**Action Fiche for Egypt**

### 1. Identification

<table>
<thead>
<tr>
<th>Title</th>
<th>Water Sector Reform Programme – Phase II (WSRP-II)</th>
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</thead>
<tbody>
<tr>
<td>Total cost</td>
<td>EU contribution: €120 million (€80 million in 2010; €40 million in 2011)</td>
</tr>
<tr>
<td>Method of implementation</td>
<td>Sector Policy Support Programme: Sector budget support (centralised management)</td>
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</tbody>
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<table>
<thead>
<tr>
<th>DAC-code</th>
<th>Sector</th>
<th>Water Resources Policy &amp; Administrative Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>14010</td>
<td></td>
<td>Water Supply and Sanitation – Large Systems</td>
</tr>
<tr>
<td>14020</td>
<td></td>
<td>Basic Drinking Water Supply &amp; Basic Sanitation</td>
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<tr>
<td>14030</td>
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</tbody>
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### 2. Rationale and Country Context

#### 2.1. Country context and rationale for Sector Policy Support Programme (SPSP)

**2.1.1. Economic and social situation and poverty analysis**

Egypt’s economy weathered the international economic downturn better than originally expected, with economic growth having stabilized at 4.7% by end of 2009 after the steep fall in the first two quarters (down to 4.1% in Q2). Fiscal stimulus measures started by the Government of Egypt (GoE) in November 2008, coupled with the low exposure of the Egyptian financial sector to the global turmoil and liquidity crisis, helped cushion a potentially stronger impact on the real economy. Inflation has been brought under control, and is expected to remain stable through 2010. The GoE is projecting GDP growth of broadly 5% in FY2010. The year 2009 closed with a budget deficit of 6.8% of GDP and is expected to rise in 2010 moderately despite improving growth as state intervention for the poor and unemployed continues to increase.

Egypt is listed as a medium-level performer in the UN Human Development Index (published October 2009), ranking 123 out of 182 countries. More recently, progress has been made in improving some of the non-income dimensions of poverty, through redistribution of wealth, and social services. The UN Mid-Term Report of 2008 shows that the GoE’s progress towards achieving MDGs targets is slow but consistent.

**2.1.2. National development policy**

The GoE's long term vision of development is underpinned by Egypt’s vision 2030, and spelled out in the sixth Five-Year National Plan (2008-2012) whose objectives are to work towards sustainable economic growth and job creation, improvement of living standards and social security, and strengthening of state institutions and political reform. For the water sector in particular, the sixth Five-Year Plan specifically aims at: (i) implementing the water resources development strategy in harmony with the agricultural development strategy and to (ii) approach full water
and sanitation requirements of cities and villages with an EGP 61.3 billion (broadly €8bn) investment program. This programme also aims to minimize water network losses, to gradually achieve cost recovery in water and sanitation services and to increase public awareness on water and pollution issues.

The strategy and actions outlined in the development plan are reflected in the National Water Resources Plan (NWRP) 2005-2017 of the Ministry of Water Resources and Irrigation (MWRI) and incorporated in the National Governorate-based Master Plan (GBMP) for Water Supply and Sanitation (WSS), thus ensuring ownership by the MWRI and the Ministry of Housing, Utilities and Urban Development (MHUUD).

2.2. Sector context: policies and challenges

Sector context: In 2004, Presidential Decrees 135 and 136 established the Holding Company for Water and Wastewater (HCWW) for the operation and management of water supply and wastewater services, and the Egyptian Water Regulatory Agency (EWRA) as an economic and quality regulator. Egypt’s NWRP 2005–2017 was adopted in March 2005 aiming at universal supply of safe and drinkable water by 2017.

As of today, the proportion of the total population served by piped water is quite high (approx. 95%), but there are still substantial deficits with regards to service quality and quantity, especially in semi-urban and rural areas. The low sanitation coverage, particularly in rural areas (around 12%), in combination with deficiencies in wastewater treatment, results in severe water quality problems.

The problems of the water utilities result from an insufficient managerial and financial autonomy, very low tariff, lack of incentives to improve performance, continued overstaffing resulting also in a poor financial situation. In addition to that the regulatory and legal organization of the sector also shows weaknesses hampering new investments and the efficient provision of services as well as environmental protection and efficient use of water resources.

Based on the achievements of WSRP-I a National Water Supply and Wastewater Sector Development Policy and Strategy has been drafted by the Ministry of Housing in 2009, which is expected to be adopted prior to the start of WSRP II.

Sector budget and medium term financial perspective: Egypt’s budget cycle is annual, running from July to June, and although there is no short-term plan for enacting an MTEF law, a pilot MTEF is currently being undertaken in the Education Sector, with the intention to roll this out during the coming years. In the absence of an MTEF, the water and wastewater sector expenditure framework is established on an annual basis and mainly calculated through historical expenditure records, looking at the last three years increases, as is done for the whole state budget.

Coordination process: The MHUUD is the main coordinator in the water supply and sanitation sectors for institutions such as NOPWASD\(^1\), HCWW and EWRA. Over the past four years, the EU had a regular policy dialogue with Egypt in the context of

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\(^1\) National Organization for Potable Water And Sanitary Drainage.
WSRP-I (bi-annual Steering Committee Meetings) as well as within the Development Partners Group (DPG, see 2.6).

Assessment of Institutional Capacity: Following WSRP-I key staff of the MHUUD as well as the HCWW and EWRA have experience of implementing significant reform programmes and have experience of implementing EC sector policy support programmes.

Performance measurement: The MHUUD has recently drafted a sector policy for water supply and sanitation which commits the GoE to develop a set of standard monitoring indicators for measuring the implementation of water sector policies and strategies. WSRP-II will be supporting this key policy aspect, helping the definition and implementation of the standard policy monitoring indicators for water supply and sanitation sector.

Macroeconomic framework: For Fiscal Year (FY) 08/09 the Egyptian economy coped well in accommodating the spill-over effects from the global financial crisis. Economic growth fell from 7.2% to 4.7% but was better than expected. The underlying assumptions for the budget 2009/10 indicate that the GoE GDP growth expectations for FY10 are in the range of 5%-5.5%.

The budgeted government deficit of 6.8% for FY09 had to be modified to an 8% preliminary deficit figure in June 2009. The GoE’s expansionary stance will continue into 2010 with a deficit target of 8.4%. This makes the original GoE plans for a 1% annual deficit reduction and the 3% deficit target for FY11 no longer feasible within this timeframe. Nonetheless, the GoE is expected to move back to a course of fiscal consolidation once the effects of the global crisis subside.

Public Financial Management (PFM): At the same time numerous reform initiatives are ongoing to improve the PFM systems, budget process and regulatory framework. Significant support has been provided by the IMF, WB, USAID and, more recently, the EU and some bilateral donors (Netherlands, Switzerland, United Kingdom). The design of an overall PFM Reform strategy is a top priority for the Ministry of Finance (MoF) now in order to incorporate all the piecemeal interventions that are currently being implemented.

2.3. Eligibility for budget support

Egypt is eligible for sector budget support based on the analysis undertaken.

(i) Sector reform policy and strategy: Egypt’s NWRP for Egypt 2005 – 2017 was adopted, based on the Water Policy Plan of 2000, and published in 2005, which aims to supply the population, farmers and industry with safe and reliable water by 2017. Furthermore, in 2009 and with the support of the WSRP-I, the GoE has developed the first Governorate-based Master Plan for Water Supply and Sanitation. Finally, the sector policy for water supply and sanitation has been drafted by the Ministry of Housing in November 2009.

(ii) Macroeconomic Policy: The macroeconomic position remains stable, in particular during the financial crisis, as the government responded appropriately in terms of fiscal and monetary policy measures. The focus now is shifting from the
policy of fiscal stimulus and expansionary fiscal policy, in particular, returning to the path of long term fiscal consolidation.

(iii) Public Financial Management (PFM): Egypt has made further progress in recent years towards improving its PFM systems and has also carried out a PEFA assessment in 2009. Achievements include higher budget performance, greater accountability of budget authorities and greater transparency in budget reporting and in auditing practices. Based on the analysis undertaken, Egypt remains eligible for budget support, in particular in view of the fact that the ongoing PFM reforms are expected to deliver further progress in transparency and accountability of government finances.

2.4. Lessons learnt

Based on a preliminary assessment by the EU Delegation (to be complemented by a final evaluation of WSRP I in H1 2010) the following issues should be taken into account during the WSRP II formulation phase:

– WSRP II should continue to use the DPG for sector policy discussions.
– WSRP II conditionalities should be more performance-based.

2.5. Complementary actions

Due to the reform measures undertaken by the GoE since 2004 most active donors in the water sector like USAID, German Development Cooperation (GTZ), the Dutch development cooperation and WB have developed, in parallel and coordinated way, projects for supporting the reform of the water sector.

2.6. Donor coordination

Donor coordination in the water sector is organised under the DPG, co-chaired by the EU Delegation and the Dutch Development Cooperation in Egypt. Both MHUUD and MWRI are strongly represented by senior officials.

3. Objectives

The overall objective of the WSRP-II is to support GoE continuing the reform programme of the water sector, in accordance with the objectives of the NWRP 2005-2017 as well as the WWSDPS.

The related specific objectives are (i) a more robust and coherent institutional framework with clearly defined water supply and sanitation policy and strategy, and with better performing water supply and sanitation service providers; (ii) better use of existing water resources by improving operational efficiencies of the affiliated companies, reducing water losses and reusing treated wastewater and (iii) protect public health and the environment.

3.1. Expected results and main activities

An indicative number of results and activities under the programme are as follows:
Result 1: Strengthened water supply and sanitation policy as well as better enforcement. This includes a) the adoption by the MHUUD of a water supply and sanitation policy and implementation strategy, b) expand PPP activities, c) decentralize water supply and sanitation investments and d) continue and intensify public awareness to promote the dissemination of key messages supporting the reform process.

Result 2: Improved Service and Performance in the water supply and sanitation sector. This includes; a) to adopt and implement water conservation practices, b) to extend coverage of sanitation services, c) to support service providers (i.e., affiliated companies) in the process of achieving cost recovery and d) to improve consistency of data.

Result 3: Improved environmental sustainability as well as operational practices in Water Resources Management. This includes a) an updated National Water Resource Plan (NWRP), b) to improve groundwater management through MWRI’s decentralization process and, c) to increase efficiency of pumping stations for irrigation.

3.2. Risks and assumptions

The GoE maintains a strong leadership and ownership of the reform process of the water supply and sanitation sector and in particular to overcome expected resistance for tariff increases.

3.3. Stakeholders

The two main beneficiaries of the WSRP-II will be the MHUUD (with its organizations NOPWASD, HCWW and EWRA) and the MWRI. The MoF will also directly benefit from the programme with an ad hoc TA component.

3.4. Crosscutting Issues

Environmental Sustainability: WSRP-II is directly addressing one of the main environmental concerns related to safe supply of drinking water and to environmental-friendly sanitation services.

Human Rights: WSRP-II is targeting among other the increase of access to safe supply of drinking water and basic sanitation which are basic human rights.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

Direct centralised management will be used to implement this sector budget support programme.

4.2. Procurement and grant award procedures

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents laid down and published by
the European Union for the implementation of external operations, in force at the
time of the launch of the procedure in question.

Participation in the award of contracts for the present action shall be open to all
natural and legal persons covered by ENPI Regulation. Further extensions of this
participation to other natural or legal persons by the concerned authorising officer
shall be subject to the conditions provided for in Art. 21(7) ENPI.

4.3. **Budget and calendar**

The overall budget for the programme is €120 million. €80 million will be
committed in 2010. This will be complemented by an additional €40 million
commitment from 2011 funds subject to the availability of budgetary resources. The
additional commitment of €40 million will be made as soon as 2011 commitment
credits become available. Indicatively, the payments for the budget support will be
made in three tranches.

€5.5 million will be allocated for TA, which will help the GOE/MHUUD to carry out
new PPP transactions as well as to foster the coordination and policy dialogue by
establishing an Advisory Board Panel for the sector. The TA may include also TA to
support the Ministry of Finance on PFM issues relevant for this programme.
€0.5 million will be allocated for audit, monitoring, evaluation and visibility.

The indicative budget breakdown is as follows:

<table>
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<tr>
<th>Components</th>
<th>Euros</th>
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<tbody>
<tr>
<td>Budget Support</td>
<td>114,000,000</td>
</tr>
<tr>
<td>Technical Assistance</td>
<td>5,500,000</td>
</tr>
<tr>
<td>Audit, monitoring, evaluation and visibility</td>
<td>500,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>120,000,000</strong></td>
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The indicative implementation period of the project will last 48 months from the date
of the signature of the Financing Agreement.

4.4. **Performance monitoring and criteria for disbursement**

A Steering Committee (SC) shall be in charge of the follow up of the programme
activities as well as the general progress of the reform of the sector. A National
Coordinator from the MHUUD will chair the SC and will prepare a 6-month rolling
activity plan.

Implementation of the programme will be monitored regularly by the EU’s services
in close cooperation with the National Coordinator. Monitoring missions will take
place once a year and will be arranged with reference to the (i) fulfilment of the
conditions for disbursement of instalments and (ii) the general progress of the reform
programme.

4.5. **Evaluation and audit**

The EU will hire experts to carry out mid-term and final evaluations of the
programme.
4.6. Communication and visibility

Communication and visibility will be carried out via regular joint events on the occasion of fulfilment of the disbursement criteria, and in connection with the results of technical assistance projects in the transport sector. A communication budget is established for promotion of the implemented reforms. EU guidelines will be respected for all visibility activities.