



Framework Contract Beneficiary

Framework Contract Beneficiary
Lot N°2: Transport & Infrastructure

Specific Contract n° 2011/271105

Beneficiary Country: Egypt

**WATER SECTOR REFORM PROGRAMME PhASE 2
VALIDATION AND RESTRUCTURING OF THE PROGRAMME**

FINAL REPORT

December 2011



The project is funded by European Union



The project is implemented by Ove Arup Consortium

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Abbreviations and acronyms

AC Affiliated Company under HCWW

ACWUA Arab Countries Water Utilities Association

ADB African Development Bank

AFD Agence Française de Développement

AIR Annual Information Return

BOT Build-Operate-Transfer

CBE Central Bank of Egypt

CAPMAS Central Agency for Public Mobilization and Statistics

CTU Central Treasury Unit

CHF Swiss Franc

DAG Donor Assistance Group

DP Development Partner

DPG Development Partner Group

EC European Commission

EEAA Egyptian Environmental Affairs Agency

EGP Egyptian Pound

EIB European Investment Bank

EUWI European Water Initiative

EWRA Egyptian Water Regulatory Agency

GEWAMED *Mainstreaming Gender Dimensions into Water Resources Development and Management in the Mediterranean Region*

GFMIS Government Financial Management Information System

GIS Geographic Information System

GoE Government of Egypt

GTZ Gesellschaft für Technische Zusammenarbeit (German Agency for Technical Cooperation)

HCWW Holding Company for Water and Wastewater

HRM Human Resources Management

IBRD International Bank for Reconstruction and Development

IFI International Financial Institution

IIIMP Integrated Irrigation Improvement and Management Project

IMELS Italian Ministry for the Environment Land and Sea

InWEnt Capacity Building International (Germany)

IRU Institutional Reform Unit

ISSIP Integrated Sanitation and Sewerage Infrastructure Project

IWA International Water Association

IWRM Integrated Water Resources Management II Program

IWSP Integrated Water and Sanitation Project

JBIC Japan Bank for International Development

JICA Japan International Cooperation Agency

KfW Kreditanstalt für Wiederaufbau

LIRR Legal, Institutional and Regulatory Reform Program

MALR Ministry of Agriculture and Land Reclamation

MARS Monitoring, Analysis and Reporting System

MASTER Maintenance through Systematic Tracking and Equipment Repair

MHUUD Egyptian Ministry of Housing, Utilities and Urban Development

MoF Egyptian Ministry of Finance

MoIC Egyptian Ministry of International Cooperation

MPWSS Master Plan for Water Supply and Sanitation

MTEF Medium Term Expenditure Framework

MWRI Egyptian Ministry of Water Resources and Irrigation

NDP-II Second National Drainage Project

NDS National Water Supply and Wastewater Sector Development Policy and Strategy

NOPWASD National Organization for Potable Water and Sanitary Drainage

NRSS National Rural Sanitation Strategy

NWC National Water Council

NWRP National Water Resources Plan

OECD Organisation for Economic Co-operation and Development

PAU Policy Advisory Unit

PEFA Public Expenditure and Financial Accountability

PI Performance Indicator

PPIAF Public-Private Infrastructure Advisory Facility

PPP Public Private Partnership

PSP Private Sector Participation

SBSP Sector Budget Support Programme

SC Subsidiary Company (of HCWW)

SCADA Supervisory Control And Data Acquisition

SDC Swiss Agency for Development and Cooperation

SECO Swiss State Secretariat for Economic Affairs

SPSP Sector Policy Support Program

SSC Sanitation Service Cluster

SMART Specific Measurable Achievable Relevant Time phased

USAID United States Agency for International Development

USD United States Dollar

WB World Bank

WPRR Water Policy and Regulatory Reform Program

WRMRP Water Resources Management Reform Program

WSRP Water Sector Reform Program

WSS Water supply and sanitation

WTP Water treatment plant

WUA Water Users Association

WWMP Water Supply and Wastewater Management Programme

WWSPR Water and Wastewater Sector Policy Reform Program

WWSS Water and Wastewater Sector Support Program

WWTP Waste Water Treatment Plant

General

A mission led by Mr Hervé MORICE, team leader, visited Egypt in October and November 2011 with a mandate to contribute to the validation of the Water Sector Reform Program Phase 2.

The terms of reference of the mission are attached as Annex 1 to the report¹. Annexes 2, 3 and 4 of this report describe the schedule of activities, the persons met and the documents consulted.

The first part of the mission, from October 1 to October 27, also included Mr Detlef LISS, senior water economist. The second part of the mission was conducted from November 12 to November 25 by the team leader.

The core objective of the mission was the formulation of a revised version of the legal documents related to the WSRP 2 (Financing Agreement, Technical and Administrative Provisions and Appendixes including the matrix of the reform benchmarks). This revised version was transmitted to the EU Delegation as a draft version on October 31 and approved by the Delegation; a revised version incorporating the advances obtained during the first days of the second mission was validated by the EU on November 16 and circulated to the Egyptian authorities for comments, with the inclusion of specific items related to Public Finance Management and incorporated by the EU Delegation.

The legal documents were formally approved by the government on November 23 during a final meeting, chaired by MoIC, of Egyptian stakeholders with the EU delegation², with an agreement on some changes, neither of which concerned the substance of the documents. These changes were incorporated in the final version of the legal documents dated November 24, which is attached in a consolidated form as Annex 6 to the present report.

The final consolidated document (FA, TAPs and 4 Appendixes) on which the mission concentrated its work includes the matrix of reform benchmarks which is the only section of the FA explicitly mentioned as a deliverable in the ToR of the mission. This matrix is the Appendix 2 to the Technical and Administrative Provisions and is fully imbricated with all the other sections of the Financing Agreement.

The presentation of the present report follows the structure approved on November 3 between TTCO and the EU Delegation and identifying, as separate sections of the report and related specific attachments, the deliverables mentioned in the terms of reference of the mission.

The dissemination workshop which was mentioned as item vii) of the terms of the reference did not take place during the mission. The EU Delegation asked to the mission to issue, under a Power Point format and on the basis of the final and validated version of the FA, a

¹ They have been completed and precised by exchanges of mails dated October 4 and November 3

² The list of the participants in this meeting is attached as Annex 5

presentation which could be used for a future dissemination workshop if and when it is organized. This presentation is attached as Annex 9 to the present report.

In its capacity of co-chair of the water donors group, the EU Delegation has expressed its intention to present the substance of the present report, and especially of its sections 1, 2 and 4, to a panel of donors.

The mission took place, especially for its second part, in a situation of political unrest with some security concerns which complicated the arrangement of some meetings.

The mission expresses its deepest thanks to all the persons who facilitated its work, in the Government agencies and ministries and in the EU Delegation in Egypt, with a special mention for Mr Ahmed BADR, Task Manager in the EU Delegation, and his assistant Mrs Yasmeeen DAHROUG, whose implication and support was of exceptional value for the mission.

Section 1 Background analysis / Inception Report

1. General

The rationale of the mission was the post-revolution situation prevailing in Egypt and the resulting questions regarding potential amendments to be brought to the Financing Agreement elaborated late 2010 after an identification and formulation phase initiated in 2009.

The mandate of the mission was to provide an assessment on the situation created by the Egypt revolution with respect to the existing draft Financing Agreement and especially to the attached reform benchmarks. This mandate was not to question the structure of this document and of the benchmarks, or the underlying analysis conducted in the formulation phase regarding for instance

- eligibility to sectoral support
- focus of the programme

On the latter point, most benchmarks (in the initial draft TAPS, 8 out of the 11 benchmarks concerning the water sector and applying to the variable tranches) are related to the sub-sector traditionally named “water and sanitation” (WSS), covering the operations of the entities (companies affiliated to the Holding Company for Water and Wastewater - HCWW/ ACs) under the authority of the MHUUD, whereas 3 (2 of which being of an institutional nature) are related to activities under the authority of the MWRI.

2 Institutional settings

2.1 Institutional settings in the egyptian water sector are commanded by the existence of two ministries in charge of water, MWRI and MWUUD, with unclear coordination mechanisms although policies and long-term strategies of these ministries are strongly imbricated. Inside the “water and sanitation” subsector which is of particular interest for the WSRP2, coordination between institutions could also be improved³.

The WSRP 1, together with other past or ongoing projects and programmes, has partially addressed the issue of internal coordination in the water sector but advances remain necessary regarding for instance

- the emergence of a shared sectoral vision regarding policies and strategies between MWRI and MHUUD.

³ Annex 63 of the report (also Appendix 3 to the TAPs) , gives a detailed description of the responsibilities of the main public stakeholders in the water sector .

- the operational coordination of key institutions like NOPSWAD and HCWW, who duplicate some of their key activities like strategic planning with limited coordination. This item was mentioned in the WSRP 1 but has received until now a limited attention from the GoE.

2.2 The public stakeholders are the key sector players. The role of civil society remains institutionally limited, at least in the WSS subsector whereas water users do play a more significant role in the irrigation subsector through the WUAs. Concepts like accountability, transparency and attention to consumer expectations are not a priority on the agenda of public stakeholders. It is the opinion of the mission that, in the context of the post-January revolution, this situation could evolve. This point is discussed, and potential WSRP 2 contributions in this respect are identified, in Sections 2 and 4 of the present report.

3 Sector dialogue

Based on the experience gained on the WSRP 1 and on investment projects supported by the EU, fields of improvement exist in the content and quality of the sector dialogue between the EU and the GoE.

An improved internal coordination between public stakeholders (see 2.1) will contribute to progress. Also, in order to improve the bases for dialogue, the format and contents of the sectoral progress reports to be submitted to the WSRP 2 Steering Committee could be streamlined and clarified⁴.

It is however clear that if these advances can contribute to an improvement in the quality of sector dialogue, they cannot by themselves generate this improvement, which is dependent on the general climate of open discussion and transparency to be developed in the water sector between the EU in particular, and the donors at large, and the GoE.

The implication of the EU in several investment or TA projects, and its siege as co-chair of the water donors group, will contribute to strengthen the impact of the WSRP 2 in this respect.

⁴ Various donor-supported TA programs to projects (IWSP, WWSS, WWMP, ISSIP,..) or institutions (MWRI, HCWW, EWRA, ...) can also contribute to improve and harmonize reporting formats in the water sector

4 Information and base data

The mandate of the mission did not include a review of the global issue of sectoral information systems, a task assumed to have been covered in the preparation and identification phase. However, and for practical reasons linked to the drafting of the TAPs and of its Appendixes 1 and 2 including the matrix of reform benchmarks, the mission had to address the following points regarding

4.1 Availability of information and data

In principle, data related to a FY closing on June 30 of year N⁵ should be available in the third quarter of year N, and, after due verifications and audits, be officially published (for instance in the EWRA annual report) in the fourth quarter of year N . However, it happens that

- in the fields related to the WSRP 2 benchmarks, the only available official report from EWRA is today the 2009/2010 report . It only includes (with one exception for ACs investments) data related to the 2008/2009 FY.

Also, the baseline data proposed by MWRI for the pumping stations proved to relate to stations where works had already been completed or were under way, and did not include the key data allowing to monitor energy consumption, which justified an early request for the presentation of a revised proposal from MWRI.

- due to a slippage in the expected implementation period of WSRP 2 (now 2012/2015), the reference period for most of the baseline data had to be FY 2010/2011 (or the situation as of 30 June 2011), with possible exceptions for specific technical reasons⁶ or when the baseline could be the pre-revolution situation, but in no case 2008/2009 as a general rule . It is not expected that an official report such as the EWRA 2010/2011 report be issued before at best the first quarter of 2012, a date incompatible with the constraints in the signature dates for the FA. This situation implied specific arrangements for the production and inclusion of the required baseline data in the FA (see Section 3).
- all available non-quantified information suggest that the revolution had adverse impacts on the financial situation of all ACs as of June 2011 (see Section 2) . In order to be able to have a more solid base for the setting of benchmarks for cost recovery performances, taking into account 2011 developments but also past but recent historical trends, the mission suggested that historical data be produced over an indicative period of 5 years for some key performance indicators regarding cost recovery⁷; these data were not available before the end of the mission.

⁵ The Egyptian FY runs from July 1 to June

⁶ This was the case for the MWRI pumping stations where data are centralized on the basis of calendar years and where , for one station, 2010 data revealed to be incomplete and unreliable

⁷ The mission suggested in its 11/10 interim report that the first phase of the mission be shortened if these data were not available by the third week of October. This proposal was not implemented

4.2 Quality of physical data.

The ACs produce and transmit to HCWW a number of physical data (volume of water produced, number of people served,) ; some of them are , at least for the FY 2008/2009 data included in the 2009/2010 EWRA annual report, included in the annual report of the regulator and therefore officially validated, but their definition and elaboration procedures are unclear. For instance, it is unclear under which procedures ACs can count at the unit the number of people served with water or sanitation and to which date in the FY this figure relates.

4.3 Clarity and homogeneity of financial and economic indicators

4.3.1 The Annual Information Return filled in by individual ACs and shared by HCWW and EWRA includes the audited financial data of ACs up to the level of individual accounting lines, plus a set of physical data. Financial data are audited yearly by state auditors to constitute the audited general ledger figures.

On the common basis of these data, HCWW and EWRA develop a set of performance indicators (63 are mentioned for HCWW in its MARS system, and EWRA working documents suggest it has developed about 90 indicators) . According to the information of the mission, MARS provides space to capture costs under a different name than the general ledger, thus allowing discrepancies between the general ledger audited accounts and MARS source data. The mission has understood that EWRA works on the audited figures of the ledger, but may reprocess them.

The sets developed and calculated by ACs, HCWW and EWRA may therefore put under the same or similar denomination (at least in their usual english wording as it was communicated to the mission), concepts and definitions which are different; the effective signification of the accessible figures remain always unclear for an outsider to the EWRA/HCWW/ACs system when a precise and accessible definition is not attached, which was the case for the official publications in English language consulted by the mission.

For instance,

- “ Revenues” may or may not include subsidies or may or may not include non-recurrent items such as meter sales , therefore implying sometimes unclear definitions of “ Total Revenues” versus “ Revenues” or “ Billed revenues”
- “ Costs” may or may not include “ depreciation”, “ amortization” and “ provisions”, therefore implying sometimes fluctuating definitions of “ Costs” and “ Total costs”

- It is unclear if and how arrears on unpaid bills are taken into account, whether through the creation of a “revenue” concept net of provision for arrears, or through the addition to “total costs” of an item covering these provisions for arrears. Examples of ACs covered by recent studies also suggest that in some ACs⁸, the dates of billing cannot be precisely monitored in the present status of the billing system, with obvious consequences on the evaluation of arrears and related provisions.

4.3.2 In its own perspective, EWRA segregates costs and revenues between water and sanitation, on grounds which may differ from the ones used in the general ledger and in the MARS system⁹.

4.3.3 As an additional factor which does not necessarily contribute to clarity, the reports from consultants that the mission could review use and discuss data which are often “self-built” for the specific purpose of their assignment. These ratios or figures may be, under however similar denominations, defined differently from the ones developed and sometimes published by HCWW and EWRA¹⁰. Moreover, these type of reports or data are established for the purpose of specific investment projects and therefore concern a limited number of specific ACs; it is unknown, and it cannot be known in the absence of clearly defined reference data, whether these ACs are or are not representative of the global sector situation.

In the prevailing situation, starting from the existing version of the reform benchmarks and within the limitations of its mandate, the mission therefore recommended, which was supported by the EU, to focus on the elaboration of benchmarks and baselines responding as much as possible to SMART standards and which, based on the information available to the mission as of October/November 2011, could be considered as

- Being defined with an acceptable precision
- Being reasonably reliable
- Having the potential to be officially certified.

⁸ IWSP 1 Cost Recovery report RODECO Wyg MVV June 2011

⁹ Figures provided by HCWW have been presented on a consolidated base regrouping water and sanitation activities

¹⁰ For instance modifying the “operation and maintenance” costs to adapt them to standard maintenance costs with reference to the value of fixed assets or building ad hoc “milestones”

Section 2 Factual and risk assessment of the impact of the Egypt revolution

As specified and confirmed by the EU Delegation, the mission could not have the ambition of conducting an in-depth analysis of the impact of the Revolution on the water sector at large. Its focus was therefore on the impact of the revolution on the specific reform areas covered by the benchmarks included in the existing Draft FA dated late 2010.

Due to the importance of the WSS subsector in the structure of WSRP2, the following discussion gives an important place to the situation and perspectives of this subsector and of the HCWW ACs.

1 Institutions, policies, strategies and action plans in the water sector

1.1 In the present transition period, the names and mandates of the Ministries (MWRI, MHUUD) and of key institutions (HCWW, EWRA, NOPSWAD, CAPW, ...) in charge of water have remained unchanged. A limited number of senior officials have been dismissed, but the senior and middle-level staff of most public agencies has remained largely stable.

The vision of the GoE on the water sector has been formulated in recent official documents such as the National Water Resources Plan 2017 (dated January 2005) and the National Water and Sanitation Sector Strategy (dated September 2010). These documents are of a mixed nature, putting on the same level concepts relevant to policies, strategies and plans; they reflect the dual and parallel responsibility of MWRI and MHUUD in the formulation, implementation and monitoring of GoE policies and strategies in the water sector.

Policies and strategies are reflected in a number of subsector strategies (for example the National Rural Sanitation Strategy of 2008) or action plans (for instance the Governorate-based master plan for water supply and sanitation).

1.2 The mission has received no indication that any significant change in existing institutional settings or in already formulated policies, strategies or action plans could take place in the present transition period expected to expand beyond 2012. With respect to strategic planning, this is confirmed by the nature of the document on the 2050 National Water Resources Strategy provided by MWRI as a baseline for benchmark B2, this 2050 strategy being due to be formulated by 2012 and circulated for discussion by mid-2013.

The recurrent issues and challenges identified and regarding internal sector coordination or sector monitoring remain therefore to be addressed. The EU has supported arrangements for a more integrated operation of the WSRP 2 steering committee (materialized by the co-signing of annual progress reports by MWRI and MHUUD) and has proposed to enhance internal coordination in the WSS subsector between HCWW and NOPSWAD.

1.3 With respect to the Nile Basin, the mission has not been informed of any expected evolution of the policies of the MWRI regarding its relations with Nile riparian countries. In the continuing stuck about an agreement on the sharing of Nile water resources, the MWRI sees as a priority the continuation of exchanges of expertise and the promotion of dialogue forums between Nile countries.

The proposed benchmark related to the promotion of a shared IWRM vision at Nile Basin level has therefore received both maintained attention from the MWRI and support from the EU.

1.4 In the existing institutional structure, the FA implies the “traditional” ministries in charge of water. Should the setting of new democratic institutions include a redefinition of the roles of the ministries in charge of water or even their merging in a single entity, the institutional scope of the WSRP 2 could be significantly modified. The mission has not been informed that such reforms are considered at any political or technical level in a near or medium-term future. If decided, they could of course be eligible to support out of the TA component of the WSRP II.

1.5 The mission has seen no sign that, at least for the near future, a major priority would be given in the water sector to the practical implementation of values commonly presented as attached to the Egyptian revolution: transparency and accountability in the public sector, attention to end-users expectations and requirements, increased role of civil society in policy elaboration and long-term planning,

In its section concerning the water sector, the FA does not include specific benchmarks or provisions in this respect; the section of the matrix of reform benchmarks concerning the MoF includes a benchmark on improved financial transparency of economic authorities in the water sector, with publication of HCWW financial statements on the MoF internet site from 2013 onwards.

The mission suggests that the TA component be eligible to support these advances in the appropriate time and under the appropriate format.

2 Perspectives for PPP developments

The commitment of the GoE towards the promotion of PPP has been confirmed at the highest level after the revolution¹¹. However, a number of factors have brought the initiation of PPP operations to a virtual halt

- Cancellation of ongoing or already attributed tenders on suspicions of frauds
- Deteriorated investment climate due to political and financial uncertainties

¹¹ MoF presentation in the meeting of Finance Ministers, Marseilles, September 2011

- Lack of long-term visibility on the policies of future governing bodies towards private investors

In this context, the relevance of a benchmark for PPP in the WSRP was put into question, and the benchmark was deleted in agreement between the EU and the GoE.

3 Constraints on investment budgets

HCWW mentions a sharp reduction in national budget allocations to the WSS subsector for capital investment, the usual figure of 14 Billion EGP per FY being now reduced to 5 Billion EGP, a decrease equivalent to more than 1 Billion €. Contributions of external donors should not suffer the same evolution, but they probably will not be increased in the immediate future by an order of magnitude similar to the decrease of internal resources.

The MWRI has not mentioned specific budget constraints for the implementation of its investment program for the rehabilitation of priority pumping stations, where the benchmark concerns only two stations already inscribed on a priority list.

4 Direct impact of the revolution on ACs current operations

4.1 Tentative assessment of the pre-revolution situation

As exposed in Section 1 of the report, official or unofficial (elaborated by consultants, for instance) data regarding the situation of the ACs are very limited and cannot be used without extreme precautions.

The limited set of data and information made available to the mission, and which for most of them do not have any official status, tend to suggest that

4.1.1 The management of ACs has been and remains largely dominated by a “civil service” and “engineering” culture. The attention to managerial and financial problems remains limited while, on the technical side, new investments attract more interest than the management and maintenance of existing assets.

Short-term preoccupations dominate, whereas long-term planning receives a smaller attention.

Among the consequences,

- Few ACs have entered into structured business-oriented approaches involving the preparation of business plans, or, on a more limited but fundamental scope, of asset management plans. Projects concerning individual ACs have delivered some advances in

this field¹², but these advances remain modest related to the size of the sector and still need to be disseminated

- Uncertainties are mentioned on the appropriate budgeting of key budget lines such as maintenance. A study conducted in 2011 on the ACs of Sharkia, Gharbia, Damietta and Beheira ¹³ (which of course may not be representative of the sector in this respect) concludes that actual maintenance expenses in these 4 ACs in FY 2009/2010 were between 25% and 55% , with an average of 39%, of their “ required” value , estimated by the consultant by applying standard ratios to the gross value of fixed assets.

4.1.2 Over the last 5 to 6 years (2005 to 2010), the performance of the ACs in cost recovery may have been at best stable, with a significant deterioration recorded in 2009/2010. This tentative statement could rely on the recent values of key ratios (namely the R ratio which is benchmark C5) calculated by EWRA and communicated to the mission, on partial historical figures established by HCWW and consulted by the mission and on specific analysis on one individual AC in a project-related study¹⁴.

4.2 Impact of the revolution and perspectives

Officially audited figures related to the technical and financial performances of the ACs in the 2010/2011 FY, which will include 6-month of “revolution and post-revolution” period, were not yet available at the date of the mission. The mission therefore bases the following elements on limited and unofficial information.

4.2.1 Cost increases

Immediately after the revolution, government agencies including the ACs hired a substantial number of staff under permanent contracts and continue to do so. It is mentioned that a substantial number of these staff were already present under short-term or fixed-term contracts, and that as a consequence not all these fixed-term contracts correspond to a net increase of staff. Also, salaries were significantly increased (a doubling is generally mentioned), and staff demands in this field of compensation remain pressing. Staff costs have therefore received an immediate boost, which may yet increase in the near future; the impact on 2011/2012 may be relatively limited (with only a few months under a full-scale impact), but it will be felt structurally over the next years.

¹² USAID has supported these approaches through the WWSS Programme, and the IWSP project also includes related actions in the B section of its TA component

¹³ IWSP 1 Lot B Cost Recovery Report June 2011 Rodeco/Wyg/MVV, pages 191/193

¹⁴ IWSP 2 Financial Analysis Report July 2011 Makary Consulting ; only Menia has historical data from 2005/2006

Although these orders of magnitude may not be representative of the overall sector situation, the mission has noticed that for the ACs mentioned in the 2011 studies already quoted, “wages” (which may roughly cover the majority of all staff costs) typically represent one third of total costs (including amortization and depreciation) and between half and two thirds of current O&M costs.

On the basis of these orders of magnitude, and assuming other costs as stable for the sake of the comparison, a doubling of staff costs would correspond to an increase of current O&M costs in the 50% to 70% range over a full fiscal year. Figures to be validated and published for the 2010/2011 fiscal year may not necessarily show such increases in total O&M costs; if this is the case, it could be due of course to a limited impact of compensation increases on this particular fiscal year, but also possibly to parallel reductions in O&M expenses other than staff costs.

4.2.2 Revenue generation and collection

Problems in the collection of revenues have been mentioned to the mission; they could be due to internal perturbations in the activities of AC billing operations, a lesser discipline of customers for the payment of issued bills, possibly compounded by growing economic difficulties for some categories of subscribers, or a combination of these factors and others. The mission received no quantified element confirming the existence of a significant related problem, and, if it is confirmed, to estimate its order of magnitude and to evaluate its final impact on the 2010/2011 financial position of the ACs.

For reasons discussed in Section 1 para 4.3.1, 2010/2011 figures for “Revenues” which could be published by HCWW or EWRA may not allow to provide a clear vision of the situation if they do not include specific provisions for arrears, with a specified delay of payment for the inclusion of an unpaid bill in these provisions.

It is also unknown at this stage whether this issue, if confirmed, would reveal mostly to be of a recurrent or non-recurrent nature.

In any case, it is unlikely that substantial tariff revisions could occur in the current transition period and in the short to medium-term future where the satisfaction of social demands will remain a high priority item for the GoE.

4.2.3 Budget subsidies

When published, the official 2010/2011 figures for subsidies to O&M expenses of ACs will give an idea of recent evolutions in corresponding budget allocations. The mission has understood that in the projected general budget picture, it is improbable that these subsidies would have increased in FY 2010/2011 (a decrease of about 20% from the 2009/2010 levels of about 900 Million EGP could be the validated order of magnitude); it is also far from granted that the subsidies can be restored and maintained in the short and medium term at their pre-revolution levels.

Expected restrictions in the investment budgets are also expected in the WSS subsector (see Chapter 3 above), which will incidentally reinforce the need to optimize the management and maintenance of existing productive assets.

4.3 Implications for the WSRP 2

All available signals support the perception that, from a sectoral perspective with possible individual exceptions, the financial situation of the ACs has been deteriorating recently. As a confirmation, the mission notices that the value of the sectoral “R” cost-recovery ratio used as benchmark C5 (see section 3 of the present report) would have decreased to 0.77 in 2010/2011 from 0.84 in 2009/2010 and 0.89 in 2008/2009

Also, the maintenance of existing assets is not granted as being today fully satisfactory, whereas future budget subsidies to current O&M costs will be constrained.

The mission therefore identifies the sustainability of AC operations as a potential major medium-term issue, for which preventive or corrective measures could be considered in the coming years.

The mission therefore strongly supports the presence in the matrix of reform benchmarks of a benchmark linked to cost recovery performances; the mission recommends that this benchmark be built on a sector perspective since the individual performances of a few selected ACs may give a misleading perception of the overall sector situation.

A set of efforts is required, and is often already under way in the ACs including with external assistance, regarding key fields like

- control of operational costs (including for instance chemical consumables for water treatment and energy consumptions in pumping stations)
- improvement of billing systems
- optimization in the planning and organization of assets management.

The mission suggests that the TA component be significantly allocated to support these efforts at operational AC level.

5 Conclusions and recommendations

In the light of the above assessment, and taking into account the proposals formulated by the mission, the EU and the GoE concluded to

- delete the PPP benchmark
- maintain in their initial structure most of the benchmarks related to physical achievements, with adaptations described in the Section 3 of the present report
- maintain a benchmark related to cost recovery, but under a sectoral perspective
- adapt the physical objectives to a context of severely constrained investment budgets

Section 3 Baseline report on the revised version of the matrix of reform benchmarks

The revised version of the matrix of reform benchmarks is the Appendix 2 to the Technical and Administrative provisions. It is included in the Annex 6 to the present report, which is the consolidated version of the Financing Agreement as validated by the Egyptian authorities. It forms an intricate block with the TAPs and with the Appendix 1 to the TAPs, which provides technical details on the benchmarks and the baselines. The changes mentioned as concerning the matrix therefore also concern the TAPs and the Appendix 1 to the TAPs.

The list and references of reform benchmarks appearing in the matrix are consistent with the objectives, results and activities of the programme as described in the Technical and Administrative Provisions.

1 Structural changes

Pursuant to the analysis of Sections 1 and 2, and apart from purely editorial modifications, the changes brought to the structure of the matrix of reform benchmarks are

1.1 For all benchmarks, adapt the reference years to the expected disbursement dates

- Fixed tranche, Q1 2012. The 3 benchmarks for this tranche can be satisfied with no delay after the signature of the FA, planned for late 2011.
- First variable tranche, Q1 2014. This supposes that disbursement request be sent by Q4 2013, referring to the situation of FY 2012/2013 or on 30 June 2013.
- Second variable tranche, Q4 2015. This supposes that the disbursement request be sent by end of Q3 2015 or early Q4 2015, referring to the situation of FY 2014/2015 or on 30 June 2015.

1.2 Fixed tranche: Strengthening or clarification of the reform benchmarks , all of an institutional nature

1.2.1 Regarding the operations of the steering committee, and due to the structure of the EU legal documents, changes of substance were brought both

- in the matrix , with an additional benchmark specifying a required agreement between the GoE and the EU on the format and content of sector progress reports; this format , built from a proposal by the mission, is the Appendix 4 to the TAPs
- in the TAPs: co-signature by MHUUD and MWRI of annual sector progress reports to be transmitted by MoIC

- 1.2.2 A specific benchmark added in the matrix addresses the coordination between NOPWASD and HCWW. It is a follow-up on a commitment formalized during the implementation of WSRP 1.

1.3 PPP benchmark

Early in the mission, the EU and the GoE concurred that this benchmark was no longer applicable in the post-revolution transition period (see Section 2). It has therefore been deleted from the matrix of reform benchmarks.

1.4 Benchmark C1 Access to water supply

Admitting the limited reliability of figures on the number of people served with water, and in view of the problems to be expected to monitor and audit these figures, the GoE suggested to switch to a benchmark (number of billing points for domestic consumers) responding to the same objective (increase the coverage in water supply) but which could be more easily defined and monitored than the previous one (number of people served) , which could be only estimated under unclear procedures.

The mission and the EU supported this change, with a corresponding adaptation in the baseline (values as of 30 June 2011) and in the benchmarks for 2013 and 2015. Technical definitions have been streamlined accordingly.

Although they cannot be directly compared to the original ones , the revised benchmarks expressed in terms of new billing points (100 000 for 2013 and 200 000 for 2015) correspond approximately to a doubling of physical objectives compared to the original 2010 proposal in terms of additional people served (200 000 in 2013 and 650 000 in 2015) .

1.5 Benchmark C2 Access to sanitation services

For similar reasons, and under similar conditions, the benchmark has been changed from a number of people served with improved sanitation services to a number of billing points for domestic consumers.

Even if they cannot be directly compared to the previous ones, the new benchmarks expressed in terms of additional domestic consumers billed (100 000 in 2013 and 200 000 in 2015) reflect a significantly less ambitious physical program than the previous ones expressed in terms of additional people served (2 Millions in 2013 and 4 Millions in 2015) ; HCWW relates this evolution to an expected severe reduction of budget allocations for investments in the sanitation subsector.

2 Technical adaptations

The adaptations brought to the other benchmarks of the matrix were of a more technical nature

2.1 Benchmark B1 Decentralized implementation of new WSS capital investment

A definition of the benchmark was included (reference to the invoices sent to payment by the ACs in a given FY) . The baseline value is the 2010/2011 value of 175 MEGP, or 50% lower than the 2009/2010 figure mentioned in the 209/2010 EWRA annual report. The revised objectives of 100% and 200% increases from the baseline are therefore in line, expressed in EGP, with those of the original 2010 proposal.

2.2 Benchmark B2 National water resources strategy 2050

The MWRI produced a baseline document on which the mission formulated comments (attached as Annex 7 to the report) . In the prevailing general context on water sector dialogue, the EU has accepted this document as baseline and the wording of the corresponding section of the matrix has been adapted accordingly.

2.3 Benchmark B3 Development of a shared vision of IWRM at Nile Basin level .

The MWRI has produced baseline documents responding to the requirements spelled out in the revised definition of the baseline. The mission had no specific comment on these documents, which have been accepted by the EU.

2.4 Benchmark C3 Secondary wastewater treatment

Definitions of the benchmark were added, and the baseline figure was set at its 2010/2011 figure. Physical objectives have been set in incremental terms rather than absolute terms, with some reduction of physical ambitions from the original 2010 version, as a consequence of expected reductions in budget allocations.

2.5 Benchmark C4 Monitoring capacities for water quality

The baseline figure is the figure as of 30 June 2011. Benchmarks for the number of new accredited laboratories in June 2013 and June 2015 are lower than in the original 2010 version, also reflecting expectations for more limited budgets.

2.6 Benchmark C5 Cost recovery for ACs

For the reasons discussed in Section 2 of the report, the mission strongly supported the inclusion of this benchmark in the matrix although the definition of a relevant indicator and of realistic objectives proved particularly difficult for reasons exposed in Section 1.

The outcome of the work of the mission , which implied both HCWW and EWRA , was the following

2.6.1 The satisfaction of the benchmark is based on the value of a “R” ratio

- calculated and validated by EWRA and due to be published in its annual reports

- reflecting the degree of coverage of current O&M expenses (excluding depreciation, provisions, ...) by current billed revenues (excluding subsidies, non-recurrent revenues, ..) . This concept is today monitored by EWRA but under 2 separate ratios for water supply (F4) and sanitation (F20).
- consolidating at a sectoral level water and sanitation activities for 23 ACs

2.6.2 The baseline is the value of this ratio in 2010/2011, or 0.77.

2.6.3 The managerial objective during the WSRP 2 is to “absorb” the 2011 shock by 2013 (go back in 2012/2013 to the 2009/2010 situation, with R at 0.84) and to consolidate thereafter above these levels (go back in 2014/2015 to the 2008/2009 situation, with R at 0.89) .

2.6.4 The three key values for R have been communicated to the mission by EWRA at the same time than the mission worked with EWRA on the construction of this ratio; they have not been published up to now¹⁵.

2.7 Benchmark D1 Efficiency of water pumping stations

A first version of the baseline had to be revised (see Section 1). MWRI and the EU agreed that the revised baseline be limited to 2 drainage pumping stations included in the priority list for the 2012/2014 rehabilitation program. Definitions were provided for the benchmark and associated implementation schedules (design and works) were adapted to the projected WSRP 2 implementation schedule. Clarifications were obtained on the technical calculations of baseline figures for energy consumption per cubic meter by MWRI; the baseline figures and the reference periods were modified accordingly from the second version of the baseline proposed by MWRI .

2.8 Benchmark D2 Reduction of non revenue water

Definitions were provided for this benchmark, with the inclusion of the concept of a “ ratio of volume on NRW towards total distributed volume” , more significant than an absolute volumetric figure as was proposed in the original 2010 draft FA. Revised objectives regarding the number of ACs implementing measurement of non-revenue water and the order of magnitude of the expected reduction of the non revenue water, all of them presented by the GoE as having significant budget implications, were reduced in the expected context of a constrained budget situation for the water sector.

¹⁵ The decrease of R from 2008/2009 to 2009/2010 can be seen as a confirmation of some cash generation problems at sector level for the ACs, see Section 2

In summary, the revised objectives compare as follows to the 2010 proposal for the benchmarks where this comparison is applicable

Benchmark	Indicator	Variable Tranche	Initial objective	Revised objective
C3 Secondary Wastewater treatment	Incremental daily volume processed (m3/day)	1 (ref 2012/2013)	100 000	100 000
		2 (ref 2014/2015)	500 000	200 000
C4 Monitoring capacities	Incremental number of accredited laboratories	1	2	1
		2	4	2
D2 Conservation practices for non revenue water	Incremental number of ACs implementing measurement of non revenue water	1	2	1
		2	4	2
D2 Conservation practices for non revenue water	Percentage of reduction of non revenue water	2	2%	1%

Section 4 Technical assistance assessment

1 General

The Special Conditions of the FA specify an allocation of 10 Million € for “Complementary support” in addition to the specific “Budget support” of 110 Million €. The TAPs specify the following sub-allocation for these 10 Million €

Monitoring, audit and evaluation	300 000 €
Communication and visibility	200 000 €
Technical Assistance	9 500 000 €

The MHUUD and its agencies, which are the main focus of the WSRP 2, have not formulated proposals for specific allocations of the WSRP 2 TA budget. The MWRI has mentioned its interest for generic themes (capacity building, remote sensing, climate change, research, irrigation, groundwater, solar energy, coastal zone management, transforming training, renewable energy, water quality, ...) with no indication of priorities and has indicated for these themes indicative budgets totaling 47 Million €.

In the present fluid institutional context, the EU wishes to leave as much flexibility as possible in the design and implementation of the Technical Assistance component. The TAPs therefore only mention that 8.5 Million € will be allocated to the water sector and 1 Million € to the Ministry of Finance. As a decision by the EU, the Annexes to the TAPs do not include neither any detailed or indicative sub-allocation for these budgets nor any precise description of the actions which could be financed under the TA component.

2 Proposed sectoral priorities and eligibility criteria

2.1 General

The following discussion deals only with the water sector at large, excluding the finance sector.

Given the structure of the FA and based on its findings (see Sections 2 and 3 of the present report), the mission suggests that the allocation of the TA responds to

- Sector priorities consistent with the objectives of the program
- Transversal eligibility criteria responding to what the mission has understood as being key post-revolution expectations expressed by the civil society (See Section 2).

2.2 Sector Priorities

Given the limited budget available of 8.5 Million €, and the existence of a number of other projects and programs involving technical assistance to the water sector¹⁶, the mission suggests that the WSRP 2 TA component concentrates on key actions and items identified as being of high priority. In a context of growing pressure on the financial and managerial capacities of the ACs, the mission identifies the operational support to ACs as a key priority. In a complementary and coherent perspective, the promotion of decentralization and of civil society implication is also proposed as a second priority.

2.2.1 Contribute to improve the sustainability of the operations of the WSS service providers (ACs)

- Development of asset management planning
- Development or improvement of billing systems
- Improvement of the cost-effectiveness of current operations
- Development of economic and financial capacities
- Development of managerial capacities, including for human resources management
- Development of business-oriented and cost-conscious approaches
- Development of planning capacities

2.2.2 Contribute to foster decentralization and civil society implication in the water sector

- Support decentralized governance in the water sector
- Strengthen or support the emergence of civil society stakeholders in the water sector, including water users associations in the WSS subsector
- Promote public awareness on water and sanitation issues

2.2 Eligibility criteria

The proposed criteria are of a transversal nature, applying to all actions to be financed under the WSRP 2 TA component. Their satisfaction would allow to

¹⁶ Matrix of Current and Recent Donor-supported Projects in the Water and Sanitation Sector, WWSS , USAID/ Chemonics June 2011

2.2.1 Support the implementation in the water sector of some key expectations which have emerged from the civil society during the January 2011 revolution

- Contribute to improve transparency and accountability of public stakeholders
- Make the best use of existing local or regional capacities and talents

2.2.2 Address or at least mitigate weaknesses often mentioned in the design and implementation of TA programs to the water sector (dissemination of progresses and outputs already achieved under previous or ongoing projects or programmes, impact of TA staff at operational field level, coherence between various initiatives).

- Capitalize on tools already developed and outputs already achieved through recent or on-going TA programs
- For support to ACs
 - involve a sustained presence of TA staff in the supported ACs
 - prior to physical implementation, be discussed at the operational level in a technical forum between HCWW and donors , whenever possible with participation of representatives of TA teams already engaged in TA to ACs

3 Terms of reference for priority technical assistance

Under a format which goes beyond the requirements (limited to a Statement of Works) expressed to the mission by the EU Delegation in line with its November 3 understanding with TTCO , the mission has elaborated draft terms of reference for an action which could be supported by the WSRP 2 TA program as responding to the proposed priorities and eligibility criteria (attached as Annex 8 to the report) .

The proposed ToR structure covers a support to ACs with a general objective to strengthen the capability of HCWW ACs to operate water and wastewater systems more efficiently. Specific objectives would be to

- increase the financial and commercial viability of ACs
- develop capital investment planning and assets management mechanisms
- develop financial planning mechanisms
- increase transparency and accountability of ACs towards their clients and the civil society
- build the capacity of ACs staff

This action would capitalize on the achievements of recent or ongoing projects such as WWSP and IWSP, complement their action where necessary and contribute to strengthen capacities in the key fields of financial management and assets management.

At the present stage, the delineations of the geographical areas to be covered and of the precise actions to be selected from the “ long list” described in the proposed ToR cannot be defined; they depend inter alia on the budget envelope, if any, which would be allocated in the course of WSRP 2 implementation. Decisions in this respect will also include the definition of the public body which will be responsible for the guidance and monitoring of the proposed TA effort. In the present institutional setting, it could be HCWW as the holding company for the various ACs in which the action would be implemented.

Annex 1

SPECIFIC TERMS OF REFERENCE

WATER SECTOR REFORM PROGRAMME – PHASE II VALIDATION AND RESTRUCTURING OF THE PROGRAMME

FWC BENEFICIARIES 2009 - LOT 2 TRANSPORT AND INFRASTRUCTURE EuropeAid/127054/C/SER/multi FWC No. :2011/271-105

1. BACKGROUND

In the EU's National Indicative Programme 2005-2006 for Egypt¹ a budget of € 80 million was allocated to support reforms in the water sector through the sector budget support instrument.

A Water Sector Reform Programme (WRSP) was launched in 2005-06 with a view to increasing efficiency in the management of water resources and improving drinking water and sanitation systems, while balancing conflicting needs of industry, agriculture and other water uses. The programme aimed at supporting the already ongoing Government reform plan for the water sector, whose main objectives were to:

- (i) Adopt and implement a comprehensive strategic framework for water sector integration, including all major stakeholders
- (ii) Strengthen the capacity of the Ministry of Water Resources and Irrigation and promote economic and sustainable water use;
- (iii) Reform the legal and institutional framework of the Water Supply and Sanitation sector,
- (iv) Promote decentralised management at a number of operational levels in the water sector;
- (v) Provide a favourable framework for private sector participation in the water sector.

Accordingly, the WSRP was developed to support those institutional, financial and legal reforms in the water sector, and facilitate the implementation of the Egypt National Water Resources Plan 2005-2017 (so called NWRP), while also responding to the EC priorities for cooperation with Egypt as spelled out in the National Indicative Programme.

The main output of the WSRP was to reorganize the water sector management and specifically to:

- (i) implement the needed investments for the delivery of water on economically optimal grounds;

¹ This was the last National Indicative Programme for Egypt under MEDA-II Programme.

- (ii) Rationally and equitably distribute capital expenditures and recurrent costs associated to water sector funding
- (iii) Ensure the long-term environmental sustainability of water management processes

The Programme has been completed by end of 2009 upon successful completion of all reform benchmarks.

Following the success of WSRP- Phase I , both Government of Egypt and the European Commission agreed to allocate an additional grant of € 120 million as phase two of Egypt's WSRP (i.e., so called WSRP-II) to take place between 2011-2015 to be disbursed on the basis of a new set of jointly agreed reform benchmarks. . This new matrix set has 13 reform benchmarks forms the substance of the first component –under WSRP-Phase II with total amount of € 110 million. (Copy of the matrix of reform benchmarks is attached to the Terms of Reference as Annex 1). The remaining amount of € 10 of WSRP-II be allocated to provide technical assistance to the beneficiary line ministries/institutions in order to carry out other associated reform measures. The beneficiary line ministries/institutions are Ministry of Water Resources and Irrigation, Ministry of Housing, Utilities and Urban Development, Holding Company for Water and Wastewater and the Ministry of Finance.

The overall objective of the WSRP-II is to support the GoE in continuing the reform programme of the water sector, in accordance with the objectives of the National Water Resource Plan 2005-2017 (NWRP 2005-2017), and of the recently adopted Water and Wastewater Sector Development Policy (WWSDP).

The related specific objectives for WSRP-II are:

- (i) A more robust and coherent institutional framework with clearly defined Water Supply and Sanitation (WSS) policy and strategy, and with better performing WSS service providers;
- (ii) Better use of existing water resources by improving operational efficiencies of the Affiliated Companies (AC), reducing water losses and reusing treated wastewater and;
- (iii) Protect public health and the environment.

It was foreseen to have the financing agreement of the WSRP- II to be signed in January 2011, however due to the Egypt's revolution of 25th January 2011, the signature had to be postponed. The impact of the revolution on the programme could be summarized as follows:

- (i) – Some of the reform benchmarks will be hardly met and accordingly need to be reconsidered as either revised, updated or omitted;
- (ii) – Other reform benchmarks need to be verified upon the end of the Fiscal Year (2010-2011)²;
- (iii) – Few remaining benchmarks have been confirmed to be met; and
- (iv) – New benchmarks are proposed to be introduced in the agreed matrix as new reform measures.

In addition, the baseline of all reform benchmarks needs to be updated and validated to match the current status of the sector reform i.e., as of September 2011 instead of September 2010.

² Egypt's Fiscal Year starts on 1st of July and ends on end of June of the next calendar year.

As for the technical assistance component, the beneficiary institutions requested their TA to support new areas of intervention than what was agreed before the revolution.

2. DESCRIPTION OF THE ASSIGNMENT

➤ Global objective

The global objective of this assignment is to support rationalized water infrastructure coverage, regulatory enforcement and further EC-Egypt cooperation in the water sector.

➤ Specific objectives

The specific objectives are:

- Provide a factual and risk assessment of the impact of Egypt revolution of 25th January 2011 on the mutually agreed reform benchmarks of phase II of WSRP and accordingly recommend which benchmarks should be omitted, modified, updated or newly introduced.
- Following the above assessment, assess the prioritized areas of technical assistance interventions as associated measures for the reform of the water sector.

➤ Requested services

(i) The consultant team has to study and to carefully analyze the following background documents:

- 1- Identification Report of WSRP-II, including all associated annexes.
- 2- Approved Identification Fiche
- 3- Formulation Report of WSRP-II, including all associated annexes.
- 4- Approved Formulation/Action Fiche
- 5- Latest version of the Financing Agreement of WSRP-II– dated 21 June 2011, including the latest draft version of the matrix of reform benchmarks;
- 6- Latest draft version of the baseline report, including all associated evidence documents.
- 7- English draft version of the Annual Report of the Egyptian Water and Wastewater Regulatory Agency for the Fiscal Year 2009-2010.
- 8- Registered minutes of relevant stakeholders meeting on 29 June 2011.

The appointed consultant team will be receiving digital and hardcopies of the above listed documents upon the award of the contract and before starting their first field visit to Cairo.

(ii) Upon careful analysis of the above documents, the consultant has to carry out several and scheduled field visits to the beneficiary institutions and key stakeholders of the programmes (as listed above) plus key donors support the sector namely, Dutch Development Cooperation; KfW, GIZ, AFD, EIB, The World Bank, Swiss Development Cooperation. Other key stakeholders to the water sector in which they should be visited are National Organization for Potable Water And Sanitary Drainage (NOPWASD) and Central Agency of Executing Projects for Water and Wastewater in Cairo and Alexandria (CAPW);

Then, the appointed consultant is requested to develop an inception report within one week time of his first field visit to Cairo in order to elaborate on the modus-operandi on how they will successfully complete the requested scope of work including detailed action plan. The action plan should specifically specify the exact date in which each individual requested output will be achieved.

The main rationale for visiting all key stakeholders of the programmes is to formulate a factual and risk assessment on the impact of the revolution of 25th January 2011 with regard to the ongoing reform process of the water sector. This includes their intervention logic for (i) omitting or keeping or modifying each individual reform benchmark; and (ii) prioritizing associated areas of technical assistance that would receive support under the technical assistance component of the same programme

(iii) Based on the results of the above explained factual and risk assessment, the consultant team shall propose – first for the internal approval of the EU Delegation:

(a) Which individual reform benchmarks will be omitted, modified, updated or newly introduced. "An explanation of rationale" should be provided for each individual action of change in the in the existing draft of the matrix of the reform benchmarks. This includes detailed description of each reform benchmarks as per the EU standard template i.e., clear and concise description of the reform benchmark, its development objectives, its base year, its baseline data and its source of verification;

(b) A list of prioritized technical assistance measures for the line ministries/ beneficiary institutions within the financial envelop of € 10 million. This includes the draft terms of reference for each technical assistance measure. Those draft terms of reference have to follow the latest EU templates as it will be described later.

(iv) Assisting the EU Delegation in the discussions and then in finalizing all proposed/approved changes in the matrix. This process occurs under the umbrella of the Water-Development Partners Group (Water-DPG).

(v) Upon the approval of the proposed changes by the Government of Egypt (i.e., line ministries/beneficiary institutions) and the EU Delegation, the consultant team has to work with the beneficiary institutions including Egyptian Water and Wastewater Regulatory Agency (EWRA) in validating/updating the baseline of all reform benchmarks including those will be changed, modified, updated or newly introduced and as it will be deemed relevant.

(vi) Upon completing the validation/updating of the baseline of the reform benchmarks, the consultant team has to carry out a "visibility" workshop to share with all stakeholders the revised and/or newly introduced benchmarks, validated/updated baselines and associated priority technical assistance measures that will be supported under the WSRP-II. The workshop should be for 100 participants in maximum and should be in a business hotel which should be equipped with business banquet and all related business equipment e.g. data show, wireless microphones, translation cubes, business table and headset,...etc. The workshop should be bilingual in Arabic and English languages for a period of one working day.

➤ Required outputs

- (i) Inception report: the report should include preliminary analysis of the current situation; preliminary feedback on the meeting with key stakeholders; the modus-operandi on how the consultant team will carry out the requested scope of work and detailed action plan. The action plan should clearly detail the time in which each individual requested output will be successfully completed (i.e., so called time-bound action plan).
- (ii) Factual and risk assessment report of the impact of the revolution of 25th 2011 on the water sector in Egypt;
- (iii) Revised version of the matrix of the reform benchmarks of the WRSP II
- (iv) Baseline report of the revised version of the matrix of the reform benchmarks
- (v) Assessment report on the areas technical assistance interventions including the prioritization of these intervention.
- (vi) Draft Terms of Reference for the prioritized and mutually agreed technical assistance measures
- (vii) Dissemination workshop: an operational workshop should be held at the end of the mission to share the revised matrix of reform benchmarks and the prioritized technical assistance interventions which will be supported under WSRP-II.

3. EXPERTS PROFILE

- Number of requested experts per category and number of man-days per expert or per category
 - Senior Water Resources Specialist – Team Leader (Category I): 30 working days
 - Senior Water Economist – (Category I): 30 working days
- Profile per expert or expertise required:
 - Senior Water Resources Specialist – Team Leader (Category I): 30 working days
 - Education
 - He/she will have an advanced/master university degree in water engineering or related field.
 - General experience
 - He/she should have at least 10 years of experience in Integrated Water Resources Management systems and have contributed to the preparation and/or review of national water resource plans, assessments on water quality and quantity, services decentralization, especially for irrigation activities, and water re-cycling and/or other relevant sub-area.
 - Specific experience

- He/she should have at least 10 years of experience in the water and wastewater policies and strategies focusing on drafting/reviewing governmental reform action plans, water and wastewater strategy assessments, rural water and sanitation strategies, capital investment plans, improvement/expansion of water and sanitation accessibility, and quality of provided services, preferably in the MEDA countries
- Knowledge of EC procedures and understanding of the budget support aid modality requirements would be a strong advantage.
- Experience in the country and in the region would be an asset.

- Language and computer skills

- The expert shall be fluent in oral and written English.
- Professional experience with MS-Office is required.

- Senior Water Economist – (Category I): 30 working days

- Education

- He/she will have an advanced/master university degree in economics, public finance, or related field

- General experience

- He/she should have at least 10 years of experience in macroeconomics, preferably linked to infrastructure financing, economic development strategies, including as relevant to transition countries.

Specific experience

- He/she will have a thorough knowledge of EC procedures, regulations, and monitoring systems applied to general and/or sector budget support programs.
- He/she will have worked as macro economist in the implementation of an EC funded budget support operation, preferably under the MEDA, TACIS or ENPI regulations, and will have relevant experience in project management, benefit-cost analysis, and impact & monitoring analysis. Specific experience in infrastructure projects, especially water would be an asset.
- He/she shall have working experience in working with Government officials or have had other public administration advisory role in his/her capacity as economist.
- He/she will have strong communication skills, excellent analytical abilities and general proven record in project management.
- Experience in the country and in the region would be an asset.

- Language and computer skills

- The expert shall be fluent in oral and written English.
- Professional experience with MS-Office is required.

4. LOCATION AND DURATION

➤ Starting period

The assignment will start within the second half of September 2011.

➤ Foreseen finishing period or duration

The total assignment is planned to last for three months and should be completed before 15 December 2011. At least 80% of the man days of each consultant should be in Cairo, Egypt.

➤ Planning including the period of notification for placement of the staff as per art 16.4 a)

Before the kick-off meeting, the EU Task Manager will forward – via e-mail – to appointed consultants, electronic copies of all above listed documents (Item 2- Requested services) so that the appointed consultants could immediately start their analysis for the work that has been done over the past two years for the formulation of the WSRP-II.

Also, before the start of the first mission, the EU Delegation will help the appointed consultants for organizing the first set of meetings with all key stakeholders and key Water-DPG Members. The EU Task Manager is expected to join most of these meetings, and in accordance with his business schedule.

The contract will start with a kick-off meeting with the following members of the EU Delegation to Egypt: (i) Sector Manager of the Economic Reform Sector, (ii) Macroeconomist, for water sector (iii) the EU Task Manager, and (iv) the Finance and Contract Officer.

It is foreseen that the first mission will be for ten working days / two calendar weeks and that the appointed consultants will deliver by the end of the first week their inception report including a detailed time-bound action plan till the end of the assignment for the approval of EU Delegation. Respecting the deadline of 15 December 2011 for the completion of the contract is of key importance. to be respected.

All subsequent planning of the contract will be dependent on the above-mentioned detailed time-bound action plan.

Throughout the duration of the contract, the appointed consultants shall maintain close contact with the EU Task Manager and ensure that all information is regularly shared with him and that any question related to the implementation of the FWC is promptly addressed to him.

➤ Location of assignment

The location of the assignment will be Cairo.

5. REPORTING

➤ Content

(i) Inception report: the content of the inception report should include:

1. Preliminary analysis of the current situation of the water sector reform;

2. Feedback on the first field visits by the consultant team to the key stakeholders;

3. The proposed modus-operandi on how the consultant team will implement the contract with the main objective of achieving the above requested outputs as per Item-2 (explained above) before the deadline of 30 November 2011.

4. A detailed action plan in which a specific date should be defined for the completion of each requested task (as explained under item 2 – Required outputs)

(ii) Factual and risk assessment report of the impact of the revolution of 25th 2011 on the water sector in Egypt:

The report should consider the impact of the revolution on the water sector from the following stand points: (i) financial; (ii) operational; (iii) technical; (iv) legal; (v) institutional and (vi) economical, especially with regard to the areas of interventions in which the matrix of reform benchmarks are supporting like:

1. cost recovery for operation and maintenances;
2. Government subsidy to the water sector;
3. Capital investment provided to the Holding Company for Water and Wastewater and its Affiliated Companies;
4. Government policy towards private-public partnerships;
5. Strengthening the billing collection; and
6. Government policy for un-accounted for water.

(iii) Revised version of the matrix of the reform benchmarks:

The report should comprehensively describe the "causality chain" between each individual benchmark and the proposed changes following the impact of the revolution on the water sector i.e., the cause and rationale for each proposed / recommended changes. This methodology should be applied to all existing benchmarks including omitted ones and also to the newly proposed ones to be introduced in the matrix of the reform benchmarks.

(iv) Baseline report of the revised version of the matrix of the reform benchmarks:

The report should follow the same rationale for item no.(ii) explained above and also should provide the exact numerical values for the baseline of each individual reform benchmark as they will be mutually and also collectively agreed among Egyptian Water and Wastewater Regulatory Agency (EWRA), Ministry of Water Resources and Irrigations, Ministry of Housing, Utilities and Urban Development, Holding Company for Water and Wastewater, Ministry of Finance, Ministry for International Cooperation and the EU Delegation to Egypt.

(v) Assessment report on the areas of technical assistance interventions

Based on the analyzed impact of the revolution (as explained above), the report should reflect the most prioritized needs for technical assistance measures as associated pillars for the reform of the water sector. Joint-demand-driven approach is the modus-operandi to be followed for defining the prioritized technical measures. Intervention-logic should be well

explained for each proposed and prioritized technical assistance measure. The financial envelope for the technical assistance component is € 10 million.

(vi) Draft Term of Reference for the prioritized and mutually agreed technical assistance measures:

The consultant has to draft the Terms of Reference for all mutually agreed technical assistance measures as per the latest template of the EU procurement rules and regulations and within the envelope of € 10 million.

(http://ec.europa.eu/europeaid/work/procedures/implementation/services/index_en.htm)

(vii) Report on the "dissemination" workshop as explained above (Item 2 – Required outputs)

The report should include all power point presentation and technical papers that will be presented in the dissemination workshop including the feedback of all participating stakeholders.

➤ Language

The language of all reports and all communications will be in English language.

➤ Submission/comments timing

Due to short time of the assignment, the submission of the inception report — should be by the end of the first week of the first field mission. Comments / approval timing to the inception report will be two working days. This means that the approval of the inception report will be granted during the time of the first mission which will last for two weeks as explained above.

As to the reports/output as outlined under "Item 2 – required output": the submission of each individual output shall be in accordance with the approved detailed time-bound action plan explained above.

The draft version of each individual required output shall be submitted in digital form – via e-mail – for the review and then approval by the EU Delegation to Egypt. The comments timing will be 10 working days for each individual required output.

➤ Number of reports copies

For draft copies for review purposes, electronic version – via e-mail is enough. However upon the approval of the EU Delegation to the revised draft of each individual requested output, then the consultant is requested to provide 6 original and coloured hard copies plus 3 copies in CDs for each individual requested output as explained above.

6. ADMINISTRATIVE INFORMATION

➤ Interviews if necessary indicating for which experts/position

No

- When in the interest of the project, possible limits to subcontracting

Not-applicable

- Language of the specific contract

English language

- Request for a succinct methodology when needed

No

- Management team member presence required or not for briefing and/or debriefing

No

- Other authorized items to foresee under 'Reimbursable'

All costs related to the "dissemination" workshop as explained above.

- For riders only : operational conditionality for intermediary payment if foreseen as per article 7.2 b) of the Special conditions

No.

- Others

No.

Annex 2

Schedule of Activities

Mission1 (October 1/ October 30)

Jour	Expert 1 (TL)	Expert 2 (Water Economist)
1/10	Arrival in Cairo	id
2/10	Briefing in the EUD Review of documents	id
3/10	Meeting with HCWW	id
4/10	Meeting with MWRI	id
5/10	Meeting in MOPIC	id
6/10	Review of Documents	id
7/10	Review of documents Drafting of documents	id
8/10	Day off	
9/10	Meeting with Dutch cooperation Meeting with AFD Meeting in HCWW	id
10/10	Meeting with KfW and GIZ	id
11/10	Meeting with HCWW/IWSP TA team	id
12/10	Meeting in EWRA	id
13/10	Meetings in EU Del	id
14/10	Review of documents	id
15/10	Day off	id
16/10	Meeting in EWRA	id
17/10	Meetings with WB Meeting in HCWW	Meeting with WB Meeting with Dorsh and GIZ
18/10	Meeting with USAID/Chemonics	id
19/10	Review of documents. Drafting of documents	id
20/10	Meeting in MWRI	id

Jour	Expert 1 (TL)	Expert 2 (Water Economist)
21/10	Day off	
22/10	Day off	
23/10	Review of documents. Meeting with EU DEI	id
24/10	Drafting of documents Meeting with EU Aidco	id
25/10	Report writing	id
26/10	Meeting with EWRA. Wrap-up meeting with EU Del	id
27/10	Departure from Cairo	id
28/10	Day off	
29/10	Drafting of documents	
30/10	Report writing	
31/10		

Mission 2 (November 12/ November 25)

Jour	Expert 1 (TL)
12/11	Arrival in Cairo
13/11	Briefing in the EUD Meeting with MWRI
14/11	Meeting with HCWW/EWRA Meeting with MWRI
15/11	Drafting of documents
16/11	Meeting with AfD
17/11	Drafting of documents
18/11	Day off
19/11	Day off
20/11	Drafting of documents
21/11	Drafting of documents
22/11	Meeting with MWRI
23/11	Meeting with MOIC
24/11	Report writing
25/11	Departure from Cairo

Annex 3

List of persons met

EU Delegation in Cairo

Mr Ahmed BADR, Water and Energy Sector Manager
Mr Maurizio CIAN, Contrcats, Finance and Audit Section
Mrs Chiara FRANCHINI
Mr Gerhard KRAUSE Head of Section, Economic Cooperation

EU Aidco

Mr Ibrahim LAAFIA Officer for Egypt
Mrs Monica LIBERATI Head of Section Mashrek

ARE Ministries and public entities

EWRA

Mr Mohamed A. ABDELGHANY , Environmental IT Engineer
Mr Mohamed El Sayed M ABDEL HAMID , Financial Analyst
Mr Mohamed Atef M ABDEL WAHAB , General Manager, Tariff and Pricing Department
Mr Mohamed EL ALFY, Chairman
Mr Mohamed Hasan MOSTAFA Head of Technical Regulations

HCWW

Mr Mohey Eldin AHMED Director, International Cooperation
Mr Khaled Gomaa MAHMOUD , General Manger, Economic Analysis and Performance Indicators
Mr Mamdouh RASLAN Deputy Chairman
Ms Rehab SAMI, Translator, International Coordination

MHUUD

Mr Amany ABDEL HAMED General Manager for International Cooperation
Mr Sobhy ABDEL KADER , General Manager for Technical Affairs

MoF

Ms Azza REDA Chief Economist, Cabinet of the Minister of Finance
Ms Hala SIEED, Senior Economist, Cabinet of the Minister of Finance

MoIC

Mr Mostafa EISSA Undersecretary, Central Department of Cooperation with West Europe and the EU
Mrs Lahmia MAHMOUD, EU cooperation Affairs
Mrs Lamiaa Bahaa MELEGUI, Senior Economic Researcher, in charge of EU Cooperation Affairs
Ms Lamia SAMY, Senior Economist

MWRI

Mr Reda ABD El Hady RADY, Senior Water resources Engineer, Minister's Technical office
Mr Mohamed Sayed ABOUL FETOUH, General Manager, Studies and Specifications Department
Mr Ibrahim EL-DESOUKY, Vice-chairman, Mechanical and Electric Department
Mr Mohamed EL FETYANI Director General for Water Quality
Mr Mohamed EL FEYTANI, Planning Sector
Mr Essam A KHALIFA, Sector Head, Minister's office
Mr Mohamed Abdel MOTALEB, Head of the Planning Sector

Private sector and civil society

Mr WITKOWICZ, Degremont Egypt / Suez Environnement

Technical Assistance

Mr Keith BROOKE, Team leader, IWSP, Dorsh International Consultants
Mr Ghassan F NAKAD, Water and Wastewater Support Program

External donors and IFI

AFD

Mr Aymeric BLANC, Project Officer, Water and Sanitation, Paris Headquarters
Ms Lise BREUIL, Project Officer, Cairo Office
Mr Jean Pierre MARCELLI, Director, Cairo Office

Dutch Embassy

Mr Tarek A MORAD, Deputy Head, Economic and Development Cooperation

GIZ

Mr Joachim LEHMANN Programme Director
Mr Hans-Werner THEISEN, Water and Wastewater Management Programme

KFW

Mr Walid ABDEL-REHIM Deputy Director, KFW Cairo Office
Ms Claudia BUERKIN, Programme manager, Water Sector Coordinator

WB

Mr Ahmed ATTA, Water Sector
Mr Hani EL SADANI, Senior Water Resources Engineer
Ms Heba YAKAN, Operations Analyst, Water Sector

Annex 4

List of documents consulted

WSRP 2 Revised Inception Report , August 2009
WSRP 2 Identification and Formulation Study (draft, 18/11/2009)
WSRP 2 Final Report, August 2011 (cover page)
WSRP 2 Financing Agreement (draft , 19/06/2011)
Memorandum on the establishment of baseline and monitoring system for the WSRP (undated)
Presentation for the roundtable working session held on 29/06/2011
Minutes of the roundtable working session held on 29/06/2011

EWRA Third Annual Report 2009/2010
Development Policies, Water and Wastewater Sector in Egypt, MHUUD
National Water Resources Plan 2017, MWRI , 2008
Facing water scarcity, Horizon 2050 policy note APP, October 2008
Cost Recovery Report, RODECO, June 2011
IWSP 2 Financial Commercial Report, C Makary Consulting, July 2011
IWSP 1 Study report, BCT Technology, June 2007
IWSP 2 Study report, BCT Technology, July 2010
IWSP 1 LotA TA Terms of Reference
IWSP 1 Lot B TA Terms of Reference
IWSP 1 Cost Recovery Report RODECO June 2011

Annex 5

Participants in the November 23 final validation meeting Ministry of International Cooperation, 8 Adly Street, Cairo

Egyptian Water and Wastewater Regulatory Agency

Mr Mohamed A. ABDELGHANY , Environmental IT Engineer
Mr Mohamed Hasan MOSTAFA Head of Technical Regulations

EU Delegation in Egypt

Mr Ahmed BADR, Water and Energy Sector Manager
Mr Gerhard KRAUSE Head of Section, Economic Cooperation
Mr Hervé MORICE, consultant

Holding Company for Water and Wastewater

Mr Mohien Mohamed AHMAD , General Manager of Planning
Mr Mamdouh RASLAN, Deputy Chairman

Ministry of Finance

Ms Hala SIEED, Senior Economist, Cabinet of the Minister of Finance

Ministry of Housing, Utilities and Urban Development

Mr Amany ABDEL HAMED General Manager for International Cooperation
Mr Sobhy ABDDEL KADER , General Manager for Technical Affairs

Ministry of International Cooperation

Mr Mostafa EISSA Undersecretary, Central Department of Cooperation with West Europe and the EU, *Chairman of the Meeting*
Ms Lamia SAMY, Senior Economist

Ministry of Water Resources and Irrigation

Mr Ibrahim El DESOUKY, Vice-chairman, Mechanical and Electric Department
Mr Mohamed El FETYANI Director General for Water Quality
Mr Essam A KHALIFA, Sector Head, Minister's office
Mr Mohamed Abdel MOTALEB , Head of the Planning Sector

Annexe 6

FINANCING AGREEMENT

Special Conditions

The European Union, hereinafter referred to as "**the EU**", represented by the European Commission, hereinafter referred to as "**the Commission**",

of the one part, and

The Arab Republic of Egypt represented by the Ministry of Finance, the Ministry of Housing, Utilities and Urban Development, and the Ministry of Water Resources and Irrigation, hereinafter referred to as "**the Beneficiary**",

The Ministry of International Cooperation, hereinafter referred to as "**the National Coordinator**"

of the other part,

have agreed as follows:

ARTICLE 1 - NATURE AND PURPOSE OF THE OPERATION

1.1. The EU shall contribute to the financing of the following programme:

Programme reference:	ENPI/2010/022-905.
Programme title:	Water Sector Reform Programme – Phase II

hereinafter referred to as "*the programme*" which is described in the Technical and Administrative Provisions.

1.2 This programme shall be implemented in accordance with the Financing Agreement and the annexes thereto: the General Conditions (Annex I) and the Technical and Administrative Provisions (Annex II).

ARTICLE 2 – TOTAL ESTIMATED COST AND THE EU'S FINANCIAL CONTRIBUTION

2.1 The total cost of the programme is estimated at 120 million euro.

with the following components:

2.1.1 Budget support:
Amount: 110,000,000 euro.

2.1.2 Complementary support:
Amount: 10,000,000 euro

2.2 The EU undertakes to finance a maximum of 120,000,000 euro. The breakdown of the EU's financial contribution into budget headings is shown in the budget included in the Technical and Administrative Provisions in Annex II.

ARTICLE 3 – THE BENEFICIARY’S CONTRIBUTION

3.1 The Beneficiary undertakes to co-finance the programme with zero euro to the programme.

3.2 Where there is a non-financial contribution by the Beneficiary, detailed arrangements for the delivery of such contribution shall be set out in the Technical and Administrative Provisions in Annex II.

ARTICLE 4 - PERIOD OF EXECUTION

The period of execution of the financing agreement as defined in Article 4 of the General Conditions shall commence on the entry into force of the financing agreement and end at 72 month after this date.

ARTICLE 5 - ADDRESSES

All communications concerning the implementation of this Financing Agreement shall be in writing, refer expressly to the programme and be sent to the following addresses:

a) for the Commission

H.E. The Head of Delegation
European Union Delegation to the Arab Republic of Egypt
37, Gamaet El Dowal El Arabeya Street
El Fouad Office Building
Mohandesseen
Giza, Egypt

b) for the Beneficiary

H. E. The Minister of Finance
Ministry of Finance
Extension Ramses Street
Ministry of Finance Towers
Tower no. 2, 16th floor
Cairo, Egypt

H. E. The Minister of Housing, Utilities and Urban Development
Ministry of Housing, Utilities and Urban Development
1 Ismail Abaza Street
Qasr El Aini Street
Cairo, Egypt

H. E. The Minister of Water Resources and Irrigation
Ministry of Water Resources and Irrigation
Cornish El Nil - Imbaba

Cairo, Egypt

c) for the National Coordinator

H.E. The Minister for Planning and International Cooperation
Ministry of International Cooperation
8 Adly Street, Downtown
Cairo, Egypt

ARTICLE 6 - ANNEXES

6.1 The following documents shall be annexed to this agreement and form an integral part thereof:

Annex I: General Conditions

Annex II: Technical and Administrative Provisions.

6.2 In the event of a conflict between the provisions of the Annexes and those of the Special Conditions of the financing agreement, the provisions of the Special Conditions shall take precedence. In the event of a conflict between the provisions of Annex I and those of Annex II, the provisions of Annex I shall take precedence

ARTICLE 7 - CONDITIONS APPLYING TO A BUDGET SUPPORT OPERATION

7.1. Given the nature of a budget support operation, the following clauses of the General Conditions shall not be applicable in respect to the amount specified in Article 2.1.1 (Budget support) of these Special Conditions: Articles 2, 4.2 first sentence, 5, 6, 7, 8, 9, 11, 12.2 and 13.2.

7.2. In respect to the amount specified in Article 2.1.1 (Budget support) of these Special Conditions, the following clauses of the General Conditions shall be replaced by the following:

7.2.1 In respect to Article 3.1: The project/programme shall be implemented by the Commission. This consists of the verification of the compliance with the conditions for payment and the payment of the amounts due for each instalment, in conformity with this financing agreement.

7.2.2 In respect to Article 10: The Government of Egypt undertakes to apply its national foreign exchange regulations in a non-discriminatory manner to the payments made under this financing agreement. The foreign exchange transfers will be accounted for under the value date of the notification of credit to the account of the Central Bank opened for this purpose. The exchange rate will be the buy market rate quoted by the Central Bank of Egypt at their internet site on the value date of the notification of credit.

7.3 In respect to the amount specified in Article 2.1.1 (Budget support) of these Special Conditions, Article 4.1 of the General Conditions shall be supplemented by the following: All payment requests submitted by the Beneficiary in accordance with the provisions set out in the Technical and Administrative Provisions (Annex II) shall be eligible for Community financing provided that such requests are submitted by the Beneficiary during the operational implementation phase.

7.4 Article 14.3 of the General Conditions shall mutatis mutandis be applicable in relation to any practices of active or passive corruption whatsoever in relation to the implementation of the operation.

ARTICLE 8 - OTHER SPECIAL CONDITIONS APPLYING TO THE PROGRAMME

8.1.1 In precision to article 11 of the General conditions, the use and dissemination of the data from the studies financed in the framework of this agreement will be subject the prior approval of the beneficiary.

8.1.2 With reference to article 14.1 of the General conditions the expression of "bring to prosecution" is understood as taking all the necessary actions that could lead to bring prosecutions for recovering funds wrongly paid.

8.1.3 Where questions arise relating to the implementation of the Financing Agreement, the national Coordinator, the Beneficiary and the Commission shall hold consultations. Such consultation may if necessary and agreed lead to the amendment of this specific financing agreement

8.1.4 In precision to article 18 of the General Conditions, the obligation relating to the respect for human rights, democratic principles and the rule of law is to be interpreted as an obligation entered into by Egypt by virtue of its ratification of any relevant international conventions or agreements or by virtue of any agreements concluded between Egypt and the European Union. Consultations between the Commission and the beneficiary will take place at least one month before the suspension of the financing agreement will be effective.

8.1.5 for organizational purposes, the appropriate Egyptian Authorities (the national Coordinator and the Beneficiary) shall be informed at least one month in advance of any documentary and on the spot checks to be carried out by the Commission or other European Institutions named in Article 15 of the General Conditions.

8.1.6 The paragraph one and two of Article 8 of general Conditions shall begin with the following phrase " taking into consideration the laws and regulations in force in beneficiary country."

ARTICLE 9 – ENTRY INTO FORCE OF THE FINANCING AGREEMENT

The Financing Agreement shall enter into force on the date on which it is signed by the last party.

Done in 6 original copies in the English language, 2 copies being handed to the Commission and 4 to the Beneficiaries.

FOR THE COMMISSION

Director Neighbourhood
DG Development and Co-operation –
EuropAid

Mr. Marcus Cornaro

FOR THE BENEFICIARY

Ministry of Housing, Utilities and Urban
Development
Minister of Housing, Utilities and Urban
Development
Dr. Fathei El Baradei

Date:

Date:

Ministry of Finance
Deputy Prime Minister and Minister of Finance
Dr Hazem El Beblawi

Date:

Ministry of Water Resources and Irrigation
Minister of Water Resources and Irrigation
Dr Hesham Kandil

FOR THE NATIONAL COORDINATOR

Ministry of International Coordination
Minister of International Cooperation
Ambassador Fayza Abounaga

Date

ANNEX I - GENERAL CONDITIONS

TITLE I - PROJECT/PROGRAMME FINANCING

ARTICLE 1 – GENERAL PRINCIPLE

1.1 The EU's financial contribution shall be limited to the amount specified in the financing agreement.

1.2 The provision of the EU financing shall be subject to fulfilment of the Beneficiary's obligations under this financing agreement.

ARTICLE 2 - COST OVERRUNS AND COVERING THEM

2.1 Individual overruns of the budget headings of the financing agreement shall be dealt with by reallocating funds within the overall budget, in accordance with Article 17 of these General Conditions.

2.2 Wherever there is a risk of overrunning the global amount set in the financing agreement, the Commission may either scale down the project/programme or draw on the Beneficiary's own resources or other non-EU resources.

2.3 If the project/programme cannot be scaled down, or if the overrun cannot be covered either by the Beneficiary's own resources or other resources, the Commission may grant additional EU financing. Should it so agree, the excess costs shall be financed, without prejudice to the relevant EU rules and procedures, by the release of an additional financial contribution to be set by the Commission.

TITLE II - IMPLEMENTATION

ARTICLE 3 – GENERAL PRINCIPLE

3.1 The project/programme shall be implemented by the Commission acting for and on behalf of the Beneficiary.

3.2 The Commission shall be represented in the State of the Beneficiary by its Head of Delegation.

ARTICLE 4 - PERIOD OF EXECUTION

4.1 The period of execution of the financing agreement shall comprise two phases:

- an operational implementation phase, in which the principal activities are carried out. This phase shall commence on the entry into force of the financing agreement and end at the latest 24 months before the end of the period of execution;
- a closure phase, during which final audits and evaluation are carried out and contracts for the implementation of the financing agreement are technically and financially closed. This phase shall commence on the day after the date of end of the operational implementation phase and end at the latest 24 months after this date.

4.2 Costs related to the principal activities shall be eligible for EU financing only if they have been incurred during the operational implementation phase. Costs related to final audits and evaluation and closure activities shall be eligible up to the end of the closure phase.

4.3 Any balance remaining from the EU contribution will be automatically cancelled six months after the end of the period of execution.

4.4 In exceptional and duly substantiated cases, a request may be made for the extension of the operational implementation phase and correlatively of the period of execution. If the extension is requested by the Beneficiary, the request must be made at least three months before the end of the operational implementation phase and approved by the Commission before that latter date.

4.5 In exceptional and duly substantiated cases, and after the end of the operational implementation phase, a request may be made for the extension of the closure phase and correlatively of the period of execution. If the extension is requested by the Beneficiary, the request must be made at least three months before the end of the closure phase and approved by the Commission before that latter date.

TITLE III - AWARD OF CONTRACTS AND GRANTS

ARTICLE 5 – GENERAL PRINCIPLE

All contracts implementing the financing agreement must be awarded and implemented in accordance with the procedures and standard documents laid down and published by the

Commission for the implementation of external operations, in force at the time of the launch of the procedure in question.

ARTICLE 6 - DEADLINE FOR THE SIGNATURE OF THE CONTRACTS IMPLEMENTING THE FINANCING AGREEMENT

6.1 The contracts implementing the financing agreement shall be signed by both parties within three years of the entry into force of the financing agreement, which means within three years of the date on which the financing agreement was signed by the last party. That deadline may not be extended.

6.2 The above provision shall not apply to audit and evaluation contracts, which may be signed later, as well as to riders to contracts already signed.

6.3 At the end of the three years of the entry into force of the financing agreement, any balance for which contracts have not been signed will be cancelled.

6.4 The above provision shall not apply to any balance of the contingency reserve.

6.5 A contract which has not given rise to any payment within three years of its signature shall be automatically terminated and its funding cancelled.

ARTICLE 7 - ELIGIBILITY

7.1 Participation in invitations to tender for works, supply or service contracts and in calls for proposals shall be open on equal terms to all natural and legal persons of the Member States of the EU and, in accordance with the specific provisions in the basic acts governing the cooperation sector concerned, to all natural and legal persons of the beneficiary third countries or of any other third country expressly mentioned in those acts.

7.2 It may be decided, on the basis of the specific conditions laid down in the basic acts governing the cooperation sector concerned, to allow third-country nationals other than those referred to in paragraph 1 to tender for contracts.

7.3 Goods and supplies financed by the EU and necessary for the performance of works, supply and service contracts and procurement procedures launched by the grant beneficiaries for the execution of the action financed must originate in countries eligible to participate on the terms laid down in the previous two paragraphs, except when it is provided otherwise in the basic act.

TITLE IV - RULES APPLICABLE TO THE PERFORMANCE OF CONTRACTS

ARTICLE 8 - ESTABLISHMENT AND RIGHT OF RESIDENCE

8.1 Where justified by the nature of the contract, natural and legal persons participating in invitations to tender for works, supply or service contracts shall enjoy a provisional right of establishment and residence in the Beneficiary's country. This right shall remain valid for one month after the contract is awarded.

8.2 Contractors (including the grant beneficiaries) and natural persons whose services are required for the performance of the contract and members of their family shall enjoy similar rights during the implementation of the project/programme.

ARTICLE 9 - TAX AND CUSTOMS PROVISIONS

9.1 Save where otherwise provided in the Special Conditions, taxes, duties or other charges (including value added tax - VAT - or equivalent taxes) shall be excluded from EU financing.

9.2 The State of the Beneficiary shall apply to procurement contracts and grants financed by the EU the most favoured tax and customs arrangements applied to States or international development organisations with which it has relations.

9.3 Where the Framework Agreement or exchange of letters applicable includes more detailed provisions on this subject, they shall apply as well.

ARTICLE 10 - FOREIGN EXCHANGE ARRANGEMENTS

10.1 The State of the Beneficiary undertakes to authorise the import or purchase of the foreign currency necessary for the implementation of the project. It also undertakes to apply its national foreign exchange regulations in a non-discriminatory manner to the contractors allowed to participate referred to in Article 7 of these General Conditions.

10.2 Where the Framework Agreement or exchange of letters applicable includes more detailed provisions on this subject, they shall apply as well.

ARTICLE 11 – USE OF DATA FROM STUDIES

Where the financing agreement involves the financing of a study, the contract related to this study, signed for the implementation of the financing agreement, shall govern the ownership of that study and the right for the Beneficiary and the Commission to use data in the study, to publish it or to disclose it to third parties.

ARTICLE 12 – ALLOCATION OF AMOUNTS RECOVERED UNDER CONTRACTS

12.1 Amounts recovered from payments wrongly effected, from guarantees of pre-financing payments or from performance guarantees supplied on the basis of contracts financed under this financing agreement, shall be allocated to the project/programme.

12.2 The financial penalties imposed by the contracting authority on candidate or tenderer who is in a case of exclusion in the context of a procurement contract, the calling upon of tender guarantees, as well as the damages granted to the Commission shall be repaid to the general budget of the European Communities.

TITLE V - GENERAL AND FINAL PROVISIONS

ARTICLE 13 – VISIBILITY

13.1 Every project/programme financed by the EU shall be the subject of appropriate communication and information operations. These operations shall be defined with the approval of the Commission.

13.2 These communication and information operations must follow the rules laid down and published by the Commission for the visibility of external operations in force at the time of the operations.

ARTICLE 14 – PREVENTION OF IRREGULARITIES, FRAUD AND CORRUPTION

14.1 The Beneficiary shall take appropriate measures to prevent irregularities and fraud and, on request of the Commission, bring prosecutions to recover funds wrongly paid. The Beneficiary shall inform the Commission of any measure taken.

14.2 "Irregularity" shall mean any infringement of the financing agreement, implementing contracts or EU law resulting from an act or omission by an economic operator, which has, or would have, the effect of prejudicing the general budget of the European Communities or budgets managed by them, either by reducing or losing revenue accruing from own resources collected directly on behalf of the European Communities, or by an unjustified item of expenditure.

"Fraud" shall mean any intentional act or omission concerning:

- the use or presentation of false, incorrect or incomplete, statements or documents which has as its effect the misappropriation or wrongful retention of funds from the general budget of the European Communities or budgets managed by them, or on their behalf;
- non-disclosure of information in violation of a specific obligation, with the same effect;
- the misapplication of such funds for purposes other than those for which they are originally granted.

The Beneficiary shall immediately inform the Commission of any element brought to its attention which arouses suspicions of irregularities or fraud.

14.3 The Beneficiary undertakes to take every appropriate measure to remedy any practices of active or passive corruption whatsoever at any stage of the procedure for the award of contracts or grants or in the implementation of the related contracts. "Passive corruption" shall mean the deliberate action of an official, who, directly or through an intermediary, requests or receives advantages of any kind whatsoever, for himself or for a third party, or accepts a promise of such an advantage, to act or refrain from acting in accordance with his duty or in the exercise of his functions in breach of his official duties, which has, or would have, the effect of harming the financial interests of the European Communities. "Active corruption" shall mean the deliberate action of whosoever promises or gives, directly or through an intermediary, an advantage of any kind whatsoever to an official, for himself or for a third party, to act or refrain from acting in accordance with his duty or in the exercise of his functions in breach of his official duties, which has, or would have, the effect of harming the financial interests of the European Communities.

ARTICLE 15 - VERIFICATIONS AND CHECKS BY THE COMMISSION, THE EUROPEAN ANTI-FRAUD OFFICE (OLAF) AND THE EUROPEAN COURT OF AUDITORS

15.1 The Beneficiary agrees to the Commission, OLAF and the European Court of Auditors conducting documentary and on-the-spot checks on the use made of EU funding under the financing agreement (including procedures for the award of contracts and grants) and carrying out a full audit, if necessary, on the basis of supporting documents of accounts and accounting documents and any other documents relating to the financing of the project/programme,

throughout the duration of the agreement and for seven years after the date of the last payment.

15.2 The Beneficiary also agrees that OLAF may carry out on-the-spot checks and verifications in accordance with the procedures laid down by EU law for the protection of the financial interests of the EU against fraud and other irregularities.

15.3 To that end, the Beneficiary undertakes to grant officials of the Commission, OLAF and the European Court of Auditors and their authorised agents access to sites and premises at which operations financed under the financing agreement are carried out, including their computer systems, and to any documents and computerised data concerning the technical and financial management of those operations, and to take every appropriate measure to facilitate their work. Access by authorised agents of the Commission, OLAF and the European Court of Auditors shall be granted on conditions of strict confidentiality with regard to third parties, without prejudice to public law obligations to which they are subject. Documents must be accessible and filed in a manner permitting easy inspection, the Beneficiary being bound to inform the Commission, OLAF or the European Court of Auditors of the exact location at which they are kept.

15.4 The checks and audits described above shall also apply to contractors and subcontractors who have received EU funding.

15.5 The Beneficiary shall be notified of on-the-spot missions by agents appointed by the Commission, OLAF or the European Court of Auditors.

ARTICLE 16 – CONSULTATION BETWEEN THE COMMISSION AND THE BENEFICIARY

16.1 The Beneficiary and the Commission shall consult each other before taking any dispute relating to the implementation or interpretation of this financing agreement further.

16.2 The consultation may lead to the amendment, suspension or termination of the financing agreement.

ARTICLE 17 – AMENDMENT OF THE FINANCING AGREEMENT

17.1 Any amendment to the Special Conditions and Annex II to the financing agreement shall be made in writing and be the subject of an addendum.

17.2 If the request for an amendment comes from the Beneficiary, the latter shall submit that request to the Commission at least three months before the amendment is intended to enter into force, except in cases which are duly substantiated by the Beneficiary and accepted by the Commission.

17.3 The specific cases of the extension of the operational implementation phase or closure phase are governed by Article 4 (4) and (5) of these General Conditions.

ARTICLE 18 – SUSPENSION OF THE FINANCING AGREEMENT

18.1 The financing agreement may be suspended in the following cases:

- The Commission may suspend the implementation of the financing agreement if the Beneficiary breaches an obligation under the financing agreement.

- The Commission may suspend the financing agreement if the Beneficiary breaches an obligation relating to respect for human rights, democratic principles and the rule of law and in serious cases of corruption.
- The financing agreement may be suspended in cases of force majeure, as defined below. "Force majeure" shall mean any unforeseeable and exceptional situation or event beyond the parties' control which prevents either of them from fulfilling any of their obligations, not attributable to error or negligence on their part (or the part of their contractors, agents or employees) and proves insurmountable in spite of all due diligence. Defects in equipment or material or delays in making them available, labour disputes, strikes or financial difficulties cannot be invoked as force majeure. A party shall not be held in breach of its obligations if it is prevented from fulfilling them by force majeure. A party faced with force majeure shall inform the other party without delay, stating the nature, probable duration and foreseeable effects of the problem, and take any measure to minimise possible damage.

18.2 No prior notice shall be given of the suspension decision.

18.3 When the suspension is notified, the consequences on the ongoing contracts or contracts to be signed will be indicated.

ARTICLE 19 – TERMINATION OF THE FINANCING AGREEMENT

19.1 If the issues which led to the suspension of the financing agreement have not been resolved within a maximum period of four months, either party may terminate the financing agreement at two months' notice.

19.2 Where a financing agreement has not given rise to any payment within three years of its signature or no implementing contract has been signed within this period, that financing agreement will automatically be terminated.

19.3 When the termination is notified, the consequences on the ongoing contracts or contracts to be signed will be indicated.

ARTICLE 20 - DISPUTE-SETTLEMENT ARRANGEMENTS

20.1 Any dispute concerning the financing agreement which cannot be settled within a six-month period by the consultations between the parties provided for in Article 16 of these General Conditions may be settled by arbitration at one of the parties' request.

20.2 In this case the parties shall each designate an arbitrator within 30 days of the request for arbitration. Failing that, either party may ask the Secretary-General of the Permanent Court of Arbitration (The Hague) to designate a second arbitrator. The two arbitrators shall in their turn designate a third arbitrator within 30 days. Failing that, either party may ask the Secretary-General of the Permanent Court of Arbitration to designate the third arbitrator.

20.3 Unless the arbitrators decide otherwise, the procedure laid down in the Permanent Court of Arbitration Optional Rules for Arbitration Involving International Organisations and States shall apply. The arbitrators' decisions shall be taken by a majority within a period of three months.

20.4 Each party shall be bound to take the measures necessary for the application of the arbitrators' decision.

ANNEX II

TECHNICAL AND ADMINISTRATIVE PROVISIONS

BENEFICIARY COUNTRY/ REGION	Arab Republic of Egypt Southern Mediterranean Partner Countries		
REQUESTING AUTHORITY	<ul style="list-style-type: none"> - Ministry of International Cooperation - Ministry of Finance - Ministry of Housing, Utilities and Urban Development - Ministry of Water Resources and Irrigation 		
TITLE	Water Sector Reform Programme – Phase II (WSRP-II)		
TOTAL COST	EURO 120,000,000		
Aid method / Management mode	Sector Policy Support Programme Sector budget support (centralised management)		
DAC CODE	14010 14020 14030	SECTOR	Water Resources Policy – Administrative Management Water Supply and Sanitation – Large Systems Basic Drinking Water Supply and Basic Sanitation

Acronyms

- Affiliated Companies	ACs
- Annual Information Returns	AIR
- Advisory Panel Board for Water Supply and Sanitation	APB
- Advisory Panel Programme for Water Management	APP
- Carbon Dioxide	CO ₂
- Construction Authority for Potable Water and Wastewater	CAPW
- Donor Assistance Group	DAG
- Development Partners Group	DPG
- Egyptian General Accreditation Council	EGAC
- Euro	EUR
- European Commission	EC
- European Union	EU
- Egyptian Water and Wastewater Regulatory Agency	EWRA
- Holding Company for Water and Wastewater	HCWW
- International Monetary Fund	IMF
- Government of Egypt	GoE
- Governorate-Based Master Plan	GBMP
- International Water Association	IWA
- Integrated Water Resources Management	IWRM
- Millennium Development Goal	MDG
- Ministry of International Cooperation	MoIC
- Ministry of Finance	MoF
- Ministry of Housing, Utilities and Urban Development	MoHUUD
- Ministry of Water Resources and Irrigation	MWRI
- Memorandum of Understanding	MoU
- National Organization for Potable Water and Sanitary Drainage	NOPWASD
- National Water Resource Plan	NWRP
- National Water Council	NWC
- National Water Resources Strategy	NWRS
- National Rural Sanitation Strategy	NRSS
- Nile Basin Capacity Building Network	NBCBN
- Non Revenue Water	NRW
- Operation & Maintenance	O&M
- Performance Reform benchmarks	PRBs

- Public Expenditure Review	PER
- Public Finance Management	PFM
- Public Expenditure and Financial Accountability	PEFA
- Private Public Partnership	PPP
- Results Oriented Monitoring	ROM
- Sector Policy Support Programme	SPSP
- Steering Committee	SC
- Statement of Expenditure	SOE
- Technical Assistance	TA
- United Nations for Children's Fund	UNICEF
- World Health Organizations	WHO
- Water Treatment Plants	WTPs
- Wastewater Treatment Plants	WWTPs
- Water and Wastewater Sector Development Policy	WWSDP
- Water Supply and Sanitation	WSS
- Water Sector Reform Programme – Phase II	WSRP-II

1. INTERVENTION

1.1 Objectives

The overall objective of the Water Sector Reform Programme – Phase II (WSRP-II) is to support the Government of Egypt in the continued implementation of the reform programme of the water sector, in accordance with the objectives of the National Water Resource Plan 2005-2017 (NWRP 2005-2017) and in coherence with the Water and Wastewater Sector Development Policy (WWSDP).

The related specific objectives are:

- A. Improve financial transparency and performance.
- B. Strengthen water sector policies and strategies and improve their enforcement.
- C. Improve the quality and strengthen the sustainability of the operations of WSS service providers.
- D. Improve the use of existing water resources.

1.2 Expected results and main activities

The matrix of reform benchmarks¹ was developed with the inclusion of all stakeholders. It takes into account the emergence of expectations regarding public governance, transparency, accountability and attention to consumer satisfaction following the January 2011 Revolution. It focuses on a limited number of activities linked to the specific objectives of the programme, selected out of the following areas:

Result 1: Improvement of financial transparency and performance

¹ Reform benchmarks mean the fulfillment of targets related to quantitative and/or qualitative objectives.

- Activity 1.1: Improved financial transparency of SOEs through annual public disclosure of SOE audited financial statements.
- Activity 1.2: Improve management of public expenditure and service delivery by increasing allocative efficiency and strategic planning in the budget preparation process, and identify ways to improve effectiveness and transparency of public spending.

Result 2: Water sector policies and strategies are strengthened and their enforcement is improved

- Activity 2.1: Promote decentralized implementation of new WSS capital investment.
- Activity 2.2: Support the Ministry of Water Resources and Irrigation (MWRI) in the development of the National Water Resources Strategy for the horizon 2017-2050.
- Activity 2.3: Support the Government of Egypt in developing a shared vision for Integrated Water Resources Management (IWRM) at the Nile basin level through organizing a limited number of workshops and scholarships.

Result 3: The quality of the operations of WSS services providers is improved and their sustainability is strengthened

- Activity 3.1: Expand access to safe drinking water supply.
- Activity 3.2: Extend coverage of sanitation services.
- Activity 3.3: Improve wastewater treatment by extending the volume of water treated in secondary treatment facilities.
- Activity 3.4: Improve the monitoring capacities regarding water quality by increasing the number of the central water and wastewater laboratories accredited by EGAC.
- Activity 3.5: Support service providers in the process of achieving cost recovery.

Result 4: The use of existing water resources is improved

- Activity 4.1: Increase the efficiency of pumping stations for irrigation or drainage in order to optimize water use and to reduce energy consumption and CO₂ emissions.
- Activity 4.2: Implement water conservation practices in the ACs by reducing Non Revenue Water (NRW) in water networks.

Under the Complementary Support Component at least € 8.5 million will be indicatively allocated to help the Ministry of Housing, Utilities and Urban Development (MHUUD), the Holding Company for Water and Wastewater (HCWW) and its affiliated companies (ACs), and the Ministry of Water Resources and Irrigation (MWRI) to implement activities consistent with the objectives of the programme and responding to sectoral and sub-sectoral priorities.

The Complementary Support Component may also include up to €1 million for activities in support of the Ministry of Finance on PFM issues relevant to this programme.

In addition, €0.5 million will be directly contracted by the EU for audit, monitoring and visibility.

1.3 Duration

The execution period of the Agreement will be 72 months. This execution period will comprise 2 phases under the conditions provided for in article 4.1 of the General Conditions (Annex I of the present Agreement):

1. Operational implementation phase that starts from the entry into force of the financing agreement and will have duration of 48 months.
2. Closure phase of a duration of 24 months that starts from the expiry date of the operational implementation phase.

Pursuant to article 6 of the General Conditions (Annex I of the present Agreement), the contracts implementing the financing agreement shall be signed at the latest within three years of the entry into force of the financing agreement (except audit and evaluation). That deadline may not be extended. ('Sunset clause').

2. IMPLEMENTATION

2.1 Implementation method and Procurement and Payment clauses

Direct centralised management will be used to implement the sector budget support component (EUR 110 million) of the programme and will be disbursed as three tranches, over a period of 4 years.

Complementary Support Component of EUR 10 million will be implemented via centralised management following the procedures and standard documents laid down and published by the European Union for the implementation of external operations.

Specific operational arrangements may be taken in order to strengthen the coordination and coherence between actions financed for the water and sanitation subsector under the Complementary Support Component and other TA programmes.

All contracts implementing the action must be awarded and implemented in accordance with the procedures and standard documents drawn up and published by the Commission for the implementation of external operations in force at the time of the launch of the procedure in question.

All payments must be made by the Commission in accordance with the general and specific conditions of the Financing Agreement and with the procedures and standard documents drawn up and published by the Commission for the implementation of external operations in force at the time of the launch of the procedure in question.

The government of Egypt will confirm that the relevant Treasury account has been credited and provide documentary evidence of the transfer, including the exchange rate used.

2.2 Budget and calendar

2.2.1 Budget

The budget breakdown of the programme is as follows:

	Amount (EUR)	EU contribution	Other donors	Sector/ministry budget/funding over programme duration
Budget Support	110,000,000	110,000,000	-	N/A
<i>Complementary Support Component</i>	9,500,000	9,500,000	-	N/A
Monitoring, audit & evaluation	300,000	300,000	-	N/A
Communication & Visibility	200,000	200,000	-	N/A

2.2.2 Calendar

The indicative disbursement timetable for the budget support component is as follows:

	Total	Component	Indicative Quarter of Disbursement
First tranche	22.000.000	22.000.000 (fixed)	Quarter I - 2012
Second tranche	44.000.000	44.000.000 (variable)	Quarter I - 2014
Third tranche	44.000.000	44.000.000 (variable)	Quarter IV - 2015
Total	110.000.000	110.000.000	

2.3 Performance monitoring and criteria for disbursement

2.3.1. Description of performance monitoring arrangements

This operation may be subject to review in light of the implications of the Commission's revised policy on budget support.

As regards the programme monitoring, a Sector Policy Support Programme (SPSP) Steering Committee, comprising all programme stakeholders, will be established at the outset of the operational phase and it will be responsible for monitoring the implementation of the programme.

Considering the number of authorities involved in this programme, the Minister of International Cooperation will issue a ministerial decree to establish this Steering Committee (SC) including all involved stakeholders. Main public stakeholders of the SC will be MoF, MWRI, MHUUD, HCWW, EWRA, NOPWASD and CAPW (Appendix 3).

The SC will be chaired by a senior official from MoIC; it will follow up the programme implementation at policy level and at an operational level.

The SC shall be in charge of the follow up of programme activities as well as the general progress of sector reform. Progress reports will be signed by the respective parties.

The SC will review progress of the programme every 6 months against the matrix of reform benchmarks; it may at any time invite representatives from any other Government body, civil society organizations, academia or from the private sector that it may consider relevant in order to facilitate the follow up of reform measures.

Implementation of the programme will be monitored regularly by the EU's services in close cooperation with the SC. EU Monitoring missions may take place twice a year and will be arranged with reference to: (i) Fulfilment of the general and specific reform benchmarks for disbursement of instalments and (ii) general progress of the programme.

In line with the Paris Declaration for aid harmonization, cooperation between different donors within the WSRP-I (2005-2009) framework has been effective and shall continue for WSRP-II. MHHUD and MWRI have been directing the overall water sector reform process during the implementation of the WSRP-I; ministries in charge of water shall continue doing so in this next phase of WSRP-II.

As agreed between all members of the group, including GoE representatives, during the Water DPG (former DAG) Water Sub-Group meeting on 7 July 2009, the WSRP-II would serve as the main platform for monitoring the progress of water sector reform.

Sources for reform benchmarks

The performance reform benchmarks as presented in Appendix 1 were selected from the following sources:

1. Performance monitoring system by the Holding Company for Water and Waste Water (HCWW) for its subsidiary companies. A system of 63 reform benchmarks has been established to measure and analyse performance of the affiliated companies on a quarterly basis in five areas: technical, financial, unit cost per cubic meter, commercial and administrative. The HCWW carries out regular trainings for operators to increase quality in the measurement/calculation of Performance Reform Benchmarks (PRBs).

2. The Annual Information Returns Reports (AIR). This more comprehensive set of reform benchmarks has been recently adopted by the Egyptian Water and Wastewater Regulatory Agency (EWRA). The report will be filled in yearly by each affiliated company of

the HCWW and returned to EWRA for performance monitoring over time under the specific formats developed by EWRA, covering technical as well as financial operations of the affiliated companies.

3The **National Water Resources Plan (NWRP) 2005-2017**. The plan defines a set of performance reform benchmarks in the areas of a) economic development, b) social objectives c) basic water supply and demand data and d) health and environment.

4. The **National Water Supply and Wastewater Sector Development Policy**". This policy commits the GoE to develop a set of standard monitoring reform benchmarks for measuring the implementation of water sector policies and strategies.

Other additional reform benchmarks have been added to the reform benchmark matrix, such as:

- Policy progress under MWRI (preparation and adoption of a Water Resources Management Strategy, under MWRI).
- Physical improvements in the operations of key equipments (pumping stations, under MWRI)
- Percentage of water saved in networks after implementation of leak reduction projects (under HCWW/ACs/EWRA).

2.3.2 Criteria for disbursement

Disbursement of the tranches is dependent on the fulfilment of the following general eligibility criteria:

Table 3: General Eligibility Criteria for the Release of Tranches

Area	Eligibility Criteria	Source of Verification
Sector policy and strategy	Satisfactory progress in the implementation of the Government of Egypt National Water Supply and Sanitation Sector Development Policy and of the approved National Water Resource Plan 2005-2017.	Annual reports transmitted to the EU Delegation by MoIC and co-signed by MWRI and MHUUD. Minutes of meetings and discussions held

		between the EU, DPG water subsector group and GoE about water sector reform.
Macroeconomic stability	A stability oriented macroeconomic policy with satisfactory macroeconomic management.	EU Delegation macroeconomic stability report and/or IMF Article IV consultation report. Egypt's Medium-term macroeconomic framework.
Public finance management	The existence of a credible and relevant programme to improve public financial management is in place or under implementation.	EU Delegation PFM report and/or reports by the Ministry of Finance and/or other donors.

Analysis of the chosen performance reform benchmarks described in Appendix 1 tells that they are of adequate quality to justify their use for the disbursement of budget support.

The on-going validity of these general reform benchmarks will be assessed by the EU in cooperation with the involved stakeholders in Egypt prior to the disbursement of each tranche. Macroeconomic stability is assessed against the background of Egypt's medium-term macroeconomic framework and macroeconomic policies including stability and sustainability. Any existing macroeconomic framework by the Ministry of Finance will be replaced in case a new Macroeconomic Framework is adopted by the Ministry of Finance, and will be the basis for the assessment.

The specific reform benchmarks for disbursement of the variable tranches relate to the components of the water sector policy programme, which constitute the four result areas of WSRP-II (as described in section 1.2 above) including PFM reform benchmarks; they have been translated into outputs and performance reform benchmarks as described in Appendix 2 of this Financing Agreement.

The chosen performance targets and reform benchmarks specified in Appendix 2 will apply for the duration of the programme. However, in duly justified circumstances, the National Coordinator may submit a request to the European Union for the targets and reform benchmarks to be changed. The changes agreed to the targets and reform benchmarks may be authorised by exchange of letters between the two parties.

3. MONITORING, EVALUATION AND AUDIT

Independent consultants recruited directly by the Commission on specifically established terms of reference may carry out external result-oriented monitoring (ROM), which in

principle will start from the sixth month of project activities and may last up to 6 months before the end of the operational implementation phase.

A mid-term and a final external evaluation will be contracted by the Delegation of the EU to Egypt (under the budget line “Evaluation/Monitoring”) with the aim of providing an independent and reliable assessment with conclusions, recommendations and lessons learned which should assist policymakers and managers in the implementation of the Programme and/or planning of future interventions.

Audit arrangements: centralised managed contracts will be subject to audits if necessary.

4. COMMUNICATION AND VISIBILITY

This programme, financed by the European Union, will be subject to appropriate communication and information dissemination determined in close collaboration between the European Union Delegation to Egypt and the beneficiary, in order to highlight the partnership between the European Union and the Government of the Arab Republic of Egypt. An allocation for communication activities is provided for the promotion of WSRP II taking into account the visibility guidelines of the Commission.

http://ec.europa.eu/europeaid/work/visibility/documents/communication_and_visibility_manual_en.pdf

Appendices to the Technical and Administrative Provisions

Appendix 1: Performance criteria and reform benchmarks.

Appendix 2: Disbursement arrangements, timetable, matrix of reform benchmarks and means of verification.

Appendix 3: Responsibilities of stakeholders.

Appendix 4: Format of the Sector Progress Report.

Appendix 1: Performance criteria and reform benchmarks

I. General

In September 2010, the Government of Egypt has officially adopted its first National Development Policy for the Water Supply and Wastewater Sector, understood as covering the production and distribution of water for human, industrial and associated uses, and the provision of sanitation services to the population.

The main monitoring tool for the recently adopted development policy mentioned above, and for the benchmarks stipulated in the reform matrix of the WSRP II and concerning the WSS sector, will be the performance criteria and data issued and published by the Egyptian Water and Wastewater Regulatory Agency (EWRA), mainly its Annual Reports, and if required and applicable data and info transmitted in specific official documents by the relevant institution.

II Definition issues related to Reform Benchmarks

The targets for the reform benchmarks are listed in Appendix 2. The below information is relevant for the exact calculation of certain ratios for selected reform benchmarks.

B. Strengthen and enforce the water sector policy

B.1 Promote decentralized implementation of new WSS capital investment

Base of the reform benchmark for tranches 2 and 3 (variable tranches 1 and 2): Amount of new capital investment directly implemented by the 23 ACs.

The base for a given FY is defined as the total amount, expressed in EGP, of invoices for which payment requests have been made in this FY by the 23 ACs to NOPSWAD or other sources of financing.

Baseline : The FY 2010/2011 figure for new capital investment directly implemented by the 23 ACs , as officially notified to the EU by the GoE and which is expected to appear in the 2010/2011 EWRA Annual report, and expressed in EGP, is equal to 175 374 798 EGP.

B.3. Contribute to the development of a shared vision to IWRM at Nile Basin level through organizing a limited number of workshops and scholarships.

Nile Basin Initiative (NBI) is an inter-governmental organization dedicated to equitable and sustainable management and development of the shared water resources of the Nile Basin. NBI Member States include Burundi, Democratic Republic of Congo, Egypt, Ethiopia, Kenya, Rwanda, Sudan, Tanzania and Uganda. Eritrea is as an observer. Status of State of South Sudan with regard to NBI is not officially determined.

The development of a policy dialogue and of a common understanding among senior officials and government water professionals of the Nile Basin countries is a priority and the programme supports GoE efforts in this field through organizing a limited number of workshops and scholarships.

The scholarships are indeed in a limited number, but it is justified by the desire to stick to realistic objectives (in view of the political sensitivity of this issue) and be able to mobilize candidates responding to strict eligibility criteria.

C: Improve the quality and strengthen the sustainability of the operations of service providers

C.1 Expand access to safe drinking water country-wide

Base of the reform benchmark for tranches 2 and 3 (variable tranches 1 and 2): The number of billing points for population served with safe drinking water. For a given fiscal year, it is defined as the total number, on the last day of the fiscal year, of “residential subscribers” for water supply as identified in the information and billing systems of the 23 water and wastewater ACs monitored by EWRA from 2009/2010 onwards.

Access to safe drinking water responds to the following MDG criteria:

- **Safe access to water supply services:** the availability of at least 20 liters per day per person from an “improved” source within 1 km from the user’s dwelling.
- **Improved water source:** as per the classification of the Joint Monitoring Programme WHO-UNICEF:

Improved drinking water sources	Unimproved drinking water sources
Piped water into dwelling, plot or yard	Unprotected dug well
Public tap/stand pipe	Unprotected spring
Tube well/borehole	Cart with small tank/drum
Protected dug well	Tanker truck
Protected spring	Surface water (river, dam, lake, pond, stream, canal, irrigation channel)
Rainwater collection	Bottled water

Baseline: The FY 2010/2011 figure for the number of billing points at national level for safe domestic water supply, as officially notified to the EU by the GoE and which is expected to appear in the 2010/2011 EWRA Annual report, is equal to 10 909 320.

As regards the level of the target (100,000 and 200,000 billing points equals on average 5 persons) the EU Del assess it as being challenging (though realistic) in the current political and economic context. The general budget allocation for investment in the water sector has decreased sharply and objectives for the 2012/2015 period have to be scaled down.

C.2 Extend the coverage of rural and urban sanitation services country-wide

Base of the reform benchmark for tranches 2 and 3 (variable tranches 1 and 2): The number of billing points for population served with improved sanitation services. For a given fiscal year, it is defined as the total number, on the last day of the fiscal year, of “residential subscribers” for improved sanitation services as identified in the information and billing systems of the 23 water and wastewater ACs monitored by EWRA from 2009/2010 onwards.

Improved sanitation services respond to the following MDG criteria:

- **Access to improved sanitation:** facilities that hygienically separates human excreta from human contact.
- **Improved sanitation facilities:** as per the classification of the Joint Monitoring Programme WHO-UNICEF:

Improved sanitation facilities	Unimproved sanitation facilities
Flush or pour-flush to: - piped sewer system - septic tank - pit latrine Ventilated improved pit latrine Pit latrine with slab Composting toilet	Flush or pour-flush to elsewhere Pit latrine without slab or open pit Bucket Hanging toilet or hanging latrine No facilities or bush or field (open defecation)

Baseline: The FY 2010/2011 figure for the number of billing points at national level for improved sanitation services, as officially notified to the EU by the GoE and which will appear in the 2010/2011 EWRA Annual report, is equal to 5 410 884.

C.3 Improvement of wastewater treatment

Base of the reform benchmark for tranches 2 and 3 (variable tranches 1 and 2): The volume of water treated by ACs in secondary treatment facilities, defined as systems designed to substantially degrade the biological content of the sewage.

The daily volume of sewage processed related to a given fiscal year is defined as a country-wide average of the total volume of sewage processed in this fiscal year, as reported by the ACs according to their standard procedures following the Egyptian code of practices.

Baseline: The FY 2010/2011 figure for the daily the volume of water treated by ACs in secondary treatment facilities, as officially notified to the EU by the GoE and which is expected to appear in the 2010/2011 EWRA Annual report , equal to 6 792 680 m3/day.

As regards the levels of the target (0.1 million and 0.2 million m3/day) the EU Del assess it as being challenging (though realistic) in the current political and economic context. The general budget allocation for investment in the water sector has decreased sharply and objectives for the 2012/2015 period have to be scaled down.

C.4 Improve monitoring capacities regarding water quality for drinking water

Base of the reform benchmark for tranches 2 and 3 (variable tranches 1 and 2): The number of central HCWW laboratories accredited by EGAC under ISO 17025.

Baseline: The figure for the number of laboratories accredited by EGAC under ISO 17025 on 30 June 2011, as officially notified to the EU by the GoE and which is expected to appear in the 2010/2011 EWRA Annual report, is equal to 5.

C.5 Support service providers in the process of achieving cost recovery

Base of the reform benchmark for tranches 2 and 3 (variable tranches 1 and 2):

The consolidated ratio "R" is to aggregate the F4 and F20 ratios monitored by EWRA.

F4 and F20 include, respectively for water and for sanitation services, with a calculation for each AC and for the consolidated 23 ACs:

- As numerator, the revenue billed, exclusive of non-recurrent revenues and of subsidies.
- As denominator, the operation and maintenance costs, excluding depreciation, amortization and all other costs (provisions).

R includes therefore, on an aggregated basis for all the 23 water and sanitation ACs monitored from 2009/2010 by EWRA and for both water supply and sanitation activities.

- As numerator, the revenue billed, exclusive of non-recurrent revenues and of subsidies
- As denominator, the operation and maintenance costs, excluding depreciation, amortization and all other costs (provisions, ...).

Baseline: The value of R for 2010/2011 as officially notified to the EU by the GoE and which is expected to appear in the 2010/2011 EWRA Annual report, is equal to 0,77.

D: Improve the use of existing water resources

D.1 Increase the efficiency of water pumping stations

Base of the reform benchmark for tranche 2 (variable tranche1): The number of pumping stations described in the baseline and for which:

- Detailed rehabilitation designs have been completed by 30 June 2013. Unless duly justified, rehabilitation designs restore nominal discharges to their original values.

- Rehabilitation works have been contracted and commenced before end 2013.

There are around 1600 pumping stations in Egypt out of which around 500 are considered as high priority pumping stations to be rehabilitated. According to MWRI the rehabilitation of a pumping station costs on average EUR 20 million.

Base of the reform benchmark for tranche 3 (variable tranche 2): The average energy consumption (in relation to the same water outflow) in each of the 2 pumping stations responding to the reform benchmark for Tranche 2 (variable tranche 1). This figure is calculated over a minimum period of 12 months ending by latest on June 30, 2015. Energy consumption is the energy billed by the power utilities ensuring power distribution.

Baseline: It concerns high priority pumping stations in the Nile Delta to be rehabilitated in the period 2012-2014. It has the following structure.

No.	Pumping Station	Type	Construction Year	Command Area (Feddans)	Number of Pumps(including	Nominal Design Discharge per pump (m3/sec)	Actual Discharge per pump (m3/sec)	Actual Energy consumption (Kwh/1000m ³)
1	Drain N°2	Drainage	1977	63 000	4	7.5	6.4	18.2
2	Drain N°6	Drainage	1969	34 400	3	5	4.04	8.3

All pumps have electric motors and all stations are connected to a power distribution system.

For the baseline:

- Actual energy consumptions as of 30 June 2011 are based on a record of 1 year from January to December 2009 for Drain n°2 and January to December 2010 for Drain N° 6 (reference period).
- Outflows from the station have been metered or evaluated over the reference period by MWRI through its standard procedures based on the pump performance curves, with a calibration of the curves every 3 years.

D.2 Implement water conservation practices for reducing Non-Revenue Water (NRW) in water networks

Base of the reform benchmark for tranche 2 (variable tranche1): Number of ACs implementing actual measurement of non revenue water by 30 June 2013.

Base of the reform benchmark for tranche 3 (variable tranche 2):

- Ratio R_n is defined, over the period of reference, as the volumetric ratio of non-revenue water towards total water input. This ratio is measured, in the ACs implementing actual measurement of non revenue water, in the hydraulic districts where this measurement takes place.

Periods of reference are:

- For reference year 2013, a continuous period of at least 6 months ending on 31 December 2013.
- For reference year 2015, a continuous period of 12 months ending 30 June 2015.

Non-revenue water is defined as the difference between water system input volume and billed authorized consumption; it includes unbilled authorized consumption, apparent losses and real losses.

Measurement of non revenue water is conducted under internationally accepted standards as described in IWA publications including the document *“Losses in Water Distribution Networks, A Practitioner's Guide to Assessment, Monitoring and Control”*.

Baseline: The number of ACs where non revenue water is actually measured as of 30 June 2011, as officially notified to the EU by the GoE and which is expected to appear in the 2010/2011 EWRA Annual report, equal to zero.

Appendix 2: Disbursement arrangements, timetable, and reform benchmarks

This appendix shall cover five main areas:

- (i) Responsibilities;
- (ii) Indicative timetable of disbursements
- (iii) General eligibility criteria for tranche release
- (iv) Specific reform benchmarks for tranche release
- (v) Modalities of the assessment of performance in case of variable tranches

(i) Responsibilities

On the basis of the conditions for disbursement set out in this Financing Agreement the Ministry of International Cooperation as the National Coordinator shall make a formal request to the Commission for each tranche disbursement indicatively on the dates set out in the table below, including (i) the fullest possible analysis and justification for the release of funds, including supporting documentation which needs to be annexed in the English language and on a non-anonymous paper; and (ii) a duly signed Financial Identification Form in order to facilitate subsequent payment.

(ii) Indicative timetable of disbursements

Tranche Type	Year 1(2012)				Year 2 (2013)				Year 3 (2014)				Year 4 (2015)				Total
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Tranche I Fixed	€ 22 million																€ 22 million
Tranche II Variable									€ 44 million								€ 44 million
Tranche III																€ 44 million	€ 44 million

Variable																
Total	€ 22 million								€ 44 million						€ 44 million	€ 110 million

(iii) General eligibility criteria for tranche release

Disbursement of the tranches is dependent on the fulfilment of the following general eligibility criteria:

Area	Eligibility Criteria	Verification source
Sector policy and strategy	Satisfactory progress is recorded in the implementation of the Government of Egypt National Water Supply and Sanitation Sector Development Policy and of the National Water Resource Plan 2005-2017.	Annual sectoral reports co-signed by MWRI and MHUUD and transmitted by MoPIC Minutes of meetings and discussions held between the EU, DPG water sub-group and GoE about water sector reform
Macroeconomic stability	A stability oriented macroeconomic policy with satisfactory macroeconomic management.	EU Delegation macroeconomic stability report and/or IMF Article IV consultation report. Egypt's medium-term macroeconomic framework.
Public finance management	The existence of a credible and relevant programme to improve public financial management is in place or under implementation	EU Delegation PFM report and/or reports by the Ministry of Finance and/or other donors.

The on-going validity of these general reform benchmarks will be assessed by the EU in cooperation with the involved stakeholders in Egypt prior to the disbursement of each tranche.

Macroeconomic stability is assessed against the background of Egypt's medium-term macroeconomic framework or any updated framework.

(iv) Specific reform benchmarks tranche release

Matrix of Specific Reform Benchmarks and Means of Verification –

First Tranche – FIXED TRANCHE: Euro 22,000,000.00

Benchmarks/Outputs	Reform Benchmarks Determining the First Instalment (Euro 22 million)	Means of Verification
1- Cross-sector coordination between the main national and international actors ensured.	<p>An Inter-Ministerial Steering Committee (SC) will be established, with EU and DPG Co-Chairs as an observing members and institutional arrangements defined for guidance, support and monitoring of the Water Reform Support Programme- Phase II (WRSP-II).</p> <p>The SC is chaired by the Ministry of International Cooperation (MoIC) and includes all stakeholders such as the Ministry of Finance (MoF), the Ministry of Housing Utilities and Urban Development (MHUUD), the Ministry of Water Resources and Irrigation (MWRI), the Holding Company for Water and Wastewater (HCWW), the National Organization for Potable Water and Sanitary Drainage (NOPWASD), the Construction Authority for Potable Water and Wastewater (CAPW), the Egyptian Water Regulatory and Wastewater Agency (EWRA).</p>	Ministerial decree establishing the SC.
2- Internal coordination in the WSS subsector strengthened.	<p>In line with the memorandum signed by the Minister of Housing, Utilities and Urban development on 21/11/2005 as benchmark N° 16 of WSRP 1, a committee is created with a mandate to ensure joint action in the WSS subsector between NOPWASD and HCWW for:</p> <ul style="list-style-type: none"> - Issuing proposals for policy changes - Formulating strategies - Elaborating action plans including master plans 	Official notification of the creation of the committee by MHUUD.
3- Format of the sectoral reporting streamlined.	The EU and the GoE agree on the format and the content of the sectoral progress reports to be submitted by MOPIC to the SC Proposed format as per attached Appendix 4 to the TAPs	EU-GoE agreement on a reporting format.

Matrix of specific Reform Benchmarks and means of verification

Second and third tranches – VARIABLE TRANCHES: Euro 44,000,000.00 + Euro 44,000,000.00

Tranche	Amount	Indicative disbursement request date (Quarter/Year)	Indicative disbursement date (Quarter/Year)	Reform Benchmark / Activity for Disbursement	Source of Verification
Second Tranche (first variable tranche)	€ 44 Million	Fourth Quarter - 2013	First Quarter 2014	General Eligibility criteria as set out in table (iii) of Appendix II	
				A. FOSTER THE GENERAL PFM REFORM	
				<p>A1 Improved financial transparency of Economic Authorities in the water sector.</p> <p><i>Justification: Due to the nature of the sector budget support instrument raising transparency is vital.</i></p> <p>A1.1 Annual public disclosure of the audited financial statements of the Holding Company for Water and Wastewater, and its regional affiliates.</p>	<p>A1.1 Actual public disclosure of FY 2012/13 financial statements on MoF and/or HCWW internet site.</p>
				<p>A2 Improve budget planning for sector reforms.</p> <p><i>Justification: Due to the nature of the sector budget support instrument analysing and improving resource allocation is vital for its application.</i></p> <p>A2.1 Completion of one sectoral PER in the following</p>	<p>A2.1 Publication of sectoral PER on MOF internet site.</p>

Tranche	Amount	Indicative disbursement request date (Quarter/Year)	Indicative disbursement date (Quarter/Year)	Reform Benchmark / Activity for Disbursement	Source of Verification
				areas (health, transport, water, debt sustainability).	
				B. STRENGTHEN AND ENFORCE THE WATER SECTOR POLICY	
				<p>B.1 Promote decentralized implementation of new WSS capital investment.</p> <p><i>Justification: support the ongoing decentralization process and improve investment planning and implementation modalities.</i></p> <p>B1.1 HCWW ACs extend their direct implementation of new capital investments, showing for FY 2012/2013 an increase of at least 100% in value compared to the baseline.</p> <p><u>Baseline:</u> FY 2010/2011 figure expressed in EGP for new capital investment directly implemented by the ACs, equal to 175 374 798 EGP.</p>	<p>B1.1 Figure related to FY 2012/2013 (EWRA 2012/2013 Annual Report or official document from the GoE)².</p>
				B.2 Prepare a National Water Resources Strategy (NWRS) to 2050 horizon.	B2.1. Letter of MWRI to relevant Ministries

² EWRA Annual Reports refer to the Egyptian fiscal year (1 July–30 June)

Tranche	Amount	Indicative disbursement request date (Quarter/Year)	Indicative disbursement date (Quarter/Year)	Reform Benchmark / Activity for Disbursement	Source of Verification
				<p><i>Justification: the NWRP is valid only up to 2017; water scarcity issues will be very acute from 2017 onwards.</i></p> <p>B2.1 The draft NWRS (2050 horizon) is issued for circulation among relevant Ministries and stakeholders.</p> <p><u>Baseline:</u> Notification by the MWRI that the elaboration of a NWR Strategy at Horizon 2050 has been initiated.</p>	and stakeholders attaching the draft NWRS (2050 horizon).
				<p>B.3 Contribute to the development of a shared vision to IWRM at Nile Basin level</p> <p><i>Justification: risks linked to climate change and rising water demand in upstream countries have to be understood and addressed at basin level</i></p> <p>B3.1 Before the end of 2013, MWRI holds at least 2 workshops on adaptation measures on climate change at Nile basin scale.</p>	<p>B3.1 MWRI Report, including</p> <p>a) Schedule, agenda and participants for the workshops,</p> <p>b) MWRI scholarships award notices published in MWRI web site and in NBCBN.</p>

Tranche	Amount	Indicative disbursement request date (Quarter/Year)	Indicative disbursement date (Quarter/Year)	Reform Benchmark / Activity for Disbursement	Source of Verification
				<p>Before the end of 2013, MWRI awards at least 7 short-term scholarships, 2 MSc scholarships and 1 PhD scholarship to foreign students from the Nile Basin Countries.</p> <p><u>Baseline:</u> MWRI document describing:</p> <ul style="list-style-type: none"> a) The proposed scholarships curriculum. b) The proposed workshops on climate change. c) The general description of the regional model on climate change impact. d) The proposed training course on regional climate change model. 	
				<p>C. IMPROVE THE QUALITY AND STRENGTHEN THE SUSTAINABILITY OF THE OPERATIONS OF THE SERVICE PROVIDERS</p>	
				<p>C.1 Expand access to safe drinking water country-wide</p> <p><u>Justification:</u> Millennium Development Goal.</p> <p>C1.1 Increase by at least 100 000 at national level for FY 2012/2013 the number of billing points for domestic water supply compared to the baseline.</p>	<p>C1.1 Figure related to FY 2012/2013</p> <p>(EWRA 2012/2013 Annual Report or official document from the GoE)</p>

Tranche	Amount	Indicative disbursement request date (Quarter/Year)	Indicative disbursement date (Quarter/Year)	Reform Benchmark / Activity for Disbursement	Source of Verification
				<u>Baseline</u> : The total number of billing points at national level for domestic water supply for FY 2010/2011 is equal to 10 909 320.	
				<p>C.2 Extend the coverage of rural and urban sanitation services country-wide.</p> <p><u>Justification</u>: <i>Millennium Development Goal.</i></p> <p><i>Implementation of the Governorate-based National Master Plan (GBMP) for Wastewater and of the National Rural Sanitation Strategy (NRSS).</i></p> <p>C2.1 Increase by at least 100 000 at national level for FY 2012/2013 the number of billing points for improved sanitation services compared to the baseline.</p> <p><u>Baseline</u>: The total number of billing points at national level for improved sanitation services for FY 2010/2011 is equal to 5 410 884.</p>	<p>C2.1 Figure related to FY 2012/2013 (EWRA 2012/2013 Annual Report or official document from GoE).</p>
				<p>C.3 Improve wastewater treatment.</p> <p><u>Justification</u>: <i>decrease water pollution.</i></p> <p><i>Implementation of the Governorate-based National</i></p>	<p>C3.1 Figure related to FY 2012/2013 (EWRA 2012/2013 Annual Report or official</p>

Tranche	Amount	Indicative disbursement request date (Quarter/Year)	Indicative disbursement date (Quarter/Year)	Reform Benchmark / Activity for Disbursement	Source of Verification
				<p><i>Master Plan (GBMP) for Wastewater and of the National Rural Sanitation Strategy (NRSS).</i></p> <p>C3.1 Increase by at least 0.1 million m³/day at national level for FY 2012/2013 the volume of sewage processed with secondary treatment.</p> <p><u>Baseline:</u> The volume of sewage processed with secondary treatment at national level for FY 2010/2011, equal to 6 792 680 m³/day.</p>	document from GoE).
				<p>C.4 Improve monitoring capacities regarding water quality for drinking water.</p> <p><i>Justification: contribute to protect the public health of the Egyptian citizens from water-borne diseases.</i></p> <p>C4.1 Achieve before 30 June 2013 at least 1 new accreditation of central water quality laboratory of HCWW ACs compared to the baseline.</p> <p><u>Baseline:</u> The number of central accredited laboratories as of 30 June 2011 is equal to 5.</p>	C4.1 Figure related to 30 June 2013 (EWRA 2012/2013 Annual Report or official document from GoE).

Tranche	Amount	Indicative disbursement request date (Quarter/Year)	Indicative disbursement date (Quarter/Year)	Reform Benchmark / Activity for Disbursement	Source of Verification
				<p>C.5 Support service providers in the process of achieving cost recovery.</p> <p><i>Justification: Cost recovery is key to financial sustainability.</i></p> <p>C5.1 Restore for FY 2012/2013 the aggregated sectoral cost-recovery ratio R at least to 0.84</p> <p><u>Baseline:</u> The aggregated cost-recovery ratio R for FY 2010/2011 is equal to 0.77</p>	C5.1 Figure related to FY 2012/2013 (EWRA 2012/2013 Annual Report or official document from GoE).
				D.IMPROVE THE USE OF EXISTING WATER RESOURCES	
				<p>D.1 Increase the efficiency of water pumping stations.</p> <p><i>Justification: maximize crop yields, contribute to reduce water losses in drainage canals and minimize energy consumption and carbon dioxide emissions.</i></p> <p>D1.1 Detailed design for the rehabilitation/reconstruction of at least 2 high priority pumping station described in the baseline is completed before mid 2013.</p> <p>Works for these pumping stations are contracted and commenced before end 2013.</p>	D1.1 MWRI Report on the rehabilitation/reconstruction of high priority pumping stations.

Tranche	Amount	Indicative disbursement request date (Quarter/Year)	Indicative disbursement date (Quarter/Year)	Reform Benchmark / Activity for Disbursement	Source of Verification
				<u>Baseline</u> : Initial design data and actual operational performances as of 30 June 2011 for two priority pumping stations to be rehabilitated in 2012/2014.	
				<p>D.2 Implement water conservation practices for reducing Non-Revenue Water (NRW) in water networks.</p> <p><i>Justification: enable HCCW's ACs to reduce and manage water losses in water networks.</i></p> <p>D2.1 The calculation of NRW is improved from desk estimates to actual measurements in at least 1 new ACs by 30 June 2013 compared to the baseline.</p> <p><u>Baseline</u>: Number of ACs implementing actual measurement of non revenue water as of 30 June 2011 equal to zero.</p>	D2.1 Figure as of 30 June 2013 (EWRA 2012/2013 Annual Report or official document from the GoE)
Third Tranche (Second Variable)	€ 44 Million	Third Quarter 2015	Fourth Quarter 2015	General Eligibility criteria as set out in table (iii) of Appendix II	

Tranche	Amount	Indicative disbursement request date (Quarter/Year)	Indicative disbursement date (Quarter/Year)	Reform Benchmark / Activity for Disbursement	Source of Verification
Tranche)					
				A. FOSTER THE GENERAL PFM REFORM	
				<p>A 1 Improved financial transparency of Economic Authorities in the water sector.</p> <p><i>Justification: Due to the nature of the sector budget support instrument raising transparency is vital.</i></p> <p>A1.2 Annual public disclosure of the audited financial statements of the Holding Company for Water and Wastewater, and its Regional affiliates.</p>	<p>A1.2 Actual public disclosure of FY 2014/15 financial statements on the MoF and/or HCWW website.</p>
				<p>A 2 Improve budget planning for sector reform.</p> <p><i>Justification: Due to the nature of the sector budget support instrument analysing and improving resource allocation is vital for its application.</i></p> <p>A2.2 Progress on implementation of the conclusions of the PERs.</p>	<p>A2.2 Progress Report transmitted by the MoF.</p>
				B. STRENGTHEN AND ENFORCE THE WATER SECTOR POLICY	

Tranche	Amount	Indicative disbursement request date (Quarter/Year)	Indicative disbursement date (Quarter/Year)	Reform Benchmark / Activity for Disbursement	Source of Verification
				<p>B. 1 Promote decentralized implementation of new WSS capital investment.</p> <p><i>Justification: support the ongoing decentralization process and improve investment planning and implementation modalities</i></p> <p>B1.2 HCWW ACs extend their direct implementation of new capital investments, showing for FY 2014/2015 an increase of at least 200% in value compared to the baseline.</p> <p><u>Baseline:</u> FY 2010/2011 figure expressed in EGP for new capital investment directly implemented by the ACs, equal to 175 374 798 EGP.</p>	B1.2 Figure related to FY 2014/2015 (EWRA 2014/2015 Annual Report or official document from the GoE).
				<p>B 2 Prepare a National Water Resources Strategy (NWRS) to 2050 horizon.</p> <p><i>Justification: the NWRP is valid only up to 2017; water scarcity issues will be very acute from 2017 onwards.</i></p> <p>B2.2 The NWRS (2050 horizon) has received the consent by the Cabinet of Ministers as the basis</p>	B2.2 Letter by the MWRI informing the EU that the Cabinet of Ministers has consented to the final NWR 2050 Strategy.

Tranche	Amount	Indicative disbursement request date (Quarter/Year)	Indicative disbursement date (Quarter/Year)	Reform Benchmark / Activity for Disbursement	Source of Verification
				<p>for the update of the National Water Resources Plan 2014-2017.</p> <p><u>Baseline:</u> notification by the MWRI that the elaboration of a NWR Strategy at Horizon 2050 has been initiated.</p>	
				<p>B.3 Contribute to the development of a shared vision to IWRM at Nile Basin level.</p> <p><i>Justification: risks linked to climate change and rising water demand in upstream countries have to be understood and addressed at basin level.</i></p> <p>B3.2 Before 30 June 2015, at least 30 technical staff of Ministries of Water Resources and Research Centers of Nile riparian countries are trained on MWRI's model on regional climate change.</p> <p><u>Baseline:</u> MWRI document describing:</p> <ul style="list-style-type: none"> a) The proposed scholarships curriculum b) The proposed workshops on climate change. c) The general description of the regional model on climate change impact. 	B3.2 MWRI's report on training courses on its regional model for adaptation measures on climate change at Nile basin scale.

Tranche	Amount	Indicative disbursement request date (Quarter/Year)	Indicative disbursement date (Quarter/Year)	Reform Benchmark / Activity for Disbursement	Source of Verification
				d) The proposed training course on regional climate change model.	
				C. IMPROVE THE QUALITY AND STRENGTHEN THE SUSTAINABILITY OF THE OPERATIONS OF THE SERVICE PROVIDERS	
				<p>C 1 Expand access to safe drinking water country-wide.</p> <p><i>Justification: Millennium Development Goal.</i></p> <p>C1.2 Increase by at least 200 000 at national level for FY 2014/2015 the number of billing points for domestic water supply compared to the baseline.</p> <p><u>Baseline:</u> The total number of billing points at national level for domestic water supply for FY 2010/2011 is equal to 10 909 320.</p>	<p>C1.2 Figure related to FY 2014/2015.</p> <p>(EWRA 2014/2015 Annual Report or official document from the GoE).</p>
				C.2 Extend the coverage of rural and urban sanitation services country-wide.	C2.2 Figure related to FY 2014/2015-(EWRA 2014/2015 Annual Report or official

Tranche	Amount	Indicative disbursement request date (Quarter/Year)	Indicative disbursement date (Quarter/Year)	Reform Benchmark / Activity for Disbursement	Source of Verification
				<p><i><u>Justification:</u> Millennium Development Goal.</i></p> <p><i>Implementation of the Governorate-based National Master Plan (GBMP) for Wastewater and of the National Rural Sanitation Strategy (NRSS).</i></p> <p>C2.2 Increase by at least 200 000 at national level for FY 2014/2015 the number of billing points for improved sanitation services compared to the baseline.</p> <p><u>Baseline:</u> The total number of billing points at national for improved sanitation services for FY 2010/2011 is equal to 5 410 884.</p>	document from the GoE).
				<p>C3 Improve wastewater treatment.</p> <p><i><u>Justification:</u> decrease water pollution.</i></p> <p><i>Implementation of the Governorate-based National Master Plan (GBMP) for Wastewater and of the National Rural Sanitation Strategy (NRSS.)</i></p> <p>C3.2 Increase by at least 0.2 million m³/day at national level for FY 2014/2015 the volume of sewage</p>	C3.2 Figure related to FY 2014/2015-(EWRA 2014/2015 Annual Report or official document from the GoE).

Tranche	Amount	Indicative disbursement request date (Quarter/Year)	Indicative disbursement date (Quarter/Year)	Reform Benchmark / Activity for Disbursement	Source of Verification
				<p>processed with secondary treatment.</p> <p><u>Baseline:</u> The volume of sewage processed with secondary treatment at national level for FY 2010/2011, equal to 6 792 680 m3/day.</p>	
				<p>C 4 Improve monitoring capacities regarding water quality for drinking water.</p> <p><i><u>Justification:</u> contribute to protect the public health of the Egyptian citizens from water-borne diseases.</i></p> <p>C4.2 Achieve before 30 June 2015 at least 2 new accreditations of central water quality laboratories of HCWW ACs compared to the baseline.</p> <p><u>Baseline:</u> The number of central accredited laboratories as of 30 June 2011 is equal to 5.</p>	C4.2 Figure as of 30 June 2015 (EWRA 2014/2015 Annual Report or official document from the GoE).
				<p>C 5 Support service providers in the process of achieving cost recovery.</p> <p><i><u>Justification:</u> Cost recovery is key for financial sustainability.</i></p> <p>C5.2 Restore for FY 2014/2015 the aggregated sectoral cost-recovery ratio R at least at 0.89.</p>	C5.2 Figure related to FY 2014/2015 (EWRA 2014/2015 Annual Report or official document from GoE).

Tranche	Amount	Indicative disbursement request date (Quarter/Year)	Indicative disbursement date (Quarter/Year)	Reform Benchmark / Activity for Disbursement	Source of Verification
				<u>Baseline:</u> The aggregated cost-recovery ratio R for FY 2010/2011 is equal to 0.77.	
				D.IMPROVE THE USE OF EXISTING WATER RESOURCES	
				<p>D1 Increase the efficiency of water pumping stations.</p> <p><i>Justification: maximize crop yields, contribute to reduce water losses in drainage canals and minimize energy consumption and carbon dioxide emissions.</i></p> <p>D1.2 By 30 June 2015, achievement of at least 10% reduction of average energy consumption from the baseline figures in at least 2 pumping stations responding to the conditions of Tranche 2 (Variable Tranche 1).</p> <p><u>Baseline:</u> Average energy consumption as of 30 June 2011 of the two pumping stations selected for rehabilitation under tranche 1.</p>	D1.2 MWRI Report on the operation of high priority pumping stations.
				D2 Implement water conservation practices for reducing Non-Revenue Water (NRW) in water networks.	D2.2 Figures for 2014/15 (EWRA 2014/2015 Annual Report or official

Tranche	Amount	Indicative disbursement request date (Quarter/Year)	Indicative disbursement date (Quarter/Year)	Reform Benchmark / Activity for Disbursement	Source of Verification
				<p><i>Justification: enable HCCW's ACs to reduce and manage water losses in water networks.</i></p> <p>D2.2 The ratio Rn of non-revenue water towards total water input measured in the water districts where measurement of non revenue water is implemented (in 2 ACs or more) is decreased, for the reference year 2015, by at least 1 % from the ratio measured in the reference year 2013.</p> <p><u>Baseline:</u> The ratio Rn of non-revenue water towards total water input measured in the water districts where measurement of non revenue water is implemented as of 2013.</p>	document from the GoE).

5. Modalities of the assessment of performance in case of variable tranches

The European Commission will conduct a review of the fulfilment of the Reform Benchmarks and inform the Beneficiaries of its appraisal through MOIC as the National Coordinator. In case one or more of the Reform Benchmarks in the variable tranches are not satisfied, in part or in full, at the time of assessment and disbursement, the Commission might decide to reduce the amount of the tranche proportionally (each reform benchmark having an equal weight in the total) and defer the un-disbursed amount to the following tranche, where it would be reassessed again.

Appendix 3: Description of responsibilities of stakeholders

1. Ministry of Housing, Utilities and Urban Development (MHUUD)

MHUUD is concerned with Egypt's comprehensive urban, communal and economic development comprising housing, roads, bridges, potable water and sewerage plants. With regard to the WSS sector MHUUD's responsibilities are the following:

- Implementation of the reform process.
- Securing financial resources for investments & operations, including PPP.
- Developing Policies, as well as clearance of legislation, regulations, decrees.
- Planning and programming of investment and O&M budgets.
- Facilitating tariff, staffing and debt management reforms.
- Establishing and supervision of EWRA.
- Supervision of HCWW.
- Supervision of NOPWASD.
- Managing and coordinating the work plans among NOPWASD, HCWW and EWRA.

In addition, MHUUD is responsible for setting rules, standards and technical specifications, control of execution and follow up of the design / execution / operation / management of potable water and sanitary drainage plans, projects and programs.

2. National Organization for Potable Water and Sanitary Drainage (NOPWASD)

NOPWASD was created by Presidential Decree (PD) 197/1981. It is responsible for WSS investment planning, and for supervising all aspects of the design, construction and commissioning of WSS investment projects. It is under the responsibility of the MHUUD and is the channel for central government funds under the investment budget. However, it contracts out design and construction to private and public firms. After completion, the ownership of these projects is transferred to the WSS affiliated companies of HCWW.

As of 2004 and under the new sector set-up³, NOPWASD continued to be responsible for new investments whereas HCWW will handle rehabilitation funds provided directly by MOF (formerly provided by National Investment Bank-NIB). However, the rehabilitation funds shall still be channelled via NOPWASD to HCWW.

3. Construction Authority for Potable Water and Wastewater (CAPW)

CAPW was established by the Ministerial Decree No. 497 of 1981 to implement wastewater projects in Greater Cairo which has since been expanded to include Alexandria, Giza and Qaliuybia. The agency is responsible for proposing and drawing policies, plans, technical and financial Programme for the projects relating to the potable water and wastewater under its

³ i.e., upon the establishment of HCWW and EWRA.

jurisdiction. It also is responsible for the implementation of these projects and coordination of these plans and programmes with the various agencies involved in agency projects.

4. Holding Company for Water and Wastewater (HCWW)

HCWW was established under the PD no. 135/2004 in order to regulate water supply and sanitation sector under the responsibility of MHUUD. By this decree, HCWW and its affiliated companies were created. With their Headquarters based in Cairo, HCWW is governed by the laws and executive decrees that regulate the business sector. The mandate of HCWW and its affiliated companies cover the production, transport, distribution and the sale of drinking water as well as collection, treatment and safe disposal of sewage; however, HCWW has no mandate for any new capital investment projects. The latter function is still in the mandate of NOPWASD. All governorates of Egypt by now are served by ACs belonging to the HCWW. That was not the case when HCWW was created in 2004. Thanks to the WSRP-I which has pushed the GOE to double its coverage of services in HCWW within four years to obtain a full coverage of Egypt with HCWW services.

The major task of the HCWW is to support and supervise its ACs so that they properly provide adequate WSS service provisions (coverage, reliability & quality). The performance of HCWW is supervised on a quarterly basis by tracking a set of performance reform benchmarks as developed and supported by USAID and then by the WSRP-I. The total staff of HCWW is about 250⁴, out of which 90% have a university degree.

5. Egyptian Water and Wastewater Regulatory Agency (EWRA)

In April, 2004 PD 136 was issued mandating the formation of the EWRA and establishing the parameters for Agency operation. EWRA is placed under the authority of MHUUD. With its head office located in new Cairo City, EWRA retains the right to establish branches or offices in other parts of the Republic. The Minister of MHUUD heads the Governing Board (GB), which includes members from outside the WSS sector, namely two technical experts and a consumer representative, seconded by MHUUD. MOF, Ministry of Health (MOH) and Ministry of the State for Environmental Affairs (MOSEA) are represented in the GB.

The overall task of EWRA is the ‘economic regulation of monopoly providers of water’ by ensuring the ‘balanced protection of the providers and the customers’. However, when analyzing the different parameters for its operation, it becomes clear that many other aspects beyond that task have been added (e.g. provide technical assistance to GOE projects in WSS, review investment plans to ensure the availability of potable water in consistency with state policies).

6. Ministry of Water Resources and Irrigation (MWRI)

MWRI has the overall responsibility for appropriating and distributing Egypt’s water resources (both surface water and under-ground water) and for managing drainage and the Mediterranean coastline. The MWRI is also responsible for controlling the inflow of pollutants into waterways.

⁴ Status as of end of 2009

Appendix 4

Format and Content for a Water Sector Strategy Progress Report

1 Structure of the Report

National Water Resources Plan (2005-2017) National Water Resources and Irrigation	Development Policies Drinking Water and Waste Water Subsector
I. Introduction & Background	<u>I. Current Sector Challenges</u> - Water Scarcity - Technical Challenges - Institutional Challenges - Financial Challenges
II. Water Resources System	
III. Policy Context	
IV. Development and Management of the System	<u>II. Sector Development Objectives</u>
V. Strategy "Facing the Challenge"	<u>III. Sector development policies</u> - Service Provision - Exploitation and management of water resources - Developing the institutional framework - Achieving financial independence
VI. Implementation Plan	<u>IV. Future Steps: Sector Development Strategies</u>

II Substance of the Report

Each of the above chapters shall contain the following:

- Internal or external factors impacting the implementation of the strategies and action plans.
- Status of implementation of the strategies and related action plans (figures and data attached substantiate the analysis).
- Deviations (plus or minus) from the initial objectives.
- Identification of favourable factors, constraints and roadblocks explaining these deviations.
- Corrective or additional measures already taken or under consideration, including all constraints for their implementation.
- Recommended evolutions (if any) for the objectives of the strategies and associated action plans.
- Emergence of new issues or preoccupations.
- Possible implications for policy evolution.

Annex 7

Comments from the validation mission about the document submitted to the EU Delegation as the baseline for the Preparation of the National Water Resources Strategy to 2050 Horizon

1. Semantic and methodological clarifications are welcome

1.1 Clarifications are needed regarding the distinction between 3 different concepts

- Policies : a policy can be defined as the set of guiding principles or rules edicted by the governing body and intended to influence decisions and actions. In our case, these principles refer to Government decisions about water resources management and could be among the following: promote decentralization , promote transparency and accountability, adopt IWRM approaches, ensure equitable and sustainable access to water resources for all users (or alternatively give top priority to a given subsector such as agriculture) , enforce cost recovery and phase out subsidies over a given period of time, (or alternatively accept subsidied tariffs for the whole population or for vulnerable groups), adopt the ‘polluter will pay’ principle, ...

- Strategies : a strategy is designed to address an issue (in our case, Water resources management at horizon 2050) by implementing the policy (set of principles) edicted on this issue . Under generally accepted standards, a strategy sets out the present situation, the intended situation to achieve (objectives) , the ways to achieve it (identification of constraints, challenges and of key action areas) , and describes the monitoring systems (how it will know that it has reached its goals).

- Plans: they translate strategies in terms of operational programmes and actions ensuring that the objectives of the strategy will be reached . In our case, they could for instance cover legislation and regulations, institutional reforms, physical and non-physical investments, capacity building, ,

1.2 In many of its aspects, the proposed Strategy rather refers to a Plan or to a set of pre-identified plans , without clearly identifying the “policy” and “ strategy” aspects ; the initial paragraph on “ main features “ could indeed be considered as a policy statement , but the reference to edicted policies is unclear ; it also includes for instance mentions related rather to the methodology trough which the strategy will be defined (identification of constraints , construction of scenarios) .

1.3 The description of the themes covered by the strategy suffers the same imprecisions, with mentions on the same level of items which may relate to policies, strategies or plans (the latter case for many of them) .

For instance, the two statements " promote the increase of Egypt's annual share of Nile flows" and " continue cooperation between Egypt and Nile Basin states " seem to relate to policies rather than to the expected outcome of a strategy .

The document also presents as pre-defined outcomes items which rather relate to specific plans and therefore may be identified, discussed and put into perspective during the elaboration of a long-term strategy, but could be developed at a later stage under a vision of their respective priorities : mobilize deep groundwater, expand wastewater reuse, rationalize fertilizers and pesticide uses, develop rural sanitation, establish landfills, improve water management in identified areas,

In this perspective, it is not recommended that a document elaborated as a guide for the construction of a strategy identifies, sometimes at a detailed level (removal of fish cages, expand the use of air coolings, ...) , pre-defined themes which give little “ breathing space” for analysis, projections and debate among stakeholders .

1.4 Under the same logic, the “ Table of contents” of the NWRS document may also be clarified in order to better distinguish between upstream policy standings, points related to strategy elaboration and expected outcome, and openings on strategy implementation in terms of identified action plans .

2 The integrated dimension of water management could be made more explicit

The document could be more explicit regarding its ambitions for the integration of all dimensions (technical, environmental, economic, financial, social, legal,) of water management issues in a comprehensive vision. In such a strategic planning exercise, all knowledge and implication has ideally to be mobilized from a wide range of stakeholders, which goes far beyond “ taking coordination between the concerned bodies and institutions into consideration”.

As an example, covering also aspects discussed in para 1, is there a clear policy decision at government level allowing to state that one of the themes of the strategy will be the " limitation of water consuming crops such as rice, bananas and sugarcane " ? However justified it may be from a water savings perspective, one may expect that this far-reaching orientation has been firmly agreed upon at the highest political level well beyond the water sector stakeholders, and has been widely disseminated and appropriated .

If this is the case, it is rather a policy statement that has to be included in the opening paragraph ; if not, it will be discussed with all stakeholders during the elaboration of the strategy, provided it appears as a key issue based inter alia on visions of population projections, socio-economic scenarios, analysis of food security issues and openings to agricultural policy and strategy at 2050 horizon.

3 The elaboration process is not mentioned

The key factor for the success of such an ambitious exercise is the way under which it will be conducted. If, as stated in the “ main features” paragraph, “ greater participation by stakeholders” is a policy orientation for water resources management, it could in principle apply to the elaboration process of a national water resources strategy .

In any case, a document which would be elaborated under a strictly top-down vision and involving behind closed doors a restricted number of participants has little chance of being appropriated by all stakeholders and of course by the civil society .

It would therefore seem advisable that a specific paragraph addresses the methodology that will be followed by MWRI for the elaboration of the strategy. It may be expected that this methodology would be based on participatory schemes, leaving an appropriate place to consultation processes with a wide panel of stakeholders , including from the civil society (water users, academics, ...) , and that the expertise to be mobilized would not be exclusively from the public sector .

Also, it would be advisable to have indications about the expected time frame for the elaboration of the strategy, taking into account the time needed for the elaboration and the appropriation of key strategic orientations by all stakeholders. From the standpoint of the EU WSRP , the satisfaction of the benchmark calls for

- the circulation of a draft 2050 strategy to ministries and stakeholders by late 2013 (second tranche to be disbursed by Q1 2014)
- the approval of the 2050 NWRM strategy at Council of Ministers level by mid-2015 (third tranche to be disbursed by Q4 2015)

This timing leaves ample space for the development of a far-reaching participatory process over a large base of stakeholders.

Annex 8

Draft Terms of reference for a priority TA action

In the following text, the technical assistance action described is named as “ the project” , which does not preclude of the effective institutional shape that it will have . The body which will be responsible to implement the technical assistance actions responding to “the project” is named as “the contractor”.

1 Background

1.1 Present situation and medium-term perspectives

Over the last decades, Egypt has made significant improvements in the provision of water and wastewater services, primarily through capital investment projects.

However, the current operations of most of the HCWW Affiliated Companies (ACs, now numbering 23) are still facing a number of constraints.

Water and wastewater tariffs remain low, and few utilities are able to recover their operational costs, not to mention capital investments. If not absent, asset management procedures and plans are often suboptimal, maintenance budgets may not be always set at the required levels, and planning processes remain limited both on the technical and financial sides.

Despite persistent overstaffing, utilities face difficulties attracting, retaining, and developing highly qualified professionals; capacities in economic and financial matters remain limited.

Issues like staff compensation and more generally human resources management, or the level of subsidies from the government budget to cover current O&M costs, have been exacerbated in the post-revolution period. In a phase of economic adjustment and of intense social expectations, perspectives for tariff increases for water and sanitation services also remain limited in the short and medium term.

The necessity to increase the efficiency of the operations of water and wastewater systems is therefore more pressing than ever.

Also, the revolution has allowed the emergence of an increased demand for transparency and accountability of the public sector towards the civil society, this concerning inter alia the sector of public water utilities.

1.2 Recent advances

1.2.1 A number of recent or ongoing initiatives have attempted to address this issue. External assistance has been directed to provide institutional and technical assistance to the ACs, for instance through

- The Water and Wastewater Sector Support program (WWSP) supported by USAID. It provides specific assistance to 13 ACs (Cairo Water , Aswan, Luxor, Menufiya, Beni Suef, Minya, Giza Water and Wastewater, Asiut, Sinai, Matrouh, Sohag, Qena)
- The Water and Wastewater Management Programme (WWMP) funded by GTZ. It included components for support to ACs , especially in the Qena governorate.
- The Integrated Sanitation and Sewerage Infrastructure Project (ISIP) financed by the World Bank . It has provided support to ACs in Beheira, Kafr el Sheikh, and Gharbiya
- The Improved Water and Wastewater Services Programme (IWSP) , co-funded by the EU, KfW, AFD and EIB . It includes technical support to 4 ACs (in phase 1, Sharkia, Gharbia Damietta and Beheira in the Delta region) . This support will be expanded to 4 new ACs (Qena, Sohag, Assiut and Miya in Upper Egypt) in Phase 2 of the programme.

These and similar projects and programs have achieved or are targeting results concerning strengthening of staff capacities, improvement of management systems and development of planning procedures. The associated actions include inter alia staff training, production of manuals and procedures, introduction or development of adapted software, development of capacities for capital investment planning and, on a more limited scale, promotion of asset management and business planning.

1.2.2 The scope and the degree of dissemination and appropriation of these advances remain however low compared to the magnitude of the issues faced by the utilities. There is still a need to

- confirm and complement past advances, especially with respect to asset management and business planning, in ACs which have already received or are receiving substantial support
- take new initiatives in ACs which have not up to now substantially benefited from past or ongoing management support programs

2 Objectives of the project

2.1 General objective: strengthen the capability of HCWW subsidiaries to operate water and wastewater systems more efficiently and in a more transparent way

2.2 Specific objectives:

- increase the managerial, financial and commercial viability of ACs
- develop assets management mechanisms
- develop financial planning mechanisms
- increase transparency and accountability of ACs

- build or strengthen the capacities of ACs staff

3 Expected results of the project

3.1 Increased financial and commercial viability of HCWW ACs

3.2 Increased managerial and operational efficiency of the ACs

3.3 Development and implementation of asset management planning on a routine basis in the ACs

3.4 Construction and implementation of business plans on a routine basis in the ACs

3.5 Increased transparency and accountability of ACs towards their clients including individual customers and towards the civil society at large

3.6 Increased management, technical, and operational capacity of ACs staff.

3.7 Improved quality of services provided by the ACs

3.8 Expanded access to water and sanitation services

4 Description of the assignment. Statement of Works

4.1 Technical Approach

To achieve the objectives of the project, the work of the contractor shall be

- (a) customer driven;
- (b) strategic, flexible and responsive to targets of opportunity
- (c) results-oriented.

The Contractor shall build upon the significant achievements and gains made in any previous programs and GOE reform initiatives that have helped to strengthen the enabling sector framework and build institutional capacity in ACs. The Contractor shall implement the project in close coordination with other projects in the water sector that also aim at improving the operations of water and sanitation utilities in Egypt.

➤ **Customer-Driven:** The Contractor shall provide assistance that responds to the needs of the primary clients of the project, namely the ACs. Its assistance to the ACs will be as much as possible given at operational and field level, with the intervention of the TA team being as sustained as possible in a given AC. The contractor shall collaborate with HCWW, EWRA, NOPWASD and MHUUD as needed. The Contractor shall also collaborate with a diverse group of public, private and non-government institutions and organizations to achieve the specific objectives of the project, in

particular in relation with transparency and accountability towards the clients of the ACs and emerging civil society organizations.

- **Strategic, Flexible and Responsive:** The Contractor shall assist the clients (the ACs) to evaluate progress toward goals and to identify adjustments in activities that appear to be needed in light of progress achieved, lessons learned, or changes in the environment.

The project shall therefore :

- (a) closely monitor the political and institutional environment
- (b) contribute to assess the prospects for key reforms in the sector
- (c) assess progress made by each AC included in the project
- (d) shift resources in a timely fashion out of areas where progress is unlikely , or where alternative resources are available, to areas where opportunities emerge. In this respect, close and continuous contacts and coordination with all ongoing projects implementing similar activities are a key factor for the success of the project.

- **Results Oriented:** Results-oriented management is an essential element of the contractor's performance. The contractor shall have available a range of assistance mechanisms (e.g. provision of expatriate or local technical expertise, institutional capacity building, various types of training, technical twinning or internship arrangements, study tours, etc.), and propose the most appropriate combination of approaches in order to achieve the desired results.

The contractor is expected to propose a methodology demonstrating how it proposes to address the expected key results outlined in the project description and the approach that will best achieve these results.

4.2 Key activities

In its assistance to the ACs, the contractor shall at a minimum participate in the following tasks

4.2.1 Introduce, develop or strengthen improved systems and procedures covering:

- financial management
- budgeting and financial planning
- accounting (for instance strengthening the dissemination of the ADVAC software)
- metering, billing and bills collection
- assets valuation and management, including planning of maintenance priorities ; this task will be conducted in full coherence with the existing situation regarding planning of new capital investment . Methodologies (cost benefit) and procedures (manuals) will be developed and promoted in order to better select and plan interventions based on their potential contribution to meeting service standards and improving cost recovery.

- elaboration of business plans; these plans will be road maps for investment planning and improvement of financial results and tools to support the appropriation of collective objectives and enhance management accountability towards these objectives
- staffing and human resources management
- management information systems

4.2.2 Develop measures for reduction of costs and increases in revenues such as

- Rationalization of uses of chemical and consumption of electricity
- Identification of redundant administrative costs
- Development of a service disconnection policy for non-payers as well as an incentive plan for regular payers
- Identify areas for outsourcing of services based on realizing cost savings and improvement of service standards

4.2.3 Provide training in technical and financial management for the ACs staff

4.2.4 Set progressive performance targets as part of the budgeting and planning process; introduce or develop mechanisms for tying these targets to incentives for staff and management (through for instance a performance agreement between the ACs and HCWW)

4.2.5 Conduct or participate in tariff studies and introduce a comprehensive tariff plan including progressive revisions that take in consideration inflation, depreciation, and full cost of services with an objective of phasing out public subsidies covering current O&M costs

4.2.6. Develop transparency towards the public regarding ACs technical and financial performances. Increase public awareness of issues regarding water availability, water quality and sustainability of ACs operations. Develop the implication of civil society in water governance at local level.

4.3 Performance indicators

The improvement of management efficiency will be measured through a set of key performance indicators such as:

- cost recovery
- bills collection efficiency

- reduction of non revenue water
- O&M costs, with possible segregation for key cost items (for instance chemicals and electricity consumption) per cubic meter of water produced and wastewater treated
- level of service standards

4.4 Indicative profile for experts

The profiles of the team of experts and the duration of their assignments will be defined according to the allocated budget, the delineation of the geographical areas to be covered and of the priority themes to be addressed accordingly, the latter aspect concerning in particular short-term experts.

With respect to long-term experts, and on an indicative basis at this stage, the following positions and profiles are identified for experts to be permanently present in Egypt during the implementation of the project

4.4.1 Team leader

He will have overall responsibility for the implementation of the project, with a key role for the liaison with GoE , HCWW and ACs officials , donors and key stakeholders in the water and wastewater sector including stakeholders emerging in the civil society .

Qualifications include

- A minimum of 10 years experience with successful water and sewerage utility reforms or institutional strengthening programs
- A minimum of 5 years experience as a Team Leader for projects with similar magnitude and complexity in developing countries.
- Demonstrated expertise in institutional strengthening programs; utility corporatization; performance-based contracts for water utilities; utility regulation, and benchmarking.
- Excellent interpersonal and written communication skills, the mastering of Arabic being an asset

4.4.2 Deputy Team Leader

He will have delegated authority from the Team Leader to make decisions regarding the implementation of the project. He is expected to play, along with the team leader, a key role in interacting with donors and national stakeholders from the public sector and public society.

Qualifications include

- A minimum of 10 years experience with successful water and sewerage utility reforms, operation, and management, of which at least 5 years are in Egypt.
- A minimum of 5 years experience as Deputy Team Leader or equivalent management experience, for projects of similar magnitude and complexity in Egypt or in the arab world .
- Demonstrated expertise in three or more of the following areas: utility organizations and management, corporatization of public utilities, utility finance, program and construction management, and human resources development.
- Experience of the Egyptian laws and regulations related to the water sector in general and to the operation of Water and Wastewater utilities in particular.
- Excellent interpersonal and communication skills.
- Excellent English and Arabic speaking and writing skills.

4.4.3 Utility Management Specialist:

The Utility Management Specialist is expected to play a lead role in the design and implementation of tasks and activities targeted at improving the management capabilities and performance of the ACs, in close cooperation with donors and with officials from the HCWW and the ACs.

Qualifications include

- A minimum of 10 years experience with successful management of water and sewerage utilities.
- Demonstrated experience in the use of modern computerized management systems for similar utilities.
- Prior experience as a key actor on projects with similar magnitude and complexity in developing countries.
- Excellent interpersonal and written communication skills, the mastering of Arabic being an asset

Annex 9

GENERAL

The WSRP-II is a comprehensive sectoral programme designed to support the implementation of the strategy of the Egyptian Government towards the Egyptian Water Sector.

This 120 M € program funded by the EU is to be disbursed in three tranches: one upfront payment of 22 M€ (fixed tranche, to be disbursed in the first quarter of 2012) and two subsequent tranches of 44 M€ each (variable tranches) .

The two variable tranches are scheduled to be released in 2014 (first quarter) and 2015 (fourth quarter) . Their disbursement is linked to a matrix of reform benchmarks and associated performance criteria.

An additional sum of 10 M€ is allocated for evaluation and audit (0,3 M€) , communication and visibility (0,2 Me) , and technical assistance (9,5 M€)

The Financing Agreement

Legal Structure

- The Financing Agreement comprises the Special Conditions with two Annexes
 - Annex I : General Conditions applicable to EU Financing Agreements
 - Annex II: Technical and Administrative Provisions (TAPs) applicable to the present programme.
- The reform benchmarks, and the associated baseline, are described in an Appendix 1 to the Technical and Administrative Provisions.
- The matrix of reform benchmarks specifies for each one of the variable tranches the objectives to be reached for each reform benchmark and the means of verification. It is attached as Appendix 2 to the Technical and Administrative Provisions

General Eligibility Criteria

Items covered	Eligibility Criteria	Verification source
Sector policy and strategy	Satisfactory progress is recorded in the implementation of the Government of Egypt National Water Supply and Sanitation Sector Development Policy and of the National Water Resource Plan 2005-2017.	Annual sectoral reports co-signed by MWRI and MHUUD and transmitted by MOIC EU Delegation sector reviews and analysis Minutes of meetings and discussions held between the EU , DPG water sub-group and GoE about water sector reform
Macroecoeconomic stability	A stability oriented macroeconomic policy with satisfactory macroeconomic management.	EU Delegation macroeconomic stability report and/or IMF Article IV consultation report. Egypt's Medium-term macroeconomic framework.
Public finance management	The existence of a credible and relevant programme to improve public financial management is in place or under implementation	EU Delegation PFM report and/or reports by the Ministry of Finance and/or other donors

Disbursement of the first tranche

Benchmarks to be satisfied

Objective	Benchmark	Verification source
Cross-sector coordination between the main national and international actors ensured.	An Inter-Ministerial Steering Committee (SC) is established. Institutional arrangements are defined for guidance, support and monitoring of the WRSP-II	Ministerial decree establishing the SC and Letter of invitation from MOPIC to all members of the SC.
Internal coordination in the WSS subsector strengthened .	A committee is created with a mandate to ensure joint action in the WSS subsector between NOPWASD and HCWW	Official notification of the creation of the committee by MHUUP
Format of the sectoral reporting streamlined	The EU and the GoE agree on the format and the content of the sectoral progress reports to be submitted by MoPIC	EU agreement on a reporting format

VARIABLE TRANCHES

OBJECTIVES OF THE PROGRAMME

- A Improve financial transparency and performance
- B Strengthen water sector policies and strategies and improve their enforcement
- C Improve the quality and strengthen the sustainability of the operations of WSS service providers
- D Improve the use of existing water resources

Objective A Improve financial transparency and performance

Benchmark	Reform benchmark(s)	Baseline	Performance to be achieved in FY 2012/2013 for Variable Tranche 1	Performance to be achieved in FY 2014/2015 for Variable Tranche 2
A1 Improve financial transparency of economic authorities in the water sector.	Improved financial transparency of Economic Authorities in the water sector.	Public availability of financial information	Annual public disclosure of the audited financial statements of the Holding Company for Water and Wastewater, and its regional affiliates.	Annual public disclosure of the audited financial statements of the Holding Company for Water and Wastewater, and its Regional affiliates.
A2 Improve budget planning for sector reforms	Improve budget planning for sector reforms.	Availability of sectoral PER	Completion of one sectoral PER in the following areas (health, transport, water, debt sustainability).	Progress on implementation of the conclusions of the PERs.

Objective B Strengthen water sector policies and strategies and improve their enforcement

Benchmark	Reform benchmark(s)	Baseline	Performance to be achieved in FY 2012/2013 for Variable Tranche 1	Performance to be achieved in FY 2014/2015 for Variable Tranche 2
B1 Promote decentralized implementation of new WSS capital investment.	Amount of investment directly implemented by the Acs	175 374 798 EGP	100 % increase from the baseline	200% increase from the baseline
B2 Prepare a National Water Resources Strategy (NWRS) to 2050 horizon.	Progress in the preparation and appropriation of the strategy	Initiation of the preparation of the 2050 NWR Strategy	Elaboration and circulation of the 2050 NWR strategy	Approval of the 2050 NWR strategy
B3 Contribute to the development of a shared vision to IWRM at Nile Basin level	Numbers of scholarships, workshops and training courses	Description of planned scholarships, workshops and training courses	Award of 10 scholarships and holding of 2 workshops on climate change for staff from Nile Basin countries	Training of 30 technical staff from Nile Basin countries on climate change model

Objective C Improve the quality and strengthen the sustainability of the operations of WSS service providers (C1 to C3)

Benchmark	Reform benchmark(s)	Baseline	Performance to be achieved in FY 2012/2013 for Variable Tranche 1	Performance to be achieved in FY 2014/2015 for Variable Tranche 2
C1 Expand access to safe drinking water	Number of billing points (residential subscribers) for domestic water supply	10 909 320	Increase by 100 000 compared to the baseline	Increase by 200 000 compared to the baseline
C2 Extend the coverage of sanitation services	Number of billing points (residential subscribers) for domestic sanitation services	5 810 984	Increase by 100 000 compared to the baseline	Increase by 200 000 compared to the baseline
C3 Improve wastewater treatment.	Average daily volume at national level of water processed under secondary treatment	6 792 680 m3/day	Increase by 100 000 m3/day compared to the baseline	Increase by 200 000 m3/day compared to the baseline

C Improve the quality and strengthen the sustainability of the operations of WSS service providers (C4 to C5)

Benchmark	Reform benchmark(s)	Baseline	Performance to be achieved in FY 2012/2013 for Variable Tranche 1	Performance to be achieved in FY 2014/2015 for Variable Tranche 2
C4 Improve monitoring capacities regarding water quality	Number of accredited central laboratories	5	Increase by 1 compared to the baseline	Increase by 2 compared to the baseline
C5 Support service providers in the process of achieving cost recovery.	Cost recovery ratio R = Revenues excluding subsidies / O&M expenses	R= 0.77 for 2010/2011	Restore R to pre-revolution levels (0.84)	Consolidate R on pre-revolution levels (0.89)

Objective D Improve the use of existing water resources

Benchmark	Reform benchmark(s)	Baseline	Performance to be achieved in FY 2012/2013 for Variable Tranche 1	Performance to be achieved in FY 2014/2015 for Variable Tranche 2
D1 Increase the efficiency of water pumping stations.	Progress in rehabilitation program Energy efficiency	Design and actual situation for 2 drainage pumping stations	Finalize rehabilitation design and initiate rehabilitation works on 2 pumping stations	Increase energy efficiency by 10 % on the two pumping stations
D2 Implement water conservation practices for reducing Non-Revenue Water (NRW) in water networks.	Number of ACs implementing measurement of NRW Ratio Rn of NRW towards total distribution	Zero	1 AC implements measurement of NRW	2 ACs implement measurement of NRW Rn is reduced by 1 percentage point from 2013 to 2015