluggish manufacturing activity, coupled with weak tourism, slowed the recovery. Meanwhile, inflation slowed to 4.8 per cent year-on-year in the first eight months of 2021. This is below the Central Bank of Egypt (CBE)'s target of 7.0 per cent +/- 200

basis points, despite the cumulative 400 basis points cut in the CBE's policy rate, to 8.75 per cent, between March and November 2020. As a result, Egypt now has one of the world's highest real interest rates, which helped attract portfolio flows and stabilise foreign exchange reserves, as other traditional sources of foreign exchange (tourism and Suez Canal receipts) slowed because of the COVID-19 pandemic. At the same time, unemployment declined to 7.3 per cent in the second quarter of 2021, from the peak of 9.6 per cent in the second quarter of 2020 but the labour participation rate, at 41.9 per cent, remains below its pre-COVID-19 pandemic level of 42.7 per cent.

The fiscal position improved but the current account deficit widened. Revenues rose, driven by an improvement in tax collection thanks to new electronic systems being put in place. Expenditures also increased, mainly interest payments. As a result, the deficit narrowed to 7.4 per cent of gross domestic product (GDP) in fiscal year 2020-21 and the primary surplus narrowed to 1.4 per cent of GDP. Meanwhile, public debt increased to 90.6 per cent of GDP. On the external side, in the first three quarters of fiscal year 2020-21, imports increased, exports remained stagnant, tourism revenues continued to underperform and Suez Canal revenues declined. Moreover, foreign direct investment ("FDI") inflows declined to US$ 4.8 billion but portfolio flows recorded a strong US$ 16.0 billion inflow, against a US$ 8.0 billion outflow a year earlier, as foreign investors' confidence picked up, lured by the high real interest rates. International reserves increased to US$ 40.7 billion in August 2021 and continue to cover comfortably more than eight months of imports.

The government is actively looking to diversify its funding sources and lower its interest payment bill. In September 2020 the government issued its maiden green bond, raising US$ 750 million to fund climate-friendly projects. The government then sold US$ 3.75 billion in Eurobonds in February 2021 amid strong demand. Egypt's first issue of sukuks (Islamic financial certificates) is expected to take place in the first half of 2022, after the president ratified a law in August 2021 enabling the issue of sharia-compliant securities. Moreover, Egypt's public debt is expected to be Euroclearable in 2022, making the country more accessible to foreign investors.

The pace of GDP recovery is expected to pick up to 4.5 per cent in financial year 2021-22. The boom in the telecommunications sector will continue to sustain growth, the falling unemployment rates will support consumption, and private investment and FDI flows will pick up. However, risks include a slow uptake of vaccination, the weak outlook in the tourism sector in view of a probable global delay in tourism recovery, as well as the slowing momentum of major projects implemented in different parts of the country.

3.2 IMPLEMENTING ENTITY

The implementing entity is the National Authority for Tunnels ("NAT"), a central government agency under the jurisdiction of the Ministry of Transport (the "MoT"). NAT was established in 1983 by Special Law 113, which authorised this government agency to plan and execute tunnels and metro projects in Egypt, including management of the full process of tendering and procurement of rolling stock.

NAT is a service entity with no economic activity and, as such, does not generate revenues. Financing is structured such that expenses and investment costs fall under the government's general budget. NAT therefore, does not produce formal financial statements, but rather prepares an illustrative balance sheet reflecting its financial status. [REDACTED].

NAT has successfully implemented the construction of 83 kilometres of metro lines [REDACTED]. NAT is an existing client of the Bank and the previous engagements with NAT have been impactful in addressing key challenges in the public transport sector. As part of its first engagement with NAT,

namely Cairo Metro Line II Purchase of trains (OPID 46875), the Bank has supported the development of PSCs, which has been signed and is under implementation, promoting greater sustainability and efficiency of the metro services. The Bank's current engagement is expected to further build upon these achievements by providing support to introduce a long-term contract with a private sector operator for the operation of the new Alexandria Metro.

4. MARKET CONTEXT

The city of Alexandria is the second largest city in Egypt with circa 5 million inhabitants and an additional circa 2 million inhabitants are expected by 2032. The City is located west of the Nile Delta and has developed along the coast on a narrow strip of land and, as such, densely populated, specifically in the northern part.

There are four main public transport modes in Alexandria, namely buses, minibuses, trams and trains. However, the public mass transit system does not provide sufficient coverage and capacity and suffers from a serious deterioration in the quality of infrastructure, service and fleet. As a result, public transport relies mainly on buses and minibuses, private vehicles and other informal transport modes, such as shared taxis. Other public transport options include two tramway systems, which are operated by the government-owned Alexandria Pubic Transport Authority ("APTA"). The trams have suffered from underinvestment over a long period of time resulting in low service quality, ailing infrastructure and capacity constraints. Ridership has therefore been in a constant decline and currently represent only 5 per cent of trips. As such, in light of population growth and urbanization, there is a strong need for affordable, energy and space-efficient modes of transport in Alexandria.

Specifically, the existing Abou Qir railway line connects very dense areas in the centre and the eastern part of the City. The existing line is poorly maintained, suffers from very low service levels and poor reliability, resulting in subdued demand levels. The monthly number of passengers using the line is about one million and the daily passengers' volume using the line is about 50,000. Train frequency and train speed is low with about a 15-20 minutes headway. In the past few years, the number of services has dramatically decreased, from about 200 services a day to a little over 100 services to date, which has greatly impacted the ridership.

The upgrade and electrification of the Abou Qir line into a high capacity metro system and the upgrade of Al Raml tram were therefore identified as the short-term high priority projects to address urgent mobility issues and substantially improve the quality of public transport for the Alexandria's growing population and improve air and noise quality. The impact of the upgrade of the Al Raml tram was taken into consideration in the assessment of the benefits of the Project.

The Project will improve service availability, significantly reduce the headway [REDACTED] and increase capacity and level of service necessary to cater for future demand [REDACTED]. The Project will also support the introduction of a private sector operation in Alexandria's urban transport modes, thereby setting standards and having a demonstration effect for future projects in Alexandria.

5. FINANCIAL / ECONOMIC ANALYSIS

The Borrower is the Arab Republic of Egypt. The ultimate owner of the assets (infrastructure) to be financed by the loan is NAT. The operation of the line is expected to be tendered out to the private sector.

5.1 Economic Analysis

[REDACTED]

5.2 Sensitivity Analysis

[REDACTED]

5.3 Projected Profitability for the Bank

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 Environment

Categorised A (2014 ESP). The Project involves the upgrade and electrification of the 22km existing rail line connecting downtown Alexandria (Misr Station in the west) and the north-eastern town Abu Qir into the first high capacity metro system in this coastal city. This will result in a number of environmental and social ("E&S") benefits, including: increased safety and reliability of the public rail service, removal of level-crossings and thus eliminating collision risks, jobs creation and reduced GHG emissions. The Project is expected to result in an average savings of [REDACTED] of CO2 per annum due to the modal shifting of road vehicles and the diesel train to the electrified metro system. While the Project is expected to result in E&S benefits, it is significant linear infrastructure in an urban environment and its construction and operation have the potential to be associated with significant E&S impacts, including impacts related to physical and economic displacement. The Project has therefore been categorised A, requiring a comprehensive and participatory Environmental and Social Impact Assessment Report ("ESIA") and disclosure thereof for 120 days. An ESIA disclosure package has been developed in accordance with the EBRD Performance Requirements ("PRs") and other co-lender E&S standards and, following independent review, has been publically disclosed in English and Arabic in line with the Bank's Directive on Access to Information.

The ESIA disclosure package includes the following:

- an ESIA, including E&S Management Plans ("ESMPs");
- a Non-Technical Summary ("NTS");
- a Resettlement Framework ("RF");
- a Stakeholder Engagement Plan ("SEP"); and
- a draft E&S Action Plan ("ESAP").

The alignment of the Project is within the current railway corridor, owned by the ENR and it is anticipated that all construction works will take place on ENR land, except for additional land needed for a depot and the new stations at Bab Sharq and Sporting. A ministerial decision was issued in 2020 transferring the ownership of land required to develop the Project to the NAT, excluding the lands for Bab Sharq and Sporting stations as the final designs have not been developed yet and the exact locations are not yet finalised. The area required for the depot is owned by the AlNahass Company, where decommissioned copper factories are located. The transfer of ownership from AlNahass to NAT is based on a willing buyer – willing seller transaction.

The Project, as currently proposed, consists of an elevated viaduct from Toson to AlZahiria (13 elevated stations) and 8 at-grade stations from Abu Qir to Toson and from Kafr Abdou to Misr stations. The proposed design was suggested based on an effort to minimise to the extent possible physical and economical resettlement, as well as maintaining traffic flow and technical and cost considerations.

A Resettlement Framework ("RF") and associated Guide to Land Acquisition and Compensation have been developed to inform mitigation, compensation and livelihood restoration measures in line with national law and lender requirements. Detailed compensation, assistance and livelihood restoration measures will be developed once the final design is completed and will be included in a detailed Resettlement Action Plan ("RAP") that will be disclosed publicly, including on EBRD's website. The implementation of RAP will be verified through internal and external monitoring activities and a RAP completion audit.

The Project will be fenced along its entire alignment and all crossings will pass either under or over the metro line, which provides significant mitigation of current community health and safety impacts. An occupational health and safety plan will be developed for the construction and operation phases.

Noise and vibration impacts have the potential to be significant in certain locations during construction and operation and will be managed in line with the national and international standards. This will entail mitigation measures such as noise barriers and restriction on working times, which is included in the ESMPs and ESAP.

The Project does not cross, and is not close to any key biodiversity areas or areas with ecological value. Asbestos has been found in the proposed AlNahass depot land, and measures to adequately manage and dispose of asbestos containing material have been added to the ESAP.

As Alexandria is an ancient and culturally-rich city, the potential for archaeological findings is high during excavation works along the existing line to erect the viaducts. The Ministry of Antiquities has already been consulted and further coordination will take place prior to Project mobilisation. A chance find procedure and training of personnel will be undertaken prior to construction commencing.

A set of ESMPs have been prepared including mitigation measures and roles and responsibilities between NAT, its contractors and the line operator. The ESMPs also establish a defined process for managing any Project changes during the detailed design. The EPC Contractor will further detail the ESMPs to implement the mitigation measures identified as part of ESIA in line with lender requirements. NAT and any project contractors are required to manage potential impacts to workers and communities through the development of a number of policies and procedures that include code of conduct, child and forced labour, Gender Based Violence and Harassment ("GBVH"), wages and benefits, occupational and community health and safety, etc. The Project will establish and implement an internal grievance mechanism in line with the Bank's requirements.

A draft ESAP has been developed and agreed with NAT and will be finalised following the ESIA disclosure period. The Project will be monitored regularly by independent E&S consultants to ensure compliance with the ESAP and lender requirements, while the final design and construction will be reviewed by an independent technical consultant to verify compliance with the required environmental, safety and technical standards.

A SEP has been prepared defining stakeholder engagement and information disclosure activities during the Project lifecycle, including during ESIA disclosure. The SEP will be updated as required as the

Project progresses. A Project grievance mechanism has been established for external stakeholders, including the public, to raise concerns, comments and questions about Project.

6.2 INTEGRITY

In conjunction with OCCO, integrity due diligence was undertaken on NAT, senior management and other relevant parties. [REDACTED], [T]his Project does not pose an unacceptable reputational or integrity risk to the Bank. NAT is an existing client of the Bank and the experience to date is positive. [REDACTED].

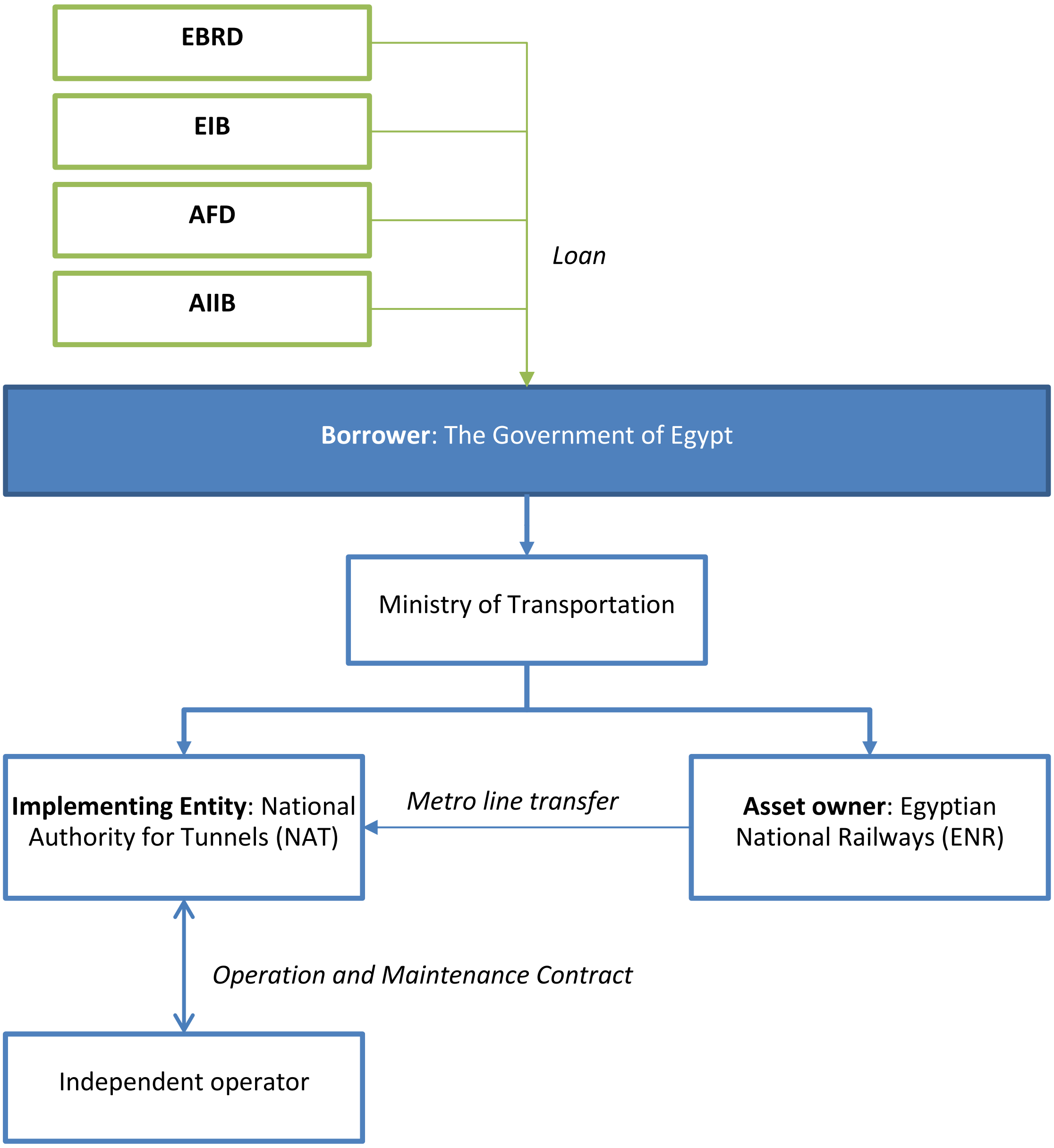
The procurement will be conducted in accordance with EBRD's PP&R by an open tender procedure. The proposed operation also includes a number of TC assignments to ensure efficient implementation and monitoring of the Project, including a Lender's Monitor reporting directly to the Bank. This builds on the EBRD's earlier steps to support NAT's procurement capacity by providing TC funds under existing projects on Cairo Metro.

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the proposed Project, and the project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the Project.

ANNEXES TO OPERATION REPORT

ANNEX 1	Shareholding Structure
ANNEX 2	Project Implementation
ANNEX 3	Implementation Progress of GrCF / GrCF2

ANNEX 1 – Shareholding Structure



No domiciliation annex required.

ANNEX 2 – Project Implementation

Procurement classification – *Public (Sovereign)*

[REDACTED]. The Project will be implemented by the National Authority for Tunnels ("NAT"), EBRD's existing client. NAT's project implementation and procurement capacity was assessed by PPAD Implementation Advisor in November 2019. NAT has an experience with implementation of IFI financed projects. However, considering the Project complexity, it is important to strengthen and build further NAT's capacity to implement complex projects. [REDACTED]. As part of its capacity building, NAT has already received a substantial training in the use of EBRD's Client e-procurement Portal (**"ECEPP"**). [REDACTED].

The Project will include financing of contracts for metro rehabilitation works, supply of new rolling stock and Project Implementation Support and Contract Monitoring.

There are two CapEx contracts, which will be will be financed from loans and by NAT from the Government funds:

(i) A single responsibility contract for reconstruction of Abou Qir Railway line in Alexandria [REDACTED];
(ii) Contract for the acquisition of the new Rolling Stock. [REDACTED].

Project implementation arrangements:

[REDACTED]. EBRD PP&R will be applied. [REDACTED].

The Project will be implemented by NAT with the support of a professional engineering firm for project management and provision of services of the FIDIC Engineer as well as support for environmental and social management, financial control, monitoring and reporting. The *Project Implementation Support and Contract Management* consultant to provide these services will be selected and contracted using a two-stage open tendering procedure. The *Project Implementation Support and Contract Management* consultant will be financed from the EBRD loan and co-financed by EIB, AFD, AIIB as well as NAT from the Government funds.

The Bank will be assisted by a Lender's Monitor for a comprehensive support in motoring the project implementation and compliance with Bank's requirements. The Lender's Monitor will be selected using a one stage procurement procedure.

Procurement arrangements:

The Project is classified as a public sector operation for procurement purposes. Goods, works and services financed from the Bank's loan will be procured using an open tendering procedure in accordance with Section III Article 3 of the Procurement Policies and Rules for the Public Sector and will use the Bank's Standard Tender Documents. [REDACTED].

All consultancy contracts financed from the loan or donor funds will be procured in accordance with Procurement Policies and Rules Section III Article 5. [REDACTED].

All contracts financed by loan / grants will be subject to prior review by the Bank. [REDACTED].

ANNEX 3 – Implementation progress of GrCF / GrCF2

Since 2016, the GrCF and GrCF2 have mobilised nearly EUR 3 billion in EBRD and donor funding. The Green Cities Framework (GrCF), approved by the Board in November 2016, set an ambitious agenda for the Bank's municipal business, with the over-arching aim being 'to serve as a sector-wide catalyst for addressing environmental challenges at the City level. [REDACTED] in October 2018 a new Framework was approved by the Board, Green Cities Framework 2 (GrCF2) [REDACTED].