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I. Country Context

Egypt's ability to maintain stability in a Regional context of conflict and extremism depends on its capacity to convince its citizenry that they are part of an inclusive polity in which they have the right to claim access to basic public services. Assessments of the roots of protest and extremism in the Region consistently identify the feeling of disaffection towards the state amongst significant social groups – including the rural poor, unemployed youth – resulting from a lack of proximity. As in many countries in the Region, Egypt's Governments prior to the "Arab Spring" had operated on the basis of an implicit social contract in which subsidies for basic goods and services (energy, water, food, transport, education) were provided by Governments in return for accepting highly concentrated and centralized control of political and economic opportunities. Despite attempts by different stakeholders to introduce alternative approaches focused on strengthening decentralized and community-responsive service delivery, integrating citizens in the service delivery chain, and increased private sector participation these efforts were either "captured" or "minimalized" by powerful, centralized entities which sought to perpetuate the status quo approach. The service delivery approaches that were adopted therefore added to the distance between the state and its citizens.

Egypt will also need to directly address the needs of the most vulnerable and disaffected groups with a strong focus on rural Egypt and Government has signaled its intention to do so. Regional and rural-urban welfare disparities are an enduring feature of poverty in Egypt. Poverty has been consistently highest in Upper Rural Egypt, which accounts for a quarter of the population but over half of the country's poor are in Lower Rural Egypt. Lower Rural Egypt poverty headcount rate has effectively stayed constant from 2005 to 2010, decreasing only marginally from 16.7 to 16.0 percent. In addition, the bottom 40 percent of Egyptian households is concentrated in rural regions where access to basic services is below national averages, while the current public spending structure is exacerbating inequities. Rural regions have significantly

lower coverage rates in education, health, water, waste disposal, and sanitation. Child malnutrition, for example, which includes stunting and is linked to inadequate sanitation, has worsened throughout the country and is particularly worrisome in rural areas where it adds an additional burden to women. Not surprisingly, in advance of the recent Economic Conference in Sharm el Sheikh, Government highlighted that its main objective is "to achieve a direct return that benefits poor and low-income citizens first and foremost, in terms of creating jobs and solving many of the problems that affect a wide range of citizens."

Government recognizes the urgency of these challenges and is pursuing important fundamental institutional change to service delivery systems to both build an inclusive polity as well as to address critical service needs of poor communities. The consequences of inadequate sanitation services in rural communities is a highly visible example of the failure of centralized approaches to meet the basic needs of Egypt's most vulnerable citizens and to produce a healthy environment. As elaborated in the next section, about 42 million people in the rural areas are underserved by proper sanitation services and are often faced with overflowing sewage from traditional septic tanks. Add to it the challenge faced by Egypt that has high water tables that are being contaminated by the inadequate sanitation services. Government has recognized the urgency to address the sanitation issue in rural Egypt and, equally important, an opportunity to pursue a different approach to service delivery. The proposed program – national in scope and results orientation – switches the focus from centralized infrastructure investment to accountability for service delivery at the local level. The program comprises of structural shifts in responsibility from centralized agencies to regional water and sanitation utilities; reform of their public finance – including the introduction of transparent and predictable fiscal transfers and linkage of such transfers to service delivery performance; building of mechanisms that ensure bottom-up and top-down accountability through citizens report cards (including greater voice for women), grievance mechanisms, audit reforms, and independent verification and the linking the performance grants to this feedback; and finally the introduction of pricing reform that strengthens the public finance of the systems and the accountability of the utilities. The aim is not to "fix the pipes, but fix the institutions that fix the pipes."

The sanitation operation requested by Government is reflective of the broader shift in how the sector will be managed overall. The sanitation sector and the reform program being introduced by Egypt play a critical national role and has been adopted as one of the key Presidential Programs and a Program Management Unit has been established in the office of the Minister of Housing and Urban Communities with a mandate to take this program forward while reporting directly to the Office of the President. The PforR focuses on three governorates (Daqahliya, Sharqiya, and Beheira) as part of a national program to scale up the reforms all governorates. The Ministry of Local Development (MoLD) is currently leading the process of drafting a new Local Administrative Law that essentially enacts the decentralization of utility service delivery to the governorate level, including water and sanitation services. Government has also engaged with other major financing partners – Islamic Development Bank, the various Arab Funds, and EBRD -- to support this new approach. It builds on the technical assistance support that has been ongoing from European Union and GIZ. Importantly, Government has already formally restructured or agreed to close ongoing World Bank programs in the sanitation sector which have had poor performance ratings to ensure that the Bank support is fully dedicated to the new approach. Indeed, the Bank's sanitation portfolio's poor performance to date was closely linked

to the centralized approach that Government had adopted in the past to deliver services.

Egypt's stability depends equally on sustained economic progress. Economic activity grew by 6.8 percent in the first quarter of FY15, the highest rate since the financial crisis, on the backdrop of improved sentiment, rebound in tourism, and base effect. This followed better economic activity in the third and fourth quarter of FY14, which grew by 2.5 percent and 3.7 percent respectively, compared to 1.2 percent in the first half of FY14. However, growth for the whole fiscal year remained subdued at 2.2 percent. Net exports continued to be a drag on growth, while investments started to contribute positively to growth alongside accelerated disbursement of stimulus spending (Egypt has benefitted from large scale financial support from the Arab Gulf Countries,[1] which allowed authorities to jumpstart the economy by embarking on stimulus spending worth three percent of Gross Domestic Product (GDP) in FY14, lowering cost of borrowing by 400 basis points in FY14, and increasing foreign reserves.) Economic recovery is important to establish stability ahead of the forthcoming Parliamentary elections, expected to be held by March 2015, which represents a major milestone in Egypt's political roadmap.

Government has undertaken a number of significant economic reforms to underpin overall economic growth. In 2014, Government increasing and/or enacting new taxes, such as implementing a long delayed property tax, introducing taxes on dividend and capital gains, an additional five percent tax on high incomes, and increasing taxes on alcohol beverages and tobacco. On the expenditures side, streamlining regressive electricity and fuel subsidies with notable price adjustments were introduced in July 2014, followed by the issuance of a decree detailing electricity tariff and annual increases for all users for the coming five years. These measures amongst other things have these measures have contributed to an expected decline of the budget deficit to 11-11.5 percent of GDP in FY15, compared to a preliminary figure of 12.8 percent in FY14, and 13.7 percent of GDP in FY13contributed to the recent upgrade of Egypt's sovereign rating and are expected to generate fiscal savings of LE 80 billion (3.5 percent of FY15 projected GDP). Internal market reforms are also being implemented to help partially address structural supply bottlenecks and help contain inflationary pressures.

However, key macroeconomic and social risks, vulnerabilities remain in building and sustaining a broad-based and inclusive economic recovery. The official unemployment rate reached 13.1 percent as of end September 2014 up from 8.9 percent in the same quarter of 2010. Out of the 3.6 million currently unemployed persons, some 64.3 percent are between 15 and 29 years old, making youth unemployment the main challenge for economic inclusion and stability. Unemployment rates among males and females stand at 9.6 percent, and 24.5 percent, respectively. Urban areas recorded a higher unemployment rate (16 percent) than rural areas (10.9 percent). The latest poverty data indicate that 26.3 percent of the population was living below the national poverty line in FY13.

II. Sectoral and Institutional Context

[1] It is estimated that as of December 2014, financial commitment to Egypt from the Gulf Arab countries—Saudi Arabia, the United Arab Emirates (UAE), and Kuwait is around US$ 24 billion.

Egypt has experienced uneven access to improved drinking water and sanitation services. In the past two decades, Egypt has made significant progress in providing direct access to safe piped drinking water at the household level (from 39 percent to 93 percent) and basic sanitation services through traditional septic tanks (from 52 percent to 93 percent).[2] Yet, access to improved services is uneven and stark geographical and socioeconomic disparities persist that affect the living conditions and health of millions of Egyptians, including the significant number of children exposed to unsanitary environmental conditions. An estimated 89 percent of households in urban areas are covered by public sewers compared to only twelve percent in rural areas, where 42 million people are underserved and are often faced with overflowing sewage from traditional septic tanks. Over 20,000 rural villages are left without improved sanitation, and consequentially 80 percent of rural human domestic waste in these villages is untreated, posing major environmental and health threats to the affected rural communities. In fact, only six percent of Egyptian villages are provided with wastewater treatment as a service. Children in rural households are 8.5 times more likely than their urban peers to have no toilet facilities, and nearly 10 percent of households in rural areas use toilet facilities shared amongst multiple households.

The sanitation situation is of particular concern in the rural areas of the Nile Delta compared to other areas in Egypt due to high groundwater levels and the discharge of untreated sewage directly into the Nile Delta water system. With increased household water use resulting from household water supply connections, the traditional *bayaras* (sanitation trenches used as septic tanks) are failing, particularly in the Nile Delta, where the water table is high and soil has low percolation. As a result, the sewage overflows into the streets, and, in some areas has undermined building foundations resulting in the collapse of houses. To prevent the overflow, households must clean their *bayaras* frequently (up to once a week), and pay up to LE 250 every month to have them emptied, which in many cases largely exceeds the costs that households would pay for conventional sanitation solutions and is unaffordable for the rural poor. Even when the *bayaras* are emptied, most septic-emptying services are informal, privately operated, and unregulated, and they regularly dispose of the sewage directly into open irrigation canals and drains, where the water flows through populated areas and is reused for agricultural production. A household survey carried out in Beheira Governorate stated that 25 percent of septic-emptying services dispose of their collected wastewater directly into the agricultural drains. As a result of the high water table and discharge of untreated wastewater, Egypt's scarce freshwater resources are increasingly polluted, and the health of millions is at risk. The prevalence of diarrhea in children under the age of five is highest in Rural Lower Egypt and disproportionately impacts the poorest.[3] The situation is particularly critical in villages along the Nile River and its many branches and tributaries, which are the lifeline of the country and which supply water to tens of millions of people.

Despite significant Government and donor financing for rural sanitation improvements,

[2] Egypt Network for Integrated Development: Rural Sanitation in Egypt, Policy Brief 010 (2013; 4http://enid.org.eg/Uploads/PDF/PB10_rural_sanitation.pdf

[3] Egypt Demographic Health Survey (DHS), 2008.

progress has been far below expectations. Since 2007, investments totaling LE 32.4 billion (US$4.6 billion) have been directed at sanitation infrastructure – in particular sewerage networks and wastewater treatment plants. While these investments have made some progress, they have generally suffered from: (i) very slow implementation; (ii) inflated construction costs and poor quality; (iii) poor coordination between major infrastructure such as Wastewater Treatment Plants (WWTP) and local network connections; and (iv) use of technologies which result in high Operation and Maintenance (O&M) costs relative to service needs.

Many of the problems faced stem from stalled institutional evolution in the sector which has resulted in an inefficient service delivery model. At the core of many problems of the water and sanitation sector are the centralized models of decision making, infrastructure investment, and service delivery. Government, with support from USAID and other partners, developed an institutional road map which consolidated most of the water and wastewater service providers under a Holding Company for Water and Wastewater (HCWW) with the intention of corporatizing the entities as individually accountable utilities for all aspects of water and wastewater services. However, the process was stalled prior to initiating a gradual shift of responsibility for planning and implementing infrastructure development from the centralized construction agencies to the individual Water and Sanitation Companies (WSCs). Currently infrastructure investments in the sector are included in the Five Year Plans and financed out of sector budget allocations in the annual budget. The mode of financing is based on estimated requirements for specific investment projects and do not match with the actual requirements of WSCs in terms of their capital investment and service delivery needs. Moreover, the financing tends to be ad-hoc and unpredictable, as a result of which WSCs are not in a position to realistically plan and implement capital investment projects. Financially, they are heavily subsidized by the central Government and have no independent authority to raise tariffs, which are set by the National Cabinet. The costs of inefficiencies in the wastewater sector have been estimated at LE 7.1 billion per year. The fiscal transfers to cover operating inefficiencies, below cost tariffs, excessive wastewater infrastructure and financing costs represent 1.25 percent of 2007 GDP.

The separation of institutional responsibilities for investment planning and implementation from operation and maintenance has been a major contributor to the sector's poor performance Currently the responsibility for works planning and implementation of infrastructure investments is under the National Organization for Potable Water and Sanitary Drainage (NOPWASD), and the operation and management of assets, including the billing and collection arrangements, is performed by the WSCs. This has resulted often in inappropriate choice of investment projects with little attention paid to maintenance and institutional aspects of services as well as poor accountability on the part of the WSCs in terms of utilizing these investments to enhance the quality and efficiency of sanitation services. Institutionally, these WSCs are beholden to the central level organizations from which they have inherited assets which they must manage and maintain.

Low water and wastewater tariffs have jeopardized the financial sustainability of the sector,

resulting in the deterioration of the already weak financial performance of the Water and Sanitation Companies (WSC). Water and sanitation operations and investments are funded entirely through the Government budget. The Ministry of Finance (MoF) provides budget allocations to the Ministry of Housing, Utilities and Urban Communities (MHUUC) for operating subsidies and infrastructure development grants. Between 2006 and 2009 the Government had provided LE 1.8 billion in subsidies to support WSCs with operational costs. Low tariffs and inadequate financial incentives for reducing operational and maintenance costs and capital expenditures impede financial sustainability of the WSS services. The sporadic tariff increases implemented since 2004 have been marginal, on a very low base. The Egypt Water Regulatory Agency (EWRA) advises the Cabinet on tariff related matters, but its role and independence are limited under the current legal framework. Cairo water tariffs are among the lowest in the world even as compared to other mega-cities of developing countries. Sewage is charged as a percentage of the water bill and remains very low at 25 percent.

The Government is seeking to resume the evolution of the institutional responsibilities to encourage greater sustainability of the financing framework for new investments and upkeep of existing investments, as well as improved service delivery. The gaps and weaknesses in the financing framework for WSCs have impacted their capabilities for efficient and sustainable service delivery. Therefore as part of the reform strategy in the sector, the Government intends to introduce a system of fiscal transfers to the WSCs so that financial resources are available to WSCs on a transparent and predictable manner, as well as to provide adequate incentives for enhancing institutional performance and accountability in the sector. Furthermore, the Government intends to clarify and strengthen the roles and responsibilities of central ministries and agencies, such as the HCWW and EWRA, to ensure a coordinated and coherent approach to service delivery in the water sector. The GoE is also working with development partners including the Bank to strengthen the capacity of the WSCs. Moreover, a new water and wastewater tariff proposal has been developed and is currently undergoing consultations within the Government which would allow WSCs to cover O&M costs within three years of implementation and eventually to cover depreciation within five years.

Relationship to the CAS/CPS and Rationale for Use of Instrument

The proposed World Bank support to Egypt's NRSP is consistent with the Interim Strategy (June 2012 to December 2013) and the proposed Country Partnership Framework (CPF) currently being developed for FY 2015-2019. The Interim Strategy proposes a concrete program of support in which water and wastewater are important elements. Specifically, under the pillar of Inclusion, the Strategy focuses on the objective of broadening citizen participation in the delivery of water services, increasing efficiency and equity in service delivery, improving targeting of subsidies, and reducing the cost of pollution through better management of wastewater. The draft CPF stresses the importance of access to basic services, particularly in rural areas where the combination of high population density among the bottom 40 percent of the population and low coverage rates of basic services, including sanitation, may propagate economic disparities**.** Improved service delivery can enhance inclusion, again particularly so in rural areas where the poor live and where low access, poor service standards, and environment degradation affect them the most. The proposed National Rural Sanitation Program and World Bank's support are specifically described in the draft CPF.

In addition, the issue of pollution is an important thread throughout the CPF as the deterioration of water quality adds to health and economic burdens. As the CPF stresses, there is an alarming combination of water scarcity and groundwater aquifer pollution as well as heavy surface water pollution of the Nile River and its many branches, canals, and tributaries in the Delta due to industrial waste, agricultural run-off, seepage from livestock, and untreated rural wastewater. By providing sanitation infrastructure and services to 200 villages polluting the Al Salam and the Rosetta Branch Canals, the Program for Results is expected to contribute to significantly reducing in these waterways.

Given the potential positive impact on the poor, in particular women and girls, as well as providing improved service delivery mechanisms to achieve greater efficiency, the Program for Results (PforR) Program is very much aligned with the World Bank Group's twin goals of reducing poverty and enhancing shared prosperity. The Bank's entry point through this new engagement will be "service delivery for inclusion", which is at the heart of the strategy adopted in both the Interim Strategy and the CPF, and is at the heart of the GoE's own request to the Bank. Supporting a system of efficient and transparent fiscal transfers that will empower local service delivery is a critical element of improving basic services and enhancing greater economic inclusion. Furthermore, targeting poor households in rural areas and improving their access to sanitation remains vital for development. Poverty rates are highest in rural regions where access to water, waste disposal, and health services remains significantly lower than in urban areas. The bottom 40 percent of Egyptian households is concentrated in rural regions -- although poverty rates are admittedly more than twice as high in Upper Egypt than in the Nile Delta. The new NRSP explicitly seeks to reduce this urban-rural divide in the sanitation sector across all of Egypt.

III. Program Scope

Government Program

Through the launch of the NRSP, the GoE has signaled its priority to increase access to sustainable sanitation services to help reduce poverty; improve basic living standards; protect the environment -- in particular precious water resources; and, support economic growth to enhance shared prosperity. The overall goal of the NRSP is to foster sustainable access to rural sanitation services and is the overarching program for the rural sanitation sector. It aims to achieve 100 percent sanitation coverage of 4,700 villages and 27,000 "satellites" (or "subsidiaries"), with a population estimated at 45 million, through access to sanitation services, as well as discontinuation of the practice of discharging untreated sewage into irrigation drains and canals. The investment needs of the NRSP have been estimated at LE100 billion (US$14 billion).

The NRSP is building on past reforms and recognizing gaps therein to help improve performance. In 2004 the GoE initiated sector reforms including Presidential Decree 135 established the HCWW, transforming the 14 largest utilities into subsidiaries of the holding company under local law 203. Presidential Decree 136 established the EWRA. The intention was to strengthen the capacity of the WSCs. Yet, NOPWASD, a technical implementing agency under the jurisdiction of the MHUUC, has remained responsible for investment planning, design, procurement (through the state budget), and supervision of construction of water and sanitation

infrastructure. After completion, and at the end of the contractual maintenance period, the facilities are handed over to the HCWW and the WSCs for future operation, maintenance, and management (using their own financial resources). In general, not much attention has been given to service delivery and sustainability. Therefore to move to the next level of reform, the GoE launched the NRSP.

The strategy supported by the NRSP includes harnessing economies of scale by clustering villages to enhance the technical, economic, environmental, and social feasibility of wastewater treatment systems. The pillars of the strategy include: i) improve household hygiene; ii) prevent pollution; and iii) improve water quality through re-use of wastewater. The program is structured around a series of rural sanitation Master Plans that are designated to meet demand projected out to 2037 and which are regularly updated by the HCWW with input from the WSCs. The plans focus on villages of more than 5,000 inhabitants, and include proposals for a series of priority projects. Clustered approaches have been prioritized to achieve economies of scale when the villages are relatively close, and to reduce the number of treatment plants needed. Priority has been given to villages located near waterways, in order to reduce pollution loads, as well as to villages with high water tables and also to villages in highly populated areas.

The initial focus of the NRSP is to improve access and services in 769 villages in seven governorates that discharge untreated wastewater into the Al Salam Canal and the Rosetta Branch Canal. The seven governorates are: Sharkiya, Daqahliya, Damietta, Giza, Menoufya, Gharbiya, and Beheira. This initial phase of the program does not cover all of the villages in the seven governorates, but primarily the villages discharging into the Al Salam Canal and the Rosetta Branch Canal.

In addition to the Master Investment Plans, the NRSP is grounded in a series of performance improvement measures initiated at the local utility level, as well as a number of initiatives taken at the national level to address persistent sector challenges such as low cost recovery. For example, for performance improvement, HCWW has developed instruments to certify treatment plants; measures to develop the master planning into dynamic decision-supporting systems; measures to improve monitoring, evaluation, and reporting; and measures to train and certify different grades of technicians and engineers through class room and on-the-job training. To monitor WSC performance, the program includes 10 Key Performance Indicators (KPIs). Regarding national sector policy, Development Policies, Water and Wastewater Sector in Egypt (2010) identified the main challenges as water scarcity, institutional fragmentation, and, financial sustainability. The document put forward five objectives: (i) water and sanitation universal coverage; (ii) best use of all water sources and re-use of wastewater for irrigation; (iii) effective institutional setup with clear roles and objectives; (iv) financial sustainability (including gradual increase of tariffs to achieve full cost recovery); and (v) encouragement of private sector participation.

Government is pursuing an institutional approach which encourages greater sustainability of the financing framework, as well as measures to strengthen service delivery and the enabling environment. As part of the reform strategy in the sector, GoE intends to introduce a system of fiscal transfers to the WSCs so that financial resources are available to WSCs on a transparent and predictable manner and to provide incentives to enhance institutional performance and

accountability in the sector. In addition, the Government intends to clarify and strengthen the roles and responsibilities of central ministries and agencies, such as the HCWW and the EWRA, to ensure a coordinated and coherent approach to service delivery in the water sector. The GoE is also working with development partners including the Bank to strengthen the capacity of the WSCs. Moreover, a new water and wastewater tariff proposal has been developed and is currently undergoing consultations within the Government which would allow WSCs to cover O&M costs within three years of implementation and eventually to cover depreciation within five years.

Strengthening accountability is a core aspect of the Government's service delivery reform strategy and its National Rural Sanitation Program. In accordance with its policy of decentralizing service provision, the GoE intends to strengthen the social contract between service delivery organizations such as WSCs and the citizens who avail themselves of these services. Moving away from a top down approach to the planning and execution of infrastructure services, the Government intends to enhance the formal and informal accountability relationships of service providers by putting in place systems and practices for active citizen engagement as part of the WSCs' planning and management systems. By strengthening the downward accountability of WSCs to their customers, the Government expects the investment and service delivery decisions of WSCs to be more responsive to local priorities and intends as well that the quality of service delivery will be improved through active feedback from citizens and civil society.

Bank-financed Program

The Sustainable Rural Sanitation Services Program for Results (the "Program") is a results-based program supported by the World Bank aimed at strengthening institutions and systems to provide greater access and improved service delivery of rural sanitation services in targeted governorates. The Program is embedded in the government's National Rural Sanitation Program described above, yet will pilot further institutional reforms that are intended to eventually be scaled up in other governorates of Egypt. The Program aims to reduce poverty and enhance shared prosperity by providing access and improved services in rural villages and satellites which have often been excluded from basic sanitation service provision in the past. This will be accomplished through new sanitation connections (mostly but not exclusively to sewerage systems) which will involve improved wastewater collection, treatment and management. In order to do this most effectively, the Program reconsiders the existing service delivery model.

The Program builds on the Government's decision to shift from a centralized model of service delivery to a decentralized model that empowers the WSCs and makes them accountable to their citizens and stakeholders by establishing a system of performance-based fiscal transfers and other incentives for strengthening the WSCs service delivery model and improving national policy and oversight systems. For the Program, the Government has made the strategic choice to pilot a system of fiscal transfers of performance-based capital grants to strengthen accountability and transparency at the local utility level for the delivery of rural sanitation services in three governorates. The Program is built around three activities: i) a well-aligned incentive structure that links financing for improved WSC performance and accountability; ii) a combined and coordinated effort by the WSCs and higher-level organizations such as the MHUUC, HCWW,

and EWRA to put in place robust systems for improving institutional performance; and iii) a strong policy, regulatory, and oversight framework to enable sustainable rural sanitation service provision. The Program would entail capacity building at several levels.

The Program focuses on WSCs in the three governorates of Daqahliya, Sharqiya, and Beheira because of the high costs and health and environmental impacts related to current modes (or lack thereof) of sanitation services provision in these areas. By prioritizing rural sanitation services in these governorates of the Nile delta, the Program will also contribute to reducing the pollution resulting from untreated or inadequately-treated wastewater discharges into the Al Salam and Rosetta Branch waterways. Therefore there is a strong environmental and public health rationale for choosing these three governorates. Further, since Lower Egypt accounts for a total of 53 percent of Egypt's total rural poor, a well-designed intervention in the sanitation sector could have a real impact in terms of poverty alleviation. For example, the current lack of adequate sanitation services in the rural villages of Lower Egypt has a substantial impact on average disposable income because of the significant costs of emptying septic tanks due to the high groundwater table levels along the Nile delta, along with additional costs related to damages incurred using these septic tanks. As a result, the rural poor in Lower Egypt pay monthly costs of up to twice the amount paid in Upper Egypt.

IV. Program Development Objective(s)

Program Development Objective (PDO): Strengthening institutions for increasing access and improving rural sanitation services in three participating governorates.

V. Environmental and Social Effects

1. ***An Environmental and Social Systems Assessment (ESSA) was prepared according to OP 9.00.*** The ESSA was developed based upon information reviews, field visits, consultations, and discussions with various Program entities and relevant stakeholders. The draft ESSA was disclosed to the public before appraisal. The ESSA was prepared in wide consultation with large and diverse groups of stakeholders on the national and governorates levels. During January and February 2015, a number of consultation meetings and group discussions were conducted with groups of relevant teams from the HCWW, the WSCs, Community Development Associations (CDAs), community groups of men and women from the served and unserved villages, and natural leaders, as part of the preparation of the ESSA.[4] The consultations at this stage were designed to allow the ESSA team to obtain in-depth understanding of existing environmental and social systems (including land acquisition and community engagement). Public consultations events were conducted in April 2015 in each of the targeted Governorates with the objectives of presenting the draft findings of the ESSA, get stakeholders' comments and feedback and incorporate the relevant comments in the final version of the ESSA. Participants in the 3 events exceeded 100 men and women of different relevant governmental organizations and

[4] The main consultative activities conducted as part of the ESSA preparation could be summarized in: a) consultative meetings with the HCWW and the WSCs. This included meetings with around 40 staff members centrally and from the 3 Governorates from various relevant departments. b) Consultative meetings for community members and other stakeholders from the served communities. A total of around 39 men and women from selected villages in the 3 Governorates participated. C) Consultations for community members and other stakeholders from the unserved communities. A total of around 32 men and women from selected villages in the 3 Governorates participated in these consultations during the preparation of the ESSA..

civil society. The series of consultations allowed the ESSA team to capture the rich local experience of the communities, including poor rural households. The unserved communities spelled out their experience related to the absence of appropriate sanitation system. Specifically the impacts on health of the family members, including impacts on children's and women's health came among the priority issues of concern. Specific impacts related to women exposure to heavy domestic work, financial load on poor households and increased level of social tension among villagers due to the unhealthy practices of waste disposal were also deeply explored. The served communities were highly vocal on how the improved sanitation system helped the families to attain financial saving, improved the level of households hygiene and cleanliness and enhanced the whole living environment within the villages. Returns to women and children were greatly highlighted in the discussions.

Community and Village Stakeholder Consultations enabled the team to learn about the scale and severity of various impacts in unserved communities, the need for an improved system, community willingness to provide various types of contributions (including land issues), and the communities' recommendations for good planning for the project. For the served communities, the consultations – which included a gender dimension -- revolved around the benefits that could be attained from an improved sanitation system, how the project could be managed, what were the key lessons that could be learned, and recommendations provided in the consultation sessions. Additional verification sessions were also conducted to verify the analysis of the ESSA team before finalizing the draft report.[5] Public consultation will be conducted to present findings of the ESSA and receive further feedback from participants. During the consultation, the Program, the main findings of the ESSA, and the recommendations to enhance the existing environmental and social management system will be presented. The ESSA will be updated to reflect recommendations from the consultations, and the final version will be disclosed locally and on the World Bank's website. See Annex 6 for details on the ESSA and the consultations conducted to date.

A preliminary risk assessment has been carried out using the Environmental and Social Risk Screening Format included in OP 9.00, and the likely environmental and social effects have been addressed. Regarding the context, the Program will be implemented in rural areas with health, economic and psychological pressures and polluted watercourses in the downstream of the Nile, so the interventions are expected to effectively address these geographic shortcomings. No sensitive habitats are located within the Program areas and the risk on culturally valuable sites is low. In terms of sustainability, the Program is expected to enhance the sustainability of watercourses through enhancing their quality, the sustainability of agriculture lands through alleviating the rising groundwater table problems and improving the quality of irrigation water. In terms of institutional complexity, the environmental and social issues will be handled through different bodies under the umbrella of MoHUUC and the system is expected to operate without complexity. Regarding the institutional capacity, although is currently limited, the PAP measures

[5] For verification purpose, two verifications sessions were conducted. The first verification session was conducted on February 26 with the team of the Public Awareness and Customer Service Department in HCWW to verify the findings related to community engagement and Hotline dimensions. A second session was conducted on March 23 with the PMU, HCWW, and WSCs (departments of Public relations, properties, health and safety and labs). The findings from these verification activities were incorporated in this draft of the ESSA.

identify measures for improving the capacity. There are no governance or corruption risks associated with the environmental aspects of the Program. The overall environmental risks have been rated as medium and the overall social risks have been rated as substantial.

Environmental aspects under the Program. The overall environmental impact of the Program is expected to be positive. The Program will allow, according to the standards of Law 48/1982, for adequate collection and treatment of a considerable amount of sewage which was, prior to the Program, being inadequately collected and being discharged to watercourses with inadequate or no treatment. The assessment indicates that none of the Program interventions would cause significant adverse environmental impacts that are sensitive, diverse, and unprecedented, or with an area of influence effectively exceeding the footprint of the Program facilities. The environmental risks of the Program are generally considered of medium significance, although some specific risks such as sludge handling and institutional capacity were rated substantial. The primary environmental risks are related to the following items: handling of sludge; handling of solid wastes separated at the screens of WWTPs and PSs, and the grit separated at WWTPs; discharging noncompliant effluent; safety risks in handling chlorine and other hazardous substances; dewatering operations during construction and possibly affecting neighboring structures and lands; and risks of handling chance finds of culturally valuable objects. The identified environmental impacts of the Program are of relatively low significance, including changing the land use of the footprints of the WWTPs and PSs; the temporary impacts during construction; the impacts on drains receiving treated effluent; and lands receiving sludge and solid wastes. The PAP has been prepared according to the findings of the system assessment and gap identification and includes measures to minimize the risks and mitigate the impacts.

Social Aspects under the Program. The overall social risk to the Program is considered to be substantial due to the complexity and associated risks related to land acquisition, which is a core requirement for establishing the WWTP and pumping stations. The ESSA identified a wide range of benefits that the Program will deliver to targeted communities, including the following: economic saving at the household level; health and safety benefits; creation of an enabling environment for community development at the village level; an enhanced level of public hygiene awareness; greater voice and inclusion for women with respect to sanitation choices; and special returns and benefits for women and children. However, a number of potential negative impacts and risks were also identified.

Risks Identified with Land Acquisition. One particular area of risk for the project involves land acquisition necessary for constructing the pumping stations and the WWTP. If not handled carefully, land acquisition could result in serious impacts on land owners and land users. At this stage, since the technical design of the program is premature, it is difficult to know the exact amount of land that will be needed, and consequently, it is also difficult to estimate either the number of land owners and/or users who would be affected by the land acquisition process or the severity of the impact of land-taking on them and their families. Despite the lack of specific details related to land acquisition needs at this stage of the Program, the ESSA greatly underscored land acquisition as a key subject of potential negative social impacts and social risks if not handled carefully. Because of the seriousness of the land acquisition issue, a number of measures were included in the PAP and DLIs to address the subject, and key identified risks were categorized as either “land-related risks” or “other risks.” The most important of the land-

related risks are the following: (i) limited capacities of the WSCs to manage land issues; (ii) the potential delay in the time scheduled as a result of land acquisition; (iii) the lack of a consistent and transparent approach in managing some of the land acquisition aspects; and (iv) the livelihood risks related to land acquisition. In the cases where land acquisition was completed before the Program began, some additional risks related to drawbacks associated with land transactions may emerge, such as problems in the valuation of land, multiple owners, illegal users, delays in making payments, coercion, and so forth.

Other Social Risks Identified. In the second category of "other risks", and on the level of other social aspects involved in the Program, a number of risks were identified, most importantly: (i) risks of damages associated with construction activities, (ii) a weak sense of demand for or acceptance and readiness for projects in certain communities; (iii) risks of social tensions as a result of exclusion of certain villages; (iv) risks related to the inability of poor households to afford the costs of the connections; and (v) risks related to potential escalation of unresolved community concerns or complaints arising from the absence of a structured proactive consultation system and/or a lack of a robust grievance system on the village level, specifically in the planning and construction phases.

Legal and Regulatory Framework Gaps. The analysis of the systems to handle social issues and "other" risks revealed a number of gaps related to the legal and regulatory framework as well as to institutional arrangements to address these issues. Some of these "identified gaps" relate to individuals affected by the legal framework for land acquisition. These include (i) no stipulations for consultations with affected individuals; (ii) the absence of certain sub-groups from those who are legally entitled (such as squatters and tenants); (iii) the absence of proactive local-level mechanisms for handling grievances; (iv) inconsistency and lack of clear standards for the land valuation process; and (v) the absence of important principles, such as compensation for replacement costs, which could lead to serious negative social implications. On the level of institutional arrangements and the capacity to handle land-related issues, the ESSA identified the substantial lack of capacity in dealing with social impacts related to land acquisition as a key risk and threat. There is also no inter-agency coordination role designated to facilitate the process of obtaining approvals, which can result in delays in the delivery of competed projects. In addition, there is a potential shortage in human resources available to handle land acquisition issues in a more diligent and transparent manner.

Positive Social Issue Aspects. On the brighter side, the institutional and capacity assessment of the WSCs in relation to community engagement and social issues revealed a number of positive aspects, most importantly including (i) availability of teams on the WSC level (centrally on the governorate) to handle issues related to raising awareness levels; (ii) setting and implementing agreed upon annual work plans; (iii) the existence of a monitoring and evaluation system to measure WSC performance; and (iv) the availability of awareness and communication guidelines that the teams are already using.

WSC Deficiencies to be corrected. However the analysis also showed that the main orientation of the WSCs is project operation and maintenance, and that there is a resulting absence of mandates and capacities to deal with community engagement issues during the preparation,

planning, design, and construction of projects. For instance, there is generally an unfair distribution for the staff and a shortage in human resources on the Markaz and village level. The responsibilities of the current staff overlap with public relations mandates. There are clear deficiencies in the monitoring system and large shortages in resources for logistical support. In the meantime, the analysis of the existing GRM revealed that one key shortfall related to the existing mechanism is that it does not cover issues related to project planning, design and construction (for example, issues related to potential construction damage to land or houses during a project, and issues associated with land acquisition). The system also lacks technology utilization and is not fully automated. There appears to be heavier use of and reliance on informal channels, which are untracked. In general, there is no clear time interval for resolving complaints. Measures for dealing with the gaps identified related to land acquisition as well as community engagement at large have been included in the PAP, as presented in Annex 8.

Environmental and Social Aspects of the Program Action Plan. In addition, a detailed Program Action Plan (PAP) was prepared. See Annex 8 for environmental and social aspects of the PAP. The PAP aims to enhance the existing environmental and social management systems of the executing agencies through two major objectives: (1) developing a standardized approach for land acquisition, and (2) enhancing the systems for engaging with communities and addressing community social risks. Under the first objective, land acquisition, the goal is to ensure that land acquisition is handled through a consistent approach that includes proper consultation and disclosure to reduce any potential social strife, conflict, or impacts on livelihoods as a result of the land acquisition. Methods to achieve this include developing a Standard Operating Procedure (SOP) for managing land acquisition; issuing a Memorandum of Understanding (MoU) among relevant line ministers to mainstream the land acquisition process; and assigning the relevant teams and building their capacities. Under the second objective, community and social risk engagement, available methods include supporting the WSCs in developing a "Procedural Guidelines for Community Engagement"; strengthening the Grievance Redress Mechanism (GRM); establishing a strategy for ongoing consultation and transparent information sharing; establishing a pro-poor strategy to support poor households in accessing the project; enhancing the monitoring and evaluation systems; and assigning the appropriate staff to handle community engagement. In that regard, special efforts should be undertaken to build staff capacity in various specific dimensions, including (i) improving the capacity of WSC to undertake effective environmental assessment and management; (ii) initiating new procedures for control of sludge quality, control of effluent quality, solid waste management, upgrading health and safety aspects, and documentation of environmental registers; (iii) improving supervision on construction activities to ensure compliance with site-specific environmental requirements; and (iv) preparing operation manuals to standardize environmental measures in operating sanitation facilities.

VI. Financing

Total Program Financing (including Phases 1 and 2)

Source	Amount	% of Total
Government	**$400 million**	**22%**
IBRD/IDA		
PforR Phase 1 (current loan)	**$550 million**	**31%**
PforR Phase 2 (future loan)	**$550 million**	**31%**
DONORS		
Arab Fund	**$200 million (TBC)**	**8%**
EBRD	**$100 million (TBC)**	**8%**
Total Program Financing	**$1.8 billion**	**100%**

The total required funding for the Program has been estimated at about $1.8 billion. Securing IBRD second phase funding, as well as funding from other Donors, will contribute to closing the financial gap. The Program focuses only on Phase 1 related to $550 m of Bank financing. The Government is in dialogue with other donors regarding complementary financing both to complete financing needs for the program, as well as for future expansion of the program to other governorates.

VII. Program Institutional and Implementation Arrangements

The MHUUC is the Ministry in charge of the rural sanitation sector and as such, it will lead implementation of the Program through the PMU. Recent establishment of the PMU constitutes an important milestone given its leading role in coordination of the National Rural Sanitation Program as well as the Rural Sanitation Strategy. Other key responsibilities of the PMU include: (i) coordinate implementation of the NRSP; (ii) prepare a full-scale strategic action plan; (iii) supervise the procurement activities; (iv) follow up the implementation of the projects at the governorate level; (v) review and approve the investment plans relating to the villages sanitation projects, including the executive plans; (vi) ensure that the different Project implementation agencies submit periodic follow-up and evaluation reports; (vii) ensure that the project's designs and implementation activities are performed in accordance with the Project's conditions agreed to by the financers; (viii) send performance rate reports to the MHUUC; (ix) specify the reasons for plan deviations, if any, and propose remedial actions; and (x) work with donors and partners who finance the Projects in accordance with the strategic plan.

Formal implementation responsibility has been established as follows: WSCs, the HCWW and the PMU will all be responsible for implementation of Results Area 1 (Improved Sanitation access)– although the majority of the responsibility falls to the WSCs as they will empowered and incentivized to manage their performance and investment planning; WSCs and HCWW will

be responsible for implementation of Results Area 2 (Improved operational Systems and Practices of WSCs); and, the MHUUC through the PMU will be responsible for implementation of Results Area 3 (Strengthened National Sector Framework).

VIII. Contact point

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