1. IDENTIFICATION

<table>
<thead>
<tr>
<th>Title/Number</th>
<th>Improved water &amp; wastewater services programme – Phase II (IWSP-II) (ENPI/2012/023-390)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost</td>
<td>Total amount: EUR 303 million</td>
</tr>
<tr>
<td></td>
<td>EU contribution: EUR 10 million</td>
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<tr>
<td><strong>Joint co-financing contributions:</strong></td>
<td></td>
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<tr>
<td></td>
<td>- EU Neighbourhood Investment Facility (NIF): EUR 13 million</td>
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<td></td>
<td>- Kreditanstalt für Wiederaufbau (KfW): EUR 59 million</td>
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<tr>
<td></td>
<td>- European Investment Bank (EIB): EUR 57 million</td>
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<td></td>
<td>- Agence Française de Développement (AFD): EUR 57 million</td>
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<td></td>
<td>- Swiss Economic Cooperation (SECO): EUR 13 million</td>
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<td><strong>Parallel co-financing contributions:</strong></td>
<td></td>
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<tr>
<td></td>
<td>- Government of Egypt: EUR 94 million (in EGP equivalent)</td>
</tr>
<tr>
<td>Aid method / Method of implementation</td>
<td>Project approach – Indirect Centralised Management</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DAC-code</th>
<th>Sector</th>
<th>Water resources policy and administration management</th>
</tr>
</thead>
<tbody>
<tr>
<td>14010</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14020</td>
<td></td>
<td>Water supply and sanitation – large systems</td>
</tr>
<tr>
<td>14030</td>
<td></td>
<td>Water supply and sanitation – small systems</td>
</tr>
</tbody>
</table>

2. RATIONALE

2.1. Sector context

The improved water & wastewater services programme – Phase II (IWSP-II) addresses several priority areas mentioned in the Joint Communication of the European Commission and the High Representative of the EU for Foreign Affairs and Security Policy "A new response to a changing Neighbourhood" and is in line with the Support for partnership, reforms and inclusive growth (SPRING) programme's pillar on "sustainable and inclusive growth and economic development". The programme will support the provision of basic but key services (access to drinking water, access to waste water services that are at the heart of the demand for social justice. Furthermore, the investment component of the programme supports employment generation in difficult economic times.

Within the target area of programme (i.e., governorates of Assuit, Minya, Qena and Sohag), recorded information from the Holding company for water and waste water (HCWW) states that coverage of water supply services is around average of 95.5% while waste water service is less than 12%. Non-accounted-for water (mainly from leakage) reduces the actual water supply coverage to an average of 80%.

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A national water supply and wastewater sector development policy (WWSDP) was adopted in September 2010. This complements Egypt’s national water resources plan (NWRP) 2005–2017. The WWSDP is based on a number of key reform pillars, including:

(i) Improvement of service provisions (continuous accessibility, improving quality, extending accessibility, especially rural sanitation);

(ii) Attracting more public-private partnership in the water supply and sanitation sector;

(iii) Continuing the phase-out of subsidies;

(iv) Improving the operational and financial efficiencies of the affiliated companies (ACs);

(v) Strengthening the role of ACs to plan and then implement their capital investment projects.

Following the revolution of January 2011, the Government of Egypt confirmed its commitment to continue the reform process of the water sector by signing a second water sector budget programme with the EU at the end of 2011. This is further evidenced by the Government’s official request for EUR 10 million to cover the gap in the grant component of phase II of the improved water and wastewater services programme.

The 2011 revolution has negatively affected the efforts of the HCWW to increase the tariff which had started to increase as of October 2008 and suddenly stopped as of January 2011. Since that time, bill collection has severely deteriorated. These two factors have negatively affected the service provision for water supply and sanitation, especially with regard to operation and maintenance (O&M) services. Accordingly, this second phase of the IWSP will help the four targeted ACs to maintain an adequate level of operation and maintenance services for their water and wastewater services and hence keep an ample level of service provisions for the citizens living in those four targeted governorates.

2.2. Lessons learnt

Based on the EU’s experience in Egypt’s water sector (EU Water sector reform programme I (WSRP-I)\(^2\), Improved water and waste water services programme I (IWSP-I)\(^3\)) the key lessons learnt are:

(1) **Alignment and harmonisation** of implementation procedures took long time in the preparatory, but was finally successful. On the basis of the IWSP-I experiences and agreements, the rules and procedures for IWSP-II (in particular the Manual of Procedures) are henceforth clear and accepted by all parties. Moreover, the Framework Arrangement of the NIF will considerably facilitate the process.

Creation and transfer of knowledge: The know-how of the Egyptian government concerning the handling of programmes of this type has significantly increased. Steps for approval on the Egyptian side should be considerably shorter.

2.3. Complementary actions

The World Bank (WB) is managing phase II for its "Integrated sanitation and sewerage improvement project – Phase II (ISSIP-II). The objective of ISSIP-II is similar to the objective of IWSP-II. ISSIP-II is covering the same four governorates of IWSP-II. Tight co-ordination at governorate level (within the Affiliated Companies), as well as the large need of infrastructure funding, avoid any risk of duplication.

Moreover, the EU has signed in December 2011 the second phase of its support for reform of Egypt's water sector i.e. WSRP-II with a total grant amount of EUR 120 million. There is strong synergy among WSRP-II, IWSP-I and IWSP-II, related to the use of the same O&M cost recovery indicators for the service provisions of drinking water supply and sanitation by all ACs of the HCWW.

2.4. Donor co-ordination

As for the first phase, IWSP-II is a model for donor co-ordination as it is developed on a joint financing scheme among the EU, AFD, EIB and KfW in line with the Paris Declaration and aid harmonisation. Co-operation between different donors has been close and effective in recent years through the Water-Development Partner Group (Water-DPG). Particular co-ordination is foreseen with the WB's ISSIP project at Governorate level.

3. DESCRIPTION

3.1. Objectives

To improve livelihoods, including health, for the overall local population of the four governorates of Assuit, Minya, Qena and Sohag and to place the four affiliated companies under the HCWW in sustainable position,

The specific objectives of the programme are:

- To improve water quality and output as well as wastewater services, by increasing the coverage from 80% to 99% for water supply services and from 12% to 40% for wastewater and sanitation services on both urban and rural areas;
- To develop investment/planning/steering/monitoring capacities in the HCWW;
- To strengthen planning, implementation and operation capabilities of the water- and wastewater management local companies;
- To support the gradual introduction of a tariff system that assures a full coverage of operating and maintenance costs (including depreciation);

To improve technical and related financial performance of the water and wastewater management companies in the selected four governorates with regard to the recycled wastewater that goes into the raw water resources.

The EU contribution of EUR 13 million from the Neighbourhood Investment Fund (NIF) will support the technical assistance (TA) activities of the programme together with the other joint financing from KfW and the Swiss Economic Cooperation.

The EU contribution from the National Indicative Programme (NIP) for Egypt of EUR 10 million will support the investment component together with the joint financing from KfW, EIB and AFD as well as with the parallel financing from the Government of Egypt.

3.2. Expected results and main activities

a) The expected results of the Investment Component are:
- Increase in the percentage of coverage in the programme area to reach 99% in the drinking water supply, and to reach 40% in wastewater and sanitation services;
- Water supply and wastewater infrastructure is improved so that quality of the services provided is more effective, economical and sustainable, including improved water efficiency.

b) The expected results of the Capacity Development Component are:
- Improved organisational capacity of the Affiliated Companies and HCWW to carry out their mandated tasks in an effective, economic and sustainable manner;
- More efficient budget and financial management in the water supply and sanitation sector;
- Improved governance framework for water supply and sanitation.

c) The types of envisaged IWSP-II investment projects comprise:
- Rehabilitation/reconstruction of existing wastewater treatment plants;
- Construction of new wastewater treatment plants and regional sewer networks (Sanitation service clusters);
- Extension of existing sewer networks for increasing the capacity utilisation ratio of the existing wastewater treatment plants;
- Reconstruction of existing and worn-out water treatment plants;
- Rehabilitation of the primary and distribution water networks, including metering.

d) The types of envisaged IWSP-II technical activities comprise:
- Cost recovery analysis, O&M analysis, work programming for setting priorities.
– Capacity building activities as regards capital investment planning and implementation, including verification and quality assurance.

– Training on planning, control and information systems, including the establishment of business plans, improving financial planning, budgeting and accounting.

– Human resource management.

3.3. **Risks and assumptions**

The programme is based on the following assumptions:

– Senior management at HCWW headquarters and the subsidiary companies will commit to applying and enforcing performance standards and incentives;

– HCWW and Egyptian Water Regulatory Authority are willing and able to achieve agreement on performance targets and input/output ratios.

– Harmonised implementation procedures covering fiduciary risks (mainly procurement and financial management) will be streamlined among the four participating donors involved in this programme. An implementation agreement amongst participating donors will be signed in that respect.

The programme is based on the following risks:

– IWSP is an ambitious programme due to its outreach and complexity of activities. Co-ordination of IWSP activities between HCWW and its affiliates must be closely monitored as well as the realisation of the financial contribution from Egypt.

3.4. **Cross-cutting issues**

Environmental sustainability: IWSP-II is directly addressing one of the main environmental concerns related to safe supply of drinking water and to environmentally-friendly sanitation services. To ensure a high level of environmental protection, the investments will follow the World Health Organisation standards for quality of produced drinking potable water and sanitary drainage as adapted by the Egyptian Ministry of Health.

Human rights: In accordance with the Millennium Development Goals, IWSP-II is mainly targeting the increase of access to safe supply of drinking water and basic sanitation which are basic human rights.

Gender equality: Water management systems established by the Affiliated Companies are respecting the principles of gender equality and equal opportunities.

Good governance: Capacity development of IWSP-II will ensure the strengthening of management and administrative systems of the four Affiliated Companies.

3.5. **Stakeholders**

The main stakeholders of the IWSP are the following:
– Egypt water and wastewater institutions and agencies i.e. HCWW and its Affiliated Companies in Governorates of Assuit, Minya, Qena and Sohag. These governorates have been selected on the basis of three criteria: needs, other donors' presence and structure of established water operators/companies.

– Other major new capital investments and rehabilitation works are managed by separate agencies of the Ministry of Housing, Utilities, and Urban Development, namely the CAPWO\textsuperscript{5} and NOPWASD\textsuperscript{6} for the rural governorates, which are semi-corporate public agencies.

– The four governorates have a total population of 15.3 million while the target population is estimated at 4 million. In addition, the population living upstream of the drainage channels are indirect beneficiaries of the programme.

All main stakeholders have been fully involved in the design and formulation phases of the IWSP-II and have demonstrated effective commitment for its implementation.

4. IMPLEMENTATION ISSUES

4.1. Method of implementation

The implementation of IWSP-II will follow "indirect centralised" management as the programme will be implemented under the responsibility of KfW and in accordance with the KfW relevant rules and procedures in force at the time of the launch of the procedures in question.

The implementing partner of KfW will be the HCWW representing the Ministry of Housing, Utilities and Urban Development, who is the beneficiary of the programme. The HCWW is a public entity owned by the Government of Egypt represented by the Ministry of Finance. HCWW will be the contracting authority on the base of the KfW Procurement Guidelines.

Moreover, KfW as the lead financing institution will execute all payments of the EU contribution under this programme. The EU will delegate to KfW the overall technical and financial monitoring (follow-up) of the programme in accordance with the KfW's own policies and procedures, including:

(i) The non-objection procedure (ex-ante control) on procurement procedures in line with the KfW Procurement Guidelines, as described in point 4.2;

(ii) The approval of the audit reports (interim and final) to be provided by an independent external auditor.

The EU will sign a single Delegation Agreement with KfW for the tasks of execution of payments directly to contractors, monitoring of implementation, and reporting of the progress of activities to be financed from the NIF contribution (EUR 13 million) as well as the EUR 10 million contribution from the NIP 2011-13.

The European Commission reserves the right to change the lead finance institution indicated above or the scope of the delegation, after exchanging views with the

\textsuperscript{5} Cairo and Alexandria water and waste water projects organisation.

\textsuperscript{6} National organisation for potable water and sanitary drainage.
Beneficiary, without this necessarily requiring an amendment to the financing agreement. In that case, it shall notify the name of the new lead finance institution and/or the scope of the task(s) delegated to it.

4.2. **Procurement and 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 KfW for the implementation of external operations, in force at the time of the launch of the procedure in question.

4.3. **Indicative budget and calendar**

In accordance with the Aide-Memoire of IWSP-II, the following table provides a brief description of the category of the financial resources and indicative amounts for the implementation of the IWSP-II.

<table>
<thead>
<tr>
<th>Categories</th>
<th>EU contribution</th>
<th>Government contribution</th>
<th>Other European Development Partners</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>EUR</td>
<td>EUR</td>
<td>EUR</td>
<td>EUR</td>
</tr>
<tr>
<td>A. Technical Assistance(*)</td>
<td>13,000,000</td>
<td>2,000,000 (KfW)</td>
<td>13,000,000 (SECO)</td>
<td>28,000,000</td>
</tr>
<tr>
<td></td>
<td>(NIF)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B. Investment Funding</td>
<td>10,000,000</td>
<td>94,000,000 (Government of Egypt)</td>
<td>57,000,000 (KfW) 57,000,000 (EIB) 57,000,000 (AFD).</td>
<td>275,000,000</td>
</tr>
<tr>
<td></td>
<td>(NIP)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>23,000,000</td>
<td>94,000,000</td>
<td>186,000,000</td>
<td>303,000,000</td>
</tr>
</tbody>
</table>

(*) The EU Technical Assistance contribution covers the other activities of communication, visibility; monitoring, external evaluation and audit, with earmarked amount of EUR 500,000. The overall cost of those activities i.e., communication, visibility; monitoring, external evaluation and audit will be shared between the EU, KfW, AFD and EIB on a pro-rata basis of their respective contributions.

Operational implementation period of the programme is foreseen to be 60 (sixty) months.

4.4. **Performance monitoring**

With the support of the Technical Assistance consultant, HCWW will produce the overall and the annual work plans for the implementation of the IWSP-II programme.

HCWW will produce periodical progress reports and annual reports. Reporting and monitoring will be based on a regular flow of information by HCWW on the financial/operational implementation of the project to the EU, KfW, AFD and EIB.

Upon the completion of the joint appraisal mission among the EU, KfW, AFD and EIB, a certain number of detailed and accurate indicators will be agreed between the
HCWW and the four involved subsidiaries and the European Commission, KfW, AFD and EIB.

Among other quantitative and qualitative indicators to be indicatively included, are:

(1) Increase in the percentage of water and wastewater coverage in the selected four governorates;

(2) Increase of the number of water and wastewater household connections;

(3) Improvement in the rationalised use of energy in the rehabilitated water and wastewater facilities;

(4) Increase in bill collection rate;

(5) Increase of percentage of women out of total participating at local communities and NGOs benefiting from the IWSP programme.

4.5. Evaluation and audit

The follow-up, the evaluation and the audit of the project shall be done according to the procedures and under the lead of KfW. The following external evaluations, to be agreed with the other co-financing institutions, appear recommendable:

– a mid-term evaluation mission;

– a final evaluation, at the beginning of the closing phase;

– possibly, an ex post evaluation.

However, the EU reserves the right to carry out monitoring (e.g. Result Oriented Monitoring), audit and evaluation (e.g. overall NIF evaluation) missions. The EU shall co-ordinate such missions with similar missions under the leadership of KfW.

The IWSP-II will be subject to auditing. The auditors will be contracted by KfW. The audits will cover the following:

– Annual compliance audits for the overall implementation of the programme;

– Special audits whenever regarded necessary as requested by financing institutions involved/HCWW.

The audits will be carried out by an independent auditor following international standards.

In the case where the verification and/or audits carried out to identify non-eligible expenditures, the procedures for recovery will be defined in the Manual of Procedures of IWSP-II.

4.6. Communication and visibility

Cost related to communication and visibility measures and activities will be shared among all supporting financing institutions of the IWSP-II and will be carried out in
accordance with the “Communication and visibility manual for European Union external actions”. Visibility activities will cover all components of the programme.
APPENDIX TO THE ACTION FICHE - Improved Water & Wastewater Services Programme – Upper Egypt (IWSP II)

REGARDING THE VERIFICATION OF THE CONDITIONS FOR INDIRECT CENTRALISED MANAGEMENT PROVIDED FOR IN ART. 56 OF THE EC REGULATION 1605/2002 (FINANCIAL REGULATION)

The Financial Regulation (FR) (Council Regulation No. 1605/2002) and its implementation rules (Commission Regulation No. 2342/2002) are applicable to the Budget Line 19 08 01 01 European Neighbourhood and Partnership financial cooperation with Mediterranean countries

Following the same successful model of IWSP-Phase I, coordination and synergies with other ongoing programmes (mainly Water Sector Reform Programmes funded by EC as well as ISSIP II-Phase II programme funded by the World Bank) will be continued and further strengthened. As the on-going model, HCWW (main beneficiary of IWSP-II) takes the lead for coordinating all on-going programmes. Water-DPG will be continued to be the main platform for exchanging information and for synergizing all information of IWSP-II, ISSIP II, EC funded WSRP-II as well as other related water programmes. IWSP-II will build on the accumulated experiences of IWSP-I.


**Summary table**

<table>
<thead>
<tr>
<th>Article [56.1] [56.2] FR criterion</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Transparent procurement and grant- award procedures, which are non- discriminatory and exclude any conflict of interests and which are in accordance with the relevant FR provisions</td>
<td>KfW procurement guidelines are agreed as minimum standards in the respective contracts with the implementing organisation. All major steps in the process of procurement are subject to KfW's &quot;no objection&quot; or &quot;approval&quot; prior to its execution. The guidelines contain safeguards to ensure that the principles of transparency, non-discrimination and equal treatment, avoidance of conflict of interest, use of tendering procedures and best value for money are respected.</td>
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<tr>
<td>(b) An effective and efficient internal control system for the management of operations, which includes effective segregation of the duties of authorising officer and accounting officer or of the equivalent functions</td>
<td>KfW evaluates the reliability, capacity and efficiency of a project-execution agency. This is followed by a close monitoring and control procedures. Internal control arrangements are assessed by KfW or independent auditor in order to ensure the correct use of funds.</td>
</tr>
</tbody>
</table>
(c) An accounting system that enables the correct use of EU funds to be verified and the use of funds to be reflected in EU accounts. KfW has precise requirements that the partner has to apply in terms of accounting and financial reporting. The financial statements of the partners are verified by KfW.

(d) An independent external audit exercised by a national institution for independent external auditing. External audits are always mandatory in the "disposition fund procedure" (pre-financing).

The auditor is appointed by the partner. If other disbursement procedures are used (reimbursement of costs incurred by partner or direct payments by KfW), KfW carries out its own examinations as to the proper use of funds. However, KfW always reserves the right to carry out or commission own audits and on-site inspections.

(e) Adequate annual ex post publication of beneficiaries of funds deriving from the EU budget. This criterion is covered by the reporting requirements and the principle of transparency applied for grants and procurement.

Prevention of irregularities and fraud and recovery of funds if necessary. Adequate clauses will be included in the Agreement with the delegatee.

The Commission will ensure supervision, evaluation and control of the implementation of the tasks entrusted. Adequate clauses will be included in the Agreement with the delegatee.

**Conclusion:** In his notes of 23/4/2008 and of 6/11/2009, the Director General K. Richelle, confirmed that the conditions provided for in Article 56 the FR are currently being met. On this basis, the Director DEVCO F proposes that the applicable implementation method to the action entitled "- Improved Water & Wastewater Services Programme – Upper Egypt" for 2012 for Egypt be **indirect centralised management** and submits it to the Commission for decision.

11 JUN 2012

Brussels,

Marcus CORNARO
Director DEVCO/F
Authorising officer by subdelegation for the EU BUDGET