

Annex 5

ACTION FICHE FOR EGYPT

1. IDENTIFICATION

Title	Improved Water and Waste Water Services Programme (IWSP)		
Total cost	EUR 29 000 000		
Aid method / Management mode	Project approach - <i>Joint co financing (KfW, EC, AFD, EIB)</i> <i>Decentralised management</i>		
DAC-code	-14020 -14030	Sector	- Large Water Supply and Sanitation Systems - Small Water Supply and Sanitation Systems

RATIONALE

1.1. Sector Context

A relatively high percentage of Egypt's population is served with piped water, but there are still substantial deficits both in quality and quantity in the semi-urban and rural areas. There is also a lack of adequate provision of sewerage facilities, which covers only 40 % of the population country-wide (10 % only in rural areas).

More than one third of Egypt's population lives in the extremely densely populated Governorates of the Nile Delta. In this area sanitation services are inadequate with untreated domestic wastewater as a significant source of pollution affecting irrigation and drainage networks. The degradation of water quality has a direct impact on agricultural production, human health and the ecosystem.

Faced with such a low level of service for both water supply and sanitation, the Government of Egypt (GoE) envisages to invest EGP⁹ 20 billion (EUR 2.5 billion) in the medium term (2007-2012) so as to improve service provision, especially in rural areas.

The current project concerns a joint effort of the GoE (contribution EUR 82 million) supported with a structured and co-ordinated donor contribution of EUR 213 million. In addition to the EC grant of EUR 29 million from the ENPI and a €5 million funding from the NIF (Neighbourhood Investment Facility), Kreditanstalt für Wiederaufbau (KfW) will contribute with EUR 69 million, European Investment Bank (EIB) with EUR 70 million, and Agence Française de Développement (AFD) with EUR 40 million. KfW has accepted to be the lead donor.

⁹ Egyptian Pound. On average, Euro 1 = EGP 8

1.2. Lessons Learnt

The 2005 on-going EUR 80 million EU-Water Sector Reform Programme (WSSRP) supports many initiatives related to water and wastewater sector policy development and strategy reform.

The main lesson learnt for EC future support to the water sector is that the further strengthening of the institutional and management aspects water supply and sanitation is highly desirable. Furthermore specific technical assistance should be provided with a view to strengthening government coordination and capital investment at national level. Lastly, the EC should act as catalyst to provide more donor support in this key sector.

1.3. Complementary actions

- (1) The ongoing WSSRP focuses on the legal, financial and institutional reforms of the water sector at large covering water resources management, water supply and sanitation and water-related public finance management. Relevant areas under the WSSRP, that are also covered by this IWSP project are:
 - (a) (a) Water and Wastewater Master Plans for the affiliated companies that will emanate into a national master plan. Coordination and supervision will be done by the Holding Company for Water and Wastewater¹⁰ (HCWW), who has the overall responsibility regarding quality and results.
 - (b) (b) Rural Sanitation Strategy, it is the first country-wide strategy of this kind, financed under WSSRP.
 - (c) (c) Water and Waster Water Law reforms that define more accurately the responsibilities and mandates of the different institutions active in the sector (MHUUD¹¹, HCWW & affiliated companies) and at regulating their interaction.
- (2) Institutional Capacity Building for the Egyptian Water Regulatory Authority (EWRA). It is an EC funded project through the SAAP Programme (2005). This technical assistance project provides operational technical capacity of EWRA with a view to developing its key basic functions as a water economic regulator.
- (3) Water and Wastewater Sector Policy Reform Project is a USAID funded programme. This six-year effort (2003- 2009) aims primarily at building HCWW capacity to manage the subsidiary utilities, to improve their operational and financial performance, and to stimulate private participation. The programme also assists EWRA in the design and implementation of

¹⁰ The Holding Company for Water and Wastewater (HCWW) is a public entity established by Presidential Decree of the Arab Republic of Egypt n° 135 of 2004. HCWW is regulated by the Public Enterprises Law and it is directly dependent of the Ministry of Housing, Utilities and Urban Communities. The Decree also establishes the list of public economic authorities for water supply and sanitary drainage that are transformed into affiliated companies to HCWW.

¹¹ Ministry of Housing, Utilities, and Urban Development

performance monitoring and benchmarking systems, tariff analysis and design, and review of utility applications for tariff adjustments.

- (4) Water and Wastewater Management Programme (WWMP) is a German funded programme. WWMP is supporting HCCW for building its capacity with regard to capital investment planning and to corporate management towards its subsidiaries.
- (5) Italian-Egyptian Capacity Building Programme for Integrated Water Supply and Sanitation (IBISS) is an EC-funded project via the Life programme. This project focuses on water leakage control and reduction, providing operational support to three subsidiaries of HCWW, and subsequently transferring leakage control know-how to HCWW technical management staff.

1.4. Donor coordination

IWSP itself intends to be a model for donor coordination as it is developed on a joint financing scheme among the European Commission (EC), the Agence Française de Développement (AFD), the European Bank of Investments and Kreditanstalt für Wiederaufbau (KfW) in line with Paris Declaration and aid harmonization. Cooperation between different donors has been close and effective in recent years through the Donors Assistance Group (DAG) via the existing water Sub-DAC in Egypt. In this context, systematic co-ordination and complementarities with programmes supported by Member States (MS) and other donors' water supported programmes (ISSIP, new USAID water programme) is an asset.

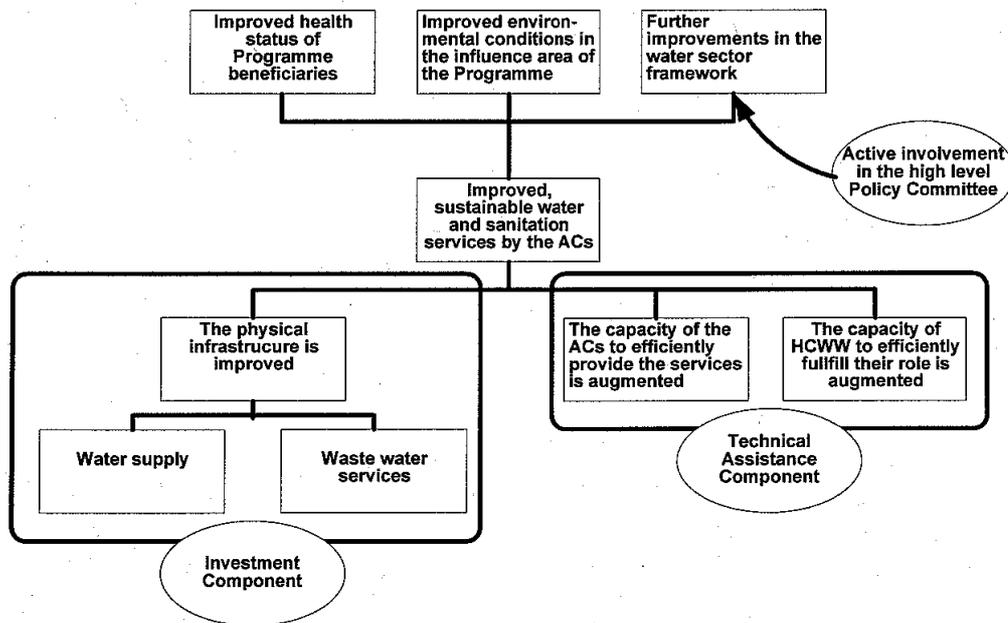
2. DESCRIPTION

2.1. Objectives

IWSP General Objective

The general objective of IWSP is shown in the chart below. IWSP will provide support through both investment in infrastructure to improve the performance of the HCWW affiliated companies, and through the provision of Technical Assistance (TA) to improve their operational efficiency.

Project partners (EC, KfW, AFD and EIB) will contribute to the sector dialogue at national level by participating as observers at the sessions of the National High Level Committee for Utilities



IWSP Specific Objectives

- To improve water quality and output as well as wastewater services in four Governorates through a sector investment program. The target is to increase coverage up to 99% for water supply services and 40% for wastewater and sanitation services on both urban and rural areas.
- To develop investment, planning, steering and 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 financial performance of the water- and wastewater management companies in the selected Governorates.

2.2. Main activities and expected results

Main Activities

- (1) An investment programme for improving the quantity, quality and efficiency of the water supply and particularly wastewater services in the four governorates Sharkia, Gharbia, Damietta and Beheira in the Nile Delta region. About 4 million inhabitants will benefit from this action through the implementation of civil works, provision of electro-mechanical equipment, pipelines, goods and associated services.

- (2) Capacity building and institutional strengthening of HCWW in four key pillars:
 - (a) Business Development
 - (b) Technical Support from HCWW towards its subsidiary companies
 - (c) Monitoring and Evaluation
 - (d) Managing outsourcing process for training services

The Technical Assistance provided will cover the following activities:

- Corporate, operational and business planning of the IWSP program;
- Capacity Building of the HCWW in key areas such as human resources, fiduciary oversight, quality management, management information systems, etc.

Expected Results

- Improved and extended water infrastructure and water- and sanitation services in the four selected governorates;
- More efficient budget and financial management in the water supply and sanitation sector.
- Improved governance framework for water supply and sanitation.

2.3. Stakeholders

The stakeholders of the IWSP are:

- Egypt **water and wastewater institutions and agencies** i.e., HCWW and its affiliated companies in Governorates of Sharkia, Gharbia, Beheira and Damietta. These governorates have been selected on the basis of three criteria: needs, other donors' presence and structure of established water operators/companies.
- Major new capital investments and rehabilitation works which will be owned and managed by the affiliated companies for the rural governorates mentioned above. These are semi-corporate public agencies directly receiving funds from State Budget.
- The four Governorates have a total population of 16 million while the target population is estimated at 4 million. In addition, the population living upstream of the drainage channels and using water for irrigation or other purposes are indirect beneficiaries of the programme.

3. RISKS AND ASSUMPTIONS

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 Agency (EWRA) are willing and able to achieve agreement on performance targets and input/output ratios.
- Harmonized 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.

Risks

- IWSP is an ambitious programme. Coordination of IWSP activities between HCWW and its affiliates must be closely monitored.
- The sustainability of the programme should be increased through the creation of an adequate regulatory and supporting environment by the Government of Egypt.

3.1. Crosscutting Issues

IWSP is directly addressing one of the main environmental concerns related to the supply of drinking water in the four governorates concerned. .

4. IMPLEMENTATION ISSUES

4.1. Implementation method

A financing agreement will be signed with the Government of the Arab Republic of Egypt. The EUR 29 million EC contribution to IWSP is divided into the following two components:

a) Investment Financing Component (EUR 20,000,000), the amount of this component is part of capital investment financing to be disbursed through a specific mechanism developed jointly with KfW, EIB and AFD and defined in the Implementation Agreement.

b) Technical Assistance Component (EUR 9,000,000) to build the capacity of HCWW in the areas of capital investment planning, project management and steering capacities for subsidiaries management.

The method of implementation will be partly decentralised management through the signature of a financing agreement with the Government of Egypt.

The degree of decentralisation and the contracting and paying authorities of this programme will vary in the two different components, as detailed below.

(1) Investment Financing Component of EUR 20,000,000

Procurement procedures for works, supplies and services will be decentralised at the level of the affiliated companies, acting under supervision of the HCWW, designated by the Government of Egypt. *Ex-ante* controls will be carried out by EC.

EC funds will be paid to an account held by the Government of Egypt. The paying authorities (HCWW, the affiliated companies) will be reimbursed through this account.

An advance payment will be disbursed at the start of the project. All payments, including the advance payment, will be made in principle following a *pari passu* share among the donors involved in the project. Other payment arrangements may apply for the engineering consultancy services.

Except for the advance payment, all further payments will be disbursed after receiving an external independent audit report on the expenditure incurred. In the payment circuits within the paying authorities, effective segregation of the duties of authorising officer and accounting officer or of the equivalent functions will be respected.

(2) Technical Assistance Component of EUR 9,000,000

This component includes audit and evaluation contracts of the project.

Support in procurement procedures for services and supplies will be provided under this component. The contracting authority will be the HCWW.

Ex-ante controls will be carried out by EC. All payments will be made in principle following a *pari passu* share among the donors involved.

Audit and evaluation contracts will be contracted and paid by the Commission or another donor acting on behalf of EC.

4.2. Procurement and grant award procedures

For the Investment Financing Component

Rules and procedures to be applied will be mutually agreed upon in an Implementation Agreement to be signed between the Donors. The applicable procurement procedures will be based on the EC procedures and templates, except for procurement of works below the threshold of EUR 5 million, for which the WB procedures allowing a pre-selection of companies will be implemented.

For all tenders, an *ex-ante* control will be done by EC. Grant award procedures are not applicable in this project.

For the Technical Assistance Component

All contracts will be awarded and implemented in accordance with the procedures and documents laid down by the Commission in force at the time of the launch of the procedure in question or in accordance with KfW procedures which conform to international standards set. An assessment was carried out in April 2008, the auditors concluded that the six key pillars, as mentioned in article 56 of the Financial

Regulation (and thus including procurement procedures), are well established and operational within KfW. There mechanisms and controls in place to ensure that the funds will be used for their intended purpose.

For both components, participation in the award of contracts for the present action shall be open to all natural and legal persons covered by ENPI Regulation. Further, participation will be worldwide in accordance with the rules of other donors and article 21.8 of the ENPI regulation.

4.3. Budget and calendar

The financing structure of the project is as follows:

Financier	Amount (EUR)	Interest Rate	Maturity	Grace Period
A. Investment Funding:				
EC (Grant)	20,000,000	N/A	N/A	N/A
KfW (Loan)	33,962,967	0.75	40	10
KfW (Loan)	26,653,350	1.95*	40 / 10	10 / 5
EIB (Loan)	70,000,000	5.00*	20 **	5**
AFD (Loan)	40,000,000	3.60*	20	5
GoE (EGP Equiv.)	82,191,317			
<i>Sub-Total</i>	<i>272,807,634</i>			
B. Technical Assistance (All Grants)				
KfW	8,300,000			
EC	9,000,000	National Indicative Programme		
NIF	5,000,000***	Neighbourhood Investment Facility (NIF)		
<i>Sub-Total</i>	<i>22,300,000</i>			
TOTAL	295,107,634			

(*) Indicative current fixed rates; the final rates are to be defined according to conditions described in the respective loan agreements

(**) Possibly from the date of each disbursement (to be negotiated)

(***) Subject to the approval of the NIF Board

The EC contribution under the NIP 2007-10 to the programme will be EUR 29,000,000 million. The indicative breakdown for the EC contribution is as follows:

Activities	Budget	Implementation
Technical Assistance to HCWW Audit and evaluation	EUR 9 000 000	Mix decentralized and centralized
Capital Investment Activities i.e., Construction and Rehabilitation of Water and Wastewater Facilities in IWSP project area (Governorates of Beheira, Gharbia, Sharkia and Damitta)	EUR 20 000 000	Decentralized
Total	EUR 29 000 000	

The operational duration of the programme will be 60 months.

4.4. Performance monitoring

With the assistance of the Technical Assistant consultant, HCWW will produce the overall and the annual work plans for the implementation of the IWSP programme.

HCWW will regularly produce monthly progress reports, quarterly progress reports and annual reports.

Reporting and monitoring will be based on a regular flow of information by HCWW on the financial and operational implementation of the project to EC, EIB, KfW and AFD.

Upon the completion of the joint appraisal mission among EC, KfW, EIB and AFD, a certain number of detailed and accurate indicators will be agreed between the HCWW and four involved subsidiaries, on the one hand, and EC, WIB, KfW and AFD on the other hand.

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

- (1) number of water and wastewater coverage in the selected 4 governorates
- (2) number of water and wastewater household connections;
- (3) rationalized use of energy in the rehabilitated water and wastewater facilities;
- (4) billing collection rate;
- (5) percentage of women out of total participating at local communities and NGOs benefiting from the IWSP programme...etc.

4.5. Evaluation and audit

Regular audits will be carried out by the Donors (KfW as lead donor on behalf of the other donors or directly by EC). Quarterly external independent audits will be launched in order to verify the expenditure done. This is in addition to joint EC, KfW, EIB, AFD independent external mid-term review and final evaluation to be also carried out.

The Commission may, furthermore, send specific missions at any time to assess the progress of the project.

4.6. Communication and visibility

In accordance with the “EU Visibility Guidelines for External Actions”, for Technical Assistance projects and for studies, the TA contractor and/or implementing partner must always issue at least one press release and use the appropriate stationery and report presentation format.