DOCUMENT OF

THE WORLD BANK

FOR OFFICIAL USE ONLY

PROGRAM APPRAISAL DOCUMENT

ON A

PROPOSED LOAN

IN THE AMOUNT OF US$500 MILLION

TO THE

ARAB REPUBLIC OF EGYPT

FOR AN

UPPER EGYPT LOCAL DEVELOPMENT PROGRAM-FOR-RESULTS

AUGUST 25, 2016

SOCIAL, URBAN, RURAL, AND RESILIENCE AND TRADE AND COMPETTIVENESS GLOBAL PRACTICES

MIDDLE EAST AND NORTH AFRICA

CURRENCY EQUIVALENTS

(Exchange rate effective July 31, 2016)

Currency Unit = Egyptian Pounds (EGP)

EGP 1 = US$0.11

US$1 = EGP 8.88

FISCAL YEAR

July 1 – June 30

ABBREVIATIONS AND ACRONYMS

APIP	Annual Program Investment Plan
APA	Annual Performance Assesment
BD	Bidding Document
BDS	Business Development Services
CAO	Central Audit Organization
CAPMAS	Central Agency for Public Mobilization and Statistics
CCI	Cluster Competitiveness Initiative
CDA	Community Development Association
CIM	Competitiveness Implementation Manual
CPF	Country Partnership Framework
DLI	Disbursement-linked Indicator
DLR	Disbursement-linked Result
DP	Development Partner
DPF	Development Policy Financing
EC	Economic Council
EIA	Environmental Impact Assessment
EMU	Environmental Management Unit
ERR	Economic Rate of Return
ESA	Environmental and Social Assessment
ESSA	Environmental and Social Systems Assessment
EU	European Union
FSA	Fiduciary Systems Assessment
G2B	Government to Business
G2C	Government to Citizen
GAFI	General Authority for Investment and Free Zones
GARBLT	General Authority for Roads, Bridges, and Land Transport
GIZ	German Agency for International Cooperation (*Gesellschaft für Internationale Zusammenarbeit*)
GoE	Government of Egypt
GRM	Grievance Redress Mechanism
GRS	Grievance Redress Service
ICT	Information and Communication Technology
IEDLR	Inclusive Economic Development Program for Lagging Regions
IEG	Independent Evaluation Group
IMC	Industrial Modernization Center
IMPA	Industrial and Mining Projects Authority

ITIDA	Information Technology Industry Development Agency
IVA	Independent Verification Agency/Agent
IZMP	Industrial Zone Modernization Plan
LEC	Local Executive Council
LEDF	Local Economic Development Forum
LIU	Local Implementation Unit
LPC	Local Popular Council
M&E	Monitoring and Evaluation
MAC	Minimum Access Criteria
MoF	Ministry of Finance
MoIC	Ministry of International Cooperation
MoLD	Ministry of Local Development
MoP	Ministry of Planning
MTI	Ministry of Trade and Industry
NGO	Nongovernmental Organization
O&M	Operations and Maintenance
OSS	One Stop Shop
PAP	Program Action Plan
PCO	Program Coordination Office
PDO	Program Development Objective
PforR	Program-for-Results
PG	Performance Grant
PGM	Performance Grant Manual
POM	Program Operational Manual
PPD	Public-Private Dialogue
RBO	Regional Branch Office
SBD	Standard Bidding Document
SC	Steering Committee
SCD	Systematic Country Diagnostic
SDP	Strategic Development Plan
SDS	Sustainable Development Strategy
SME	Small and Medium Enterprise
TA	Technical Assistance
ToR	Terms of Reference
TSC	Technology Service Center
UELDP	Upper Egypt Local Development Program
UNIDO	United Nations Industrial Development Organization
USAID	U.S. Agency for International Development

Regional Vice President:	Hafez Ghanem
Practice Group Vice Presidents:	Laura Tuck, Jan Walliser
Country Director:	Asad Alam
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ARAB REPUBLIC OF EGYPT

Upper Egypt Local Development Program-for-Results

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PAD DATA SHEET

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Upper Egypt Local Development Program (P157395)

PROGRAM APPRAISAL DOCUMENT

Middle East and North Africa Region
Social, Urban, Rural, and Resilience Global Practice

Basic Information

Date:	August 24, 2016	Sectors:	Subnational Government; Rural and Inter-Urban Roads and Highways General Industry and Trade
Country Director:	Asad Alam		
Practice Manager	Ayat Soliman, Najy Benhassine	Themes:	Decentralization, Rural Services and Infrastructure, Municipal Governance and Institution Building, Urban Economic Development, and Other Private Sector Development
Global Practice Vice President:	Laura Tuck, Jan Walliser		
Program ID:	P157395		
Team Leader(s):	Axel Baeumler, Sherif Bahig Hamdy, Nabila Assaf		

Program Implementation Period: 5 years Start Date: September 16, 2016 End Date: December 31, 2021

Expected Financing Effectiveness Date: January 1, 2017

Expected Financing Closing Date: December 31, 2021

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Program Financing Data

[X] Loan	[ ] Grant	[ ] Other
[ ] Credit		

For Loans/Credits/Others (US$, millions):

Total Program Cost :	957	Total Bank Financing :	500
Total Co-financing	0	Financing Gap :	0

Financing Source	**Amount**
BORROWER/RECIPIENT	457
IBRD/IDA	500
Total	957

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Borrower: Arab Republic of Egypt

Responsible Agency: Ministry of Local Development (MoLD)

Contact:	Ambassador Hassan Ellaithy	Title:	Advisor to Minister
Telephone No.:	+20 122 021 8444	E.mail	hasegypt09@gmail.com

Responsible Agency: Ministry of Trade & Industry (MTI)

Contact:	Ahmed Taha	Title:	Executive Director, Industrial Modernization Center (IMC)
Telephone No.:	+ 2 0120 5008119	E.mail:	Ahmed.taha@imc-egypt.org

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Expected Disbursements (in US$, millions)

Fiscal Year	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**			
Annual	**125**	**100**	**100**	**100**	**75**	0			
Cumulative	125	225	325	425	500	500			

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Program Development Objective

The Program Development Objective is to improve the business environment for private sector development and strengthen local government capacity for quality infrastructure and service delivery in select governorates in Upper Egypt.

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Compliance

Policy			
Does the program depart from the CAS in content or in other significant respects?		Yes [ ]	No [X]
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Does the program require any waivers of Bank policies applicable to Program-for-Results operations?		Yes [ ]	No [X]
Have these been approved by Bank management?		Yes [ ]	No [ ]
Is approval for any policy waiver sought from the Board?		Yes [ ]	No [X]
Overall Risk Rating: High			

Legal Covenants

Name:	Recurrent	Due Date	Frequency
Program Institutions		One month after Effective Date	

The Borrower shall, through the Select Governorates, establish no later than one month after the Effective Date and thereafter maintain, throughout the implementation of the Program, a Steering Committee, Program Coordination Office for the Program, an Economic Council and Local Implementation Unit in each governorate with composition, mandate, and resources acceptable to the Bank.

Name:	Recurrent	Due Date	Frequency
Other Institutional and Implementation Arrangements		Three months after Effective Date	

The Borrower shall, through the Program Coordination Office, not later than three months after the Effective Date, hire and thereafter retain a consultant firm with terms of reference acceptable to the Bank, to provide support to the Local Implementation Units and the Program Coordination Office in the management, implementation, and coordination of the Program, including in the overall planning, fiduciary, environmental and social management systems, and supervision of engineering works.

Name:	Recurrent	Due Date	Frequency
Program Operational Manual		One month after Effective Date	

The Borrower shall, not later than one month after the Effective Date, adopt a manual acceptable to the Bank ("Program Operational Manual"), and ensure that the Program is implemented in accordance with the provisions of the Program Operational Manual. Except as the Bank may agree after consultation with the Borrower, the Borrower shall not amend, abrogate, waive or fail to enforce any provision of the Program Operational Manual.

Name:	Recurrent	Due Date	Frequency
Independent Verification Agent		Three months after Effective Date	

The Borrower shall, through the Program Coordination Office, not later than three months after the Effective Date, engage an Independent Verification Agent under terms of reference acceptable to the Bank, to prepare and provide

verification reports certifying the achievement of the Disbursement Linked Results, all in accordance with procedures and arrangements acceptable to the Bank.			
Name:	**Recurrent**	**Due Date**	**Frequency**
Grievance Redress Mechanism		Six months after Effective Date	
The Borrower shall, through the Select Governorates, not later than six (6) months after the Effective Date, establish a complaints and grievance redressal mechanism in each of the Select Governorates to handle complaints and grievances from Program beneficiaries or third parties relating to any aspects of the Program within the corresponding Select Governorate, including adverse social and environmental impacts, and allegations of fraud and corruption.			
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Team Composition			
Bank Staff			
Name	**Title**	**Specialization**	**Unit**
Axel Baeumler	Co-Task Team Leader, Senior Infrastructure Economist	Infrastructure Economist	GSU11
Sherif Hamdy	Co-Task Team Leader, Senior Private Sector Specialist	Private Sector Development	GTCME
Nabila Assaf	Co-Task Team Leader, Senior Private Sector Specialist	Private Sector Development	GTCME
Onur Ozlu	Senior Economist	Urban Economist	EXC
Balakrishna Menon	Program Leader	Urban Development	MNC03
Andreas Schliessler	Lead Transport Specialist	Transportation	GTI08
Amal Faltas	Senior Social Development Specialist	Social Development	GSU05
Janmejay Singh	Senior Strategy and Operations Officer	Social Development	MNAVP
Syed Ahmed	Lead Counsel	Legal	LEGAM
Gerard Jumamil	Counsel	Legal	LEGAM
Saba Gheshan	Counsel	Legal	LEGAM
Maiada Kassem	Finance Officer	Finance	WFALA
Jamal Abdulaziz	Senior Procurement Specialist	Procurement	GGO05
Mohamed Yehia	Senior Financial Management Specialist	Finance	GGO23
Naomi Halewood	ICT Policy Specialist	ICT	GTIDR
Ayah Mahgoub	Urban Economist	Urban Economist	GSU11
Mohammad Kandeel	Senior Environmental Specialist	Environment	GEN05
Maha Hussein	Senior Operations Officer	Private Sector Development	GTCME
Abdulhakim Al-Aghbari	Senior Highway Engineer	Transporation	GTI05

Nermeen Abdel Latif	Results Measurement Specialist	Monitoring & Evaluation	CBCD3
Farid Tadros	Operations Officer	Private Sector Development	GTCME
Stefanie Ridenour	Private Sector Development Analyst	Private Sector Development	GFM05
Dina Elabd	Transport Research Assistant	Transporation	GTIDR
Tatiana Lionele Weber	Consultant, DP relations	Donor Partnerships	MNC03
Aliya Husain	Operations Analyst, M&E specialist	Monitoring & Evaluation	MNCA3
Roland White	Global Lead: City Management, Governance and Financing	Governance and Financing	GSU19
Eman Fouad Wahby	Communications Officer	Communications	MNAEC
Samar Aubaid	Researcher	Private Sector Development	GTCDR
Enas Mahmoud	Program Assistant	Administration	MNCEG
Sophie Hans-Moevi	Program Assistant	Administration	AFSEC
Salma Ezzat El Sharawy	Team Assistant	Administration	CMEAS
Cathie Wissa	Researcher	Social Development	GSU05
Non-Bank Staff			
Name	**Specialization**		
Mahmoud El Garf	Industrial Development Consultant	Industrial Development	
Bassem El Shemmy	Institutional Development Consultant	Industrial Development	
Ihab Shaalan	Environmental Consultant	Environment	
Madiha Afifi	Social Development Consultant	Social Development	
Khaled Amin	Public Finance Consultant	Public Finance	
Sherif Fouda	Economic Evaluation Consultant	Economic Evaluation	
Ahmed Sadik	Institutional Development Consultant	Institutional Development	
Michael Eddy	Results Based Financing Consultant	Results Based Financing	
Siegrid Holler	Results Based Financing Consultant	Results Based Financing	
Mahmoud Eldessouky	ICT Consultant	ICT	

I. STRATEGIC CONTEXT

A. Country Context

1. **The lack of opportunities for sustainable jobs and growth continue to be significant challenges for the Arab Republic of Egypt.** After three years of political uncertainty, a new constitution was adopted by popular referendum in January 2014, presidential elections were held in May 2014, and parliamentary elections were completed in 2015. The present Government of Egypt (GoE) has made progress in restoring security, reducing the level of civil unrest, and initiating critical economic reforms. Nevertheless, a number of challenges persist, including the shortage of formal sector jobs, high unemployment and underemployment among Egyptian youth, lack of service delivery to poor segments of the population, and the public perception of government transparency and accountability, among others. The GoE has made these the focus of its economic and social programs and reforms, as articulated most recently in the Government's 2030 Sustainable Development Strategy (SDS).

2. **These challenges strongly manifest themselves in Upper Egypt, a grouping of ten governorates that lag significantly behind the rest of the country in economic growth, employment generation, connectivity, and access to services.** The poverty rate in Upper Egypt is estimated at 35.8 percent compared to 20.5 percent for the country.[1] The region is home to about 38 percent of Egypt's population and 67 percent of its poor. With regard to shared prosperity, 41.5 percent of the bottom 40 percent are concentrated in rural Upper Egypt.[2] Furthermore, rural poverty is three times higher than urban poverty in Upper Egypt, due in large part to high dependency ratios. Upper Egypt governorates are landlocked and relatively far from the country's primary ports and markets. In recent decades, it has also had particularly low internal mobility, including commuting and short-distance migration from rural to urban areas, unlike most other middle-income countries similar to Egypt.[3]

3. **However, Upper Egypt has demonstrated growth potential.** Between 2004 and 2008, Upper Egypt registered higher growth than metropolitan Egypt and the nation overall,[4] driven mainly by agricultural activities around urban areas. The region has significant dynamism in certain types of agricultural activities, including off-season and organic horticulture and dairy production, and potential to expand in the extraction of mineral deposits such as granite and phosphates. The tourism assets in Luxor and Aswan fall within this region which lies inland of the Red Sea tourism resorts, which represent markets for food, handicrafts, and other goods consumed

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[1] World Bank Group. 2015. *Promoting Poverty Reduction and Shared Prosperity: A Systematic Country Diagnostic.* These rates are different from the official poverty rates. In discussions with the Central Agency for Public Mobilization and Statistics (CAPMAS), the poverty team learned that for the Household, Income, Expenditure, and Consumption Survey 2010/11 and 2012/13, a full reestimation of the poverty lines and rates had been conducted. As an exercise to calculate poverty rates that are comparable across time, the Egypt Systematic Country Diagnostic (SCD) report developed a methodology to obtain comparable poverty lines (and rates) for the years 2004/05 and 2010/11. Here, this methodology is expanded to the survey year 2012/13 to produce the results presented.

[2] World Bank Group. 2015. *Egypt Systematic Country Diagnostic*.

[3] World Bank Group. 2009. *Upper Egypt: Pathways to Shared Growth*.

[4] Ibid.

by tourists. Development in the nearby port of Safaga could make it a strategic access point to the proximate markets across the Arabian Gulf and south to Sub-Saharan Africa.

B. Multisectoral and Institutional Context

4. **Three key constraints, in particular, contribute to weak economic activity in Upper Egypt and relatively low level of private investment:** (a) limited empowerment, effectiveness, and accountability of subnational governorates; (b) continuing low levels of access and quality of infrastructure and services for both citizens and businesses; and (c) weak investment climate and the weakness of economic factors supporting value chain development.[5] These three constraints are mutually reinforcing and improvements on any one is, to a degree, dependent upon the others. Addressing these constraints in a comprehensive, integrated, and incremental manner is therefore, key to unlocking the potential of Upper Egypt and thus reducing poverty and boosting shared prosperity in this lagging region.

5. **The first critical constraint to private-sector-led economic growth in Upper Egypt is limited empowerment, accountability, and effectiveness at the governorate and district level.** Egypt's governorates have only limited mandates to plan and finance local priorities that exclude essential services such as transportation, electricity, and water supply and sanitation, or a clear mandate for economic development.[6] Most investment decisions on infrastructure and services in the governorates are taken by central government ministries and their deconcentrated regional service directorates (the *mudiriyat*) and other public entities, whose resource allocations to governorates lack predictability and transparency. As a result, investment planning and funding decisions are fragmented and uncoordinated without a holistic, integrated view of the governorates' priorities for socioeconomic development. Despite being provided for by law, the governorates' consultative interface with citizens, both in planning priorities and responding to citizen feedback and grievance, is weak.[7] These challenges are compounded by the limited institutional and organizational capacity of governorate and district-level service delivery entities and suboptimal delivery mechanisms. Empowering the governorates in planning and spending decisions and holding them more accountable to citizens is at the core of the proposed operation, as it aims to pilot in select governorates an improved way of local economic development policy and decision making.

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[5] World Bank Group. 2015. *Promoting Poverty Reduction and Shared Prosperity: A Systematic Country Diagnostic*; Herrera, S. and V. Hon. 2012. *Reshaping Egypt's Economic Geography: Domestic Integration as a Development Platform.* World Bank Group; Yemtsov, R. 2009. *Upper Egypt: Pathways to Shared Growth*. World Bank Group; Hon, V., Rojchaichaninthorn, J., Schmidt, E.; World Bank Group. 2009. *A Framework for Bank Engagement in Lagging Regions*.

[6] The governorates' mandate is limited to five areas: (a) local roads paving; (b) street lighting equipment and works; (c) environment improvement; (d) firefighting and traffic; and (e) local adiministrative units' support. Other infrastructure and services are provided through regional service directorates of central government ministries and other public entities.

[7] The Local Administration Law (43/1979) provides for citizen participation in local planning and budgeting, assigning the consultative function to elected local popular councils (LPCs). These bodies are nonexistent; even when they existed, the LPCs merely articulated the demand for public services and infrastructure improvements, with all approval power remaining with the central ministries.

6. **The second constraint is a relatively low level of access and poor quality of infrastructure and services for residents as well as firms.** Despite increases in capital transfers (per capita) in recent years, the transfers to governorates of Upper Egypt have been insufficient to close access and quality gaps. The share of public investment allocated to Upper Egypt is lower, on a population basis or poverty basis, than in other parts of the country. Where substantial gains in access to services and infrastructure were observed, they were typically in main cities and mother villages rather than satellite villages where the majority of the poor reside and where distances — both physical and communication distances — remain considerable. For example, the inadequacy of local feeder roads to villages and trade logistics are key constraints to growth in Upper Egypt rural incomes and productivity.[8] Regional-level connectivity is a similarly important constraint.[9] In Sohag and Qena, two of the poorest governorates, only about 10 percent of households are served by sewerage networks with treatment plants and in the 32 poorest villages in Qena, less than 1 percent of households are connected to the public sanitation network. These access and quality challenges are compounded by inadequate maintenance. Estimates suggest that only about 40 percent of the most basic operations and maintenance (O&M) needs were met by the Sohag governorate.[10] The proposed operation will contribute to reducing this gap, particularly in the areas of connectivity, water supply and sanitation, and electricity as well as other key infrastructure and services for citizens and businesses. The corresponding increase in investment spending will also act as a local economic stimulus that will contribute to increased economic activity in these governorates.

7. **The third key constraint to private-sector-led growth in Upper Egypt is the weak investment and business climate, with business owners citing obstacles and delays in obtaining licenses, permits, and serviced land.** This is due in part to less accessibility of these services at the local level and poor quality in the delivery of these services**.** Business owners in Upper Egypt report severity of business climate constraints at rates equal to or higher than the national average and tend to be more vulnerable to regulatory barriers due to distance from the regulatory agencies. In Sohag and Qena, for example, over 55 percent of firms surveyed in industrial zones reported that it took more than three months to obtain their operating license, while 21 percent reported that it took over a year. While industrial land is provided for free, the allocation process is lengthy and complex and is a key obstacle to starting operations.[11] The proposed operation will strengthen the business regulatory environment in these areas by fostering decentralization of the delivery of regulatory services as well as developing demand-driven solutions to catalyze growth in specific sectors and value chains.

8. **The GoE has recognized the need for a differentiated strategy for lagging regions and views an integrated approach to private-sector-driven local development as the best way to reduce poverty in lagging regions like Upper Egypt.** It is in this context that the GoE is launching the Inclusive Economic Development Program for Lagging Regions (IEDLR). The GoE recognizes that while important infrastructure, social services, and job creation projects have been provided in Upper Egypt in the past, an alternative, integrated approach is needed to address the fundamental development challenges of the region to create jobs and reduce poverty. The IEDLR

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[8] Yemtsov, R. 2009. *Upper Egypt: Pathways to Shared Growth.* World Bank Group.
[9] Herrera, S. and V. Hon. 2012. *Reshaping Egypt's Economic Geography: Domestic Integration as a Development Platform.* World Bank Group.
[10] World Bank Group. 2008. *Sohag Rural Development Project Implementation Completion and Results Report*.
[11] From a World Bank survey of potential investors who applied for land in the industrial zones of Qena and Sohag.

aims to replace the 'investment-only and centrally planned' model of the past with a more comprehensive approach to local development. In doing so, it would address one of the core weaknesses in policy making at the local level that have made past policies and investments ineffective, by empowering local governorates to plan and implement policies and expenditures, with increased accountability and inclusion of citizens and businesses in decision making.

C. Relationship to the Country Partnership Framework and Rationale for Use of Instrument

9. **The objectives of the proposed Program are consistent with the World Bank Group's twin goals of ending extreme poverty and boosting shared prosperity in a sustainable manner, as well as with the World Bank Group's Strategy for Middle East and North Africa and its pillar on renewing the social contract.** The Program aims at rebuilding the trust between citizens and their Government by enhancing opportunities and the quality of services to citizens. Rebuilding trust and the social contract will also come from a stronger role of citizens and businesses in local decision making, as well as empowered local administrations that are more accountable to citizens. Specifically, the Program aims to stimulate private-sector-led growth to create sustainable jobs; strengthen governorates, districts, and service delivery institutions to deliver more efficient and effective services on the ground; and strengthen mechanisms for greater government accountability and citizen inclusion in one of the most lagging and poverty-stricken regions of Egypt. These interventions aim to ensure that one of Egypt's most disadvantaged regions is able to thrive and be included in the overall growth trajectory of the country.

10. **The proposed Program's focus on improving governance, opportunities for private sector job creation and social inclusion are top priorities of the World Bank Group in Egypt, as identified in the World Bank Group's Country Partnership Framework (CPF) for FY2015–19, which builds on the findings of the World Bank Group's Systematic Country Diagnostic (SCD)**. The three focus areas are expected to help usher in a social contract built on greater citizen trust, inclusive and accountable service delivery, and a stronger private sector that can create jobs and opportunities for youth and women. Its objectives and results cut across all three pillars of the CPF. The Program embodies the shift in the World Bank Group's Egypt country strategy and program to engagements and initiatives that are strategic, long-term, programmatic, and responsive to the changed socioeconomic and institutional context of the country. In addition, its geographical focus on the poorest and most lagging parts of Upper Egypt is in line with the SCD findings to address spatial inequalities.

11. **The proposed Program is complementary to other engagements of the World Bank in Egypt, particularly those aiming at improving the business environment and infrastructure and service delivery.** The First Fiscal Consolidation, Sustainable Energy, and Competitiveness Development Policy Financing (DPF) includes a business environment pillar that supports reforms to competition policy and industrial licensing while the Equal Access and Simplified Environment for Investment in Egypt Project supports the implementation of reforms of industrial licensing and industrial land allocation. Access to finance, another priority area in the business environment, is supported through the Promoting Innovation for Inclusive Financial Access Project. Several ongoing infrastructure and service projects financed by the World Bank have a geographical footprint in Upper Egypt, including the National Railways Restructuring Project, the Second Integrated Sewerage and Sanitation Infrastructure Project, and the Household

Natural Gas Connection Project. The Program will complement these initiatives by further addressing critical gaps in infrastructure and service delivery in Upper Egypt; strengthening resources and capacities for better planning, management, and O&M of infrastructure and services; and improving accountability and citizen engagement. Given the prominence of agriculture in the economy of Upper Egypt, the proposed Program is also expected to have significant synergies with the World Bank's agriculture portfolio in Egypt.

12. **The Program-for-Results (PforR) financing instrument focuses World Bank support on helping governments improve the design and implementation of their programs using country systems and directly linking disbursement to achievement of results.** This is particularly relevant for this operation as the Program is anchored in supporting Egypt's national program, the IEDLR. The proposed PforR operation will focus World Bank support and link disbursements to key reforms, institutional strengthening, and investment measures, all of which are required for the successful implementation of the Program. It will help strengthen the Government's own systems instead of requiring a parallel set of technical, fiduciary, and safeguards instruments. It will also strengthen accountability and transparency as well as the Government's systems for monitoring and evaluation (M&E) through the introduction of verification protocols.

II. PROGRAM DESCRIPTION

A. Government Program

13. **The IEDLR is guided by the 2014 Egyptian Constitution and the Egypt 2030 SDS**. The objectives of the IEDLR are to promote sustainable local development and create productive employment, to reduce poverty in targeted governorates by improving: (a) citizen engagement, transparency, and M&E systems; (b) service and infrastructure delivery for citizens through effective and empowered local administration; and (c) competitiveness, infrastructure, and business environment for private-sector-led growth. While the program is designed for lagging regions in Egypt, the GoE carried out a review of its lagging regions and selected Upper Egypt as the IEDLR's first pilot region, based on poverty level and needs. Planned government expenditures as part of the IEDLR program for the ten Upper Egypt governorates amount to approximately US$12 billion, of which US$3.9 billion are allocated to Sohag and Qena from FY2016/17 to FY2020/21. Sohag and Qena expenditures consist of US$832 million managed at the local governorate level for wages, compensation, purchase of goods and services, grants, and capital investments, as well as US$3.1 billion for various activities managed at the central/national level such as social housing, industrial zone development, roads, and social safety nets programs.[12] It is expected that hree years after launching the initial rollout of the pilot program in Upper Egypt, the IEDLR will be reviewed and evaluated to consider expanding into other lagging regions.

[12] Expenditure figures for national projects such as the Golden Triangle or 1.5 million Feddan Land Reclamation projects were not specified in the government program.

Box 1. Egypt's New 2014 Constitution and 2030 SDS

The IEDLR is guided by Egypt's new Constitution of 2014 (and specifically Articles 27, 176, 236, and 242) which emphasizes a citizen engagement approach to guide development of lagging regions, instructs the gradual implementation of decentralization within five years of adoption of the Constitution, and is built on the principle of achieving prosperity through sustainable development. Specifically, Article 236 states: "The State shall guarantee setting and implementing a plan for the comprehensive economic and urban development of border and underprivileged areas, including Upper Egypt, Sinai, Matrouh, and Nubia. This shall be made with the participation of the residents of these areas in the development projects, and they shall be given a priority in benefiting therefrom, taking into account the cultural and environmental patterns of the local community, within ten years from the date that this Constitution comes into effect, as regulated by Law." Furthermore, Article 176 states: "The State shall ensure administrative, financial, and economic decentralization. The law shall regulate the methods of empowering administrative units to provide, improve, and well manage public facilities, and shall define the timeline for transferring powers and budgets to the local administration units." The recently approved Egypt 2030 SDS "represents an embodiment of the new Constitution's spirit, setting welfare and prosperity as the main economic objectives to be achieved via sustainable development, social justice, and balanced geographic and sectoral growth." The SDS further spells out Egypt's development vision, dedicating one strategic pillar on developing transparent and efficient government institutions, subject to accountability, maximizing citizens' satisfaction, and responding to their needs. An additional pillar focuses on economic development, founded on a competitive, diversified market economy capable of achieving sustainable inclusive growth.

14. **Enhancing citizen engagement, transparency, and M&E is an overarching pillar for the IEDLR.** The program aims to improve service delivery and stimulate private-sector-led growth by establishing participatory local economic development forums (LEDFs) and by institutionalizing citizen engagement, feedback, and partnership mechanisms. The forums have been piloted in Sohag, Fayoum, and Minya governorates and will be rolled out to other governorates over the course of the IEDLR. Public-private coordination platforms are also being developed to communicate key challenges and needs to enable private sector growth in Upper Egypt. The program marks a fundamental policy shift and contributes to renewing the social contract by giving a greater voice to citizens and businesses setting priorities and the allocation of resources through an inclusive and transparent process.

15. **Improving sustainable service and infrastructure delivery is a fundamental goal of the IEDLR.** The program will promote social and economic development through institutional and administrative reforms to improve service and infrastructure delivery and through targeted social programs aimed at improving livelihoods of the neediest. The Government has recently adopted a new strategy for administrative reform to create an efficient and effective public administration characterized by professionalism, transparency, justice, and responsiveness. These reforms will allow local administrations to better allocate resources and provide relevant services through the governorate administration (*diwan aam*), deconcentrated service directorates of the ministries (*mudiriyat*), and other agencies. The IEDLR addresses the immediate needs of the poor through targeted programs that improve their livelihoods, such as income support programs (for example, *Takaful* and *Karama*) that support population in rural Egypt and provide social housing.

16. **Improving competitiveness, infrastructure, and business environment for private-sector-led growth is viewed as the ultimate driver of improved development outcomes in Upper Egypt**. The IEDLR will support the improvement of locally provided Government to Business (G2B) services and enhance the competitiveness of sectors with potential for economic growth and job creation by addressing constraints related to infrastructure and services, regulation,

and markets. The IEDLR views key national projects such as the Golden Triangle and the 1.5 million Feddan Land Reclamation Project as complementary initiatives that could give rise to new opportunities for development, particularly in the agribusiness and mining/quarrying sectors. The GoE has initiated business environment improvements through the Prime Ministerial Decree No. 2807 of 2015 to reform industrial licensing, which would be an important benefit for Upper Egypt industrial firms. The GoE will help small and medium enterprises (SMEs) and industries improve their competitiveness through technical assistance (TA) services, value chain development programs, technology and innovation, training, skills development, and sector-specific strategies. The IEDLR will support the modernization of existing industrial zones management and infrastructure.

B. Program Development Objective and Key Results

17. The Program development objective (PDO) is to improve the business environment for private sector development and strengthen local government capacity for quality infrastructure and service delivery in select governorates in Upper Egypt.

18. Progress toward the PDO will be measured by key results indicators that reflect the overall results areas of the Program. The detailed Results Framework, including intermediate results indicators, is provided in annex 2.

(a) Percentage improvement in business environment at the governorate level[13]

(b) Infrastructure and service performance targets met

(c) Number of people and businesses benefiting from improved access to quality infrastructure and services (of which percentage of women)

(d) Percentage of people and businesses expressing satisfaction with quality of infrastructure and services provided

19. **The Upper Egypt Local Development Program (UELDP) and the broader IEDLR government program are expected to contribute to higher-level impacts on jobs.** These impacts are of utmost importance to policymakers but may be influenced by factors beyond the Program and may be expected to only be fully realized after the end of the Program. Accordingly, as described in annex 2, the Program will provide methodologies and capacity building on the measurement and tracking of these indicators during Program implementation and beyond.

C. PforR Program Scope

20. **The UELDP is aligned with the objectives of the IEDLR.** However, it has a more limited geographic scope and finances only part of the IEDLR activities (see table 1). For instance, the IEDLR focuses on a wider range of activities across all of Upper Egypt, including national projects (for example, the Golden Triangle) and social safety net programs (that is, *Takaful* and *Karama*) which are important initiatives to create new investment opportunities and protect the vulnerable, respectively. While the UELDP will complement these programs, it will not finance them. Instead,

[13] As measured by a Business Environment Index.

the UELDP will focus on a critical subset of measures and investments that enhance the business environment and competitiveness, as well as improve infrastructure and service delivery. Nevertheless, lessons learned from the UELDP could inform and be leveraged for the broader IEDLR.

21. **In addition, the UELDP will target two of the ten governorates of Upper Egypt, namely Qena and Sohag.** The choice of Sohag and Qena governorates is based on a clear set of selection criteria: population size, poverty rates, geographic contiguity, economic potential, access to basic services, and governorate readiness. The ten governorates in Upper Egypt were initially screened based on population size and poverty rates to ensure the biggest impact on poverty reduction. Assiut, Sohag, and Qena governorates ranked highest against these criteria, with Sohag being adjacent to Qena and Assiut and meeting the geographic contiguity criterion. These three governorates were then assessed against indicators related to economic potential and local readiness. Economic structure and access to service indicators are largely similar among the three governorates. Assiut has a slightly higher number of economic sectors in which there are concentrations of employment and has marginally better industrial infrastructure and support institutions than Qena (see annex 1).[14] Qena is part of the Government's Golden Triangle, which presents a major opportunity to catalyze development in the governorate. Considering these factors, Qena was selected for the UELDP to allow for synergies between two development programs targeting the same geography. Thus, the UELDP will support the implementation of the GoE program in Sohag and Qena, with a total population of nearly 7.75 million Egyptians. Lessons learned from the UELDP could be applied to other governorates under the IEDLR after evaluation at midterm.

Table 1. Alignment of the UELDP with the GoE Program (IEDLR)

IEDLR Overview	UELDP Alignment
IEDLR Objective 1: Improving citizen engagement, transparency, and M&E by	Y
• Establishing LEDFs in the governorates	Y
• Developing engagement, feedback, and partnership mechanisms for citizens	Y
• Establishing public/private coordination platforms	Y
IEDLR Objective 2: Improving service and infrastructure delivery through effective local administration by	Y
• Carrying out key administrative reforms to gradually move to decentralization and improve service delivery (including strategic development plans [SDPs] and budgets at the governorate and *Markaz* level)	Y
• Supporting administrative capacity and resources of the governorates to meet service delivery needs (that is, sanitation program, roads program, and other deconcentrated service delivery)	Y
• Supporting the local development sector programs, on local roads, streetlighting, environment improvement, traffic, firefighting, and security, and local administrative units' support	Y
o Employee wages and compensations	N
o Purchase of goods and services	Y
o Subsidy, grants, and social benefits	N

[14] This includes a General Authority for Free Zones and Investment One Stop Shop (GAFI OSS), an Industrial Modernization Center branch, a vocational training center, and a university.

IEDLR Overview	UELDP Alignment
○ Purchase of nonfinancial assets (investments)	Y
• Targeting socials programs aimed at improving livelihoods of those in most and immediate need	N
○ *Takaful* and *Karama* social safety net program	N
○ Social housing program	N
○ 1,000 villages program	N
IEDLR Objective 3: Improving the infrastructure and regulatory environment for private sector-led growth by	Y
• Identifying and completing missing infrastructure and facility needs for the value chain expansion in Upper Egypt and in particular, tying in village-based economies, to address geographical connectivity and market access (includes roads program)	Y
• Stimulating private sector growth by attracting investment through megaprojects	N
• Improving the regulatory frameworks and administration to create an attractive and efficient environment for growth and investment	Y
• Improving the competitiveness of industrial sectors and SMEs, through TA services, value development programs, technology and innovation, training, skills development, and sector-specific strategies	Y
• Upgrading industrial zones and ensuring appropriate infrastructure is available for Upper Egypt to attract domestic and foreign direct investment	Y
• Strengthening industrial zones and cluster development for SMEs and industrial sectors through facilitated infrastructure and linkages programs	Y

22. **The UELDP will support systemic transformations designed to enable the governorates of Qena and Sohag to create a more conducive environment for private sector development and citizen well-being.** The first and most significant transformation will be a gradual shift toward greater autonomy and accountability at the governorate level for prioritizing investment and expenditure decisions based on an improved local participatory planning process. Through the UELDP, the select governorates of Qena and Sohag will be able to increasingly influence decisions beyond their existing mandates. The select governorates will lead strategic planning and investment decision processes to determine funding allocations on investments and expenditures within the governorates. Investment planning will take into account citizen and business priorities and feedback in both planning and implementation. The second transformation will be a change in the governorate's role in promoting private-sector-led growth and job creation. The two governorates will become responsible for and equipped to provide facilitation and support to unblock obstacles and promote private investment. Specifically, the governorates will undertake measures to improve delivery of G2B regulatory services, as well as implement targeted, sector-specific initiatives with private sector participation.

23. **These two key transformations, coupled with increased funding allocations to the governorates during the Program, are expected to contribute to improving the business environment and economic competitiveness, as well as close the persisting gaps in access to and quality of infrastructure and services.** Accordingly, the UELDP comprises two subprograms: (a) Improving Business Environment and Competitiveness; and (b) Improving Access to Quality Infrastructure and Services—both of which relate to the IEDLR objectives 2 and 3, respectively. These subprograms are underpinned by cross-cutting measures to improve citizen and business engagement at the local level relating to IEDLR objective 1.

Subprogram 1: Improving the Business Environment and Competitiveness

24. **Subprogram 1 will introduce an integrated approach to improving the business climate and competitiveness anchored at the governorate level,** including: (a) improving local-level G2B services such as registration, licensing, and construction permits; (b) targeted sector-specific initiatives for catalyzing investment and removing obstacles to business; and (c) improving the management and services in industrial zones.

25. **Government-to-busines (G2B) services will be improved in Qena and Sohag** through establishing a One Stop Shop (OSS) in each Governorate to provide registration, company incorporation, and post-registration support services to businesses and developing a G2B service delivery platform for delivery of services in the district service centers of each governorate. Improvements in the delivery of G2B services will consist of implementing reforms in the business environment, particularly in the areas of registration, industrial licensing, and issuance of construction permits. This will include implementing the ongoing national reform of industrial licensing, which is supported by the First Fiscal Consolidation, Sustainable Energy, and Competitiveness DPF and which calls for implementation measures at the governorate level. Processes for obtaining an operating license, construction permit, electricity connection, and other services will be simplified with TA provided by the Subnational Doing Business program. These reformed processes will be rolled out in the district service centers of the two governorates through the introduction of an Information and Communication Technology (ICT)-enabled G2B service delivery platform that will improve the efficiency and transparency of service delivery. Furthermore, General Authority for Investment and Free Zones' (GAFI) strategy to roll out OSSs for business registration and post-registration procedures (for limited liability companies) in each governorate will be fast-tracked in Qena and Sohag.

26. **Sector-specific programs will be carried out with private sector participation in Qena and Sohag to identify key entry points for private sector development and to enhance competitiveness of sectors**. Sector-specific initiatives will support investments and coordination measures that catalyze private investment in emerging industries**.** Economic clusters in Sohag and Qena will be prioritized through consultations with the private sector based on a strategy that emphasizes resource-seeking and market-seeking investments (such as agro-industry, furniture, processing of stone and other minerals, handicrafts, and so on) and potential for job creation, particularly as linked to the rural poor. Cluster Competitiveness Initiatives (CCIs) will be devised jointly with the private sector based on sector and market analysis and implemented through the Program. Measures to be implemented under these cluster initiatives may include governorate-level actions or higher-level reforms to be coordinated at the central government level. The CCIs will have a strong focus on investment promotion, with the aim of attracting anchor investors and promoting opportunities for public-private partnership. Public investments may include the provision of sector-relevant public good and services, including infrastructure and services (such as industrial zone services, compliance test labs, local marketplaces, or training). Government business development services (BDS) programs for firm-level capacity and skills development, such as those offered through the Industrial Modernization Center (IMC), will be retooled to better serve the scale and needs of firms in the governorates, with an emphasis on market-based and demand-driven approaches.

27. **Management and services will be improved in the industrial zones of Qena and Sohag as a cross-cutting measure for the benefit of all industrial subsectors.** The disconnect between governorate level and central government agencies has left a gap in strategic planning and management of the zones. A fundamental change in industrial zone management, including the industrial land allocation, provision of decentralized licensing and regulatory services, zone promotion, tenant services and maintenance, and the promotion of flexibility and mixed use in the zones, will be supported by the Program in the six industrial zones in Sohag and Qena. This will be achieved through the development of an Industrial Zone Modernization Plan (IZMP) for each governorate. The IZMP will include an industrial zone management framework to be agreed between the Industrial Development Authority and the governorates, as well as investments, capacity building, and allocation of an O&M budget. The Government further aims to introduce private management or a public-private partnership arrangement for at least one industrial zone in each governorate during the course of the Program. The IZMP will also include infrastructure and services upgrading in the zones based on the revealed investor demand for improved power, water, internal roads, and other services, as well as demand for SME shells to enable entry of small enterprises without the long and costly process of land allocation.

Table 2. Requirements for Cluster Competitiveness Initiatives and Industrial Zone Modernization Plans

CCIs	IZMPs
• Cluster initiative was prioritized based on potential for market growth; scope for jobs; SME growth and economic impact, presence and commitment of active SMEs and other businesses in the cluster; and feasibility to address challenges within the scope of the Program. • Cluster initiative has been developed on the basis of value chain analysis, market analysis that included consultation with advanced buyers and market exploration, and through the participation of businesses involved in the cluster. • Cluster initiative includes private sector measures (coordinated actions, purchase of common services, or investments). • Cluster initiatives, specifically the public investments and measures of the initiatives, are endorsed by the Economic Council (EC) tasked with oversight for the UELDP at the governorate level.	The IZMP will include an industrial zone management framework. The industrial zone management framework defines the functions for industrial zone management, development, and promotion, including the standards, responsibilities, and resources for the following: (a) Provision of regulatory services for establishment and operation of firms in the industrial zone (land allocation, licensing, construction permit, and inspections) and collection of fees (b) Planning and provision of maintenance and basic tenant services within the zone (c) Planning and provision of infrastructure upgrades and expansions in the zone (d) Marketing and promotion of the zone (e) Provision of business development and other support services to tenants in the zones The management framework will provide options for models for industrial zone management and identify the management model to be used in each industrial zone. The industrial zone management framework is agreed by the Industrial Development Authority and the governorates. The IZMP will include plans for industrial zone upgrading, including both maintenance and investment needs for each industrial zone in each governorate, based on a demand survey of existing and potential tenant needs. The IZMPs will be endorsed by the EC

CCIs	IZMPs
	tasked with oversight for the UELDP at the governorate level.

28. **Early year investments in this subprogram are expected to focus on improvements in the governorate service centers and industrial zones.** Investments in G2B service centers could potentially begin upon effectiveness, given the readiness of GAFI to create the OSSs, especially in Sohag. On industrial zone services, unfunded needs in infrastructure services already identified in the governorates could form part of the first-year investments.

29. **IFC will step-up its engagement in support of private sector development in Upper Egypt to complement this operation.** The improvement of Upper Egypt's business environment, which is an integral part of the Program, builds upon IFC's past and current support to the GoE. An ongoing business regulatory reform advisory project focusing on supporting subnational reforms climate will be redirected to improve G2B services in Upper Egypt. Provided it can secure funding, its scope will also be significantly increased to support the business environment and competitiveness in Upper Egypt, in coordination of the PforR operation. Other advisory activities that will be considered include skills building and training. IFC's investments in SME lines of credit could support the capital needs of SME investors in Upper Egypt. IFC collaboration on investment opportunities, or advice on PPP transactions, will be explored if appropriate investment or PPP opportunities are identified during the course of the operation as a result of the cluster development initiatives, industrial zone upgrading, and investment promotion activities.

Subprogram 2: Improving Access to Quality Infrastructure and Services

30. **Subprogram 2** will provide Performance Grants (PG) to the Qena and Sohag Governorates to finance infrastructure and services investments identified in the Annual Program Investment Plan (APIP) of the two governorates. It will also finance the carrying out of audits to evaluate the technical quality of the infrastructure and services undertaken by the two governorates.

31. **It will support reforms to make the governorates more efficient and results-oriented in providing infrastructure and services critical for citizens and businesses.** Egyptian governorates have been subject to several contradictory laws and regulations that have limited their ability to undertake effective socioeconomic development planning. The Unified Planning Law, currently under preparation by the Government, harmonizes those laws and offers governorates the ability to undertake integrated planning with more citizen and business participation in the process. The Program also provides an opportunity to operationalize the reforms anticipated in the new Local Administration Law regarding modernizing the subnational governance system. In operationalizing these reforms, the Program will enable governorates to: (a) better identify needs and address them in a coordinated manner; (b) expand access to critical infrastructure and services over which they previously had limited influence; and (c) address important sustainability challenges through an improved focus on O&M.

32. **Governorates will be equipped with the means to better prioritize and more effectively deliver critically needed infrastructure and services.** The Program will enable governorates to increase infrastructure and service provision beyond their current narrow sphere

of influence by allowing them to fund infrastructure and services delivered by deconcentrated service directorates, the *mudiriyat,* through agency agreements. This expansion will enable governorates to influence development priorities such as regional roads, water/sanitation, and electricity, which are critical to boost competitiveness and the business environment, in addition to the five relatively limited areas under the governorates' remit (local roads paving, streetlighting equipment and works, environment improvement and solid waste management, traffic, and local administrative units' support). The specific subsectors eligible to be covered are outlined in the Program Investment and Expenditure Menu as defined in the Program Operational Manual (POM), which also identifies excluded activities (see annex 1). The Program will also help address critical sustainability challenges by affording governorates more financing for O&M and equipping them with tools to help manage assets. While the sectoral split of investments and expenditures over the totality of the Program period is yet unknown,[15] lead sectors are likely to include local and regional roads and transportation, electricity, as well as water and sanitation—as these sectors have been flagged as priorities during consultations.

33. **The Program will incentivize and measure governorate performance through the introduction of a PG mechanism.** The governorates' ability to access additional funds for infrastructure and service expenditures will be based on their ability to pass an Annual Performance Assessment (APA), conducted by a qualified performance agent engaged by the Program Coordination Office (PCO). The condition that governorates receive the funds subject to performance offers dual benefits: (a) it reassures the central government and citizens that the governorates are fulfilling institutional performance expectations in advance of receiving funds; and (b) it helps identify areas of strengths and weaknesses in the governorates' performance. The indicators in the assessment are linked to key governorate performance constraints and include both minimum access criteria (MAC), such as the introduction of participatory planning, disclosure requirements, as well as performance metrics, linked to measures such as development of O&M plans, citizen report cards, and use of feasibility studies for major investments. The specific indicators are defined in the POM with an indicative set of indicators provided in table 3, as well as annex 1. Funds would be released from the central government (the state treasury) to both governorates (Program accounts) once the APA was completed and the results verified by the Independent Verification Agency (IVA). In addition, the Program will introduce a technical quality audit for the governorates' infrastructure and service expenditures, based on an audit of sample Program expenditures, to assess whether investments were effectively implemented and met their intended objectives and targets.

[15] This is because of the Program orientation toward increasing governorate discretion with the participation of businesses and citizens through a structured, annual process.

Table 3. Indicative Minimum Access Criteria and Performance Metrics

Indicative Minimum Access Criteria	Indicative Performance Metrics
• Participatory Annual Program Investment Plan—linked to SDP—in place • Governorate *diwan* final accounts from previous fiscal year produced on time, publicly accessible on website and posted at the governorate's *diwan* • Upgraded grievance redress mechanism (GRM) in place • Technical and functional expertise in place to ensure effective Program delivery • Annual capacity building plan in place • (Beginning FY2018/19) Audited program financial statements from previous fiscal year with no adverse or disclaimer findings • (Beginning FY2018/19) PG funds disbursed in accordance with the investment and expenditure menu in the previous FY • (Beginning FY2018/19) Governorate submits reports on financial and physical progress in the past 12 months	**Project selection and allocation.** A set of targets aiming to improve the quality of how projects are chosen and funds allocated, including the following: • Governorate increases transparency and predictability of funds transferred to *marakiz* • Pre-investment feasibility studies conducted for qualifying investments in the most recent APIP • Effective asset management system is functioning for the governorate **Project implementation.** A set of targets aiming to improve implementation and maintenance of investments, including the following ones: • Multiyear O&M plans for qualifying investments developed and budget allocated according to O&M plan • Physical progress of qualifying investments as evaluated against milestones **Strengthening citizen engagement.** A set of targets aiming to strengthen the governorate's downward accountability toward citizens, including the following: • Level of public access to key information is increased • User feedback surveys are conducted, disclosed to the public and demonstrate positive year-on-year improvement

34. **Preparation for Subprogram 2 investments and expenditures will be made in advance of effectiveness to ensure fast delivery early during Program implementation.** The first PG annual assessment will be done in the quarter of the fiscal year prior to effectiveness. Consequently, as soon as the Program is effective, the central government would be able to disburse its first PG to the governorates provided they meet the minimum access criteria for the first fiscal year. The funds could then be used to finance investments and expenditures that the governorates have already identified for FY2016/17, potentially including a highway expansion project highlighted as key for regional connectivity in Qena.

Cross-cutting Theme: Citizen and Business Engagement

35. **The implementation of both subprograms will be enhanced through the integration of citizen and business engagement** as a means to strengthen the credibility of subnational institutions, enhance government accountability, and restore citizens' confidence to renew the 'social contract' between citizens and local authorities. At the same time, these measures will include public-private dialogue (PPD) to improve the business environment and support private sector development in both Sohag and Qena. The UELDP will support a package of measures that institutionalize citizen engagement in Sohag and Qena. These include: (a) participatory planning: strengthening citizen and business participation in the identification, implementation, and

evaluation of subnational investments through participation from a wide section of society, including women, in the annual planning and budgeting process; (b) transparency: enhancing access to information to citizens and businesses through disclosure requirements and upgrading of governorate and G2B websites; (c) complaints handling: harmonizing and upgrading (via ICT) the different GRMs operational at the governorate and district levels; and (d) beneficiary feedback: introducing a system of gathering regular citizen feedback through the introduction of citizen report card surveys and other ICT-enabled feedback tools at the governorate level. Alongside these efforts, as noted above, an ICT-enabled G2B and government to citizen (G2C) service delivery platform will be supported to provide more transparency access to information and more efficient and responsive services to both businesses and citizens. Specific measures will be taken to ensure the participation of women and youth, particularly in the context of the development of APIP and in collecting gender-specific beneficiary feedback. These citizen engagement measures have been embedded in the design of the overall Program through inclusion in the performance metrics for the two subprograms as well as in the Program Action Plan (PAP).

Program Expenditure Framework

36. **Program funds will be fully allocated to the governorates in line with one of the key strategic shifts envisaged under the Program.** Program expenditures are constituted by the projected five year (FY2017–FY2021) governorate *diwan* expenditures, with the World Bank financing being fully additional to the governorate *diwan's* current budget allocation.[16] The Program will fund expenditures related to activities that fall under the direct responsibility of the governorate *diwan* (local roads, streetlighting equipment and works, environment improvement, traffic control and firefighting, and local administrative units' support), as well as activities implemented through deconcentrated service directorates of the central government ministries, the *mudiriyat*, and other public entities. The activities implemented by deconcentrated service directorates and other public entities include regional roads, water and sanitation, electricity, and ICT. In addition, the Program will fund targeted activities that enable private sector-led growth that are largely provided by the Ministry of Trade and Industry (MTI) and its associated entities, like market and value chain development, BDS, skills development, and existing industrial zones upgrading and management. Program management expenditures could also be financed. Specific exclusions are listed in annex 1 (see also paragraph 37 below) and would include activities that are assessed to have a significant adverse impact on the environment and/or affected people as well as high value contracts. The Program expenditure framework was defined based on the expenditures of the governorate *diwan* as the unit of account so as to ensure clarity and transparency in terms of the flow of fund arrangements, as well as in light of the objective of reflecting the strategic shift the operation is intending to support, namely a transfer of resources to the governorate level.[17] There is no donor cofinancing for the PforR, though many donors support implementation of complementary reform and investment activities in both Program governorates (see annex 1). Tables 4 and 5 provide an overall presentation of the Program expenditure framework.

[16] With a notational 5 percent annual increase included.

[17] This accounting for Program expenditure framework was chosen over the alternative of also including expenditures related to the deconcentrated service directorates. The latter approach would lead to higher total Program expenditures (and thus show a greater government cofinancing share) but would make trackability and accounting for the Program expenditures less transparent as expenditures for central government regional service directorates are fragmented at the regional level. It would also not fully reflect the shift of resources to the local level.

Table 4. IBRD and Government Financing (US$, million) (FY2017 to FY2021)

Source	Amount	% of Total
Government	457	48
IBRD	500	52
Total	**957**	**100**

Table 5. Program Financing (US$, million) (FY2017 to FY2021)

	FY2017	FY2018	FY2019	FY2020	FY2021	Total
Subprogram 1: Improving the Business Environment and Competitiveness	20	20	20	20	20	**100**
Subprogram 2: Improving Access to Quality Infrastructure and Services	171	171	171	172	172	**857**
Total	**191**	**191**	**191**	**192**	**192**	**957**

Note: The allocations of expenditure by subprogram is indicative as some infrastructure-related expenditures relate to both subprograms, especially those infrastructure expenditures that focus on enhancing business competitiveness. Any Program management expenditures at the central level are subsumed under Subprograms 1 and 2 in table 5.

37. **Excluded activities.** The Program will exclude activities that do not meet World Bank policy on eligibility for PforR financing. Specifically, the borrower shall ensure that the Program excludes any activities which, in the opinion of the World Bank, are likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people, as defined in the World Bank policy on PforR financing, as well as works, goods, and consultancy contracts above the Operations Procurement Review Committee thresholds. The POM will detail the implementation entities' management arrangement to ensure that no excluded activities will be included under the Program and the World Bank will support Program execution to ensure compliance with PforR policy requirements during implementation (see also annex 1).

D. Disbursement-linked Indicators and Verification Protocols

38. PforR funds will be disbursed based on six DLIs which reflect critical elements of performance required to achieve the PDO. The DLIs are summarized in Table 6. The complete DLI matrix is available in annex 3.

Table 6. Summary of DLIs

DLI	Definition and Coverage	Amount (US$, million)
DLI 1: Increase in occupancy rate in industrial zones in each of Qena Governorate and Sohag Governorate	Industrial zone occupancy rates in the six industrial zones in Qena and Sohag increase as a result of measures taken in improving the management and services of the industrial zones, as well as improvements in the business environment and support for cluster competitiveness. Industrial zone occupancy will be assessed separately for each governorate.	**50**
DLI 2: Number of industrial zones in each of Qena Governorate and Sohag Governorate implementing their respective Industrial Zone Modernization Plan	An IZMP will be developed for each governorate and implemented in each industrial zone. The IZMP will provide for authorities, responsibilities, and standards for industrial zone management and services and infrastructure and service upgrading plans for each	**40.75**

DLI	Definition and Coverage	Amount (US$, million)
	industrial zone. The IZMP will be developed, agreed, and implemented in all zones in the two governorates. At least one zone in each governorate is managed privately or through public-private partnership arrangement by the end of the Program.	
DLI 3: Number of Cluster Competitiveness Initiatives launched and implemented in each of Qena Governorate and Sohag Governorate	Governorates launch and implement Cluster Competitiveness Initiatives (CCIs) to enhance competitiveness and promote investment. CCIs may include policy reforms, public investments, private investment, and private sector coordination actions.	**50**
DLI 4: Number of district service centers that reduced by at least 25% processing time (in days) for issuing operating licenses and construction permits to businesses calculated on the basis of a methodology set out in the POM	Processing time for regulatory services will be assessed at the level of the district service centers using the reduction in processing time of two key regulatory services, operational licenses and construction permits, as a proxy for overall improvement in G2B services at the district level.	**28**
DLI 5: Minimum Access Criteria met and minimum Performance Target achieved for given Fiscal Year by each of Qena Governorate and Sohag Governorate to receive infrastructure and services Performance Grants	Governorates have undertaken an APA, as outlined in the Performance Grant Manual (PGM), and received a portion of their performance grant allocations based on their fulfillment of MAC and commensurate with the outcome of the measurement of their Performance Metrics. The MACs comprise a small set of institutional measures to improve transparency, citizen engagement, and accountability. The MACs and performance targets are defined in the PGM.	**270**
DLI 6: Cumulative value [EGP] of infrastructure and services investment expenditures paid by each of Qena Governorate and Sohag Governorate under the Program that has been subject to technical audit and certified acceptable by technical auditor	Program governorates have administered technical quality audits of infrastructure and services provided through the Program, in line with technical audit parameters as outlined in the POM.	**60**

39. **Independent Verification Agent.** Progress toward the achievement of the Program's objectives will be verified each year by an IVA. The IVA will provide independent confirmation of the results reported to the World Bank. The IVA for this Program will be a firm which will be selected on a competitive basis based on terms of reference (ToRs) acceptable to the World Bank. The recruitment of the IVA will be completed within three months after effectiveness. The cost of the IVA will be paid out of Program funds. The independent verification of results will accompany any disbursement request to the World Bank.

E. Capacity Building and Institutional Strengthening

40. **Capacity-building activities will be critical to the success of the Program and will be structured to support 'learning by doing' focused at the governorate level.** An implementation consulting support team will support the governorates for the duration of the Program. The team will comprise the core competencies needed by the governorates to achieve the Program objectives. The team will work alongside the Local Implementation Units (LIUs) to support the following, but not limited to the following core governorate institutional areas: financial

management, procurement, engineering, environmental, and social systems management, including citizen participation, budgeting, auditing, and M&E. They will also support the implementation of private sector development and local economic planning and development activities under the Program.

41. **APA scores and data collected through the Program results framework will provide a regular assessment of the governorates' capacity improvements and identify gaps and weaknesses to be strengthened.** This data will enable the governorates, central government, citizens, and other stakeholders to track the progress of the governorates over time on key dimensions of performance. The data will feed into the work program of the implementation support team and the Program management to enable them to better tailor support needs for the governorates.

42. **Implementation support activities will be funded as part of Program expenditures, with additional grant funding to be mobilized.** The implementation consulting support team will be financed directly from the Program expenditures. Additional TA will be provided to bring global knowledge to the governorates. Grant funding for the additional TA has already been mobilized from the Middle East and North Africa Multi-donor Trust Fund and the Korean Urban Development Trust Fund with additional grant resources to be mobilized during implementation.

III. PROGRAM IMPLEMENTATION

A. Institutional and Implementation Arrangements

43. **Implementation responsibilities by level of government.** The institutional arrangements of the UELDP are based on the governance structure of central- and governorate-level functions in Egypt, with a clear division of responsibilities between levels of government and consistent with existing legal provisions, regulations, and guidelines. The implementation structure comprises at the central government level an interministerial Steering Committee (SC) and a PCO. At the governorate level, it comprises an Economic Council and an LIU in each governorate. It also comprises the entities responsible for delivering the infrastructure and services that will be provided through the Program: (a) the relevant departments within the governorates that are involved in delivering the five programs of the governorate *diwans*, and (b) the deconcentrated directorates, utility companies, and other government entities responsible for delivering the infrastructure and services included in the Program that are not under the executing control of the governorates.

44. **High level Steering Committee.** The GoE will establish, and thereafter maintain, throughout the implementation of the Program, a SC. It will comprise representatives from the ministries responsible for international cooperation, trade and industry, local development, and finance, and the governors of the Sohag governorate and the Qena governorate. The GoE will ensure that the SC is responsible for providing strategic guidance and oversight to ensure prompt and efficient implementation of the Program, in accordance with the provisions of the POM. The SC will be co-chaired by the ministers of the Ministry of International Cooperation (MoIC), Ministry of Trade and Industry (MTI), and the Ministry of Local Development (MoLD).

45. **Program Coordination Office**. The GoE will also establish and maintain, throughout the implementation of the Program, a coordination office. The GoE will ensure that the PCO functions as the secretariat of the SC and is responsible for: (a) the overall management, coordination, reporting, monitoring, and evaluation of Program implementation; (b) hiring and interfacing with the IVA; (c) carrying out the APA; (d) carrying out the technical audits; and (e) facilitating financial audits for the Program, all in accordance with the POM. In addition, the PCO will carry out interministerial and interagency coordination on the Program policy and technical agenda at the national level and manage TA for the Program, including the implementation support team. Though the primary responsibility for fiduciary, social, and environmental management will rest with the LIUs, the fiduciary, social, and environmental advisors may be added to the PCO to provide support to the LIUs.

46. **Economic Council.** The governorates will establish, and maintain, throughout the implementation of the Program, an EC in each of the select governorates to provide governorate-level oversight of the Program on a regular basis. Each EC comprises representatives from the Local Executive Council (LEC) and the ministries responsible for local development and trade and industry. Chaired by the governors, the LECs are already functioning within the governorates and consist of the members of the governorate executive council (*diwan* and *mudiriyat* representatives) as well as technical staff in the governorate from other key ministries and agencies. The governorates will form an EC comprised of governorate *diwan* staff and representatives from ministries with a mandate for economic development, including but not limited to the MTI, MoLD, and the Ministry of Finance (MoF). Each EC will (a) approve plans for organizing the LEDFs on an annual basis to undertake participation and consultation of citizens and private sector on the APIPs; (b) approve the APIP funding allocations; (c) approve cluster development priorities and cluster action plans; (d) approve the IZMP; and (e) review results and approve changes to the endorsed plans during implementation. Each EC will publicize the APIPs and invite citizens and the private sector to appear before the full LEC to comment before adoption.

47. **Local Implementation Units.** The GoE will establish and maintain throughout the implementation of the Program, an LIU for each of the select governorates. An LIU will be established in each governorate, responsible for the administration of overall planning, coordination, the technical, fiduciary (i.e., procurement and financial management), environmental and social aspects, monitoring, evaluation, reporting, and communication of the Program activities in the corresponding select governorate, all in accordance with the POM. The LIUs will comprise governorate staff and consultants and will be supported by ministries or other public entities (such as the Industrial and Mining Projects Authority [IMPA], General Authority for Roads, Bridges, and Land Transport [GARBLT], IMC, or the Information Technology Industry Development Agency [ITIDA]) which will implement Program activities on the basis of agency agreements or outsourced private entities such as consulting, investment, or engineering firms). The LIUs take direction from the EC on the plans, funding allocations, and implementation of the Program but have reporting lines to the PCO on financial reporting, implementation progress, and coordination on policy and technical issues at the central government level.

48. **Readiness and first-year implementation plans.** The Program has a three-pronged approach to ensure implementation readiness. First, for Subprogram 1, a Competitiveness Implementation Manual (CIM) will be adopted as part of the POM within one month after effectiveness and will include ToRs for early Program activities to be undertaken by the

implementation entities. Given that some of the Subprogram 1 activities relate to more complex TA activities, having ToRs ready will help speed up implementation. Second, for Subprogram 2, the PGM provides all details required for the effective functioning of the PG mechanism. In addition, the governorates have already identified potential FY2017/18 investments, with specific projects further validated as part of Egypt's FY2017/18 Annual Socioeconomic Planning process. Third, for larger investments, initial assessments have been completed to assess the viability of the investments, including from an economic, a social, and an environmental point of view. This in particular pertains to regional roads, a key element for addressing Upper Egypt's connectivity challenges, where one potential lead investment for early adoption and financing under the Program has been identified.

B. Results Monitoring and Evaluation

49. **The Program will be monitored and evaluated using a number of M&E tools.** Results M&E will be conducted both at the PCO level, as well at the LIU level and will be based on the Program Results Framework and DLI reporting requirements. Reporting will be based on information sources which are part of the Program activities, for example, APAs, citizen report cards, and GRM through the district service centers. Required capacity-building activities for M&E at the central and governorate levels will build on activities which have been recently implemented. For example, a recent World Bank-financed project[18] helped develop an M&E strategy for the MoLD, establish M&E tools and systems, develop M&E training material, and train employees at the central and local levels. This effort will be leveraged at the central level and replicated in the two governorates.

C. Disbursement Arrangements

50. Disbursements will be made based on verified results, as measured by DLIs. For each DLI, allocated amounts, baselines, regular targets, requirements of achievement, advance payments, prior results financing, deadlines for achievement have been defined (see annex 3 for details). The GoE will demonstrate through regularly prepared financial statements that the Program's net expenditures are equal to, or in excess of, the PforR financing by the end of the operation. The Program Financial Statements will be audited annually. Disbursement Linked Results (DLRs) achieved on or after January 14, 2016 but before signing of the loan agreement will be eligible for disbursement up to a ceiling of US$125 million.

IV. ASSESSMENT SUMMARY

A. Technical (including Program Economic Evaluation)

Strategic Relevance and Technical Soundness

51. **The proposed PforR is designed to improve implementation of the GoE program by incorporating lessons learned from international experience addressing lagging region's challenges.** They are drawn from more than three decades of World Bank support for such programs, as well as the 2009 World Development Report 'Reshaping Economic Geography', its adaptation to the Middle East and North Africa context in the 2010 'Poor Places, Thriving People',

[18] World Bank Technical Assistance Project: M&E System for Decentralization.

and finally to the Egyptian context in the 2011 'Reshaping Egypt's Economic Geography'. The principles advanced in these frameworks prioritize diagnostics and interventions based on the following pillars: (a) enhancing spatially blind institutions (for example, equalizing access to basic services and infrastructure); (b) increasing connectivity (physical and information); and (c) intervening in specific areas where localized constraints to potential exist (for example, through zones interventions).

52. **At the heart of the Program is a departure from a focus on centrally assigned, supply-driven infrastructure provision to an integrated, more evidence-based approach, empowering accountable decision making at the governorate level.** The opportunity cost of supply-driven mega infrastructure projects in Egyptian governorates has been considerable. The Program equips governorates with the tools, resources (financial and technical), and incentives for them to improve access of citizens to basic services, as well as access of businesses (including self-employed entrepreneurs) to productivity-enhancing regulatory infrastructure services. It does so by both enabling them to measure and track potential and performance and by linking Program financing to the delivery of reforms and desired outcomes.

53. **The Program is designed to intervene in specific governorates to improve the business environment and access to services and infrastructure, with sector-specific investments to catalyze private investment in sectors that are economically relevant to the region and with the most potential to grow.** This approach is supported by country-specific analytical work and international literature more broadly. Cross-cutting business climate constraints and infrastructure deficiencies in Egypt have been well documented. At the same time, catalyzing new private investment in a region operating in a low-level equilibrium of economic activity, investment, and productivity will require a sector-specific focus to complement horizontal cross-cutting reforms. This approach is needed to mobilize limited governorate-level convening and implementation power, as well as limited investment resources on those sectors relevant to the local economic context. Empirical and analytical works suggest that close collaboration between the Government and private sector offers great potential for defining opportunities and removing constraints that hinder competitiveness, including in the areas of skills and capacity building, access to markets, access to technology, industrial infrastructure, and a supportive business climate.[19]

54. **Cluster or sector-focused approaches are an effective platform or lens for a 'flexible mode of inquiry', rather than a precise method for trying to predict future growth engines**.[20] The Program supports such an approach and aims to identify and tackle the fundamental obstacles and use cluster or sector-focused solutions to address those problems. International good practice further suggests that a key element of successful regional and spatially targeted solutions is first setting up an inclusive governance structure that can produce a shared vision about the future of the region and select a limited number of priorities for development.[21] A common challenge in developing countries is weak incentives and mechanisms for the public and private sectors to dialogue and coordinate, and this can be associated with market failures regarding transparency, access to information, and collective action. The Program enhances PPD through LEDFs in each governorate, which will help assess, prioritize, and incentivize investments. Such a forum has

[19] The Cluster Competitiveness Group for the World Bank Group. 2011. "Public-Private Dialogue for Sector Competitiveness and Local Economic Development: Lessons from the Mediterranean Region."
[20] Feser, Edward. 2015. University of Illinois. Presentation at Industrial Policy workshop, World Bank.
[21] Guide to Research and Innovation Strategies for Smart Specializations, May 2012, page 17.

already been piloted as part of the IEDLR program in Sohag and is planned for Qena; both will be further enhanced by the Program.

55. **To translate the desired governance and management improvements into practice, the Program links institutional reforms to infrastructure and service financing.** Several institutional constraints have limited the governorates' abilities to close key infrastructure and service access and quality gaps. These include limited mechanisms for adequately informing investment decisions, centralized decision making, institutional fragmentation, weak incentives and fragmented roles for maintenance, weak accountability mechanisms, and resource shortfalls and/or mismatches. International experience demonstrates that measures to improve subnational service delivery and infrastructure provision on a sustainable basis must address such systemic institutional challenges. Further, institutional reforms divorced from financial resources and capability enhancement have fallen short in many countries. This critical linkage between institutional reforms, financing, and capacity enhancement is central to the design of the UELDP and the introduction of a PG system through it. The system allows the Government to pilot measures to improve spatially blind institutions within these two governorates before such measures may be scaled nationally.

Program Expenditure Framework

56. **The Program will be implemented through the state budget allocations to the governorates' *diwans***, with specific allocations through Chapter VI capital expenditures and investments, known as 'Purchase of non-financial assets', as well as to Chapter II, known as 'Purchase of goods and services'. Specifically, under Chapter VI it will finance Program expenditures related to activities that fall under the direct responsibility of the governorate *diwan* (local roads, streetlighting equipment and works, environment improvement/solid waste management, traffic control and firefighting, and local administrative units' support), as well as activities implemented through deconcentrated service directorates of central government ministries (the *mudiriyat),* and other public entities. The activities implemented by deconcentrated service directorates and other public entities include regional roads, water and sanitation, electricity, and ICT. For Chapter II, it will finance Program expenditures related to O&M, where the World Bank funding would contribute to filling the funding gap that the governorates have been experiencing. Program expenditures under Chapter II will also include spare parts; maintenance supplies and equipment; maintenance costs of utilities, roads, and machinery; studies; training; and development programs. In addition, the Program will fund targeted activities, through Chapter VI and II, that enable private-sector-led growth that are largely provided by MTI and its associated entities, such as market and value chain development, BDS, skills development, and existing industrial zones upgrading and management. Expenditures that finance activities that fall outside the traditional mandates of the governorate *diwan* will be implemented through agency agreements between the governorates and the *mudiriyat* or other public entities. Specific exclusions are listed in annex 1.

57. **The UELDP expenditures are projected to be US$957 million over FY2016/17 to FY2020/21.** The UELDP expenditures are a subset of the total expenditures under the IEDLR program. Planned government expenditures as part of the IEDLR program for the ten Upper Egypt governorates amount to approximately US$12 billion over FY2016/17 to FY2020/21 of which US$3.9 billion are allocated to Sohag and Qena. Sohag and Qena expenditures consist of US$3.1

billion for activities managed at the central/national level such as social housing, industrial zone development, regional roads/ports, and social safety nets programs,[22] as well as US$832 million managed at the governorate level through the governorate *diwan* for Chapters I, II, IV, and VI which include wages, compensation, purchase of goods and services, grants, and capital investments.[23] In addition, Program expenditures could also include implementation costs at the central government level, to be used for the IVA, performance and technical audits, and overall Program implementation support. Loan proceeds are additional to the governorates current *diwan* budget allocation. The following table provides an overview of both the IEDLR and the UELDP expenditures:

Table 7. Program Expenditures FY2016/17 to FY2020/21

	IEDLR GoE Program (US$)		**UELDP PforR (US$)**		
	Ten Upper Egypt Governorates	**Sohag and Qena**	**GoE Contribution**	**World Bank Funding**	**Total Program**
Managed at governorate level:					
Wages and compensation [Chapter I]	1,565,619,172	354,182,855	—	—	
Purchase of goods and services [Chapter II]	974,361,571	268,771,622	268,771,622	100,000,000	368,771,622
Subsidies, grants, and social benefits [Chapter IV]	32,321,199	818,243	—	—	—
Purchase of non-financial assets (Investments) [Chapter VI]	995,131,588	208,481,757	188,481,756*	400,000,000	588,481,756
Subtotal	**3,567,433,530**	**832,254,477**	**457,253,378**	**500,000,000**	**957,253,378**
Managed at central level:					
Social programs	5,084,662,679	2,036,877,248	—	—	—
Roads & ports	3,203,378,378	985,754,505	—	See note**	—
Industrial zones	331,137,387	66,227,477	—	See note**	—
Program implementation cost	—	—	—	See note***	—
Subtotal	**8,619,178,444**	**3,088,859,230**	—	See note***	—
Total	**12,186,611,975**	**3,921,113,706**	**457,253,378**	**500,000,000**	**957,253,378**

Note: * GoE contribution for Chapter VI under the UELDP PforR has been reduced to adjust for the estimated security related expenditures over the course of the Program which are excluded.
**Activities and funding related to roads and industrial zones are captured under Chapters II and VI which will be managed at the governorate level under the Program design.
*** Overall Program implementation costs could also be financed, as necessary.

58. **Overall, the Program will essentially follow the regular budget practices adopted in the country.** For the investments under Chapter VI, the funding pattern usually starts with the release of 25 percent in the first quarter of the fiscal year, which is then replenished against physical progress and supporting documentation. For Chapter II, the funding pattern largely follows monthly transfers' periodicity. To facilitate the flow of Program funds from the central to local

[22] Expenditure figures for megaprojects, such as the Golden Triangle, were not specified in the government program.
[23] Chapter III (interest), Chapter V (other expense), and Chapter VII (loan repayment) are not included in table 7 as they are not applicable to the IEDLR program.

level and to pilot a results-based approach and link financing to performance, the Program will establish a Program account in each of the two governorates to channel the loan's share in Program funds to the governorates. Transfers of the loan proceeds from the state treasury to the governorates' accounts will depend on achieving the DLRs specified in the Loan Agreement. The World Bank will disburse the loan proceeds to the state treasury against DLRs verified by an IVA. Accordingly, the state treasury will make periodic transfers of the Program funds to the governorates' accounts once the DLRs have been met. Once the governorate receives its entitled funds transfer, the governorate will either: (a) directly procure and disburse to its suppliers/contractors; or (b) assign the tasks/activities to the respective directorate or other state agency in accordance with its investment plans and the mandates of the respective body/entity.

59. **Program financial sustainability, funding predictability, and adherence to Government priorities.** The Program Document of the First Fiscal Consolidation, Sustainable Energy, and Competitiveness Development Policy Financing DPF to Egypt approved in December 2015, referred to a Debt Sustainability Analysis that anticipates debt sustainability over the medium term, as long as a pro-growth fiscal consolidation path is adopted. The budget allocation and budget execution trends over the past few years have not raised significant concerns about the funding of the governorates' local development budgets. The review of the budget allocations between FY2010 and FY2014 showed that Chapter VI investment allocations to the governorates' *diwans* increased during that period from EGP 99 million to EGP 212 million in Sohag and from EGP 75 million to EGP 182 million in Qena. Government priorities according to the budget circular for FY2016/17 indicate equitable and efficient geographical spending on basic services, enhancing the business environment, and encouraging private sector participation. The proposed PforR is fully aligned with the above priorities, which would minimize the risk of budget cuts on Program activities. Furthermore, the analysis of the budget and expenditure trends in the final accounts for 2012 through 2014 provide evidence of reasonable funding predictability.

60. **Efficiency of Program expenditures.** The Program is designed in alignment with the decentralization objectives stipulated in Egypt's Constitution of 2014 and ongoing administrative reforms. As such, it supports an important reform agenda to gradually empower decision makers to identify priority expenditures and to implement them in an accountable manner. The increased funds flowing directly to the governorates' *diwans* supported under this Program is intended to bring efficiencies in strategic decision making thereby enhancing responsiveness to citizens' and businesses' needs. In addition, linking financing to performance is intended to incentivize improved efficiency. Nevertheless, the increase in allocations expected under this Program may represent some challenges to the absorption capacity at the governorate level. This would be accommodated by proper planning and implementation support through relevant capacity-building programs.

Economic Evaluation

61. **Rationale for public provision and financing.** The UELDP is designed to address market failures which have constrained private-sector-led and inclusive economic growth in Upper Egypt, contributed to higher poverty incidence, and lagged access to basic services. These include suboptimal provision of infrastructure, information asymmetries driven by limited transparency requirements, and coordination failures. These failures require public intervention for correction. For example, public financing is required for local feeder roads, sanitation, and electricity

distribution, among other areas under the Program, as the private sector will not provide them due to the public goods nature of these investments. Further, because of limited current demand, some initial infrastructure financing is needed in the existing industrial zones and this will not be undertaken by the private sector as there is uncertainty about future investments in these zones. Also, value chain development helps solve coordination failures, for example, between different public agencies operating in silos and information asymmetries between would-be investors and local actors.

62. **Program's economic impact.** The economic benefits of the Program interventions are assessed independently but will be interlinked and reinforce one another. For example, financing infrastructure investments that improve connectivity would augment the economic benefits arising from sector-based clusters through improved access to markets and direct savings from transport costs. Similarly, improved institutional capacity and accountability is likely to increase the expected benefits from industrial zone upgrades and sector competitiveness enhancements due to higher certainty perceived by private investors.

63. **For Subprogram 1, cost-benefit analyses revealed significant net positive economic benefits for the analyzed interventions.** The management and infrastructure upgrades and management improvements in the six industrial zones through the IZMPs can potentially double the average occupancy rate in the two governorates, from the current 34 percent and 14 percent in Sohag and Qena, respectively, which would lead to adding an estimated more than 10,000 new direct jobs in industrial zones alone. These job effects alone are estimated to have a positive net present value of EGP 363 million with an economic rate of return (ERR) of 19 percent. This does not account for benefits from increased value of land or potential revenues from tenant fees or leases. BDS delivered to firms in the Qena and Sohag clusters are expected to have a positive net present value (NPV) of EGP 38 million with an ERR of 15.8 percent, calculated on the basis of firm-level services through cluster development programs to 1,000 eligible firms over the life of the Program, which would increase the average net annual value-added per firm by a target of 20 percent.[24] The increase in value-added would be reinvested, thereby also adding new employment, assuming only 25 percent of firms receiving services experiencing a benefit. This does not account for additional potential effects from agglomeration and indirect jobs created through value chain development, market access, and investment promotion activities of the program. Improving G2B services through the establishment of OSSs in Qena and Sohag and improving services in 14 district service centers, is expected to have significant positive NPV of EGP 79 million and an ERR of 24.5 percent, based on a conservative estimate of 1 percent net new enterprise entry rate,[25] 15 percent reduction in the cost of registering a new business, and 25 percent reduction in cost of dealing with construction permits,[26] and less than 1 percent of total existing enterprises benefitting from the reduction in the cost of dealing with construction permits.

[24] According to CAPMAS 2012/13 establishment census, the average annual net value-added is almost EGP 40,000 per firm.

[25] Current number of private enterprises in Qena and Sohag was obtained from the latest establishment census by CAPMAS.

[26] The costs of registering a new business and dealing with construction permits were obtained from the World Bank's Subnational Doing Business published in 2014 and are based on the opportunity cost of the lead time to obtain registration and permits.

64. **For Subprogram 2, the economic impacts are derived from the improvements in governance induced by the PG system, and more directly, from the expenditures that will increase access and improve the quality of infrastructure and services in the governorates (DLIs 5 and 6).** The cost-benefit analysis conducted for sample investments from three of the core expenditure areas in the PG expenditure menu found significant positive economic benefits.[27] Improving access to basic services for citizens and businesses has wide economic benefits given the lagging nature of the two governorates and unmet demands: as a representative example, the cost-benefit analysis to upgrade the collection and transportation of solid waste (domestic and industrial) in Qena and Sohag estimates an ERR of 43.5 percent and a positive NPV of EGP 144.6 million. The cost-benefit analysis for connecting 100,000 rural area citizens to the sanitation network estimates an ERR of 23.8 percent and a positive NPV of EGP 137 million. In addition, increased connectivity will be achieved by supporting regional and local road and transport infrastructure upgrading, thereby, enhancing access to markets. One potential key investment, the widening of 44 km of the Western Desert Highway from Nagi Hammadi to Qena is estimated to have an ERR of 16.6 percent and a positive NPV of EGP 693 million, based on reduced travel times (including linking the city of Qena with several large-scale industries at Nagi Hammadi, a large industrial zone at El Hew and large-scale agricultural development schemes), reducing vehicle operating costs and accident rates, as well as avoided future road congestion. A positive ERR is expected for the totality of smaller, local road investments.

Table 8. Summary of the Economic Evaluation NPV and ERR results

Intervention	Estimated Program Costs (US$, millions)	NPV (EGP million) of Net Benefits	ERR (%)
Industrial zone upgrading	60	363	19.0
G2B services	5	79	24.5
Cluster firm-level BDS	5	38	15.8
Solid waste management	20	145	43.5
Sanitation	13	137	23.8
Highway upgrading	48	693	16.6

65. **World Bank value added.** In addition to the World Bank Group's prospective role in bridging the financing gap to improve infrastructure and provision of basic services and infrastructure, the World Bank Group supports, through the Program, institutional reforms derived from global experience in local development. It helps the Government shape and implement these challenging reforms. The World Bank Group has provided lending and non-lending support to local government programs in at least 89 countries.[28] An Independent Evaluation Group (IEG) assessment of a sample of these programs concluded that the success of the World Bank Group's support was mostly attributed to frameworks for subnational financial management and intergovernmental fiscal transfers; both are key components of the UELDP.

[27] By design, discrete investments that will be made during the life of the Program are unknown. As such, economic impact is assessed for sample investments representing several of the investment areas included in the expenditure and investment menu.
[28] Independent Evaluation Group. 2008. *Decentralization in Client Countries.* World Bank.

B. Fiduciary

66. **A Fiduciary Systems Assessment (FSA) was prepared according to the World Bank policy on PforR financing.** The FSA was based on discussions with the government counterparts at the national and subnational levels and informed by earlier reviews in sectors such as health, housing, and utilities. The assessment included review of the fiduciary systems existing in Sohag and Qena that covered the governorates' *diwan* and selected sample of local administrative units, service directorates, and related public entities.

67. **The budget formulation and execution processes pose significant challenges for the governorates in implementing their investment programs.** Initiating the bidding process is restricted by receiving the final budget approval and advising the budget entities of their approved budgets, which may not happen immediately at the beginning of a fiscal year. The bidding process may take another two to three months, resulting in a compressed implementation period within the fiscal year. The risk increases with the compelling incentive to fully disburse the allocated funds during the fiscal year, to not affect the following year's allocation.

68. **The procedures for bidding, awarding, invoicing, and payment processing indicated notable inefficiencies and high transaction costs.** The cross-cutting challenges noted include highly centralized decision-making mechanism, lengthy chain of reviews, and an institutional framework that does not fully support accountability. The LIUs, including through its project management and M&E functions, will contribute to identifying bottlenecks in business processes and administrative procedures and make recommendations to address these issues.

69. **The Program design has adopted a flow of funds mechanism that enables the governorates to benefit from a more predictable funding stream, subject to their own performance progress and to achieving the agreed predetermined results.** The performance-based financing would help create the right incentives for the executing bodies to seek processing efficiency. To this end, the World Bank will disburse the loan proceeds to the state treasury against DLIs verified by an IVA. Accordingly, the state treasury will make periodic transfers of the Program funds to the governorates against DLIs' achievement.

70. **The review of the fiduciary systems in Sohag and Qena indicated acceptable arrangements to capture, record, and prepare financial reports.** 'Final accounts' for the governorate are issued for each fiscal year and are subject to annual audits by the Central Audit Organization (CAO). Although Egypt's 2014 Constitution required making the CAO's annual reports public, the publication of these reports have not been applied or practiced yet. Nevertheless, this PforR operation will require making the annual Program financial statements and audit reports publicly available. The sample audit reports reviewed by the World Bank noted that the audit reports provide detailed listings of audit observations and findings. However, they do not provide an overall opinion on the financial statements (final accounts) as required by the International Standards on Auditing and to be undertaken under the Program. Accordingly, the governorates will hire an independent audit firm to audit the program financial statements and issue an audit opinion on an annual basis. This will be required as a legal provision under the Loan Agreement to be signed between the GoE and the World Bank.

71. **The Program procurement systems are assessed to the degree that planning, bidding, evaluation, contract award and contract administration arrangements, and practices provide a reasonable assurance that the Program will achieve the intended results.** Procurement weaknesses include inconsistent application of the rules and procedures, cost overrun due to delay caused by unnecessary layers of approvals to be obtained for each step in the procurement process, and lengthy process of small-value contracts due to the weak accountability enforcement mechanism. In general, the weak procurement capacity of the entities at the subnational level is largely attributed to the very limited delegation of authority accorded to them to manage their own resources. In addition, the high level of pursuing 'direct contracting' with other government entities poses the additional risk of diluted accountability. The Program's operational procedures will require stipulating mandatory lead times for the critical milestones such as preparation of specifications, preparation of bidding documents (BDs), bid evaluations, contract awards, and processing of contractors/suppliers' invoices. Quality assurance arrangements and audit functions would test the systems' functionality and report weaknesses and/or irregularities.

72. **The procurement system in Sohag and Qena at all levels is subject to the provisions of Egypt's Public Procurement Law 89/98**. However, after reviewing the internal procurement procedures, the following main issues were identified: (a) the need for improvement of procurement practices; (b) inconsistent interpretation and application of rules and procedures; and (c) weak capacity at all levels. This is coupled with the fact that the major procurement activities are delegated to the regional service directorates in which the procurement decision is centralized. The BDs used by the implementing units at all levels in the two governorates are extracted from Law 89/98 and special conditions that are prepared by the entity/department which requests the services. Instructions to bidders, qualification, evaluation, award criteria, and contract management are not sufficiently clear. The BDs - including the contract conditions - can be improved to achieve a more equitable balance between employer and contractor/supplier. A major shortcoming that leads to awarding contracts to nonperforming contractors/suppliers is not applying a post-qualification process on the nominated contractor/supplier for award. These shortcomings will be addressed by developing and implementing a procurement procedures manual and SBDs, as part of the POM, to be adopted by the two governorates and by providing training to procurement staff at all levels, including directorates. The procurement procedures manual would be followed by all other entities, including directorates, when procurement activities under the Program are assigned to them. The SBD evaluation criteria will ensure that contracts/suppliers are awarded only to bidders who meet the minimum financial and technical qualifications.

73. **At present, the two governorates have notable challenges in providing adequate contract administration and management.** The governorates at all levels, including regional service directorates, neither have clear instructions for handling of complaints nor clear contractual dispute resolution procedures. The practice is that the complaints are addressed to the governor or the head of the directorate who in turn forwards them to the respective departments to prepare the official response. As such, the system cannot be considered independent or transparent. The governorates and regional service directorates will receive TA support both through the implementation support team and through additional TA offered to develop and implement a robust complaint handling mechanism to enhance transparency and provide clear procedures how to handle complaints.

C. Environmental and Social Effects

74. **An Environmental and Social Systems Assessment (ESSA) was prepared according to World Bank policy on PforR financing.** The ESSA examined the existing environmental and social management systems at both the central and governorate level. This included assessment of the legislation, procedures, practices, and local capacities. It examined the potential environmental and social risks associated with the Program and the capacity of the existing systems to handle those risks. The ESSA identified the gaps in the systems (including capacity gaps) and identified a number of actions to bridge those gaps, which will be incorporated in a POM. The ESSA was disclosed to the public at appraisal.

75. **Screening of Category A-type and high social risk interventions.** The borrower shall ensure that the Program excludes any activities which, in the opinion of the World Bank, are likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people, as defined in the World Bank policy on PforR financing. The Program interventions are generally expected to be relatively small-scale projects that do not have significant, diverse, sensitive, or unprecedented impacts that could affect a wide area of influence. However, the exact subprojects are not yet known and will only be finalized during the Program implementation; therefore, the ESSA comprises procedures to be followed by the PCO/LIUs to screen for any possible Category A-type interventions. The PCO/LIUs will be trained to screen such projects, especially in sectors with environmental significance, such as solid waste management, roads, wastewater, and slaughter houses. The PCO/LIUs will be also trained to carry out risk assessment and screening for the activities with significant resettlement, economic displacement (for example, loss of livelihoods), or physical displacement impacts.

76. **The ESSA was developed based on a consultative and participatory process.** This entailed information reviews, field visits, consultations, and discussions with various Program entities and relevant stakeholders. From November 2015 through February 2016, a number of consultation meetings and group discussions were conducted with groups of relevant stakeholders in both governorates. The consultations at this stage were designed to allow the Bank to obtain in-depth understanding of the existing environmental and social systems (including land acquisition and community engagement). Public consultation events have been conducted in the two governorates during March 2016 and were attended by different stakeholders, including officials from the *diwans*; the Environmental Management Units (EMUs); the Regional Branch Office (RBO) of the Egyptian Environmental Affairs Agency in Qena; the management and workers of industrial cities; large number of community development associations (CDAs) and nongovernmental organizations (NGOs); representatives from local relevant governmental units; relevant directorates (property department, survey directorate, citizen service offices, and so on); and universities. Moreover, a large number of women and youth participated in the various events.

Environmental Aspects under the Program

77. **The Program will have different environmental benefits through providing better infrastructure and services to reduce the existing environmental pressures in the two governorates.** Those benefits will be achieved through better solid waste management services, water supply, and sanitation. There are a number of indirect benefits through improvement of roads as it will reduce traffic congestions (with associated air pollution and noise) and will also directly

improve roads safety, reduce accidents, and reduce dust emissions from rocky roads that will be surfaced. The main environmental risks are institutional capacity to manage environmental aspects (Substantial), insufficient waste-handling facilities to serve industrial cities and infrastructure projects (Moderate), environmental monitoring and follow-up fragmented between two entities (Moderate), environmentally unsustainable CCIs (Moderate), occupational health and safety in construction and industrial sites (Moderate), and impact on natural protected areas or physical cultural resources (Low). The main environmental impacts are changing land use at the footprints of different subprojects and limited site-specific impacts on land, water, and air. An environment and social implementation manual, which is part of the POM to be adopted within one month after effectiveness includes the different measures for improving the environmental system, including measures for improving the environmental assessment system, the environmental inspection and follow-up system, and the waste management in industrial cities.

Social Aspects under the Program

78. **The Program will have a number of positive impacts and benefits to the local communities within the two governorates.** The Program will strengthen the service delivery in terms of both coverage and quality. This in turn will reflect positively on the well-being of the targeted communities. The improved service delivery will also help in strengthening the accountability of the G2Cs and strengthen the levels of trust between the two parties. The Program will help create economic opportunities in the governorates, including for young men and women.

79. **Land acquisition and the associated impacts are among the key social risks identified by the ESSA.** There is a high likelihood that need for land acquisition will be required as part of the infrastructure and service subprogram. Land expropriation is one particular area of risk for the Program. If not handled carefully, land acquisition could result in serious impacts on landowners and users. At this stage, because selection of specific investments is not known ex ante, it is difficult to determine the exact amount of land that will be needed and the consequences. However, the ESSA greatly underscored land acquisition as a key cause of potentially negative social impacts and social risks if not handled carefully. The most important of the land-related risks are the following: (a) the limited capacities of the governorate and associated relevant entities (for example, the Directorates of Survey) in dealing with land issues; (b) the potential delay in the scheduled time frame as a result of land acquisition; (c) the lack of a consistent and transparent approach in managing some of the land acquisition aspects; and (d) the livelihood risks related to land acquisition, particularly on those without legal titles, squatters, and illegal users. To mitigate those risks, the Bank will support the Government through measures, including setting a screening system for high-risk activities, particularly for land acquisition management, and TA on land acquisition in the two governorates.

80. **Communities and individuals who believe that they are adversely affected as a result of this Bank supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to the existing program GRM or the World Bank's Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed to address pertinent concerns. Affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of World Bank's noncompliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World

Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate GRS, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org

D. Risk Assessment

81. **The overall risk rating for the program is High.** Annex 7 summarizes the Systematic Operations Risk-Rating Tool (SORT) ratings for achieving the PDO. All risk categories are rated either High (political risk and governance, institutional capacity for implementation and sustainability, fiduciary, and stakeholder) or Substantial (sector strategies and policies, macroeconomic, technical design, environmental and social), except DLI risk which is rated Moderate.

82. **Political and governance risk is assessed as High.** Weak de facto implementation of governance reforms and interference by entrenched interests could threaten the implementation of the government program. In response, the Program is specifically designed to address select issues associated with governance and inclusion. For example, the PG mechanism will only be accessible to governorates upon the fulfillment of select governance reforms and measures that increase the inclusiveness of local governance and infrastructure and service provision. Accompanying TA will finance interventions to improve governance and social inclusion, including through an enhanced GRM.

83. **Macroeconomic risk is assessed as Substantial.** Macroeconomic conditions in Egypt are characterized by a large fiscal deficit and shortage of foreign currency. These conditions could constrain public investment spending during the Program implementation period. In addition to ongoing actions by the Government to address macroeconomic risks, the Program is designed to increase the efficiency of and accountability for public investment. Through both subprograms, it introduces complementary mechanisms for better aligning investment decisions with citizen and private business demands, including based on participatory planning processes.

84. **Sector strategies and policies risk is assessed as Substantial.** The Program builds on the mandate provided by Egypt's 2014 Constitution, which emphasizes a citizen engagement approach to guide development of lagging regions and instructs the gradual implementation of decentralization. However, implementation of this broad mandate runs against a strong legacy of centrally controlled decision making, including on sector strategies and policies. As such, there is a risk that the legacy of centrally driven sector interventions with significant policy and fiscal constraints on governorates will undermine the Program objectives. To mitigate this risk, the Program has been explicitly designed to introduce a gradual reform approach emphasizing greater autonomy at the local level in return for accountability while maintaining a central-level oversight and support function.

85. **Technical design risk of the Program is assessed as Substantial.** Technical risks associated with achieving the development objective include the following: (a) limited job creation despite interventions to improve the local business environment; (b) inability of governorates to implement and sustain the institutional reforms targeted in the Program; and (c) persisting gaps in access to basic services and infrastructure. To mitigate the risk of limited job creation despite

business environment enhancement interventions, the Program will focus business environment enhancement interventions on sectors of existing activities and not greenfield areas of economic activities, where the demand for improved business services are confirmed as high. To mitigate the risk of governorates' inability to achieve targeted institutional reforms, the Program will include targeted institutional capacity building. To address the risk that substantial gaps will remain in access to basic services and infrastructure, the Program incorporates a performance audit into the PG system.

86. **Institutional capacity for implementation and sustainability risk is assessed as High.** The existing institutional arrangements relevant to the operation are complex and many governmental bodies have overlapping mandates and cumbersome procedures, all in a weak capacity context. The gaps between de jure and de facto implementation of Government mandates and programs add to the risks to sustaining reforms introduced through this Program. To mitigate the risk of insufficient institutional capacity, the Program will be implemented, to the extent possible, through existing institutions that have demonstrated efficacy and/or institutions that are expected to demonstrate performance enhancements through tailored Program interventions. In addition, targeted capacity-building measures will be provided to support all Program institutions.

87. **The fiduciary risk is assessed as High.** The key fiduciary risks identified are: (a) weak procurement and technical capacity at the level of governorates and districts; (b) cost overrun and lack of transparency due to excessive use of direct contracting; (c) highly centralized decision-making mechanism; (d) implementation delays due to lengthy procedures in procurement and payment processes; (e) opaque and lengthy chain of review and approvals and payment processing; and (f) weak accounting for program activities that are carried out across a number of directorates and public entities, as well as the associated auditing requirements. The following mitigation measures will be integrated into the Program, all to be captured in a fiduciary implementation manual: (a) agreement with the Government to ensure that the required procurement capacity is in place during program implementation to handle complex or high-value contracts, including external support as needed; (b) adoption of a more direct funds flow to the governorate *diwan* and local administrative units to expedite implementation and shorten lengthy transaction processes; (c) empowering the service delivery units at the local level by entrusting them with higher financial authority, decision making, and corresponding accountability; (d) introducing a PG access condition that requires transparency on financial reports and audits; (e) defining clear Program boundaries and expenditure framework; and (f) providing targeted capacity building to support the implementation of the reporting and auditing arrangements.

88. **Environmental and social risk is assessed as Substantial.** The key risks comprise: (a) poor waste management in industrial cities; (b) possible impacts on land, air, water resources, culture heritage sites, natural habitats, and health and safety; (c) land acquisition (if any); (d) weak capacity at the governorates and district levels to adequately screen and manage the environmental and social impacts of program interventions; and (e) absence of appropriate participatory mechanisms to engage with communities (especially women and youth) in planning and implementing projects. The ESSA includes measures to address these issues, including through appropriate screening processes. This approach will comprise recruiting adequate specialists at the PCO and LIUs, who will be trained by the World Bank to carry out the screening and adequately manage the environmental and social issues related to the Program interventions. The World Bank will also continue assessment of the program risks during implementation through reviewing

documentation, progress reports, and conducting field visits. An Environmental and Social Implementation Manual, which is part of the POM, will be adopted within one month after effectiveness for systematic and standardized approach to handle environmental and social issues. A standardized and inclusive approach for land acquisition will also be supported to ensure fairness and transparency in handling land acquisition through the preparation and application of land acquisition guidelines, building the capacity on applying them, and setting appropriate institutional measures for their implementation.

89. **Stakeholder risk is assessed as High.** The Program introduces changes in subnational governance, decision making, and resource management. Such changes may not be readily accepted by all stakeholders and the capacities to take those changes forward may be inadequate. In particular, the Ministry of Planning (MoP) would like to sequence the interventions with the planned reform of the Integrated Planning Law which is currently under preparation, but may take some time to be fully implemented. To mitigate these risks, the Program established a high ranking SC, comprised of key stakeholders and to be co-chaired by the ministers of the MoIC, the MoLD, and the MTI. In addition, all other Program institutions will be supported by targeted capacity-building measures, including with special emphasis on allowing for effective collaboration between the central governments and local administrative units as well as between public and private stakeholders.

90. **Other: DLI risk is assessed as Moderate.** The DLIs have been designed to target specific results under the direct control of the implementation agencies, and achievable, given the specific capacity context of the operation. Nevertheless, the Program, overall, is complex which constitutes a risk of non- or late achievement of a subset of specific DLIs.

E. Program Action Plan

91. **A PAP has been developed that outlines the key actions required to improve the Program as a result of several assessments (including technical, fiduciary, environmental, and social).** These assessments have been undertaken to evaluate the capacity of the Program's coordinating and implementing agencies and have identified key gaps to be addressed. The PAP comprises six action areas based on the technical, fiduciary and environmental and social assessments. The six action areas are: 1) program coordination and implementation; 2) business environment and competitiveness; 3) infrastructure and services; 4) citizen and business engagement; 5) financial management and procurement; and 6) environmental and social measures. Important actions in the early stage of the Program implementation include supporting the establishment and training of all key implementing units and enhancement of their capacity. The PAP matrix, describing the key actions, due dates, responsible parties, and completion measurement, is shown in annex 8.

Annex 1: Detailed Program Description

1. **The Program helps transform the governorates of Qena and Sohag in several respects.** First, it enables strategic planning and investing for sustainable economic growth and citizen well-being, a role they had not been able to exercise effectively in the past. Second, it gradually increases the governorates' scope of authority and responsibility compared with the central government. Third, it incorporates citizen and business participation in investment planning, increasing the likelihood that they would respond to business and citizen demands. Fourth, it introduces an evolved approach for job creation and economic development that is more results driven and focused on enabling the private sector. Finally, it delivers a significantly higher funding allocation to the governorates on a performance basis to help close the infrastructure and services gap.

Subprogram 1: Improving the Business Environment and Competitiveness

2. **Scope.** The scope of activities under this subprogram aims to address key, actionable factors affecting competitiveness of economic sectors in Upper Egypt, namely, poor G2B services, low-quality and insufficient infrastructure, and the combined effect of low demand, coordination failures, and information gaps on the competitiveness of firms within key economic sectors and subsectors in the governorates (or clusters). This subprogram will introduce interventions to improve: (a) G2B services; (b) the competitiveness of economic sectors; and (c) industrial zone management and services.

3. **The Program will introduce an integrated approach to improving the business climate and competitiveness anchored at the governorate level.** The approach will encompass (a) improving local access to better G2B services; (b) catalyzing and removing obstacles to investment and business through targeted sector-level initiatives, including improving the capacity and productivity of firms through BDS and worker training; and (c) improving the management and services of industrial zones. Activities under these pillars will be implemented within each of the two governorates in partnership with specialized implementation entities, both public and private. The direction of the subprogram will be guided by private sector participation in a PPD forum, which will be validated through and incorporated into the participatory planning undertaken at the governorate level.

4. **Improvements in G2B services will consist of implementing reforms in the business environment, particularly in the areas of registration, industrial licensing, and issuance of construction permits.** This will include implementing the ongoing reform of industrial licensing, which is supported by the First Fiscal Consolidation, Sustainable Energy, and Competitiveness DPF and which calls for implementation measures at the governorate level. Processes for obtaining an operating license, construction permit, electricity connection, and other services will be simplified with TA provided by the Subnational Doing Business program. These reformed processes will be rolled out in the district service centers of the two governorates through the introduction of an ICT-enabled G2B service delivery platform that will improve efficiency and transparency of service delivery. Furthermore, GAFI's strategy to roll out OSSs for business registration and post-registration procedures and companies incorporation (for limited liability companies) in each governorate will be fast-tracked in Qena and Sohag.

5. **Sector-specific programs will support investments and coordination measures that catalyze private investment in emerging industries.** These measures will be demand driven, with strong private sector participation in their identification and implementation. Economic clusters in Sohag and Qena will be prioritized in consultation with the private sector, based on a strategy that emphasizes natural resource-seeking and market-seeking investments (such as agro-industry, processing of stone and other minerals, furniture, handicrafts) and the potential for job creation, particularly as linked to the rural poor. CCIs will be devised jointly with the private sector on the basis of value chain and market analysis and implemented through the Program. Measures to be implemented under these cluster initiatives may include governorate-level actions or higher-level reforms to be coordinated at the central government level. The CCIs will have a strong focus on investment promotion, with the aim of attracting anchor investors and promoting opportunities for public-private partnership. Public investments may include the provision of sector-relevant public goods, including infrastructure and services (such as industrial zone services, compliance test labs, or local marketplaces). Government BDS programs for firm-level capacity and skills development, such as those offered through the IMC, will be retooled to better serve the scale and needs of firms in the governorates, with an emphasis on market-based and demand-driven approaches.

6. **The Program will begin with two prioritized subsectors (or clusters) per governorate, bringing in more clusters as the program progresses.** Clusters will be prioritized on the basis of their relevance to the governorate economy, potential for achieving results within the scope of the UELDP, and the potential socioeconomic impacts of growth in those sectors, with special attention to the potential for impact on the rural poor. The initial subsector assessment indicates the potential of a number of opportunities for subsector development and investment in agribusiness (processed agricultural products such as paste and sun-dried tomatoes, dried onions, and fresh herbs); manufacturing (furniture for the domestic market); and services (such as call centers).[29] Cluster prioritization will be confirmed in consultation with the private sector and informed by the outcomes of an economic development strategy in each governorate. Cluster initiatives can only be undertaken where strong private sector participation and commitment are present, because success depends on private sector investment and action alongside public sector investment and action. The scope of the cluster initiatives and prioritization of subsectors will continually be assessed and adapted as needed, based on the level of engagement of the private sector and the results achieved.

7. **Improvement of industrial zone management and services will serve benefit all industrial subsectors.** Industrial zones are currently managed by the governorates but with little to no allocation of an O&M budget beyond salaries. Planning for industrial zone infrastructure development occurs at the central level in the Industrial Development Authority, which allocates the funds for industrial zone upgrading, that is then implemented by the IMPA. The Industrial Development Authority also approves investor applications for land allocation. This disconnect between governorate-level and central government agencies has left a gap in strategic planning and management of the zones. A fundamental change in industrial zone management, including the provision of decentralized licensing and regulatory services, zone promotion, tenant services

[29] Given the dominance of agriculture in the economy of Upper Egypt, the proposed Program is also expected to have synergies with the proposed Inclusive Agricultural Development Program that aims to integrate Upper Egypt smallholder farmers with agribusiness value chains and commercial markets. The two Programs can exchange learning but may also coordinate directly if the latter is implemented in either Qena or Sohag.

and maintenance, and the promotion of flexibility and mixed use in the tenancy of the zones, will be introduced in the six industrial zones in Sohag and Qena. This will be achieved through the development of an Industrial Zone Modernization Plan (IZMP) for each governorate. The IZMP will include an industrial zone management framework to be agreed between the Industrial Development Authority and the governorates, as well as investments, capacity building, and allocation of an O&M budget. The Government further aims to introduce private management or a public-private partnership arrangement for at least one industrial zone in each governorate during the course of the Program. The IZMP will also include infrastructure and services upgrading in the zones based on the revealed investor demand for improved power, water, internal roads, and other services, as well as demand for SME shells to enable entry of small enterprises without the long and costly process of land allocation. The majority of industrial zone tenants reported a high level of dissatisfaction with the electrical supply, water supply, roads, sanitation services, telecommunication services, and security services they receive in their locations.

Table 1.1. Requirements for Cluster Competitiveness Initiatives and Industrial Zone Modernization Plans

CCIs	IZMPs
• Cluster initiative was prioritized based on potential for market growth; scope for jobs; SME growth and economic impact; presence and commitment of active SMEs and other businesses in the cluster; and feasibility to address challenges within the scope of the Program. • Cluster initiative has been developed on the basis of value chain analysis, market analysis that included consultation with advanced buyers and market exploration, and through the participation of businesses involved in the cluster. • Cluster initiative includes private sector measures (coordinated actions, purchase of common services, or investments). • Cluster initiatives, specifically the public investments and measures of the initiatives, are endorsed by the EC tasked with oversight for the UELDP at the governorate level.	The IZMP will include an industrial zone management framework, which defines the functions for industrial zone management, development, and promotion, including the standards, responsibilities, and resources for the following: (a) Provision of regulatory services for establishment and operation of firms in the industrial zone (land allocation, licensing, construction permit, and inspections) and collection of fees (b) Planning and provision of maintenance and basic tenant services within the zone (c) Planning and provision of infrastructure upgrades and expansions in the zone (d) Marketing and promotion of the zone (e) Provision of business development and other support services to tenants in the zones The management framework will provide options for models for industrial zone management and identify the management model to be used in each industrial zone. The industrial zone management framework is agreed by the Industrial Development Authority and the governorates. The IZMP will include plans for industrial zone upgrading including both maintenance and investment needs for each industrial zone in each governorate, based on a demand survey of existing and potential tenant needs. The IZMPs will be endorsed by the EC tasked with oversight for the UELDP at the governorate level.

8. **These activities will be implemented by the implementation teams in the governorates in collaboration with implementation partners, both public and private.** Each area of

intervention will be implemented in collaboration with central government entities with the mandates and technical expertise to contribute to the achievement of the interventions. Private sector contractors will also play a role in implementation, particularly on the cluster- and firm-level competitiveness. For G2B services, the key implementing partners are GAFI for the OSSs and the MoLD and MoP for the upgrading of district service centers. An ICT firm is expected to be hired to develop the ICT-enabled business platform for delivery of improved G2B services. For the upgrading of industrial zones, the governorates will partner with the Industrial Development Authority and the IMPA for technical support on industrial zone infrastructure and further collaborate with the Industrial Development Authority on the industrial zone management framework. For enhancing the competitiveness of clusters and firm-level interventions, the governorates will rely on the expertise of the IMC and possibly other governmental or nongovernmental entities with active programs and expertise in this area (such as Industrial Training Council on training, ITIDA on the ICT sector, United Nations Industrial Development Organization [UNIDO] on the agribusiness cluster development, or others).

9. **Early year investments in this subprogram are expected to focus on improvements in the governorate service centers and industrial zones.** Investments in G2B service centers could potentially begin upon effectiveness, given the readiness of GAFI to create the OSSs, especially in Sohag. On industrial zone services, unfunded needs in infrastructure services already identified in the governorates will form part of the first-year investments.

Subprogram 2: Improving Access to Quality Infrastructure and Services

10. **Scope.** This subprogram is designed to enable the governorates to deliver infrastructure and services for businesses and residents more effectively and sustainably and to enhance upward and downward accountability mechanisms. It does so by introducing a PG that offers governorates infrastructure and service financing contingent upon their institutional performance. It also introduces a technical quality audit, upon which financing is contingent, to ensure that the governorates maintain the quality of their investments. The following subsection explains the institutional reforms that will be sought and the way the PG system will operate.

11. **The UELDP will support a more integrated, efficient, and results-oriented approach to providing infrastructure and services critical for citizens and businesses.** Subprogram 2 will enable the Program governorates to: (a) improve the planning process to better identify and prioritize citizen and business needs and fulfil them in a coordinated manner; (b) address critical sustainability challenges; (c) improve governorate accountability; and (d) expand access to critical infrastructure and services over which they previously had limited influence.

12. **To effectively fill their infrastructure and service delivery gaps, the governorates will be equipped with the means to better identify and prioritize the range of critically needed infrastructure and services.** The current fragmented system of infrastructure and service delivery affords governorates a minor role in identifying needs and influencing delivery of a range of infrastructure and services. The Program seeks to address the coordination challenges inhibiting the governorates through improving the planning process. It will improve the governorates' needs identification and prioritization process by: (a) operationalizing the recent government reform introducing SDPs at the governorate level, including linkages between the five-year SDPs and the

socioeconomic APIPs, and (b) enabling greater citizen and business engagement in the governorates' planning processes.

13. **Further, the Program will help address critical sustainability challenges by affording governorates more financing for O&M and equipping them with tools to help manage assets.** In the past, O&M had been neglected for most projects, and allocations by the central government for O&M transfers to the governorates were insufficient to maintain investments and offer good quality services. Through the Program, governorates will have flexibility to allocate a portion of their overall transfers to O&M on the basis of their assessment of O&M needs. The Program will incentivize the introduction and use of O&M plans. It will also incentivize the introduction and maintenance of an asset management system.

14. **The Program will both require and incentivize a set of practices that will improve governorate accountability—both to its citizens and businesses and to the central government.** The Program introduces disclosure requirements. It also introduces incentives for improving responsiveness to citizen grievances and measuring and improving citizen and business satisfaction with government services. Further details on citizen and business engagement interventions are elaborated in the following section (Cross-cutting Theme: Citizen and Business Engagement).

15. **To incentivize adoption of these new practices, the Program will measure governorate progress toward operationalizing them and reward them through the introduction of a performance-based transfer system**. Governorates' ability to access additional annual funds for infrastructure and services they will provide through the Program will be subject to their performance on the APA. The assessment will be conducted by a qualified performance agent engaged by the PCO. This system offers dual benefits: (a) it reassures the central government and citizens that the governorates are fulfilling institutional performance expectations in advance of receiving funds, and (b) it helps identify areas of strength and weakness in the governorates' performance.

16. **The indicators in the annual assessment are linked to key governorate performance constraints and represent a small set of indicators where improved performance is expected to yield more efficient and valuable infrastructure and service provision.** They are split in two. Governorates will be assessed on the basis of their compliance with the minimum access criteria, which represent the basic steps the governorates must fulfill to increase their transparency, accountability, and ability to engage citizens and businesses. The criteria are outlined in table 1.2. If they fulfill these criteria, they are eligible to receive the full allocation linked to the minimum access criteria. Governorates will also be assessed on a limited set of more ambitious performance metrics. They will receive a further top-up of their annual allocations based on their performance on this assessment. The performance metrics, outlined in table 1.3 are measurable, time bound, and outcome oriented to the extent possible. The APA measures whether targets in the indicated fiscal year have been met. The performance system and its governance will be elaborated in detail in the PGM.

Table 1.2. Minimum Access Criteria

First Assessment November–December 2016 for FY2016/17	**Annual Assessments in April–May 2017–2020 for FY2017/18–FY2020/21**
1a. APIP for first year submitted by 3 months before effectiveness	1b. Participatory APIP—linked to SDP—submitted by the governorate's LEC to and approved by the Local Popular Council (LPC)*
2a. Governorate final accounts from the previous fiscal year, publically accessible on the website and posted at the governorate's *diwan*	2b. Governorate final accounts from the previous fiscal year produced on time, publically accessible on the website, and posted at the governorate's *diwan*
3a. Audit report of governorate final accounts from the previous fiscal year, publically accessible on the website and posted at the governorate's *diwan*	3b. Audit report of governorate final accounts from the previous fiscal year, publically accessible on the website and posted at the governorate's *diwan*.
4a. Upgraded GRM in place	4b. Upgraded GRM in place
5a. Technical and functional expertise in place to ensure effective Program delivery	5b. Technical and functional expertise in place to ensure effective Program delivery
6a. Annual capacity-building plan in place	6b. Annual capacity-building plan in place
	7. (Beginning FY2018/19) PG funds disbursed in accordance with the investment and expenditure menu in the previous fiscal year
	8. (Beginning FY2018/19) Governorates submit monitoring report on financial and physical progress in the past 12 months
	9. (Beginning FY2018/19) Audited Program financial statements from the previous fiscal year with no adverse or disclaimer opinion

Note: * In circumstances when the LPCs are not in place, this requirement is waived.

Table 1.3. Performance Metric Scorecard

Performance Metrics	**Indicator**	**Maximum Score**
Project Selection and Allocation: A set of targets aiming to improve the quality of how projects are chosen and funds allocated		
Fair, predictable, rule-based allocations	1.1 Governorate increases transparency and predictability of funds transferred to *marakiz*	10
Pre-investment feasibility studies	1.2 Pre-investment feasibility study conducted for qualifying investments in the most recent APIP	15
Effective asset management system	1.3 Effective asset management system is functioning for the governorate	15

Performance Metrics	Indicator	Maximum Score
Project Implementation: A set of targets aiming to improve implementation and maintenance of investments		
Effective O&M systems	2.1 Multiyear O&M plans for qualifying investments developed and budget allocated according to the O&M plan	15
Physical progress against milestones	2.2 Physical progress of qualifying investments as evaluated against milestones	15
Strengthening Citizen Engagement: A set of targets aiming to strengthen the governorate's downward accountability towards citizens		
Public access to key information	3.1 Level of public access to key information in the past year including the following: 1. Citizen budgets 2. Implementation plans and progress against plans 3. Contract awards 4. Performance metrics scorecard	15
User feedback surveys	3.2 User feedback surveys are conducted, are disclosed to the public, and demonstrate positive year-on-year improvement	15

17. **Through the introduction of a PG system, the Program offers the Government an opportunity to pilot a mechanism that could improve intergovernmental fiscal transfers.** The transfer is structured to offer governorates more flexibility with respect to how they spend the transfer (for example, how much to allocate to Chapter II spending—O&M). It is governed by a predictable, transparent, and simple allocation formula that is determined by the governorate population size. Funds will be released from the central government (state treasury) to both governorates (program accounts) once the APA is completed and the results verified by the IVA.

18. **In addition, the Program will introduce a technical quality audit for the governorates' infrastructure and service expenditures.** The audit will assess the technical quality of the infrastructure and services provided under the Program to assess whether investments were effectively implemented and met their intended objectives and targets. Governorates will receive further transfers commensurate with the volume of Program-financed infrastructure and services that pass the annual technical quality audit.

Cross-cutting Theme: Citizen and Business Engagement

19. **Lack of citizen voice and participation has been identified as one of the key contributing factors of the 2011 revolution and is seen by the Government as a priority**. Involving citizens in local development in underprivileged areas is specifically mandated in Egypt's 2014 Constitution (Article 236) and is an umbrella pillar in the GoE's IEDLR. A number of steps have already been taken within the governorates to incorporate citizens' views and concerns. These include weekly citizens' meetings headed by the governors, the establishment of citizen complaints offices operated at the governorate and district levels, and efforts to promote communication and engagement through social media. Despite these efforts, there is significant

room for improvement in the way governorates and districts engage with their citizens to strengthen citizen participation, transparency, and accountability at the subnational level, and the leadership in both governorates has emphasized the importance of deepening citizen engagement as a key objective of the UELDP.

20. **The UELDP will therefore support a package of measures that deepen and formalize citizen and business engagement measures in Sohag and Qena** through the strengthening of existing systems and the introduction of new modalities to build sustainable and institutionalized systems for public participation and transparency in the management of local affairs. The objective of this cross-cutting theme is to strengthen the credibility of subnational institutions, enhance government accountability and effectiveness, and restore the citizens' confidence to renew the 'social contract' linking citizens with their local authorities. At the same time, these measures will stimulate PPD to improve the business environment in both Sohag and Qena. The specific measures that the UELDP will support to institutionalize citizen engagement are described below.

(a) **Strengthening citizens' and business participation in the identification, implementation, and evaluation of subnational investments through participation in the annual planning and budgeting cycles and enhancing access to information.** In line with the constitutional provisions for citizen participation in the development of underprivileged areas and the objectives of the IEDLR, governorates will introduce citizen-orientated participatory processes into governorate investment plans and the annual budget cycle that will determine the annual Program investments under both subprograms. Targeted efforts will be in place to ensure that various geographic zones within the governorates (for example, remote districts) are represented and that diverse groups of stakeholders (including women and youth) are participating in the LEDF, a venue for PPD. Through the LEDF, PPD with businesses and firms will also be brought into these engagements to represent private sector development priorities that will be used to identify the cluster initiatives in Subprogram 1. The result will be an APIP for investments and funding allocations within the governorate that is based on the five-year, participatory SDP and incorporates feedback on annual priorities from the citizens and businesses participating in the LEDF and plans of ministries and other agencies operating at the governorate level.

(b) **At the same time, efforts will be made to enhance transparency and access to information to citizens and businesses as this is a prerequisite for meaningful engagement.** The UELDP will therefore encourage the proactive disclosure of information in the Sohag and Qena governorates through the PG conditions, development of information and data disclosure guidelines, and the updating of governorates' websites/e-portals to develop a coherent online presence with user-friendly content and functionalities. In addition, the Program will make public the different allocations of expenditure across different sectors and departments for different goods and services being provided to citizens. Finally, through the G2B portals, greater disclosure and transparency on services for SMEs and businesses will be fostered for Subprogram 1.

(c) **Harmonizing the different GRMs that are operational at the governorate and district levels and upgrading using ICT.** The Program will work to link and harmonize different GRMs operational within the governorates so that these become 'citizen solution platforms', by (i) streamlining and expanding the different grievance uptake channels that are currently limited and fragmented; (ii) strengthening the complaints sorting and processing process; (iii) improving the feedback mechanisms; and (iv) creating transparent reporting and disclosure systems to allow citizens to monitor the progress made by the Government in addressing and responding to the complaints. A separate online GRM will also be integrated for the OSS and industrial zones to receive feedback and complaints from businesses supported by the Program.

(d) **Introducing a system of gathering regular beneficiary feedback through the introduction of citizen report card surveys and ICT-enabled business feedback tools at the governorate level.** Finally, the Program will launch annual citizen report card surveys, which are user feedback surveys that provide a quantitative measure of user perceptions on the quality, efficiency, and adequacy of different public services being provided at the governorate level. While the citizen report card surveys are representative household surveys that will be undertaken annually, efforts will also be made to gather 'pulse feedback' through ICT tools (such as SMS surveys). Further, under Subprogram 1, specific surveys of industrial zone tenants, as well as ICT-enabled surveys of G2C and G2B service users, will be undertaken in an effort to solicit beneficiary feedback for that subprogram.

21. **Each of the above citizen engagement measures has been mainstreamed into the project design by embedding into the minimum access criteria and performance metrics of the PGs under Subprogram 2 and the cluster initiative criteria, industrial zone management, and G2B service platforms under Subprogram 1.** This will help both incentivize and institutionalize these approaches within the functioning of the governorate. The PAP also captures the upgrading of the GRM and beneficiary feedback measures. TA and capacity building will be provided on citizen engagement-related efforts through the proposed trust fund resources that are being mobilized to support the Program.

Investment and Expenditure Menu

22. **The Program enables governorates to fill key infrastructure and service delivery gaps that the governorates have had difficulty filling.** The governorates will be equipped with the financing and technical resources to deliver infrastructure and services needed by their residents and businesses. They will increase delivery in the five areas that currently fall within their mandates—local roads, street lighting, environmental enhancement, traffic and firefighting, and local administrative units' support. Further, to enable governorates to play a more significant role in availing their territories of critical infrastructure and services beyond their narrow mandate, the Program will enable them to purchase infrastructure and services from ministry-affiliated departments and utility companies. Through agency agreements, they will be able to increase access to and the quality of regional roads and utilities (water/sanitation, electricity, gas). An indicative Program investment and expenditure menu is provided in table 1.4 and will be detailed in the POM.

Table 1.4. Investment and Expenditure Menu

Area	Category	
Investing in citizen services and infrastructure	Existing five mandates	Local roads
		Streetlighting
		Environmental enhancement
		Traffic control and firefighting
		Support to local administrative units
	Additional mandates	Regional roads
		Utilities
Investing in local administration performance	Governorate ICT platform	
	Data analysis and M&E	
	Upgrading the skills of the government workforce	
	Citizen service centers	
	Consultancy services for design and contract management	
Investing in private sector-led growth	Improvement of G2B services	
	Upgrading of industrial zones	
	Enhancing competitiveness of sectors and firms	

23. **The expanded investment menu will help accommodate the substantial governorate needs that span locally and centrally provided infrastructure and services, for instance, local and regional roads.** The governorates' local and regional road investment and O&M needs for the next five years are projected to amount to US$100 million. This comprises US$47.5 million for the widening of the 44 km portion of the Western Desert Road connecting Qena and Naga Hammadi and US$11.9 million for maintaining it.[30] It also comprises another US$40.6 million for local road maintenance, road safety features, and speed bump removals on agricultural roads in the two governorates.[31]

24. **Excluded activities.** Any project or activity that will result in significant resettlement impacts, economic displacement (for example, loss of livelihoods), or physical displacement as a consequence of involuntary resettlement will not be eligible for funding. To define the severity of impact, an assessment for the size of land acquisition and its implications on the users and owners would be conducted early on by the Government (for example, impact could be assessed as insignificant in case the number of affected people is limited and the taken land is minimal, for example, less than 10 percent of the affected people with no physical relocation involved). All works related to construction of new road sections, bridges, fords, culverts, solid waste transfer stations, composting plants, biogas plants, urban drainage, flood control, industrial zones upgrading facilities/equipment, CCIs, or other projects or activities that could have significant resettlement impacts, economic displacement, or physical displacement will be screened according to the significance of their environmental and social impacts on a case-by-case basis because they may fall under the exclusion criteria for the operation. In addition, any works, goods, and consultancy contracts above the Operations Procurement Review Committee thresholds will be excluded, all in line with the World Bank's Policy and Directive on PforR Financing.

[30] These prices are quoted based on cost per kilometer figures provided in discussion with the GARBLT and are fully explained in the Technical Assessment.
[31] These prices are quoted based on discussions of the local road authorities with the governorates.

Table 1.5. Negative List of Investment and Expenditure Menu

Area	Types of Expenditures Excluded
Investing in citizen services and infrastructure	• Roads—construction or rehabilitation of roads that require significant resettlement of people (more than 200 people) • Bridges that connect Nile islands to roads—Nile islands are considered natural habitats and such bridges can cause significant impacts to the islands • Power generation plants • Security and defense—including police services, courts, and prisons • Landfills
Private sector-led growth	• Commercial activities—no public ownership in commercial activities with the exception of hygienic slaughterhouses • Microcredit or on-lending activities

Readiness and First-Year Implementation Plans

25. **The Program has a three-pronged approach to ensure readiness for implementation after effectiveness.** First, for Subprogram 1, a CIM will be adopted as part of the POM within one month of effectiveness and will include ToRs for early Program activities to be undertaken by the implementation entities. Given that some of the Subprogram 1 activities relate to more complex TA on private sector development activities that have not been previously undertaken by the governorates, having ToRs ready will help speed up implementation. Second, for Subprogram 2, the PGM provides all details required for the effective functioning of the PG Mechanism. In addition, the governorates have already identified potential FY2017/18 investments, with specific projects further validated as part of Egypt's FY2017/18 Annual Socioeconomic Planning process. Third, for larger investments, initial assessments have been completed to assess the viability of the investments, including from an economic, a social, and an environmental point of view. This, in particular, pertains to regional roads, a key element for addressing Upper Egypt's connectivity challenges, where one potential lead investment for early adoption and financing under the Program has been identified during preparation.

26. **The assessments for lead investments for the first year were started during Program preparation and include a possible regional road/connectivity investment.**[32] The Program will address issues related to physical connectivity and access to markets and services, with regard to not only local roads but also regional connectivity. Sohag and Qena are located at a considerable distance (450–550 km approximately) from Egypt's main internal market in the Greater Cairo area and from the main maritime ports. This inalterable disadvantage can, however, be mitigated through the provision of good long-distance transport infrastructure that minimizes transport costs. For the past several years, the GoE has invested large amounts in such long-distance transport infrastructure. It built multilane highways on each side of the Nile (the Eastern and the Western Desert Roads) in the arid land just outside the green and fertile valley. These connect Qena and Sohag governorates to the Cairo inner and outer ring roads and thereby with the rest of Lower Egypt. These highways make it possible to travel mostly unobstructed at high speeds and low

[32] More details on this assessment can be found in the full Technical Assessment Report.

vehicle operating costs.[33] Only a few sections of the Eastern and Western Desert Highways are still two-lane roads, which have lower travel speeds, higher vehicle operating costs, and most importantly, high accident and traffic fatality rates. These sections are located in Sohag and Qena.

27. **The GoE's overall road sector development program for the coming years foresees the upgrading and widening of most of those remaining two-lane sections to four-lane highways.** An important exception is a 44 km section of the Western Desert Road near Qena, which may be an early year investment of this Program. This road section is of particular importance for Qena governorate because it links Qena with the large factories located at Naga Hammadi and the industrial zone of Al Hew. The existing road has limited capacity to handle the future expected growth in traffic volume. The current traffic is about 5,730 vehicles (average daily traffic) based on traffic counts carried out in early December 2015. Traffic is presently growing on average at about 5 percent per year, and total traffic is expected to double within 15 years. This road was designed and built before the start-up of several large-scale development projects located along the road, including: (a) the 12,500 feddan state-owned agricultural development project under preparation; (b) another 7,500 feddan agricultural project already operating, owned, and managed by Japanese investors; and (c) the industrial zone of Al Hew. Because of these projects, there is a growing number of workers and goods travelling on this road, including also to the large state-owned factories, which have existed at Naga Hammadi for many years.

28. **In addition, ICT plans, which will support a number of different elements under the Program, will also be developed to guide investments in appropriate and cost-effective technology solutions.** ICT plans will be developed for Sohag and Qena to ensure that ICT investments are aligned with the needs of the Program (that is, G2B, G2C, and citizen engagement platforms) and governorates. The purpose of the ICT plans will be to provide: (a) technical guidelines that will introduce recent technological advancements, such as the use of mobile devices with increased computing power or cloud computing services, which can significantly reduce the need to invest in costly hardware and software, and (b) guidelines on contractual arrangements with vendors, including service-level agreements.

Geographic Focus Area

29. **The UELDP focuses on two Upper Egypt governorates, Qena and Sohag.** The choice of Sohag and Qena governorates is based on a clear set of selection criteria: population size, poverty rates, geographic contiguity, economic potential, access to basic services, and governorate readiness. The ten governorates in Upper Egypt were initially screened based on population size and poverty rates to ensure the biggest impact on poverty reduction. Assiut, Sohag, and Qena governorates ranked highest against these criteria, with Sohag being adjacent to Qena and Assiut and meeting the geographic contiguity criterion. These three governorates were then assessed against indicators related to economic potential and local readiness. Economic structure and access to service indicators are largely similar among the three governorates. Although Assiut has a slightly higher number of economic sectors in which there are concentrations of employment and has marginally better industrial infrastructure and support institutions than Qena,[34] the latter is part of the Government's Golden Triangle master plan, which presents a major opportunity to catalyze

[33] For railway transport, the upgrading of railway tracks between Alexandria and Upper Egypt is already supported by the World Bank through the ongoing National Railway Restructuring Project.
[34] This includes a GAFI OSS, an IMC branch, a vocational training center, and a university in Assiut.

development in the governorate. Considering this, Qena was selected for the UELDP to allow for synergies between two development programs targeting the same geography. Thus, the UELDP will support the implementation of the GoE program in Sohag and Qena, with a total population of nearly 7.75 million Egyptians. The UELDP could be scaled up in other governorates once evaluated at the midterm review and then based on demand rolled out to the rest of Upper Egypt gradually, according to the vision laid out in the IEDLR.

Table 1.6. Population and Poverty Rankings in Upper Egypt

Governorate	Population	Poverty Rate (%)	Number of Poor
Giza	7,070,040	32	2,262,413
Fayyoum	3,578,662	36	1,288,318
Beni Soueif	2,435,236	39	949,742
Minya	5,333,080	30	1,599,924
Assiut	3,875,429	60	2,325,258
Sohag	4,259,481	55	2,342,715
Qena	3,473,921	58	2,014,874
Luxor	514,978	47	242,040
Aswan	1,771,874	39	n.a.

Note: World Bank Group calculations from CAPMAS 2012/13, based on 10 percent sample of 2006 Establishment Census.

Partnership with Other Development Partners

30. **Several development partners (DPs) are carrying out activities in Qena and Sohag, which will be leveraged by the UELDP.** An extensive dialogue with the DPs has been initiated since the inception of Program preparation, to map and assess DP interventions focused on local development in Qena and Sohag and at the central level; enhance synergies and complementarities between the UELDP and relevant ongoing or upcoming DP-financed programs; and leverage donor resources and expertise for parallel TA and capacity-building support, as shown in Table 1.7. A full mapping and analysis of other DP activities in the Program governorates was undertaken and is available in the UELDP Development Partner Analysis.

Table 1.7. Development Programs in Upper Egypt

Provision of Infrastructure and Services	Competitive Sectors
World Bank operational lending, including envisaged agriculture operation (link to agribusiness)	World Bank - DPF and Equal Access and Simplified Environment (industrial licensing and land reform)
UN Habitat - SDP development and integrated planning	International Finance Corporation - Subnational Doing Business
European Union (EU) water sanitation in Sohag	German Agency for International Cooperation (*Gesellschaft für Internationale Zusammenarbeit*, GIZ) - Agri incubation in Sohag
EU Twinning - Training program in Upper Egypt	UNIDO - Women Economic Empowerment in Sohag and Horticulture Competitiveness in Hayat
Swiss - Solid waste management in Qena	UNIDO - Horticulture Competitiveness
	U.S. Agency for International Development (USAID) - Strengthening Entrepreneurship and Enterprise Development (Entrepreneurship)

31. **After taking stock of the activities of the other DPs in Upper Egypt, the UELDP team worked with the relevant DPs to establish an Upper Egypt DP group.** Members include the United Nations Development Programme, UNIDO, UN Habitat, EU, European Bank for Reconstruction and Development, GIZ, USAID, Italian Cooperation, Swiss State Secretariat for Economic Affairs, Ford Foundation, and Aga Khan Foundation.

32. **In addition to this broader partnership and collaboration, the World Bank has begun to formalize close partnerships with select DPs to reinforce each other's programs.** One such partnership has been forged with UN Habitat to allow close collaboration and linkages on the support it is providing to Qena and Sohag to develop SDPs. The memorandum of understanding being currently finalized with UN Habitat comprises four sets of activities: (a) the World Bank has contributed to the design of the UN Habitat consultancy, which will provide TA to Qena and Sohag to define their five-year SDPs, particularly focusing on participatory planning and budgeting; (b) the UELDP includes the creation and execution of the SDPs as part of the PforR; (c) UN Habitat has provided input into the PforR design; and (d) the World Bank and UN Habitat will define other concrete partnership opportunities to increase the impact of the initiatives in Qena and Sohag. At a less formal level, mechanisms to maximize synergies and alignment of actions toward ease of doing business, sector and cluster competitiveness, and firm-level assistance have also been explored with UNIDO through the second phase of the HAYAT program in Sohag; the GIZ, which is finalizing the design of the TA initiative 'Incubating Sohag'; USAID, which is currently finalizing the sectoral and geographic targeting of the Strengthening Entrepreneurship and Enterprise Development program; and the EU, as part of its upcoming activities to enhance G2B processes and business climate at the central level, with a potential local component.

33. **The World Bank is also working with the DPs to identify opportunities for financing of parallel capacity-building TA programs in Qena and Sohag.** A first round of funds has already been mobilized from the Middle East and North Africa Multi-Donor Trust Fund and the Korea Urban Development Trust Fund for World Bank-administered capacity-building support. Additional opportunities are being explored.

Annex 2: Results Framework Matrix

Table 2.1. Results Indicators

Results Areas Supported by PforR	PDO/Outcome Indicators	Intermediate Results Indicators	DLI Number	Unit of Measurement	Baseline (FY2015/16)	End Target (FY2020/21)
PDO Level Results Indicators	Percentage improvement in business environment at the governorate level			Percentage of composite index	Qena: 100 Sohag: 100	Qena: 130 Sohag: 130
	Infrastructure and service performance targets met			Percentage of performance score	Qena: 0 Sohag: 0	Qena: 80 Sohag: 80
	Number of people and businesses benefiting from improved access to quality infrastructure and services (of which percentage women)			Number of people Number of businesses Percentage women	Qena: 0 Sohag: 0	To be assessed at midterm review (for each of people and businesses)*
	Percentage of people and businesses expressing satisfaction with quality of infrastructure and services provided			Percentage of people Percentage of businesses	Qena: 0 Sohag: 0	Qena: 70 Sohag: 70 (for each of people and businesses)
Improving the business environment and competitiveness		Increase in occupancy rate in industrial zones in each of Qena Governorate and Sohag Governorate	1	Percentage of occupancy rate	Qena: 14 Sohag 34	Qena: 34 Sohag: 54
		Number of industrial zones in each of Qena Governorate and Sohag Governorate implementing their respective Industrial Zone Modernization Plan	2	Number of industrial zones with improved management and services	Qena: 0 Sohag 0	Qena: 2 Sohag 4
		Number of CCIs launched and implemented in each of Qena Governorate and Sohag Governorate	3	Number of cluster initiatives	Qena: 0 Sohag 0	Qena: 5 Sohag: 5

		Number of district service centers that reduced by at least 25% their average processing times (in days) for issuing operating licenses and construction permits to businesses calculated on the basis of the methodology set out in the POM	4	Number of service centers with improved services	Qena: 0 Sohag: 0	Qena: 6 Sohag: 8
		GAFI OSSs established		Yes/No	Qena: No Sohag: No	Qena: Yes Sohag: Yes
		Number of investment opportunities identified and promoted		Number of investment opportunities	Qena: 0 Sohag 0	Qena: 10 Sohag: 10
		Number of firms benefiting from BDS or cluster development activities		Number of firms	Qena: 0 Sohag: 0	Qena: 500 Sohag: 500
		Percentage of firms that demonstrate increased jobs, investment, exports, revenues, or productivity		Percentage of firms	Qena: 0 Sohag: 0	Qena: 25 Sohag: 25
Improving access to quality infrastructure and services		MAC met and minimum Performance Target achieved for given Fiscal Year by each of Qena Governorate and Sohag Governorate to receive infrastructure and services PGs	5	MAC and Performance Scores	Qena: 0 Sohag: 0	Qena: 80 Sohag:80
		Cumulative value [EGP] of infrastructure and services investment expenditures paid by each of Qena Governorate and Sohag Governorate under the Program that has been subject to technical audit and certified acceptable by technical auditor	6	Million of EGP	Qena: 0 Sohag: 0	Qena: 1,050 Sohag: 1,050
		Percentage of O&M plans that have corresponding budget allocated		Percentage of O&M plans	Qena: 0 Sohag: 0	Qena: 80 Sohag: 80

Cross-cutting area: citizen and business engagement		Citizen participation integrated into annual planning process		Yes/No	Qena: n.a. Sohag: n.a.	Qena: Yes Sohag: Yes
		Percentage of complaints resolved through upgraded GRM system		Percentage of complaints	Qena: 0 Sohag: 0	Qena: 60 Sohag 60
		Performance score on public access to key information		Score out of 15	Qena: 0 Sohag: 0	Qena: 15 Sohag: 15

Note: * As the sectoral allocation of investments and the totality of all projects to be financed under the Program is not known ex ante at the time of appraisal completion, the number of beneficiaries will be provided at mid-term when the sectoral split and majority of investment projects can be fully assessed.

Table 2.2. Indicator Descriptions

Indicator Name (Number)	Description	Frequency	Data Source	Methodology for Data Collection	Responsibility for Data Collection
Percentage improvement in business environment at governorate level	Composite index constructed from indicators on (a) business registration; (b) construction permitting; (c) operating licenses; (d) time to obtain land allocation in industrial zones; (e) electricity and water in industrial zones; and (f) transportation and roads	At midterm review and at Program closing	Survey	The methodology for constructing and measuring this index per POM	PCO/LIUs
Infrastructure and service performance targets	The score each governorate receives on its APA	Annually	APA	The score will be calculated by the assessment agent based on a methodology outlined in the POM	PCO/ LIUs based on input from APA agent
Number of people and businesses benefiting from improved access to quality infrastructure and services (percentage women)	The number of people and businesses that benefit from improved access to quality infrastructure and services (of which percentage women)	At midterm review and Program closing	Annual Program monitoring reports	The number of people and firms benefiting from improved access to services will be estimated at mid-term based on a review of actual Program investments completed with a complete beneficiary count conducted at Program closing.	PCO/LIUs

Indicator Name (Number)	Description	Frequency	Data Source	Methodology for Data Collection	Responsibility for Data Collection
Percentage of people and businesses expressing satisfaction with quality of infrastructure and services provided	Percentage of people and businesses surveyed who assign a satisfactory score to the infrastructure and services provided by the governorates	Annually	User Feedback Survey	Survey will be administered as per guidelines in the POM	PCO/ LIUs based on survey
Percentage occupancy rate in industrial zones in each of Qena Governorate and Sohag Governorate	Percentage occupancy rates measured as the percentage of land area in industrial zones in a select governorate allocated to businesses relative to total land area available for allocation to businesses in industrial zones in said select governorate. Increase in occupancy rate will be measured as the *percentage point increase* in the occupancy rate across all industrial zones in each governorate.	Annually	Annual reports from industrial zone management	The methodology for assessing occupancy rates is to check the land allocation records and measure annual changes.	PCO/LIUs
Number of industrial zones in each of Qena Governorate and Sohag Governorate implementing the respective Industrial Zone Modernization Plan	Number of industrial zones meeting and maintaining the management and service standards in the framework and having substantially implemented infrastructure upgrading plans*	Annually	Annual reports from industrial zone management	The methodology for assessing level of industrial zone service and for assessing completion of industrial zone upgrading plans to be detailed in the POM	PCO/LIUs
Number of CCIs launched and implemented in each of Qena Governorate and Sohag Governorate	Governorate has substantially implemented cluster action plans in accordance with the CIM*	Annually	Annual reports from cluster development implementation partners	The methodology for assessing cluster initiative completion to be detailed in the POM	PCO/LIUs

Indicator Name (Number)	Description	Frequency	Data Source	Methodology for Data Collection	Responsibility for Data Collection
Number of district service centers that reduced by at least 25% their average processing times (in days) for issuing operating licenses and construction permits to businesses calculated on the basis of the methodology set out in the POM	Number of district service centers with reduced processing times for obtaining a construction permit and operational license are improved by at least 25 percent.	Annually	Annual reports on G2B delivery in the governorates	The methodology for measuring reduced processing time to be detailed in the POM	PCO/LIUs
GAFI OSSs established	GAFI OSS providing entry services established in each governorate	Annually	Annual reports on G2B delivery in the governorates	The methodology for measuring improved entry services to be detailed in the POM	PCO/LIUs
Number of investment opportunities identified and promoted	Investment opportunities identified through the Program and actively promoted (investor visits or presentations to investors on specific opportunities) by the governorates to potential anchor investors	Annually	Annual Program monitoring reports	As reported by the LIU	PCO/LIUs
Number of firms benefiting from BDSs or cluster development activities	Total number of firms benefiting from any firm-level assistance activities, such as provision of BDS or training, plus all firms participating in or benefiting from CCIs	Annually	Annual Program monitoring reports	The methodology for counting firms that have received benefits to be detailed in the POM.	PCO/LIUs

Indicator Name (Number)	Description	Frequency	Data Source	Methodology for Data Collection	Responsibility for Data Collection
Percentage of all firms receiving services that demonstrate increased jobs, revenues, or productivity	Percentage of firms that report an increase in employment, sales, exports, or productivity as a result of receiving firm-level assistance activities (BDS or training).	Annually	Annual Program monitoring reports	The methodology for measuring impact on firms that have received benefits to be detailed in the POM.	PCO/ LIUs
MAC met and minimum Performance Target achieved for given Fiscal Year by each of Qena Governorate and Sohag Governorate to receive infrastructure and services PGs	Every year, the governorates will be assessed in terms of meeting minimum access criteria (for all years) and performance scores (from year 2 onward) which measure key planning, citizen engagement, transperncy, and other relevent metrics.	Annually	Perforamnce Assessment Report	The methodology for measuring the minimum access criteria and performance score will be detailed in the POM	PCO/LIUs
Cumulative value [EGP] of infrastructure and services investment expenditures paid by each of Qena Governorate and Sohag Governorate that has been subject to technical audit and certified acceptable by technical auditor	The EGP amount [US$ equivalent] of infrastructure and service expenditures that have been subjected to a technical audit and have met the minimum threshold	Annually beginning in FY 2018/19	Audit firm report	The methodology for the quality audit per the POM	PCO/ LIUs based on audit firm

Indicator Name (Number)	Description	Frequency	Data Source	Methodology for Data Collection	Responsibility for Data Collection
Citizen participation integrated into annual planning process	Governorates have complied with guidance on citizen participation outlined in the POM with regard to hosting consultations, hosting stakeholder workshops, and soliciting direct feedback from different locations (urban and rural) and across different target groups (for example, women, youth, CDAs, and private businesses)	Annually	APA	Guidelines on expected levels and process of citizen participation will be outlined in the POM and will need to be verified through documentary evidence (for example, reports of consultation/workshop proceedings)	PCO/LIUs
Percentage of complaints resolved through upgraded GRM system	Ratio of complaints (not including information requests) adequately resolved as per GRM guidance in the POM. GRM system will be considered 'upgraded' when both of the following are developed: (a) standardized grievance sorting/classification guidance and (b) a common online GRM database.	Quarterly	Governorate administrative data on complaints	Governorate's online GRM database will be used to record and track responses on complaints received through different channels.	PCO/LIUs
Performance score on public access to key information	The APA will review disclosure on the following key information (a) citizen budgets (b) implementation plans and progress against plans (c) contract awards; and (d) APA scorecard. The scoring methodology is outlined in the POM.	Annual	APA	Scoring methodology and criteria for capturing disclosure will be defined in the POM.	PCO/LIUs

Note: * Plans will be considered substantially implemented if percentage accomplishment of individual actions in the action plan is assessed to exceed 75 percent (to be measured as either percentage of financing or of scope of work).

Table 2.3. Higher-level Impact Indicators for the IEDLR

The UELDP and the broader IEDLR government program are expected to contribute to higher-level impacts on jobs. These impacts are of utmost importance to policymakers but may be influenced by factors beyond the Program and may be expected to only be fully realized after the end of the Program. Accordingly, as described in in this table, the Program will provide methodologies and capacity building for the measurement and tracking of these indicators during Program implementation and beyond.

Impact Indicators	Unit of Measurement	Description
Number of jobs created, of which number of direct jobs	Number of jobs	Estimated using employment elasticities by sector and output in economic sectors during the Program period. Direct jobs will be the sum of (a) employment on infrastructure and works financed under the Program; (b) additional employment in firms in industrial zones, participating in the cluster initiatives or receiving BDS; and (c) jobs from new investment in industrial zones or clusters. A methodology will be developed using CAPMAS and other data and described in the POM. Direct jobs will be tracked separately in each category and reported through implementation reports from contractors and partners.

Annex 3: Disbursement-Linked Indicators, Disbursement Arrangements, and Verification Protocols

Table 3.1. Disbursement-Linked Indicator Matrix

	Total Financing Allocated to DLI	**As Percentage of Total Financing Amount**	**DLI Baseline**	**Indicative Timeline for DLI Achievement**				
				FY2016/17 (January–June 2017)	**FY2017/18 (July 2017–June 2018)**	**FY2018/19 (July 2018–June 2019)**	**FY2019/20 (July 2019–June 2020)**	**FY2020/21 (July 2020 – June 2021)**
DLI 1: Increase in occupancy rate in industrial zones in each of Qena Governorate and Sohag Governorate	—	—	Qena: 14% Sohag: 34% (for FY 15/16)	—	Qena: 19% Sohag: 39%	Qena: 24% Sohag: 44%	Qena: 29% Sohag: 49%	Qena: 34% Sohag: 54%
Allocated amount:	**US$50 million**	**10**	**—**	**—**	**US$12.5 million**	**US$12.5 million**	**US$12.5 million**	**US$12.5 million**
DLI 2: Number of industrial zones in each of Qena Governorate and Sohag Governorate implementing their respective Industrial Zone Modernization Plan	—	—	Zero	Qena: Industrial Zone Modernization Plan developed and adopted Sohag: Industrial Zone Modernization Plan developed and adopted	Qena: Industrial Zone Modernization Plan implemented in 2 industrial zones Sohag: Industrial Zone Modernization Plan implemented in 4 industrial zones	Qena: Private management or public-private partnership arrangement implemented in 1 industrial zone Sohag: Private management or public-private partnership arrangement implemented in 1 industrial zone	—	—

	Total Financing Allocated to DLI	As Percentage of Total Financing Amount	DLI Baseline	Indicative Timeline for DLI Achievement				
				FY2016/17 (January–June 2017)	**FY2017/18 (July 2017–June 2018)**	**FY2018/19 (July 2018–June 2019)**	**FY2019/20 (July 2019–June 2020)**	**FY2020/21 (July 2020 – June 2021)**
Allocated amount:	**US$40.75 million**	**8.15**	**—**	**US$6 million**	**US$24 million**	**US$10.75 million**	**—**	**—**
DLI 3: Number of Cluster Competitiveness Initiatives launched and implemented in each of Qena Governorate and Sohag Governorate	—	—	Zero	Qena: 2 cluster initiatives launched Sohag: 2 cluster initiatives launched	Qena: 2 additional cluster initiatives launched Sohag: 2 additional cluster initiatives launched	Qena: 1 additional cluster initiative launched Sohag: 1 additional cluster initiative launched	Qena: 5 cluster initiatives fully implemented Sohag: 5 cluster initiatives fully implemented	
Allocated amount:	**US$50 million**	**10**	**—**	**US$16 million**	**US$16 million**	**US$8 million**	**US$10 million**	
DLI 4: Number of district service centers that reduced by at least 25% their average processing times (in days) for issuing operating licenses and construction permits to businesses calculated on the basis of the methodology set out in the POM	—	—	Zero	—	Qena: 2 district service centers Sohag: 3 district service centers	Qena: 2 additional district service centers Sohag: 3 additional district service centers	Qena: 2 additional district service centers Sohag: 2 additional district service centers	—

	Total Financing Allocated to DLI	As Percentage of Total Financing Amount	DLI Baseline	Indicative Timeline for DLI Achievement				
				FY2016/17 (January–June 2017)	FY2017/18 (July 2017–June 2018)	FY2018/19 (July 2018–June 2019)	FY2019/20 (July 2019–June 2020)	FY2020/21 (July 2020 – June 2021)
Allocated amount:	**US$28 million**	**5.6**	**—**	**—**	**US$10 million**	**US$10 million**	**US$8 million**	**—**
DLI 5: Minimum Access Criteria met and minimum Performance Target achieved for given Fiscal Year by each of Qena Governorate and Sohag Governorate to receive infrastructure and services Performance Grants	—	—	N/A	Qena: Minimum access criteria met Sohag: Minimum access criteria met	Qena: Minimum access criteria met and performance score assessment piloted Sohag: Minimum access criteria met and performance score assessment piloted	Qena: Minimum access criteria met and a performance score of at least 60% achieved Sohag: Minimum access criteria met and a performance score of at least 60% achieved	Qena: Minimum access criteria met and a performance score of at least 70% achieved Sohag: Minimum access criteria met and a performance score of at least 70% achieved	Qena: Minimum access criteria met and a performance score of at least 80% achieved Sohag: Minimum access criteria met and a performance score of at least 80% achieved
Allocated amount:	**US$270 million**	**54**	**—**	**US$30 million**	**US$60 million**	**US$60 million**	**US$60 million**	**US$60 million**

	Total Financing Allocated to DLI	As Percentage of Total Financing Amount	DLI Baseline	Indicative Timeline for DLI Achievement				
				FY2016/17 (January–June 2017)	FY2017/18 (July 2017–June 2018)	FY2018/19 (July 2018–June 2019)	FY2019/20 (July 2019–June 2020)	FY2020/21 (July 2020 – June 2021)
DLI 6: Cumulative value [EGP] of infrastructure and services expenditures paid by each of Qena Governorate and Sohag Governorate under the Program that has been subject to technical audit carried out under Part B.2 of the Program and certified acceptable by technical auditor	—	—	Zero	—	—	Qena: EGP 350 million Sohag: EGP 350 million	Qena: EGP 700 million Sohag: EGP 700 million	Qena: EGP 1,050 million Sohag: EGP 1,050 million
Allocated amount:	**US$60 million**	**12**	**—**	**—**	**—**	**US$20 million**	**US$20 million**	**US$20 million**
Front end fee	*US$1.25 million*	*0.25*						
Total:	**US$500 million**	**100**	**—**	**US$52 million**	**US$122.5 million**	**US$121.25 million**	**US$110.5 million**	**US$92.5 million**

Table 3.2. UELDP DLI Verification Protocol Table

Number	DLI	Definition/Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
				Data Source/Agency	Verification Entity	Procedure
1	**Increase in occupancy rate in industrial zones in each of Qena Governorate and Sohag Governorate**	Achievement will be measured by percentage point increase in occupancy rate as measured by the percentage of land area in industrial zones in each of Qena Governorate and Sohag Governorate allocated (signed land allocation contracts) to businesses relative to the total land area available for allocation to businesses in industrial zones in said governorates.	Yes	PCO/LIUs	IVA	The IVA verifies occupancy rates based on the industrial zone land allocation contracts signed by the competent authority.
2	**Number of industrial zones in each of Qena Governorate and Sohag Governorate implementing their respective Industrial Zone Modernization Plan**	FY 2017/2018: Achievement will be measured by the development of Industrial Zone Modernization Plans agreed by each governorate with the Industrial Development Authority, which define the functions for industrial zone management, development, and promotion; and the service standards, resources, and responsibilities for the execution of those functions—as defined in the POM, and upgrading plans for infrastructure and services in each industrial zone. Achievement will be measured by the number of industrial zones having implemented the	Yes	PCO/LIUs	IVA	For FY2017/18: The IVA verifies the content of and agreement on the Industrial Zone Modernization Plans The IVA verifies that the Industrial Zone Modernization Plan have been implemented. The IVA verifies that management of one industrial zone in each governorate is either private or through a public-private partnership arrangement.

Number	DLI	Definition/Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
				Data Source/Agency	Verification Entity	Procedure
		management framework (as measured by annual survey of service delivery to industrial zone tenants) and infrastructure upgrading plans in the Industrial Zone Modernization Plan. Infrastructure upgrading plans will be considered substantially implemented if plan implementation is assessed to exceed 75 percent. Achievement will be measured by verifying that private management or a public-private arrangement has been implemented in one industrial zone in each governorate.				
3	**Number of Cluster Competitiveness Initiatives launched and implemented in each of Qena Governorate and Sohag Governorate**	Achievement for cluster initiative launch will be measured by cluster initiatives launched per the standards in the POM (endorsement of the selection of cluster by the EC, technical consultant for value chain and market analysis contracted, and public private sector cluster working group formed). Achievement of implementation will be measured on the basis of completion of activities per the standards in the POM and meeting of targets per the endorsed action plan. Initiatives	Yes	PCO/LIUs	IVA	The IVA verifies that cluster initiatives have been launched and implemented.

Number	DLI	Definition/Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
				Data Source/Agency	Verification Entity	Procedure
		will be considered substantially implemented if initiative implementation is assessed to exceed 75 percent.				
4	**Number of district service centers that reduced by at least 25% their average processing times (in days) for issuing operating licenses and construction permits to businesses calculated on the basis of the methodology set out in the POM**	Achievement will be measured by district service centers demonstrating at least 25 percent reduction in processing time (in days) for obtaining a construction permit and operational license (as a proxy for improved services overall) as reported through the ICT platforms in the district service centers. A baseline for FY16/17 will be defined in the POM prior to the introduction of an ICT platform for each district service center.	Yes	PCO/LIUs	IVA	The IVA verifies the reduction of processing time targets for obtaining a construction permit and operational license for each district service center.
5	**Minimum Access Criteria met and minimum Performance Target achieved for given Fiscal Year by each of Qena Governorate and Sohag Governorate to receive infrastructure and services Performance**	Achievement will be measured by the governorates having (a) fulfilled the minimum access criteria and (b) fulfilled the performance metrics targets in the APA, as outlined in the POM. FY2016/17: Governorates will have met the minimum access criteria. FY2017/18: Governorates will have met the minimum access criteria and completed a pilot of	No	PCO/LIUs	IVA	The IVA will verify the APA conducted by the APA agent engaged by the PCO for both the minimum access criteria and performance score.

Number	DLI	Definition/Description of Achievement	Scalability of Disbursements (Yes/No)	Protocol to Evaluate Achievement of the DLI and Data/Result Verification		
				Data Source/Agency	Verification Entity	Procedure
	Grants	the full APA. FY2018/19–FY2020/21: Governorates will have met the minimum access criteria and achieved the minimum performance metric score indicated.				
6	**Cumulative value [EGP] of infrastructure and services investment expenditures paid by each of Qena Governorate and Sohag Governorate under the Program that has been subject to technical audit carried out under Part B.2 of the Program and certified acceptable by technical auditor**	Achievement will be measured by governorates having passed technical audits. Technical audit procedures will be defined in the POM and will be conducted for completed and paid infrastructure and services works finance through Program expenditures.	Yes	PCO/LIUs	IVA	The IVA will verify the technical audits conducted by a technical auditor engaged by the PCO.

Table 3.3. UELDP Bank Disbursement Table

Number	DLI	Bank Financing Allocated to the DLI	Of which Financing Available for Prior Results	Deadline for DLI Achievement	Minimum DLI Value to Be Achieved to Trigger Disbursements of Bank Financing	Maximum DLI value(s) Expected to Be Achieved for Bank Disbursements Purposes	Determination of Financing Amount to Be Disbursed against Achieved and Verified DLI Value(s) [4]
1	**Increase in occupancy rate in industrial zones in each of Qena Governorate and Sohag Governorate**	US$50 million	Yes	December 31, 2021	4 percentage points increase in occupancy rate in industrial zones in Qena or Sohag relative to baseline	20 percentage points increase in occupancy rate in industrial zones in both Qena and Sohag relative to baseline	For each of Qena Governorate and Sohag Governorate: (i) US$5 million upon achieving the first 4 percentage increase in Occupancy Rate during the Program; (ii) US$1.25 million for each additional 1 percentage point increase in Occupancy Rate;
2	**Number of industrial zones in each of Qena Governorate and Sohag Governorate implementing their respective Industrial Zone Modernization Plan**	US$40.75 million	Yes	June 30, 2018 for the development and adoption of the Industrial Zone Modernization Plans preparation; otherwise December 31, 2021	1 industrial zone with Industrial Zone Modernization Plan agreed	6 industrial zones with Industrial Zone Modernization Plans implemented	FY2017/18: US$3 million disbursed for each Industrial Zone Modernization Plan developed and adopted. US$4 million disbursed for each Industrial Zone Modernization Plan implemented. US$5.375 million disbursed for one zone in each of Qena governorate and Sohag governorate which ismanaged by the private sector or under a public-private partnership agreement.
3	**Number of Cluster Competitiveness Initiatives launched and implemented in each of Qena Governorate and Sohag Governorate**	US$50 million	Yes	December 31, 2021	1 cluster initiative launched	10 cluster initiatives implemented	US$4 million disbursed for each Cluster Competitive Initiative launched. US$1 million disbursed for each cluster initiative implemented

Number	DLI	Bank Financing Allocated to the DLI	Of which Financing Available for Prior Results	Deadline for DLI Achievement	Minimum DLI Value to Be Achieved to Trigger Disbursements of Bank Financing	Maximum DLI value(s) Expected to Be Achieved for Bank Disbursements Purposes	Determination of Financing Amount to Be Disbursed against Achieved and Verified DLI Value(s) [4]
4	**Number of district service centers that reduced by at least 25% their average processing times (in days) for issuing operating licenses and construction permits to businesses calculated on the basis of the methodology set out in the POM**	US$28 million	Yes	December 31, 2021	1 district service center	14 district service centers	US$2 million disbursed for each district service center with reduced processing times.
5	**Minimum Access Criteria met and minimum Performance Target achieved for given Fiscal Year by each of Qena Governorate and Sohag Governorate to receive infrastructure and services Performance Grants**	US$270 million	Yes	DLI needs to be met before June 30 of each indicated FY	Minimum access criteria met	Minimum access criteria met and performance metric score of at least 80% achieved	FY2016/17 – FY2020/21: US$30 million disbursed in each FY based on fulfillment of minimum access criteria, of which US$12 million is for Qena and US$18 million for Sohag. FY2017/18: US$30 million disbursed based on the completion of the APA pilot, of which US$12 million is for Qena and US$18 million for Sohag. FY2018/2019-FY2020/21: US$30 million disbursed in each FY on achievement of the indicated performance metric score, of which US$12 million is for Qena and US$18 million for Sohag.

Number	DLI	Bank Financing Allocated to the DLI	Of which Financing Available for Prior Results	Deadline for DLI Achievement	Minimum DLI Value to Be Achieved to Trigger Disbursements of Bank Financing	Maximum DLI value(s) Expected to Be Achieved for Bank Disbursements Purposes	Determination of Financing Amount to Be Disbursed against Achieved and Verified DLI Value(s) [4]
6	**Cumulative value [EGP] of infrastructure and services expenditures paid by each of Qena Governorate and Sohag Governorate under the Program that has been subject to technical audit carried out under Part B.2 of the Program and certified acceptable by technical auditor**	US$60 million	No	December 31, 2021	Qena or Sohag: EGP 100	Qena: EGP 1,050 million Sohag: EGP 1,050 million	US$2.857 disbursed for each EGP 100 infrastructure and services expenditures paid that have passed technical audits for up to EGP 1,050 million in each of Qena Governorate and Sohag Governorate.

Annex 4: Summary of Technical Assessment

Strategic Relevance

1. **Relevance and priority of issues addressed under the Program for Egypt's development.** The proposed Program is strategically relevant to Egypt's development challenges and priorities. Public perception concerning poor Government transparency and accountability, as well as lack of opportunities for sustainable jobs and growth, were among the underlying factors that contributed to popular protests in Egypt in 2011. After three years of political uncertainty following the 2011 revolution, a new constitution was adopted by popular referendum, presidential elections were held in May 2014, and finally, parliamentary elections were also completed by the end of 2015. The present Government has made progress in restoring security and bringing down the level of civil unrest and initiating critical reforms. Nevertheless, the underlying causes of the protests—shortage of formal-sector jobs, high unemployment and underemployment among Egyptian youth, and lack of service delivery to poor segments of the population, among others—persist and are the focus of the GoE's economic and social reforms.

2. **Nowhere are these challenges more manifested than in Upper Egypt, which lags significantly behind the rest of the country in economic growth, employment generation, connectivity, service delivery, and government capacities.** These factors are collectively associated with high rates of poverty in Upper Egypt governorates, making it the poorest region in the country. While the region is home to about 38 percent of Egypt's population, it contains 67 percent of the poor. The poverty rate in Upper Egypt was estimated at 35.8 percent in 2012–13, whereas the rate for the country was much lower at 20.5 percent.[35]

3. **The proposed UELDP will be a critical step toward reducing poverty and boosting shared prosperity in Egypt.** The recognition by the Government of the need to create the environment for private sector-driven growth and strengthen the nascent decentralization process, including the focus on participation of citizens and the private sector in local decision making, presents an important opportunity to help reduce entrenched poverty and support shared growth in Upper Egypt. A national development program that does not fully integrate this region risks further alienating significant segments of society and undermining collective gains achieved through national programs or growth in metropolitan regions.

4. **The operation will respond to several critical needs in the Government's program for Upper Egypt.** First, it will provide the necessary financing to begin to correct market distortions and government failures constraining private sector-led economic growth at the governorate level. Second, it will enhance coordination at the central, governorate, and lower levels of the Government on a set of priority, measurable results, thereby improving effectiveness of existing fiscal resources, reducing fragmentation, and improving coordination. Third, the operation will be government executed, fully implemented by the selected governorates, and coordinated by the two

[35] World Bank Group. 2015. *Promoting Poverty Reduction and Shared Prosperity: A Systematic Country Diagnostic*. These rates are different from the official poverty rates. In discussions with CAPMAS, the poverty team learned that for the Household, Income, Expenditure, and Consumption Survey 2010/11 and 2012/13, a full re-estimation of the poverty lines and rates had been conducted. As an exercise to calculate poverty rates that are comparable across time, the Egypt SCD report developed a methodology to obtain comparable poverty lines (and rates) for the years 2004/05 and 2010/11. Here, this methodology is expanded to the survey year 2012/13 to produce the results presented.

ministries: the MoLD, which is responsible for service delivery and local development at the governorate level and the MTI, which oversees economic competitiveness at the national level. This is expected to ensure greater ownership, sustainability, and coordination of the complex process of driving economic development in a region which has traditionally lagged behind. Fourth, the operation will enhance incentives and resources for both the central government and governorates to achieve results—targeting actions needed at different levels of the Government.

5. **In the absence of the proposed UELDP, the GoE program would continue to be implemented; yet a key opportunity would be missed.** Through the years, and most recently in the Egypt SCD and the Egypt CPF, the World Bank Group has indicated the importance of addressing poverty in Upper Egypt and underscored the importance of doing this in a comprehensive way that enhances decision making, institutional capacity, and accountability at the local level, with the view of providing sustainability through inclusion of citizens in local decisions and private sector-led development.

Technical Soundness

6. **The proposed PforR is designed to improve the implementation of the GoE's IEDLR through incorporating lessons learned from international experiences on lagging regions.** These experiences point out that first, successful programs in lagging regions integrate several interventions but in a selective and targeted manner, without attempting to address all the development challenges of such regions; second, lasting solutions to job creation and local economic development are associated with private sector-led economic growth that is facilitated by enabling public sector institutional and administrative reforms and interventions; third, enhancing the ability of subnational administration to more effectively and accountably govern can deliver for citizens and businesses; and fourth, institutional reforms can be better induced by linking reforms to financing. They also indicate the importance of balancing the need for rapid on-the-ground results at the onset of implementation while also ensuring sustainability of reforms and institutional improvements.

7. **These lessons are drawn from more than three decades of World Bank Group support for approximately 100 programs oriented toward challenges in lagging regions.** This support has ranged from policy support to transport connectivity investments, to integrated development projects. These experiences have informed, and subsequent interventions have been informed by the World Bank analytical work developed for diagnosing and addressing challenges in lagging regions. One key framework that informs interventions to address lagging regions was developed in the 2009 World Development Report 'Reshaping Economic Geography'. The framework was further adapted to the Middle East and North Africa context in the 2010 'Poor Places, Thriving People', and the Egyptian context in the 2011 'Reshaping Egypt's Economic Geography'. The principles advanced in the analogous frameworks are to: (a) enhance spatially blind institutions (for example, those that equalize access to basic services and infrastructure); (b) increase connectivity (both physical and information); and (c) intervene spatially where localized constraints to potential exist (for example, through zones establishment). The appropriate combination and calibration of interventions depend on the nature of the challenges in lagging regions and the potential for impact associated with alternative interventions.

8. **While drawing lessons from international experience, the Program builds on and**

strengthens systems and institutions already in place in Egypt. The Program design conforms to international good practice by systemically enhancing key institutions at the central and governorate levels. For instance, it will improve coordination of existing public institutions in the Program governorates while also supporting the introduction of mechanisms and approaches for increasing private sector and citizen engagement in deciding on the use of public resources. It will enhance the economic development planning processes that have earlier been established at the governorate level.

9. **There are three critical constraints to catalyzing private sector investments and enabling local development to reduce poverty and stimulate growth in Upper Egypt.** First, there is a set of regulatory and institutional barriers that hinder the business environment. Second, there are infrastructure and service delivery backlogs, which simultaneously reduce living conditions and competitiveness. Third, there are weak capacities of key public agencies at the local level which constrain G2C and G2B relations. Addressing these constraints in an integrated and incremental manner is key to unlocking the potential of Upper Egypt.

10. **To this end, the World Bank Group's support to the GoE's program would aim to systematically address the most critical elements that could help address these constraints.** This approach will require reforms and institutional development—both capacity and systems development—investment and, importantly, will need to bring the various interventions together in a meaningful and sustainable way to make them successful and scalable. Analytical work shows that this is where most past interventions fell short, as they focused only on certain elements in an ad hoc manner rather than a comprehensive and a systematic approach. Based on this, the proposed PforR envisions helping implement the larger GoE program, the IEDLR, by (a) reducing regulatory barriers to private sector investments; (b) enhancing access to and quality of local infrastructure and services; and (c) strengthening the accountability of Government and inclusion of citizens, in select Upper Egypt governorates. It is expected that through the combination of these factors, sustainable local development will be achieved, productive employment will be created, and, thus, entrenched poverty will be reduced, as envisioned in the GoE program.

11. The following sections describe the technical foundations for the subprograms of the UELDP**.**

Subprogram 1: Improving the Business Environment and Competitiveness[36]

12. **Egypt's business environment is often characterized as complex, discretionary, and opaque, which disproportionately affects businesses in nonmetropolitan areas that suffer from an even weaker business environment despite some attempts to decentralize government functions and services.** Investment climate assessments and Doing Business reports on Egypt have highlighted the need for deep, cross-cutting business environment reforms, and the improvement of G2B services. At the same time, in lagging regions operating in a low-level equilibrium of economic activity and investment, catalyzing new private investment will require a sector-specific focus to complement horizontal cross-cutting reforms. This is needed to mobilize

[36] The following recent analytical reports by the World Bank Group informed the design of Subprogram 1: the 'Egypt Systematic Country Diagnostic'; 'Jobs or Privileges'; 'More Jobs Better Jobs'; and a G2B assessment, industrial zone assessment, and rapid sector competitiveness and opportunities assessment, each carried out for Qena and Sohag during UELDP preparation.

limited governorate-level convening and implementation power and limited investment resources on those sectors that are highly relevant to the local economic context by the current level of activity, potential investor interest, and growth.

13. **Recent literature suggests that cluster or sector-focused approaches can be an effective platform, lens, or 'flexible mode of inquiry' rather than a precise method for trying to predict future growth engines.**[37] This Program supports that approach and aims to first identify and tackle the fundamental economic obstacles and complement that approach by using clusters or sector-focused solutions to address those problems. In other words, success will not be measured by cluster formation but by the economic gains to society through increased investment, incomes, and jobs. International good practice further suggests that a key element of successful regional and spatially targeted solutions is first setting up an inclusive governance structure that can produce a shared vision about the future of the region and select a limited number of priorities for development.[38]

14. **This subprogram will seek to address a number of constraints that hinder key drivers of local economic development in Sohag and Qena, by introducing an integrated approach to improving the business climate and competitiveness anchored at the governorate level.** The approach will comprise: (a) improving the occupancy and management of industrial zones and accessibility of serviced industrial land; (b) introducing targeted sector-specific initiatives for catalyzing investment and removing obstacles to business; and (c) improving local access to better G2B services. The technical foundation for the main elements of the subprogram are further detailed below.

15. **G2B services. Subprogram 1 will be underpinned by horizontal cross-cutting investment climate reforms to enhance the business-enabling environment in Upper Egypt.** The provision of a supportive investment climate—one that facilitates entrepreneurship and private investment and corrects for market failures such as information asymmetries—is a key area for Government and public sector financing and engagement. The World Bank Group has been providing extensive support to investment climate reforms—estimated at US$3.7 billion in 119 countries from FY2007 to FY2013. A recent IEG evaluation of investment climate support provided by the World Bank Group showed that the World Bank Group has been successful in improving investment climates in client countries based on the number of laws enacted, streamlining of processes and time, or simple cost savings for private firms.[39] The evaluation advises that regulatory reforms need to be designed with both economic and social costs and benefits in mind.

16. **The business environment in Egypt is characterized by complexity, unequal treatment, and lengthy procedures.** Egypt ranks 131 of 189 economies on the 2016 Doing Business index, a change in rank of minus five from the 2015 Doing Business index and lower

[37] Feser, Edward. 2015. University of Illinois. Presentation at Industrial Policy workshop, World Bank.
[38] Guide to Research and Innovation Strategies for Smart Specialisations, May 2012, page 17.
[39] Independent Evaluation Group, World Bank. 2015. "Investment Climate Reforms: An Independent Evaluation of World Bank Group Support to Reforms of Business Regulations."

than the region's better performers like Tunisia and Morocco (74th and 75th respectively).[40] A strategic assessment of business licensing and other administrative procedures found that as a result, "Egypt has one of the most complex, unwieldy, and time-consuming licensing systems in the world."[41]

17. **Evidence further suggests that governorates other than Cairo are more vulnerable to these challenges, likely due to their lack of connectedness to the central government and inefficiency in delivering G2B services to local investors.** The 2013 Enterprise Survey data showed that a relatively higher share of firms in Upper Egypt reported difficulties with business licensing, permits, and regulatory policy uncertainty than in other regions. The survey further showed that though firms in Upper Egypt appear to share the same broader concerns about governance and political instability as firms throughout the rest of Egypt, there also appears to be disproportionate impact that certain constraints have on firms in Upper Egypt—particularly in the areas of market access, infrastructure, access to factor markets (primarily land and finance) and access to business regulatory services.[42]

18. **Firms in Qena and Sohag cite substantial difficulties in obtaining licenses, permits, and land.** The Subnational Doing Business data for Egypt (2014) shows that Sohag underperforms on the indicators of Starting a Business (12/15) and Construction Permits (9/15) relative to the 14 other governorates included in the analysis.[43] It appears that firms in Sohag would have a relatively more difficult time starting a business than in almost all other cities assessed; it ranks higher than only Kharga and Aswan on the Starting a Business indicator. One particular consideration is that businesses in Sohag must travel to the nearest OSS in Assiut, which covers the southern governorates, including Aswan, Sohag, and New Valley. According to an industrial zone assessment carried out by the World Bank Group in Qena and Sohag, business owners in Upper Egypt consistently cite obstacles and delays in obtaining licenses, permits, and serviced land, in some part due to the inaccessibility of these services at the local level. In Sohag and Qena, over 55 percent of firms surveyed in industrial zones reported that it took more than three months to obtain their operating license, while 21 percent report that it took over a year. While industrial land is provided for free in Sohag and Qena, firms under establishment in industrial zones report land allocation as the key obstacle to starting operations.[44]

19. **The subprogram will include reforms at both the governorate and district levels to improve access to G2B services at the local level, as well as increase speed and efficiency in delivering these services.** First, governorate-level G2B services will be enhanced through the establishment of a OSS in both Qena and Sohag that will provide business registration and post-start-up investment services. These services provided through GAFI are targeted mostly at limited liability companies, which are typically larger scale investments. Evidence shows that in the economies that have an OSS offering of at least one service besides business registration, the time

[40] In the National Doing Business ranking, the assumptions for Egypt are based on a limited liability company operating in Cairo with between 10 and 50 employees.
[41] Strategic Assessment and Recommendations: Industrial Licensing in Egypt. IFC 2008.
[42] Analysis at the sub-region level should be treated with care, particularly because the sample size is very small in certain governorates—for example, only 25 firms were sampled in Qena and 65 in Sohag.
[43] Subnational Doing Business data on Qena has not been collected to date.
[44] From a World Bank survey of potential investors who applied for land in the industrial zones of Qena and Sohag.

it takes to register a business is more than twice as fast as in those without such services. Furthermore, a recent study in Portugal suggests that introducing an OSS for business registration led to a 17 percent increase in new firm registration and seven new jobs per 100,000 inhabitants. In Colombia, the establishment of an OSS led to a 5.2 percent increase in new firm registrations.[45]

20. **While certain regulatory reforms will require larger scale changes at the national level, the Program will target streamlining, increasing efficiency, and improving access at the governorate and district levels.** Technology service centers (TSCs) were established in both Sohag and Qena at the end of the 2000s to separate citizen's service requisitions from public sector departments/agencies service delivery. For instance, services offered, as received from Nagi Hammadi TSC, consist of 17 main services (including four deactivated services) and 83 subservices (including 21 deactivated subservices). Based on initial findings in Sohag and data received from Qena, it is evident the TSCs act as stand-alone centers with no connectivity. The fragmentation of software applications and practices create a further barrier to connectivity and the ability of TSCs to streamline processes and hence the services offered. Accordingly, the Program will aim to improve how businesses interact with the governorates through an integrated ICT-based G2B platform, which will also include a GRM and tracking system. There is evidence that several economies with the fastest business start-up time offer electronic registration because it further reduces the time and cost for business registration and also improves access for smaller firms operating at a distance from the central offices. Today, over 110 economies use ICT for services ranging from name search to online business registration.[46]

21. **Competitiveness of economic sectors.** The horizontal G2B reforms of the Program (described below) will be complemented by activities to stimulate investment in priority economic subsectors. In lagging regions operating in a low-level equilibrium of economic activity, productivity, and investment, catalyzing new private investment will require a sector-specific focus as well. A sector-focused approach is needed to mobilize limited governorate-level convening and implementation power as well as limited investment resources on those sectors highly relevant to the local economic context by current level of activity and potential investor interest and growth.

22. **In recent years, a number of countries have invested programmatically in enhancing the competitiveness of specific sectors to motivate collective action by public and private actors and forge linkages to the broader economy.** These approaches are innovative in that they seek to convene the public and private sectors; coordinate across macro-, mezzo-, and micro-level reforms; and bundle interventions to deliver support to specific industries while taking advantage of economies of scope and scale. At the same time, such approaches can be complex and challenging to implement and are often subject to criticism due to the public sector's inability to 'pick winners'. However, past experience shows that the associated risks can be managed through programmatic design, prioritization and sequencing of activities, use of innovative fiscal and financial instruments, and reliance on third-party monitoring and feedback loops. In addition, such interventions require considerably more resources during their design and implementation, a heavy emphasis on private and public sector capacity building, and an awareness of political economy

[45] Doing Business: http://www.doingbusiness.org/data/exploretopics/starting-a-business/good-practices#Creating.
[46] Doing Business: www.doingbusiness.org.

dynamics. International good practice further suggests that a key element of successful regional and spatially targeted solutions is first setting up an inclusive governance structure that can produce a shared vision about the future of the region and select a limited number of priorities for development.[47] A common challenge in developing countries is that there are weak incentives and mechanisms for the public and private sectors to engage in dialogue and coordinate, resulting in a market failure regarding transparency, access to information, and collective action.

23. **The Program's proposed public-private LEDFs will serve as a platform for catalyzing private sector-led local economic growth and assessing, prioritizing, and incentivizing investment in key economic subsectors.** Empirical and analytical works suggest that close collaboration between the Government and private sector offers great potential for defining opportunities and removing constraints that hinder competitiveness such as skills and capacity building, access to markets, access to technology, industrial infrastructure, and a supportive business climate.[48]

24. **During Program preparation, an initial sector assessment was conducted to identify one or two priority subsectors for the first year of the Program.** Additional subsectors will be identified over the course of the Program. Within the prioritized subsectors, a public-private team with technical facilitation capacity will conduct market analysis, value chain analysis, and needs assessments of key gaps within the subsectors. A subsector competitiveness action plan will identify both private and public sector actions, possibly a combination of private sector investments, private and/or public sector coordination, public sector investments, and reforms, to stimulate private sector-led investments and employment creation.

25. **The approach to identifying, assessing, and selecting sectors of focus to be financed during the Program will be sequenced.** This has been and will be done in the following stages: (a) identification and assessment of current economic activity in Qena and Sohag and emerging markets and opportunities; (b) assessment of competitiveness factors of the identified relevant subsectors; and (c) private sector validation to gauge feedback, interest, and market potential within the identified subsectors. This approach is designed to mitigate risks from selecting subsectors that have little to no chance of sparking additional activity and investment, and focus on those with the most potential. It will focus on sectors with existing activity or those benefiting from national endowments or lower labor costs.

26. **For example, there are opportunities to build on the natural endowments and resources in Upper Egypt to catalyze economic growth and job creation.** In particular, agribusiness opportunities in Sohag and Qena are underserved and represent potential areas of sector focus for the Program. Sohag has a total cultivated area of about 349,000[49] feddans producing wheat, onion, beans, cotton, sugarcane (ranking second after Qena governorate), sorghum, and clover. Qena and Sohag have a competitive edge in agriculture due to their microclimate; some crops like tomatoes can be grown during the winter season to complement the summer season in Lower Egypt, hence providing a year-round supply of that crop. Egypt ranks

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[47] Guide to Research and Innovation Strategies for Smart Specializations, May 2012, page 17.
[48] The Cluster Competitiveness Group for the World Bank Group. 2011. "Public-Private Dialogue for Sector Competitiveness and Local Economic Development: Lessons from the Mediterranean Region."
[49] Sohag Investment Plan, Ministry of Planning and Administrative Reform.

fifth on the global market in producing tomatoes, with production of 8.1 million metric tons in 2012,[50] preceded by China, India, United States, and Turkey. However, out of total local production, Egypt only processed 250,000 million metric tons of tomatoes, representing only 3 percent of the total share.[51] The following is an example, from the rapid sector competitiveness and opportunities assessment, of potential activities and investment that could be pursued in the tomato subsector.

Table 4.1. Potential Interventions in the Tomato Cluster

Interventions	Tomato Subsector - Potential Activities/Investment
Suppliers	• Linking seed importers of processed tomato varieties with processed tomato growers
Growers	• Technical capacity building on field level in association with local experts or institutions • Promoting good agriculture practices, effective irrigation, and fertilization systems • Exploring opportunities in growing larger areas in reclaimed land using mechanization in association with processors in Qena or other governorates • Introducing new demanded varieties of higher yield
Processing	• Providing on-the-job training on postharvest techniques to decrease loss and increase quality • Facilitating access to finance, technology, and TA to enter the sun-dried tomato market • Improving the infrastructure of current postharvest facilities (sun drying, sorting, and so on)
Markets	• Facilitating linkages and contracts between farmers and processors • Supporting and raising awareness on contract farming to enhance market accessibility • Linking processors to markets through business-to-business meetings and linkages with trade promotion bodies
Financial Services	• Working with financial institutions on devising a microfinance product that is suitable for the processing tomato growers to enable them to invest in mechanization that will generate cost savings and improve yields

27. **Detailed analysis of the following subsectors can be found in the Technical Assessment Report:** (a) tomato processing; (b) dehydrated onions; (c) dairy/milk; (d) solar energy; (e) call centers; (f) marble and granite manufacturing; (g) furniture; and (h) handicrafts.

28. **The LEC would support coordinated action and investment on the identified constraints at the sector level while also addressing more cross-cutting needs at the firm level.** It will decide on the most appropriate interventions. These may include improving the efficiency of the current supply chain; improving the quality of the input supplies; improving financing sector-specific infrastructure (that is, testing facilities and storage capacity); introducing mechanization to reduce costs along the chain; introducing the concept of a collection hub to overcome the issue of land fragmentation and leveraging volumes for better incomes and processing, skills development, and training programs; and introducing firm-level BDS.

29. **Industrial zone upgrading.** Subprogram 1 will also target improved occupancy rates, services, and management of industrial zones based on potential growth and employment that would be realized from these upgrades from both existing and potential tenants. Since the 1970s, starting in East Asia and Latin America, a number of countries have experimented with approaches to attract investment in labor-intensive industries through industrial or other economic zones. While there are wide variations in zone models, the underlying assumption is that this approach allows for better coordination and a focus on specific investments and policy reforms that will maximize private sector investment. Therefore, the governorates' ability and performance in

[50] FAO Statistics FAOSTAT. 2012.
[51] World Processing Tomato Council. October 2014.

providing relevant, accessible, and quality infrastructure and services will have an impact on private sector growth and job creation in Qena and Sohag.

30. **Based on identified needs and assessment of the potential of industrial zones to contribute to local economic development, Subprogram 1 would seek to modernize and upgrade industrial zones in each governorate with a focus on promoting mixed use and SME access.** The Program would aim to support enhanced zone management based on global good practices, including setting service standards, enabling mixed use of zones, supporting investment promotion activities, and potentially shifting to a private developer/operator model in select zones. Infrastructure upgrades (for example, power, water, sanitation, internal roads, ICT) within industrial zones would also be provided, as needed.

31. **An assessment[52] of current and potential tenants in Qena and Sohag indicates that most of the industrial zones are underequipped with necessary infrastructure and inadequately managed, with reports of insufficient electricity, sanitation facilities, and poor quality water (table 4.2).** They are often disconnected from the main economic centers of the governorates. This phenomenon is also connected more broadly to evidence that the public land allocation system in Egypt is often characterized as complex, fragmented, and not driven by market forces, resulting in distorted land markets. As a result, occupancy rates in the zones are low, averaging only 14 percent in Qena and 34 percent in Sohag.[53] The result is that many industrial zones do not reach a critical mass in any specific industry that would benefit from proximity linkages. The following are findings of a survey carried out of existing tenants in the six industrial zones.

Table 4.2. Overview of Existing Industrial Zone Tenants Survey Findings

		Kawthar	**West Tahta**	**West Gerga**	**Ahaywa**	**Qeft**	**Hew**
Under Construction		129	108	76	53	21	48
Operational		151	53	41	12	27	6
Land Size (feddan)		**500**	**912**	**1086**	**250**	**386**	**500**
Land for use (feddan)		*245*	*559*	*543*	*159*	*231*	*325*
Land used (feddan)		*220*	*121*	*91*	*80*	*58*	*20*
Occupancy %		**90%**	**22%**	**17%**	**50%**	**25%**	**6%**
% of firms indicating poor industrial zone infrastructure negatively impacts their operations:	*Power:*	50%	62%	**80%**	**91%**	56%	**90%**
	Water:	53%	48%	**93%**	**91%**	33%	**80%**
	Sanitation:	29%	**100%**	53%	**100%**	33%	60%
	Telecom:	29%	**100%**	47%	**82%**	44%	**100%**
	Roads:	18%	**86%**	60%	**91%**	67%	50%
	Security:	41%	**81%**	60%	**100%**	**89%**	**100%**
Other Needs:		• Gas supply	• Gas supply	• Public transport	• Gas supply	• Public transport	• Onsite facilitation

[52] World Bank survey of 100 existing tenants and 50 potential investors in the industrial zones of Qena and Sohag.
[53] Based on data provided by industrial zone managers.

	Kawthar	West Tahta	West Gerga	Ahaywa	Qeft	Hew
	• On-site facilitation	• Public transport	• Gas supply • On-site lending	• Fuel station, fire equipment	• Catering	• Public transport
	• On-site lending	• On-site lending	• Fuel station	• On-site facilitation	• Mechanics	• Catering

32. **The majority of industrial zone tenants reported a high level of dissatisfaction with the electrical supply, water supply, roads, sanitation services, telecommunication services, and security services they receive in their locations.** SMEs also report difficulties in finding suitable industrial locations. To induce mixed use by size and type, the industrial zones will be equipped with 'plug-and-play' SME facilities (or SME 'shells'), which include ready spaces to house SMEs and possibly some BDS such as credit application assistance, market information, and similar services to attract and support SMEs in the zones. This was further emphasized during a focus group carried out with a furniture cluster in Tahta to evaluate potential plug-and-play demand for nearby West Tahta industrial zone, where workshops owners are concerned they will incur costs to extend utilities, build, and move to premises, as well as operational costs to transport workers and materials to the industrial zone.

33. **Industrial zone management in Qena and Sohag faces several constraints.** The industrial zones are understaffed and lack fundamental operational and productivity tools and equipment. Industrial zone managers have limited operational budgets, and managers in Kawthar, Tahta, and Gerga indicated approximate annual budgets of EGP 200,000, EGP 270,000, and EGP 280,000, respectively.

34. Based on results of the industrial zone assessment, it is evident that industrial zone infrastructure upgrading of power, water, internal roads, SME shells, and other services would be necessary to attract investment and enable growth. The ability of governorates to provide relevant, good quality infrastructure and services would have an impact on private sector growth and job creation in Qena and Sohag.

Subprogram 2: Improving Access to Quality Infrastructure and Services

35. **This subprogram is designed to address key constraints to improve governorate performance in delivering infrastructure and services for the benefit of citizens and businesses.** Adequate access to infrastructure and basic services is critical both for firm productivity and quality of life. Studies have found that as much as 40 percent of vegetable products and 20 percent of fruit products in Upper Egypt perish during transport from farms to wholesalers, in part, because of poor road conditions.[54] Negative health effects from poor access to clean water in Upper Egypt include the spread of infectious liver and kidney diseases. An impact evaluation of water sector projects in the governorate of Fayoum in Upper Egypt found direct links with greater income and social gains linked to the investments.[55] The Upper Egypt Rural

[54] World Bank Group. 2009. *Upper Egypt: Pathways to Shared Growth.*
[55] Upper Egypt: Constraints to Shared Growth – Village Case Studies. Background Paper for "Pathways to Shared Growth". North South Consultants Exchange. 2008.

Development Study found that local feeder roads and trade logistics were key constraints to growth in rural incomes and productivity, and in comparator countries, increased access to local feeder roads in villages was associated with higher rural incomes (for example, 30 percent increase in rural incomes in Vietnam).[56]

36. **Despite increase in per capita capital transfers in recent years, the transfers to governorates of Upper Egypt were insufficient to close access and quality gaps.** Despite the gains, the share of public investment allocated to Upper Egypt has remained lower, on a population or poverty basis, than elsewhere in Egypt. For instance, only 25 percent of public investment in electricity, water, health, and education in 2009 was made in Upper Egypt while 34 percent was made in metropolitan Egypt, which housed roughly 17 percent of the population. Where substantial gains in access to services and infrastructure were observed, they were typically in main cities and mother villages (not satellite villages where the majority of the poor reside), and they were associated with services for which there was substantial private provision. Quality has remained poor and investment in O&M substandard, and substantial gaps in access and quality remain for certain services and infrastructure. Access to sanitation is extremely low in both governorates. For instance, only 10 percent of households in Upper Egypt are served by sewerage networks with treatment plants with comparable rates for Qena and Sohag. In the 32 poorest villages in Qena, less than 1 percent of households are connected to the public sanitation network. While access to water measures are high, they comprise access through sources outside of households.[57] Access to electricity is high but quality of access remains low.

37. **Although access has improved for certain infrastructure and services, poor maintenance has meant that existing infrastructure may be causing more harm than good.** Studies have found that deterioration of existing infrastructure has greater negative effects on residents of the governorates than does the absence of the infrastructure itself.[58] Water pollution has been associated with the formation of drainage wells close to surfaces where potable water is drawn. The Sohag Rural Development Project found that only about 40 percent of most basic O&M needs were met by the governorate.

38. **Key reasons for limited gains in public provision of services and infrastructure in Upper Egypt include the following:**[59]

- **Investment decisions.** Limited strategic planning takes place at the governorate or lower levels of administration. The planning functions within the governorates are limited to aggregating and communicating investment wish lists from lower levels of administration. Limited investment planning and appraisal tools are used to prioritize investments. Currently, data for evaluating current resources and needs is derived primarily from citizen complaints and directives, which represent a fraction of actual needs and are in most cases not representative. Furthermore, data collection and management of citizen complaints is not done using knowledge capture tools, and validation is rare. Feasibility studies and ex ante evaluations of projects to determine their potential impacts are not conducted. Decisions on budget and time allocations

[56] World Bank Group. 2009. *Upper Egypt: Pathways to Shared Growth.*
[57] Ibid.
[58] Ibid.
[59] The following is based on the institutional assessment of Qena and Sohag done during Program preparation.

for projects are done based on comparable completed projects, and the amounts are increased every year by 10–15 percent. Limited, if any, M&E is done with no entity within the governorates' *diwans* tasked with a clear M&E role.

- **Centralized decision making and communication.** Subnational government staff have limited decision-making scope. Most decisions must receive ex ante approval by first the governor or the secretary general and then central authorities. Most governorate departments cannot communicate directly and exchange through the governor, secretary general, or deputy secretary general to share information. External communication lines are also restricted. Although several key departments have defined external communication lines, for example, the Planning and Monitoring Department with different sectors of the MoP, information is not shared. Communications with NGOs providing relevant services and working in the governorates can happen only through the Directorate of Solidarity and Social Services. The inability of governorate and local administration departments to make decisions or communicate without going through central ministries leads to substantial inefficiencies and contributes to poor decision making.

- **The sphere of influence for the governor is limited.** Although, the governor has financial and administrative authority on the directorates with decentralized functions and budgets, this authority does not allow for any change in these directorates' policies or expenditure and revenue assignments that are set by the concerned ministries at the central level. For the directorates with only centralized functions, the governor has a very limited indirect authority through the concerned ministries even for simple administrative issues. At the same time, the governorate's council does not have real authority in affecting the directorates' policies or their performance.

- **Fragmented governance and management.** There is limited clarity in the local administration system; a large number of public entities are involved in providing and producing public services and in setting policies and programs at the local level with poor delineation of the responsibilities of each and the relationships between them. Several departments have redundant functions. Ministerial service directorates and departments are subject to dual supervision from their ministries and the local administrative units' councils. Law 43 of 1979 and its amendments give various actors different roles in monitoring the actions of the LEC and the LPCs. These actors include the president, prime minister, council of ministers, parliament, the Supreme Committee of Local Administration, the minister of Local Development, and other central institutions such as the Central Authority of Organization and Administration, the General Organization of Physical Planning, and the Central Authority of Audits.

- **Poor maintenance.** The governorates' focus has been on investing in new infrastructure rather than maintaining existing infrastructure. Investment expenditure shares are lower in the Program governorates (roughly 5 percent) than on average across Egyptian governorates (over 6 percent) and the O&M shares are also lower. This is driven by poor incentives and fragmented roles for maintenance.

- **Poor accountability mechanisms.** Most authorities in the governorates are appointed, and those that are elected have limited authority and capability. The governors and other local unit heads, who are simultaneously the heads of LECs, are appointed by the center, the president, or the prime minister. Governorate residents have no mechanisms for holding appointed officials to account. Elected officials, the members of LPCs (currently suspended), have minimal power, while the officials appointed by the center have real authority. Although Law 43 of 1979 gives the LPCs limited provisions and responsibilities, these councils have a low capacity to properly handle and manage these responsibilities, especially when it comes to the issues that require technical expertise, for example, budgeting. Limited mechanisms exist to hold executive officials to account by the local councils. Law 124 of 1988 cancelled the right of local councils to interrogate the LECs' members and heads. Egypt's 2014 Constitution returned this right to the council members.

- **Resource shortfalls and/or mismatches.** In addition to financing gaps, governorates are lack appropriately skilled staff and tools. Many departments state that they are understaffed and that their staff are under-skilled. Departments are unable to employ new staff and 15–25 percent of their staff are expected to retire within three years. Many departments are missing key skillsets. Department mandates and personnel job descriptions are outdated—most were developed in the 1960s and have not been changed since. Task assignment in different departments at the *diwan* and *markaz* levels is inconsistent and staff of various skill levels and educational backgrounds perform the same tasks. Tools and equipment, including computers, software, and standardized forms, and templates, are not available in many departments.

39. **International experience demonstrates that measures to improve subnational service delivery and infrastructure provision sustainably must address systemic institutional challenges such as the ones outlined above.** It also demonstrates that institutional reforms divorced from financial resources and capability enhancement have fallen short in many countries in the world. This critical linkage between institutional reforms, financing, and capability enhancement is central to the design of the UELDP.

40. **The proposed Subprogram 2 interventions outlined in the Program description in annex 1 are informed by diagnostics of the governorates, national systems, and by international experience in improving subnational service and infrastructure provision.** They integrate principles that have proven effective in a range of country settings in operating an effective subnational governance framework, including by linking the transfer of grant resources to improvements in institutional performance.

41. **The key design elements that draw from international and domestic experiences and are tailored to the current political, economic, and social context in Egypt are as follows:**

- **Pairing of institutional, financial and capability enhancement reforms.** The three Fs of decentralization—functions, functionaries, and finance—will be addressed in parallel.

- **Gradual institutional reform.** While the three Fs are ideally changed simultaneously, accompanying institutional reforms and financing changes will be introduced gradually, factoring in baseline context and capabilities. Strategic decisions have been made regarding the pace and extent of institutional reforms (for example, the Program incentivizes a limited set of reforms that have been identified to be most catalytic to improving governance and service delivery).

- **Appropriate financing volumes.** The PGs that will be transferred through this subprogram have been calibrated to offer a sufficiently large incentive for governorates to improve their performance but accommodate absorptive capacity considerations.

- **Seizing political openings.** While institutional reforms to improve subnational service delivery and infrastructure provision can be introduced at several government levels, it is optimal to introduce reforms to the level that appears best equipped technically, politically, and administratively at this phase to deliver.

42. It is on the basis of the above elements that Subprogram 2 was conceptualized.

Program Expenditure Framework

43. **Program budget structure and flow of funds.** The state budget covers the activities of three main entities of the Government (the state administrative bodies, the local administration, and public service authorities). For all of the three Government entities, the budget presents an economic classification of expenses per eight expenditure chapters, in alignment with the international standards prescribed by the Government Finance Statistics of 2001.The Program will be implemented through the state budget allocations to the governorates' *diwans*, with specific allocations through Chapter VI capital expenditures and investments, known as 'Purchase of non-financial assets', as well as to Chapter II of the government budget known as 'Purchase of goods and services'. From the governorate *diwan*, Program funds would also be allocated to regional service directorates (the *mudiriyat)* and other public entities for activities falling outside the direct governorate mandate. Overall, the Program will essentially follow the regular budget classification adopted in the country. However, to facilitate the flow of Program funds from the central to local level and to pilot a results-based approach and link financing to performance, the Program will establish a dedicated Program account in each of the two governorates to channel the loan's share in Program funds to the governorates. Both accounts will continue to be reported within the state budget and have their expenditures classified in line with the overall budget classification. Meanwhile, transfers of the loan proceeds from the state treasury to the governorates' accounts will depend on achieving the DLRs specified in the loan agreement.

44. **The UELDP Program expenditures are projected to be US$957 million over FY2016/17 to FY2020/21.** The UELDP Program expenditures are a subset of the total expenditures under the IEDLR. Planned government expenditures as part of the IEDLR for the ten Upper Egypt governorates amount to approximately US$12 billion over FY2016/17 to FY2020/21, of which US$3.9 billion is allocated to Sohag and Qena. Sohag and Qena expenditures consist of US$3.1 billion for activities managed at the central/national level such as social housing, industrial zone development, regional roads/ports, and social safety nets programs, as well as US$832

million managed at the governorate level through the governorate diwan for Chapters I, II, IV, and VI which include wages, compensation, purchase of goods and services, grants, and capital investments. In addition, an estimated US$5 million could be used to finance Program implementation cost at the central government level, to be for the IVA, performance and technical audits and overall Program implementation support. Table 4.3 provides an overview of both IEDLR and UELDP expenditures:

Table 4.3 Program Expenditures FY2016/17 to FY2020/21

	IEDLR GoE Program (US$)		**UELDP PforR (US$)**		
	Ten Upper Egypt Governorates	**Sohag and Qena**	**GoE Contribution**	**World Bank Funding**	**Total Program**
Managed at governorate level:					
Wages and Compensation [Chapter I]	1,565,619,172	354,182,855	—	—	
Purchase of Goods & Services [Chapter II]	974,361,571	268,771,622	268,771,622	100,000,000	368,771,622
Subsidies, Grants, and Social Benefits [Chapter IV]	32,321,199	818,243	—	—	—
Purchase of non-financial assets (Investments) [Chapter VI]	995,131,588	208,481,757	188,481,756*	400,000,000	588,481,756
Sub-total	**3,567,433,530**	**832,254,477**	**457,253,378**	**500,000,000**	**957,253,378**
					Managed at central level:
Social Programs	5,084,662,679	2,036,877,248	—	—	—
Roads & Ports	3,203,378,378	985,754,505	—	See note**	—
Industrial Zones	331,137,387	66,227,477	—	See note**	—
Program Implementation Cost	—	—	—	See note ***	—
Sub-total	**8,619,178,444**	**3,088,859,230**	—	See note ***	—
Total	**12,186,611,975**	**3,921,113,706**	**457,253,378**	**500,000,000**	**957,253,378**

Note: *GoE contribution for Chapter VI under the UELDP PforR has been reduced to adjust for the estimated security related expenditures over the course of the Program which are excluded.
**Activities and funding related to roads and industrial zones are captured under Chapter II and VI which will be managed at the governorate level under the Program design.
*** Overall Program implementation costs could also be financed, as necessary.

45. **Use of Program funds.** The Program expenditures will fund activities that fall under the direct responsibility of the governorate *diwan* (local roads paving, streetlighting equipment and works, environment improvement, traffic, and local unit support), as well as activities implemented through deconcentrated service directorates of central government ministries, the *mudiriyat*, and other public entities, in particular for regional roads, electricity, water and sanitation, and ICT. In addition, the Program will fund targeted activities that enable private sector-led growth that are largely provided by the MTI and its associated entities, for example, market and value chain development, BDS, skills development, and existing industrial zones upgrading and management. Program management expenditures at the central and local level could also be

covered. There are certain specific exclusions that would not be part of the final accounting for Program expenditures (see annex 1), which would include activities that are assessed to have a significant adverse impact on the environment and/or affected people as well as high-value contracts. Table 4.4 shows an indicative breakdown by subprograms (indicative as the expenditures under the subprograms overlap to a certain extent).

Table 4.4. Program Expenditures by Subprogram (US$, millions) (FY2017 to FY2021)

Source	FY2017	FY2018	FY2019	FY2020	FY2021	Total
Subprogram 1: Improving the Business Environment and Competitiveness	20	20	20	20	20	**100**
Subprogram 2: Improving Access to Quality Infrastructure and Services	171	171	171	172	172	**857**
Total	**191**	**191**	**191**	**192**	**192**	**957**

Note: The allocations of expenditure by subprogram is indicative as some infrastructure-related expenditures relate to both subprograms, that is, especially those infrastructure expenditures that focus on enhancing business competitiveness. Program management expenditures at the central level are subsumed under Subprograms 1 and 2 in the table above.

46. **Program financial sustainability and funding predictability.** The Program Document of the First Fiscal Consolidation, Sustainable Energy, and Competitiveness Development Policy Financing DPF to Egypt approved in December 2015, referred to a Debt Sustainability Analysis that anticipated debt sustainability over the medium term as long as a pro-growth fiscal consolidation path is adopted. While the Program is not immune against exogenous shocks, especially with the instability in the region, the budget allocation and budget execution trends over the past few years have not raised significant concerns about the funding of the governorates' local development budgets. In addition, the budget circular for FY2016/17 indicated that the Government priorities include equitable and efficient geographical spending on basic services, enhancing the business environment, and encouraging private sector participation. The World Bank Group Program is fully aligned with the above priorities, which would minimize the risk of budget cuts on the Program activities.

47. **The review of the budget allocations over five years between FY2010 and FY2014 showed that Chapter VI investment allocations to the governorates' *diwans* have more than doubled during that period, from EGP 99 million to EGP 212 million in Sohag and from EGP 75 million to EGP 182 million in Qena.** The analysis of the budget and expenditure trends in the published final accounts for the three years from 2012 through 2014 indicated consistent patterns that show reasonable funding predictability. The final accounts for the years 2011/2012 through 2013/2014 showed that for Chapter II (Purchase of goods and services), the deviations of actual expenditures against budgets did not exceed 20 percent in any of those three years. For Chapter VI (Purchase of nonfinancial assets), while the deviations exceeded 20 percent for the aggregate investment budget, the deviation in Chapter VI budget allocations to local development (governorates) did not exceed 20 percent in any of the three years.

48. **The Program to be financed will follow the main budget rules adopted in the country, while piloting a result-based model to enhance accountability and efficiency.** In the last quarter of each calendar year, the MoF issues an annual circular that includes the budget preparation guidelines for the coming fiscal year that starts on July 1. The different budget entities discuss with

their subunits and consolidate their budget proposals by December. Proposals are discussed with ministries of finance and planning and then forwarded to parliament after approval from the cabinet and president. Final approved budgets by the legislative authority are communicated to all budget entities before the beginning of the fiscal year on July 1, and the budgets are then made available to the budget entities at the beginning of the fiscal year. For the investments under Chapter VI, the funding pattern usually starts with the release of 25 percent in the first quarter, which is then replenished against physical progress and supporting documentation. In parallel, the loan contribution to the Program will follow the governorates' strategic plans and annual development programs while linking the financing of the governorates' accounts to performance and results as indicated above.

49. **Adherence to government priorities.** The Program expenditures largely follow the government priorities. From a geographical standpoint, the expenditures follow the government focus on lagging regions such as Upper Egypt outlined in, among other programs, its 'Inclusive Economic Development in Lagging Regions' program. This PforR is focusing on two governorates in which the poverty rates are among the top three in Upper Egypt (Sohag with 55 percent poverty rate and Qena with 58 percent). At the programmatic level, the focus will be on the activities that directly affect citizens, including job creation, enhanced business environment, encouraging private investments through upgrading of industrial zones and associated incentives, roads, public transport, electricity, and environment improvement, among others.

50. **Efficiency of Program expenditures.** The Program is designed in alignment with the decentralization objectives stipulated in Egypt's 2014 Constitution and ongoing administrative reforms. As such, it supports an important reform agenda to gradually empower decision makers to identify priority expenditures and to implement them in an accountable manner. The increased funds flowing directly to the governorates' *diwans* supported under this Program, together with a piloted performance based financing mechanism, are intended to bring efficiencies in strategic decision making, thereby enhancing responsiveness to citizens' and business' needs. Nevertheless, the increase in allocations expected from World Bank Group financing under this Program may represent some challenges to the absorption capacity at the governorate level; this should be accommodated by proper planning and implementation support through relevant capacity development programs.

Results Framework and M&E

51. **The Program Results Framework and M&E were designed taking into account existing realities while enhancing capacity and tools for M&E at the central and governorate levels.** The Program will be monitored and evaluated through the use of various M&E tools throughout implementation, at the PCO and LIU levels, that will be linked to the Program Results Framework and DLIs. The Program will leverage existing capacities within the ministries and governorates as well as related interventions on M&E such as a recent World Bank IDF project in the governorates of Ismailiya and Fayoum. A capacity assessment would be carried out to further inform and tailor technical support for M&E functions as part of the Program. The DLIs and Results Framework indicators are designed accordingly.

52. **M&E functions are currently undertaken by a range of entities, at the central and local levels, that experience several obstacles to fulfilling their M&E mandates effectively.**

The MoLD and MTI have decentralized the M&E function within governorates and affiliated entities to monitor implementation progress of activities and programs they cover. However, reporting lacks standardization across governorates/entities and varies in content and depth of analysis according to each unit's technical and human resource capacity. Within the MoLD, the Planning Department monitors the implementation progress of activities under its programs on a quarterly basis, in terms of financial spending and implementation phases. The source of information is dependent on status reports sent by the governorates and there are no standard templates or reporting mechanisms followed by the governorates. The MoTI has M&E functions within the 32 entities affiliated with the ministry and circulates reporting templates from the minister's office to these affiliated entities. However while these entities report on the status of each activity/program they manage and achievements to date against targets, each uses different reporting standards and reports. The MoIC has centralized the function within the ministry and established an M&E unit and a standard template for monitoring the Official Development Assistance portfolio which each line ministry executing Official Development Assistance projects completes on a quarterly-basis. M&E capacities at the governorate level are limited. Data collection and reporting capacities need technical enhancement as well as institutional empowerment to allow data collection from entities not affiliated with the MoLD. For information exchange, data is shared between different entities under the affiliation of the same ministry, but not across entities in different ministries. For instance, the IMC offices in Upper Egypt can provide data on firms operating in industrial zones. There is no joint database shared with these governorates nor with the MoLD, data is shared based only on official requests.

53. **The Program results framework and proposed M&E system is designed to enhance information access and decision-making abilities at the central and local levels, as well as among other key Program stakeholders.** Reporting will be based on information that will be generated through the Program activities, for example, APAs and the Citizen Report Cards/User Feedback Surveys, to give the governorates and other key stakeholders a means for regularly tracking critical dimensions of performance. These Program tools will enhance the M&E data reporting and analysis as part of the overall results framework. In addition, the Program will aim to build results-based M&E systems to streamline and standardize the process between the central, local, and entity level, and demonstrate how such an approach can improve the effectiveness of citizen engagement, service and infrastructure delivery and its impact on economic development. Data would be shared and used to inform actions at the governorate and central levels, and to inform the decisions of other stakeholders including deconcentrated entities. For instance, M&E related to cluster development and firm level assistance would ultimately inform the infrastructure and service needs at the industrial zone level and potentially identify G2B needs or improvements at the central level. In addition, the PG system with its APA lends itself to act as a feedback mechanism to inform policy makers.

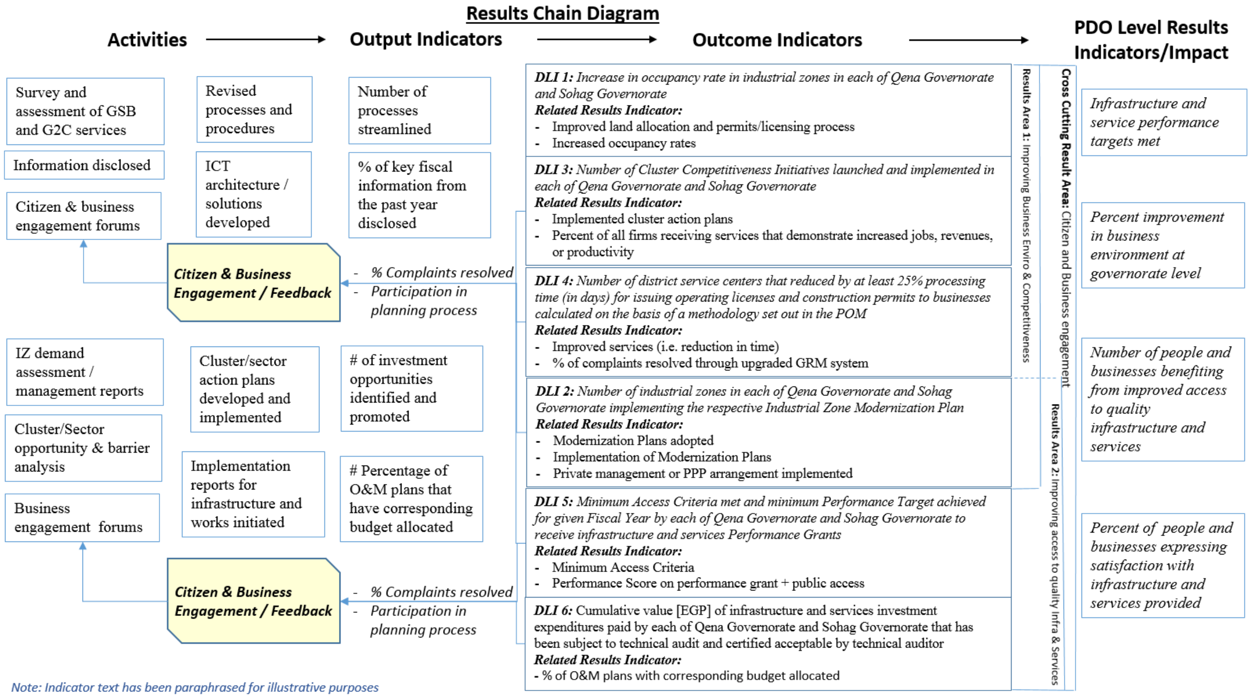
54. **PforR funds will be disbursed though six DLIs which were developed to most effectively meet the PDO**. These have been selected to reflect critical elements of performance required to achieve the PDO. The DLIs are interlinked and clustered around three results areas in the results framework. The relationships are outlined as follows:

- **Result area 1 focuses on improved business environment and competitiveness in the Program governorates.** There are four DLIs associated with this area. The first two DLIs concern occupancy rates, management and performance of industrial zones measured based on occupancy (DLI 1) and ability to implement the IZMPs' upgrading plans and meet investment needs (DLI 2). DLI 3 involves the support of clusters/sectors to enhance competitiveness, measured through implemented action plans and improvement in firm performance (that is, jobs, revenue, or productivity). DLI 4 concerns improvement of G2B services in the governorates. This will be measured in terms of reduction of processing times for construction permits and licensing from District Service Centers within the governorates as proxy measures of overall improved G2B service delivery.

- **Result area 2 concerns improved access to quality infrastructure and services.** This result area comprises two DLIs that bundle institutional reforms with access to finance and delivery of needed infrastructure and services. DLI 5 requires governorates to achieve minimum institutional improvements that will make them more effective transparent, engaging of citizens and businesses and accountable. It offers governorates a portion of their performance based grants that are contingent upon the governorates meeting minimum access criteria and APA target scores. DLI 6 offers further funds contingent upon the governorates completing technical quality audits and having the audits surpass a minimum quality threshold for a minimum amount of investment.

- **There is a third result area which is linked to the cross-cutting theme of citizen and business engagement**. Several of the DLIs require actions that help fulfill this result area. For instance, DLI 5 requires citizen and business engagement processes to be undertaken by the governorates in order for them to achieve access the financing linked to this DLI. The results framework for the Program includes several indicators that will be measured during the life of the Program to track progress against this result area.

Figure 4.1. Summary of the Relationship between the Result Indicators and DLIs



Program's Governance Structures and Institutional Arrangements

55. **Implementation responsibilities by level of government.** The institutional arrangements of the UELDP are based on the governance structure of central and governorate level functions in Egypt, with a clear division of responsibilities between levels of government and consistent with existing legal provisions, regulations, and guidelines. The implementation structure comprises, at the central government level, an inter-ministerial SC and a PCO. At the governorate level, it comprises an EC and an LIU in each governorate. It also comprises the entities responsible for delivering the infrastructure and services that will be provided through the Program: (a) the relevant departments within the governorates that are involved in delivering the five programs of the governorate *diwans* and (b) the deconcentrated directorates and utility companies that deliver the infrastructure and services included in the Program that are not under the governorates' executing control.

56. **The proposed institutional arrangements are informed by two institutional assessments conducted during Program preparation.** The assessments identified constraints to better performance at the governorate level and entry points for relaxing those constraints. They mapped and assessed the roles and capacities of existing institutions in the governorates and at the central government level implicated in service delivery and infrastructure provision at the governorate level. They identified opportunities for leveraging the institutions for the administration of this Program, for enhancing their performance, and for filling institutional gaps that would affect the efficacy of Program implementation.

Central Government Level

57. **The Steering Committee.** Not later than one month after effectiveness the GoE will establish, and thereafter maintain, throughout the implementation of the Program, a SC. It will comprise representatives from the ministries responsible for international cooperation, trade and industry, local development, and finance, and the governors of the Sohag Governorate and the Qena Governorate. The GoE will ensure that the SC is responsible for providing strategic guidance and oversight to ensure prompt and efficient implementation of the Program, in accordance with the provisions of the POM. The SC will be cochaired by the ministers of the MoIC, MTI, and MoLD.

58. **The Program Coordination Office.** The GoE will also establish and maintain, throughout the implementation of the Program, a coordination office. The GoE will ensure that the PCO functions as the secretariat of the SC and is responsible for (a) the overall management, coordination, reporting, monitoring, and evaluation of Program implementation; (b) hiring and interfacing with the Independent Verification Agent; (c) carrying out APAs; (d) carrying out the technical audits; (e) facilitating financial audits for the Program, all in accordance with the POM. In addition, the PCO will carry out inter-ministerial and inter-agency coordination on the Program policy and technical agenda at the national level and manage TA for the Program including the implementation support team. Though the primary responsibility for fiduciary, social, and environmental management will rest with the LIUs, fiduciary, social, and environmental advisors may be added to the PCO to provide support to the LIUs.

Governorate Level

59. **The EC.** The governorates will establish, and maintain throughout the implementation of the Program, an EC in each of the select governorates to provide governorate-level oversight of the Program on a regular basis. The EC comprises representatives from the LEC and the ministries responsible for local development and trade and industry. Chaired by the governors, the LECs are already functioning within the governorates and consist of the members of the governorate executive council (diwan and mudiriyat representatives) as well as technical staff in the governorate from other key ministries and agencies. The governorates will form an EC comprising governorate *diwan* staff and representatives from ministries with a mandate for economic development, including but not limited to the MTI, MoLD, and MoF. The EC will (a) approve plans for organizing the LEDF on an annual basis to undertake participation and consultation of citizens and private sector on the APIPs; (b) approve the APIP funding allocations; (c) approve cluster development priorities and cluster action plans; (d) approve the IZMP; and (e) review results and approve changes to the endorsed plans during implementation. The EC will publicize the APIPs and invite citizens and the private sector to appear before the full LEC to comment before adoption.

60. **Local Implementation Unit.** The GoE will establish and maintain throughout the implementation of the Program, an LIU for each of the select governorates. An LIU will be established in each governorate, responsible for the administration of overall planning; coordination; the technical, fiduciary (that is, procurement and financial management), environmental, and social aspects; and M&E, reporting, and communication of the Program activities in the corresponding select governorate, all in accordance with the POM. The LIUs will

comprise governorate staff and consultants and will be supported by ministries or other public entities (such as the IMPA, General Authority for Roads, Bridges, and Land Transport, IMC, or the ITIDA) which will implement Program activities on the basis of agency agreements or outsourced private entities such as consulting, investment, or engineering firms). The LIUs take direction from the EC on the plans, funding allocations, and implementation of the Program but have reporting lines to the PCO on financial reporting, implementation progress, and coordination on policy and technical issues at the central government level.

61. **Governorate departments responsible for administering the governorates' five programs** (local roads, electricity, traffic management and firefighting, environment/solid waste management, and local unit support) will be critical for the Program's success. The key institutional performance constraints identified in the technical soundness section pertain to these departments. They have insufficient technical staff and are constrained by limitations on their decision making and communication abilities. Under the Program, they will have greater responsibilities, execute larger budgets, and will be expected to enhance their performance. To do so, they will receive TA support both through the Program Implementation Support Team and through other TA offered in parallel to the Program.

62. The deconcentrated directorates and utility companies responsible for delivering the infrastructure and services included in the Program that are not under the executing control of the governorates will also play a critical role. They will receive supplemental funds from the governorates to deliver infrastructure and services identified in the annual planning exercise led by the governorates. They will deliver on the basis of agency agreements they will enter into with the governorates.

63. Specifically for regional roads, the Local Roads Authorities in Qena and Sohag governorates are the entities that will improve and develop the local rural-agricultural roads. They are and will be responsible for planning, prioritizing, and implementing the annual local roads works programs. Currently, the Local Roads Authorities in both governorates suffer from inadequate road maintenance financing and management. The average annual allocation for new local roads projects and maintenance per governorate is EGP 30 millon, which is considered insufficient by international standards. Only 10 percent of the total annual allocation for the two governorates is actually spent for routine maintenance and rehabilitation of the local roads network. Furthermore, discussions on technical, financial, human resource and investment issues with the Local Roads Authorities in both governorates show a clear lack of qualified engineers, technicians, administrative, and procurement specialists. Also, a lack of mapping software results in a lack of knowledge about where poverty pockets are located and how well the region's population is served by existing roads. The Program will provide targeted TA to augment their technical skills, and equip them with the tools to better identify needs and manage assets.

64. **As the various structures are constituted, an emphasis will be placed on reinforcing existing capacities and leveraging practices that have worked well at each level of government.** The LIUs, for instance, will be staffed with the minimum number of staff needed to deliver on the objectives of the Program, without displacing capacity currently employed to similar ends. The institutional assessments undertaken during appraisal will be supplemented with additional analyses of institutional capacities, for example, in terms of M&E capability, during the launch of the Program.

Economic Evaluation

65. **Rationale for public provision and financing.** The UELDP, at its core, is designed to address a combination of market failures, which have been restraining private sector-led and inclusive economic growth in Upper Egypt and have ultimately led to higher poverty incidence and lagged access to basic services. These failures include high transaction costs, compared to other governorates, as a result of the fragmented administrative apparatus and lack of adequate G2B services. They also include suboptimal investment in public goods leading to significant infrastructure gaps and poor access to public services, which explain the highly fragmented value chains and low human development outcomes compared to other regions in Egypt. The significant positive externalities associated with infrastructure projects lead to higher social returns to investment compared to private returns. In the absence of adequate public investments, there has been a socially suboptimal supply level. Also, the information asymmetry, arising from the absence of binding regulatory frameworks that ensure transparency and accountability, undermines the quality of public investments management in the governorates and leads to a general lack of public investment predictability, a prerequisite for sustainable private investments. Such information asymmetry is exacerbated by the fact that civil society and the private sector have limited involvement in the formulation of investment strategies and follow-up.

66. **Program's economic impact.**[60] The economic benefits of the Program interventions are assessed independently but will be interlinked and will reinforce one another. For example, financing infrastructure investments that improve connectivity will augment the economic benefits arising from sector-based clusters through improved access to markets and direct savings from transport costs. Similarly, improved institutional capacity and accountability at the governorate level is likely to increase the expected benefits from industrial zone upgrades and sector competitiveness enhancements due to higher certainty perceived by private investors.

67. **For Subprogram 1, cost-benefit analyses revealed significant net positive economic benefits for the analyzed interventions.** The infrastructure upgrades and management improvements in the six industrial zones through the IZMPs can potentially double the average occupancy rate in the two governorates, from the current 34 percent and 14 percent in Sohag and Qena, respectively. This is estimated to create more than 10,000 new direct jobs in industrial zones alone. These job effects are estimated to have a positive NPV of EGP 363 million, with an ERR of 19 percent. This does not account for benefits from increased value of land or potential revenues from tenant fees or leases. BDS delivered to firms in Qena and Sohag clusters are expected to have a positive NPV of EGP 38 million with an ERR of 15.8 percent, calculated on the basis of firm-level services through cluster development programs to 1,000 eligible firms over the life of the Program, which would increase the average net annual value-added per firm by a target of 20 percent,[61] and the increase in value-added would be reinvested thereby also adding new employment, and with only 25 percent of firms receiving services experiencing a benefit. This does not account for additional potential effects from agglomeration and indirect jobs created through value chain development, market access, and investment promotion activities of the Program. Improving G2B services through the establishment of OSSs in Qena and Sohag and

[60] A social discount rate of 6 percent was used for all analyses undertaken through this economic evaluation.
[61] According to CAPMAS 2012/13 establishment census, the average annual net value-added is about EGP 40,000 per firm.

improving services in 14 district service centers, is expected to have significant positive NPV of EGP 79 million and an ERR of 24.5 percent, based on a conservative estimate of 1 percent net new enterprise entry rate,[62] 15 percent reduction in the cost of registering a new business and 25 percent reduction in cost of dealing with construction permits,[63] and less than 1 percent of total existing enterprises benefitting from the reduction in the cost of dealing with construction permits.

68. **For Subprogram 2, the economic impacts are derived from the improvements in governance induced by the PG system, and more directly, from the investments and expenditures that will increase access and improve quality of infrastructure and services in the governorates.** The cost-benefit analysis conducted for sample investments from three of the core expenditure areas in the PG expenditure menu found significant positive economic benefits.[64] Improving access to basic services for citizens and businesses has wide economic benefits given the lagging nature of the two governorates and unmet demands: for example, the cost-benefit analysis to upgrade the collection and transportation of solid waste (domestic and industrial) in Qena and Sohag estimates an ERR of 43.5 percent and a positive NPV of EGP 144.6 million. The cost-benefit analysis for connecting 100,000 rural citizens to the sanitation network estimates an ERR of 23.8 percent and a positive NPV of EGP 137 million. In addition, increased connectivity will be achieved by supporting regional and local road and transport infrastructure upgrading, thereby enhancing access to markets. One potential key investment, the widening of 44 km of the Western Desert Highway from Nagi Hammadi to Qena is estimated to have an ERR of 16.6 percent and a positive NPV of EGP 693 million, based on reduced travel times (including linking the city of Qena with several large-scale industries at Nagi Hammadi, a large industrial zone at El Hew and large-scale agricultural development schemes), reducing vehicle operating costs and accident rates, as well as avoided future road congestion. A positive ERR is expected for the totality of smaller local road investments.

69. **World Bank value added.** In addition to the World Bank Group's prospective role in bridging the financing gap to improve infrastructure and provision of basic services, the World Bank Group embeds into the Program global expertise in local and private sector development and helps the Government shape and implement challenging reforms. The World Bank Group has provided lending and non-lending support to decentralization programs in at least 89 countries.[65] An IEG assessment of a sample of these programs concluded that the success of the support was mostly attributed to frameworks for subnational financial management and intergovernmental fiscal transfers; both are key components of the UELDP.

Program Action Plan

70. **A PAP has been developed that outlines the key actions required to improve the Program as a result of several assessments (technical, fiduciary, environmental, and social).** These assessments have been undertaken to assess the capacity of the Program's executing and implementing agencies and have identified key gaps to be addressed. The full PAP matrix

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[62] Current number of private enterprises was obtained from the latest establishments census by CAPMAS

[63] The costs of registering a new business and dealing with construction permits were obtained from the Subnational Doing Business (2014) and are based on the opportunity cost of the lead time to obtain registration and permits.

[64] By design, discrete investments that will be made during the life of the Program are unknown. As such, economic impact is assessed for sample investments representing several of the investment areas included in the Program.

describing key actions, their due dates, responsible parties, and completion measurements can be found in annex 8.

71. **Important actions in the early stage of the Program include supporting the establishment and/or formalization of key implementing units and enhancement of their capacity.** Development of the POM, including the PGM and CIM annexes, will also be important to ensure sound implementation and operation of the UELDP. The establishment and support of the LEDF's mandate and membership, including key public, private, and civil society stakeholders, will also be critical to establish and begin to involve the forum in development and implementation of Program activities.

72. **The technical aspects of the PAP will focus on strengthening the setup and delivery of critical Program activities and interventions.** This will include contracting and providing capacity building to key service providers that will implement the Program. On Subprogram 1, this will include, for example, training district-level civil servants on the G2B system, tailoring the IMC firm-level assistance for the UELDP (making it more focused on SMEs), designing the framework for industrial zone management, and establishing capacity and approach for sectoral and cluster development at the governorate level. For Subprogram 2, this will include capacity support to the implementing units within the governorates, including on delivering in the dimensions identified in the PG assessment, and recruitment of the assessors for the APA and the technical quality audit. For the cross-cutting citizen engagement result area, this includes the development and implementation of citizen report cards. Key Program actions to strengthen financial management, procurement, and environmental and social aspects can also be found in the PAP.

Annex 5: Fiduciary Systems Assessment

Summary

1. **The FSA considers whether Program systems provide reasonable assurance that the financing proceeds will be used for intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability.** The FSA was conducted for both implementing governorates focusing on bottlenecks and gaps in the service delivery chain, with an aim to help design a more effective governance model and to strengthen subnational entities entrusted with Program implementation. This involved discussions held with the Government counterparts at the national as well as subnational levels. It was also informed by earlier reviews in sectors such as health, housing, and utilities. The assessment included review of the fiduciary systems adopted in Sohag and Qena that covered the governorates' *diwan* and selected sample of local administrative units, service directorates, and related public entities. Overall, the same budget, control, accounting, and reporting arrangements apply to the *diwan*, local administrative units, and service directorates.

2. **Based on the assessment findings, the measures that were identified to strengthen the fiduciary systems and address the gaps through DLIs as well as the PAP provide reasonable assurance that the funds will be used as intended according to the World Bank's PforR policy.** Based on the expenditure Program, no contracts in excess of the PforR policy exclusion limits have been identified. Based on the findings of the FSA and considering the identified weaknesses and constraints, the overall fiduciary risk for the Program has been assessed as High.

3. **The budget formulation and execution processes pose significant challenges for the governorates in implementing their investment programs.** Initiating the bidding process is restricted by receiving the final budget approval and advising the budget entities and accounting units of their approved budgets, which may not happen early enough at the beginning of the fiscal year. Concluding the bidding process may take another two to three months, resulting in a notably compressed implementation period for contracts within the fiscal year. The associated risk increases further due to the compelling incentive to fully use the allocated funds during the fiscal year, to not affect the following year's allocation.

4. **The overall processes and procedures for budgeting, bidding, and payments' processing indicated notable inefficiencies and redundancies that often have no added value.** On the contrary, some of the procedures in place can delay implementation, involve high transaction cost, and increase the risk of rent-seeking behavior. The cross-cutting challenges noted include a highly centralized decision-making mechanism and the ability of the current institutional framework to support accountability.

5. **The process of settling payment requests is too lengthy, resulting in a notably high transaction cost.** The chain of approvals, authorization, and signing off can drag between numerous departments across a range of entities: local administrative unit, governorate, service directorate, sectoral ministry (center), and the National Investment Bank/MoP. Such a lengthy process results in delayed payments to contractors and suppliers, weak implementation progress, and additional costs. The M&E Unit identified in MoP, Monitoring, and Administrative Reform

decree no. 122/2015 will contribute to identifying bottlenecks in business processes and administrative procedures and make recommendations to address these issues.

6. **The Program design has adopted a flow of funds mechanism that enables the governorates to benefit from a more predictable funding stream, subject to their own performance progress and achieving the agreed predetermined results.** The performance-based financing would help create the right incentives for the executing bodies to seek process efficiency. To this end, the World Bank will disburse the loan to the state treasury against DLIs to be verified by an IVA, with the state treasury in turn making periodic transfers of Program funds to the governorates.

7. **Ex ante controls are exercised by financial controllers stationed in each accounting unit.** These financial controllers are affiliated to the MoF, which vets them with reasonable level of independence. In addition, financial inspection is entrusted to a specialized department in the Finance directorate. The mandate of this department includes reviewing any financial violations or noncompliance with financial regulations.

8. **The review of the fiduciary systems in Sohag and Qena indicated acceptable arrangements to capture, record, and prepare the governorates' financial reports.** However the Program reporting and auditing arrangements remain challenging. 'Final accounts' for the governorate are issued for each fiscal year and are subject to annual audits by the CAO. With regard to the UELDP PforR, the Program expenditures are basically made through budget Chapters II and VI of the governorate's *diwan* allocations. This PforR operation will require making the Program financial statements and audit reports publicly available. The sample audit reports reviewed by the World Bank noted that they do not provide an overall opinion on the final accounts as required by the International Standards on Auditing which will be undertaken under the Program. Accordingly, the governorates will hire an independent audit firm to audit the program financial statements and issue an audit opinion on an annual basis. This will be required as a legal provision under the Loan Agreement to be signed between the GoE and the World Bank.

9. **The Program's operational procedures will stipulate mandatory lead times for the different processes, as well as for critical milestones such as preparation of specifications, preparation of BDs, bid evaluations, contract awards, and processing of contractors'/suppliers' invoices.** Quality assurance arrangements would ensure that such measures are duly enforced through audit functions that periodically test the systems functionality and report weaknesses and/or irregularities.

10. **The procurement system in Sohag and Qena at all levels is subject to the provisions of Egypt's Public Procurement Law 89/98.** However, after reviewing the internal procurement procedures, the main issues that apply include: (a) the need for improvement of procurement practices; (b) inconsistent interpretation and application of rules and procedures; and (c) weak capacity at all levels. The weakness in capacity described above is related to the fact that the major procurement activities are assigned to be handled by the sector directorates in which the procurement decision is centralized. The BDs used by the implementing units at all levels in the two governorates is extracted from Law 89/98 and the special conditions that are prepared by the entity/department which requests the services. Instructions to bidders, qualification, evaluation, award criteria, and contract management are not sufficiently clear. The BDs, including the contract

conditions, can be improved to achieve a more equitable balance between employer and contractor/supplier. A major shortcoming that leads to awarding contracts to nonperforming contractors/suppliers is not applying a post-qualification process on the nominated contractor/supplier for award. These shortcomings will be addressed by developing and implementing a procurement procedures manual and SBDs, as part of the POM, to be adopted by the two governorates and by providing training to procurement staff at all levels, including directorates. The procurement procedures manual would be followed by all other entities, including directorates, when procurement activities under the Program are assigned to them. The SBD evaluation criteria will ensure that contracts/suppliers are awarded only to bidders who meet the minimum financial and technical qualifications.

11. **At present, the two governorates have limited capacity for providing adequate contract administration and management.** The governorates at all levels, including directorates, do not have clear instructions for handling of complaints nor are there clear contractual dispute resolution procedures. The practice is that the complaints are to be addressed to the governor or the head of the directorate who in turn forwards them to the respective departments to prepare the official response. As such, the system cannot be considered independent or transparent. The governorates and regional service directorates will receive TA support both through the implementation support team and additional TA to develop and implement a robust complaint handling mechanism to enhance transparency and provide clear procedures in handling of complaints.

12. **Risks.** As the FSA was undertaken, the following risks and constraints were identified:

(a) Inconsistent application of procurement rules and procedures

(b) Lack of performance information, linked to an inability to collect and interpret data

(c) Lack of accountability mechanisms such as an independent complaint and grievance mechanism

(d) Issues associated with the quality, specifications, and accuracy of cost estimates

(e) Issues associated with contract management such as nonperforming suppliers/contractors and weak contract management

(f) Lack of proper standard bidding documents (SBDs) for works, goods, and consulting services

(g) Rejection of bids without proper due diligence

(h) Cost overrun due to assigning some procurement activities to other entities, given the lack of capacity and unnecessary layers of approvals to be obtained for each step in the procurement process and delay due to the mandatory participation of representatives from several entities in bid evaluations committees including low-value contracts

(i) Lack of budget allocations needed to hire specialized consultants or experts when justified

(j) Effect of timeliness of releasing of approved budgets on initiating the procurement and implementation processes

(k) High transaction costs associated with lengthy payment processing

(l) Lack of proper reward mechanism to incentivize expedited service delivery and ensure accountability

(m) Absence of publicly available information on the governorates' budgets, financial results, and audits

13. **Risk management actions.** Because of the identified weaknesses and constraints, the following set of actions are meant to mitigate the above risks:

- Develop and implement a procurement procedures manual and SBDs to be adopted by the two governorates and provide training to procurement staff at all levels, including directorates. The procurement procedures manual should be followed by all other entities including directorates when some procurement activities under the Program are assigned to them.

- Ensure that contracts/suppliers are awarded only to bidders who demonstrate the minimum financial and technical qualifications.

- Enforce the implementation of the cabinet decree that is already in place mandating advertising of all bidding opportunities, BDs, bid evaluation results, and original and final contract amounts in the GoE e-portal, www.etenders. gov.eg.

- Establish an independent monitoring mechanism to track that the GoE portal is being used.

- Develop a transparent system for suspending/debarring 'poor performing' contractors.

- Agree on procurement performance indicators.

- Improve procurement practices. For example, not allowing bidders to offer discounts after bid due date, no price negotiations unless allowed for and regulated in the BDs, require that bidders' qualification (financial and technical) be verified before contract award, and reduce rebidding.

- Establish and implement flow of funds mechanism to ensure availability of funds for operating costs at all levels to face emergency, maintenance expenses, and hiring of temporary technical experts.

- Establish and implement a complaints mechanism with clear and simple procedures, accessible venues to complain that ensure confidentiality and disseminate and promote its usage with the private sector and civil society at large.

- Establish quality assurance program to verify/ensure satisfactory level of quality and completeness of specifications and cost estimates.

- Set maximum lead time for transactions, approvals, and payments processing as part of POM.

- Release funds to governorates and local administrative units in accordance with procurement plans and cash forecasts to enable timely contract execution.

- Link the financing to performance-based conditions and indicators.

- Increase the threshold for the mandatory participation of representatives from other entities in the bid evaluation committees.

- Maintain the current level of budget allocations to the two governorates' Chapter VI investments with annual increase of 5 percent at a minimum, in addition to the World Bank financing.

- Publish the Program financial, operational, and social audits results.

Detailed Assessment

Institutional Framework and Fiduciary Arrangements under the Program

14. **The current local administration system in Egypt rests on two central sources:** the Constitution of 2014 and Law 43 of 1979 for Local Administration, and its amendments. Egypt's 2014 Constitution refers to local administration as the third branch of the executive authority of the Government, after the president of the state and the Government. According to Law 43 of 1979, its executive regulations and amendments, the local administration system in Egypt has five types of local administrative units: the governorate, the *markaz,* the city, the district, and the village.

15. **The state budget covers the activities of three main entities of the Government:** the state administrative bodies, the local administration (governorates), and public service authorities. The UELDP supported by this PforR operation will focus on two governorates in Upper Egypt region (Sohag and Qena). The Program will be implemented through the state budget allocations to the governorates under Chapter VI capital expenditures and investments, as well as to Chapter II of the Government budget, known as 'Purchase of goods and services'. The Program expenditures incorporate services that the governorate *diwan* is directly responsible for. These are five key local development programs: (a) local roads paving; (b) streetlighting equipment and works; (c) environment improvement; (d) firefighting and traffic; and (e) local administrative units' support. Expenditures also include activities and services implemented through regional service directorates, other service authorities, and public companies in sectors such as transport, water and sanitation, electricity, and ICT. In addition, the Program will also support activities that

enable private sector-led growth such as (a) streamlining the business start-up and licensing procedures; (b) completing missing infrastructure and facility needs for the value chain expansion in Upper Egypt and in particular tying in village-based economies, to address geographical connectivity and market access; (c) providing support packages that aim to develop SMEs through value chain development programs and sector-specific strategies; and (d) improving the competitiveness of SMEs and industry, through TA services, technology, innovation, training, and skills development.

16. **All Program procurement activities will be gradually decentralized to be carried out at the governorates level.** To some extent (high-value contracts below the abovementioned threshold like regional roads and ICT) will be assigned to be implemented at the center level, General Authority for Roads and Bridges and Land Transport or by the directorates' organizational structure through their existing procurement departments. The governorates will sign agency agreements with other entities in which it is clearly stated that the agreed upon procurement procedures manual under this Program will be followed.

17. **In addition, a PCO at the central government level will coordinate Program implementation among GoE entities, report on progress and disbursement (M&E), and hire the IVA for the Program.** The Program will be implemented by the LIUs that will be established within each governorate and will be responsible for all elements of implementation and technical aspects of the project. The two LIUs will comprise governorate staff and hired consultants, namely individual experts, and be supported by implementation capacity of ministries or other public entities (such as the IMPA, General Authority for Roads and Bridges and Land Transport, IMC, or ITIDA) or outsourced private entities (such as consulting, investment, or engineering firms). The LIUs will report directly to the governor with reporting lines to the PCO on financial reporting, implementation progress, and coordination on policy and technical issues at the central government level and will be the main counterpart for the World Bank regarding the UELDP implementation. While the establishment of the LIUs is an important milestone in Program preparation, additional TA will be required to strengthen and complement competencies of the LIUs staff and ensure timely Program preparation and implementation. Actual implementation volumes at the governorates level have not been quite significant. Hence, capacity at all levels, including service directorates, will have to be strengthened by procurement and technical experts to provide hands-on support and train procurement staff on how to do procurement efficiently.

Program Fiduciary Performance and Fiduciary Risks

Assessment of the Program Fiduciary Performance

18. **Considering the expected packaging and grouping of the Program activities, it has been determined that the estimated cost of the related procurement processes, that could result in multiple contracts if based on lots, does not exceed the maximum allowed thresholds.** The procurement rules applicable to the Program from a legal and regulatory perspective are Egypt's Public Procurement Law 89/98 and its executive regulations.

19. **The findings of the Country Procurement Assessment Review, particularly in relation to Egypt's Public Procurement Law, apply here.** The Country Procurement Assessment Review in Egypt identified a number of areas that require attention such as the following: (a) the need for

improvement of procurement practices at the sector and decentralized levels; (b) although the Public Procurement Law (89/98) and the executive regulations provide important concepts for public procurement and are based on sound principles, they are broad and not always sufficiently clear for consistent application; (c) there is no independent protest mechanism other than an appeal to the competent authority; and (d) the need to develop a capacity-building strategy and implement it through a systematic training program, with the active involvement of local training providers and the donor community. Although the Government is taking steps to align its Procurement Law, amended recently pending the parliament approval, with international best practice, significant challenges remain in relation to weak institutional capacity, particularly at the decentralized level and inconsistent interpretation and application of the Procurement Law and its regulations. Procurement weaknesses include issues with inaccurate cost estimates, rebidding, and excessive cancellation of tenders, price overruns, and weak capacity in contract management. A major shortcoming that leads to awarding contracts to nonperforming bidders is not conducting a post-qualification process on the nominated bidders for award. These weaknesses will be mitigated by the implementation of a procurement procedures manual and provision of TA.

Procurement Planning

20. **There is some disconnect between procurement planning and budget availability.** Procurement planning for the fiscal year is done before the budget is allocated based on the demand received from the directorates. On the other hand, initiating the bidding process is restricted by the final budget approval and receiving the respective notice, which sometimes does not happen until early in the fiscal year. Concluding the bidding process may take another two to three months, resulting in notably compressed implementation period for contracts within the fiscal year. The associated risk increases further due to the compelling incentive to fully use the allocated funds during the fiscal year, with no option of carrying the funds over to the next year.

Procurement Practices (Processes and Procedures)

21. **Procurement rules and procedures are considered broad and not always sufficiently clear for consistent application.** These rules and procedures allow too much room for individual interpretation, which results in inconsistent application across governorates and directorates. While advertising of bidding opportunities is required under the open competition, it is not under other procurement methods such as direct contracting and limited tender. To assess weaknesses and constraints in the procurement practices in the two governorates and a represented sample of three directorates, among other things, the review sought information on the number; type (goods, services, and works); the procurement method (open competition, direct contracting, and so on); and contract amounts in the last three years.

22. **The main civil works contracts** are in the sector roads and bridges such as asphalt and dirt local roads paving and restoration of local paved roads, establishment of ferries and public transportation stations and garages, and construction of bridges and tunnels to facilitate the movement of citizens throughout the different provinces.

23. **The main goods contracts** are for extending and strengthening power networks, streetlighting, and purchase of lighting equipment such as lighting poles, light bulbs, and cables in

addition to cleaning equipment, vehicles, fire-fighting engines, and installation of traffic signals and signs.

24. **All works and goods contracts that followed open competition are below US$3 million.** Although the governors and the directorates' heads are authorized to approve shopping below EGP 500,000 (US$65,000), the default practice is to use local competitive bidding for contracts above EGP 50,000 (US$6,500). This process is not efficient and is time-consuming; it takes from three to six months on average until the service is delivered and in most cases it has led to cost overrun. The procurement activities of high-value or complex contracts such as regional roads are assigned to the directorates or to the military. The military is following its own procurement procedures and in most cases a private contractor is selected from the long list of contractors that were pre-qualified or had good performance record. The ministries' service directorates and departments are neither technically nor financially fully decentralized and subject to dual supervision from their concerned ministries and the local administrative units councils which creates a dual lines of authority and potential inefficiency. It is considered that, procurement activities under the Program when assigned to other entities will follow the agreed upon procurement procedures under this Program. This will be enforced by signing service agreement between the governorates and other entities, including directorates.

25. **The governorates do not have an adequate set of SBDs for all procurement activities (advertisements through contracts/purchase orders).** It is considered that there is a need for improvement. Instruction to bidders, qualification, evaluation, and award criteria are not sufficiently clear. In addition, it is considered that contract conditions can be improved to achieve a more equitable balance between employer and supplier rights and obligations.

Capacity of the Construction Industry at the Local Level

26. **The PforR envisages a significant expansion in the current turnover of construction activities in different sectors in the two governorates.** The number of local contractors at the governorates level is very limited, an average of 10 contractors in each governorate with a turnover of US$5 million. Overall, the construction industry in Egypt has the capacity to respond to the Program needs. Yet, experiences from projects implemented by other sectors have shown that there are considerable risks of delay, inadequate quality, and high cost levels. These risks can be managed through the support that the procurement experts will provide. In particular, the following measures will be important:

- Qualification of contractors either through pre-qualification or post-qualification including the application of eligibility criteria such as previous performance and conflict of interest
- Rigorous bid evaluation to ensure contractors have the necessary capacity (technical and financial) to carry out the works
- Packaging of contracts to attract interest from capable contactors and obtain economies of scale.

Contract Administration

27. **It is considered that the governorates have limited capacity for providing adequate contract administration.** Traditionally the concerned directorate has been responsible for designs, specifications, cost estimates, procurement, and contract management for the main contracts; once concluded, the subprojects are handed over to the local administrative units for O&M. The construction supervision has traditionally been conducted by the directorates. As such, the governorates and administrative local administrative units do not have sufficient in-house capacity. Under the Program, LIUs will be supported by technical and procurement experts for training and handholding support; in addition, they will make use of the existing technical capacity of the relevant directorates. For complex contracts, external consultants will be hired with specific assignment.

28. **While there is no evidence of cost and time overruns in the performance of contracts, the quality of the designs and specifications as well as the construction supervision is questionable.** There are established procedures to inspect for quality control of goods at the delivery stage. However, as a result of inadequate quality assurance processes, the procedures to inspect for quality control of works can be improved.

Budget

29. **The state budget covers the activities of three main entities of the Government (the state administrative bodies, the local administration, and public service authorities).** For the three government entities, the budget presents an economic classification of expenses per eight expenditure chapters, in alignment with the international standards prescribed by the Government Finance Statistics of 2001. It also presents a functional classification together with the economic classification. The UELDP supported by this PforR operation will focus on two governorates in the Upper Egypt region (Sohag and Qena). The Program will be implemented through the state budget allocations to the governorates under Chapter VI capital expenditures and investments, known as 'Purchase of non-financial assets', as well as to Chapter II of the Government budget known as 'Purchase of goods and services'. Overall, the same budget, control, accounting, and reporting arrangements apply to the *diwan*, local administrative units, and service directorates. Service authorities, as in the case of the transport and water sectors, and state-owned companies, as in the case of the electricity sector, receive financing from their respective sectors' budgets. Nevertheless, the governorates typically assign certain activities to such entities. For example, the governorates assign supply and installation of electric equipment to public electricity companies and finance the cost of such services from the governorate's local development budget. In such cases, the public entities continue to apply the national procurement laws and manage the respective contracts while the governorates maintain the ultimate fiduciary responsibility for the funds flow, reporting, and auditing.

30. **The Program will follow the regular budget practices adopted in the country.** In the last quarter of each calendar year, the MoF issues an annual circular that includes the budget preparation guidelines for the coming fiscal year that starts on July 1. The different budget entities discuss with their subunits and consolidate their budget proposal by December. Proposals are discussed with ministries of finance and planning, then forwarded to parliament after approval from the cabinet and president. Final approved budgets by the legislative authority are

communicated to all budget entities before the beginning of the fiscal year on July 1, and the budgets are then made available to the budget entities at the beginning of the fiscal year. For the investments under Chapter VI, the funding pattern usually starts with the release of 25 percent in the first quarter, which is then replenished against physical progress and supporting documentation. For Chapter II, the funding pattern largely follows monthly transfers' periodicity. The PforR approach will pilot a performance-based financing methodology under which the Program funds received from the loan will be transferred to the governorates on meeting specific DLIs.

Transparency

31. **The enacted budget, in-year budget reports, and year-end budget reports are made public.** The production of the citizen budget was discontinued for a number of years but was resumed in the latest two fiscal years (2014/2015 and 2015/2016). A 'pre-budget statement' for FY2015/16 was also issued in March 2015 to present the main financial and economic policies to the public and allow for public participation and consultation with civil society, political parties, and so on. The 2014 Constitution requires making public the annual audit reports by the CAO, although this has not been applied yet. The UELDP will seek to promote the transparency principles through having the governorates provide public access to information on detailed budget allocations, contracts, financial results, and audits.

Accounting and Financial Reporting

32. **Monthly budget execution reports detailing expenditures and revenues are produced by budget entities and submitted to the MoF's Final Accounts sector within a maximum of 10 days after each month-end.** They include actual and budget amounts but not commitments. Annual final accounts are produced and audited within six months after fiscal year-end. The governorates' final accounts present the total sources and uses of funds for the local administration at the governorate. This includes the governorate's general *diwan* as well as each of the service directorates affiliated to the governorate (health, education, housing, roads, agriculture, and so on). The final accounts present the budget and actual data for the subject fiscal year, as well as the comparative actual data for the prior year. They also show the source of financing (state budget, special funds, other). For the purpose of the UELDP reporting, annual financial statements covering the Program funds will be prepared to provide a clear view of the Program financial performance. These financial statements will be subject to audit on an annual basis that would be submitted to the World Bank within six months after the end of each fiscal year.

Flow of Funds

33. **The World Bank loan will fund part of the overall Program expenditures through allocation of loan proceeds to the governorate *diwan* Chapter II and Chapter VI budgets.** The Program expenditures incorporate services that the governorate *diwan* is directly responsible for. These are five key local development programs: (a) local roads paving; (b) streetlighting equipment and works; (c) environment improvement; (d) firefighting and traffic; and (e) local administrative units' support. Expenditures also include activities and services implemented through service directorates, other service authorities, and public companies in sectors such as transport, water and sanitation, and ICT. To promote accountability and efficiency at the

subnational level, the loan financing of the Program will pilot a performance-based financing mechanism that seeks to enhance governance and accountability at the governorate.

34. **The Program design has adopted a flow of funds mechanism that enables the governorates to benefit from a more predictable funding stream, subject to their own performance progress and achieving the agreed predetermined results.** The performance-based financing should help create the right incentives for the executing bodies to seek process efficiency. To this end, the World Bank will disburse the loan proceeds to the state treasury against DLIs verified by an IVA. Accordingly, the state treasury will make periodic transfers of the Program funds to the governorates. Once the governorate receives its entitled funds transfer, the governorate will either directly procure and disburse to its suppliers/contractors or assign the tasks/activities to the respective directorate or other state agency in accordance with its investment plans and the mandates of the respective body/entity.

Controls

35. **Ex ante controls are exercised by financial controllers stationed in each accounting unit**. These financial controllers are affiliated to the MoF, which vets them with reasonable level of independence. In addition, financial inspection is entrusted to a specialized department in the Finance directorate. The mandate of this department includes reviewing any financial violations or noncompliance with financial regulations.

36. **The Internal Financial Control Manual lists the control procedures applicable to the different activities undertaken by the governorates through the local development units.** Special procedures are applied to purchase of goods, civil works contracts, warehouses, and inventory. This includes compliance with approved budgets, procurement methods, approval thresholds, accounting treatment, expenditure classification, among others.

Auditing

37. **The CAO conducts annual audits of the *diwan*, the directorates and the other state agencies and public companies.** Although the 2014 Constitution required making the CAO's annual reports public, the publication of these reports has not been applied/practiced yet. Nevertheless, this PforR operation will require making the program's annual financial statements and audit reports publicly available. The governorates' sample audit reports reviewed by the World Bank noted that the audit reports provide detailed listings of audit observations and findings. However, they do not provide an overall opinion on the financial statements (final accounts) as required by the International Standards on Auditing. Accordingly, the governorates will hire an independent audit firm to audit the program financial statements and issue an audit opinion on an annual basis. This will be required as a legal provision under the Loan Agreement to be signed between the GoE and the World Bank.

Institutional Capacity

38. **It has been concluded that the two governorates have adequate staffing, in numbers to implement the current activities but will require strengthening in capacity, especially with additional scope of activities envisaged under this Program.** Such scope would go beyond what has historically and is currently being carried out by the local administrative unit in the two

governorates. This will pose significant challenges because some of the decisions and responsibilities currently undertaken by the directorates are expected to be gradually absorbed by the local administrative units. The local administrative units do not have relevant experience in overseeing activities that involve the design, specifications, procurement, and contract management for main construction lines and specialized plants and equipment. The governorates do not have a unit for procurement of design and supervision services. The systems and skills needed for financial and contract management of large-scale works have to be developed to enable the governorates and local administrative units to assume responsibilities beyond operations and small maintenance-related works. Under the program, LIUs will be supported by technical and procurement experts for training and handholding support; in addition, they will make use of the existing technical capacity of the relevant directorates. For complex contracts, external consultants will be hired with specific assignment.

Assessment of Fiduciary Risk

39. **The overall processes and procedures for budgeting, bidding, and payments' processing indicated notable inefficiencies and redundancies that often have no added value.** On the contrary, some of the procedures in place can delay implementation, involve high transaction cost, and expand the room for rent-seeking behavior. The cross-cutting challenges noted include the ability of the current institutional framework to support accountability, highly centralized decision-making mechanism, and capacity of the implementing bodies. Given the significant importance of accountability in project implementation, the program's governance arrangements stand out as a critical factor to successful implementation. The ministerial decree no. 122/2015 issued by the MoP, Monitoring, and Administrative Reform identified decentralization as a key criterion in restructuring local administrative units' institutional setup. The program design and associated funds flow try to support and align with such direction. The enhanced authority and control over decision making and budget spending at the subnational level and the associated transparency and accountability would create adequate incentives for enhancing the quality of service delivery and observing the 'value for money' requirements.

40. **Initiating the bidding process is restricted by receiving the final budget approval and availing funds to the spending units which may not happen early enough at the beginning of the fiscal year**. Concluding the bidding process may take another two to three months, resulting in notably compressed implementation period for contracts within the fiscal year. The associated risk increases further due to the compelling incentive to fully use the allocated funds during the fiscal year, with no option of carrying the funds over to the next year.

41. **Procurement weaknesses include inconsistent application of the rules and procedures, cost overrun due to delay caused by unnecessary layers of approvals to be obtained for each step in the procurement process, and lengthy process of small-value contracts below US$5,000 due to the weak accountability enforcement mechanism.** In general, the weak procurement capacity of the entities at the subnational level is largely attributed to the limited delegation of authority accorded to them to manage their own resources. In addition, the high level of assigning some procurement activities to other entities due to the lack of capacity poses the additional risk of diluted accountability. This is more evidenced in the electricity sector as well as in assigning projects to military entities.

42. **The process of settling payment requests is too lengthy, resulting in a notably high transaction cost.** The chain of approvals, authorization, and signing off can drag between numerous departments across a range of entities: local administrative unit, governorate, service directorate, central ministry, the National Investment Bank/MoP, and backwards across the same chain. Such a lengthy process results in delayed payments to contractors and suppliers, delayed implementation, and additional costs. The M&E Unit identified in MoP, Monitoring, and Administrative Reform decree no. 122/2015, referred to above, plays a key role in identifying bottlenecks in business processes and administrative procedures.

43. **The Program's operational procedures stipulate mandatory lead times for the different processes, as well as for critical milestones such as preparation of specifications, preparation of BDs, bid evaluations, contract awards, and processing of contractors'/suppliers' invoices.** Quality assurance arrangements would ensure that such measures are duly enforced. A specialized team (possibly from M&E or financial inspectors) will periodically test the systems functionality and report weaknesses and/or irregularities for further remedial actions.

44. **The procurement system in Sohag and Qena at all levels is subject to the provisions of Egypt's Public Procurement Law 89/98.** However, after reviewing the internal procurement procedures, the main issues that apply include: (a) the need for improvement of procurement practices; (b) inconsistent interpretation and application of rules and procedures; and (c) the weak capacity at all levels. Therefore, the major procurement activities are assigned to be handled by the service directorates in which the procurement decision is more centralized. Strengthening the procurement practices will be sought through program DLIs that require minimum access conditions and performance criteria including improvements in procurement practices.

45. **The BDs used by the implementing units at all levels in the two governorates is extracted from Law 89/98 and special conditions that are prepared by the entity/department which requests the services.** It is considered that instructions to bidders, qualification, evaluation, award criteria, and contract management are not sufficiently clear. The BDs, including the contract conditions, can be improved to achieve a more equitable balance between employer and contractor/supplier. A major shortcoming that leads to awarding contracts to nonperforming contractors/suppliers is not applying a post-qualification process on the nominated contractor/supplier for award. These shortcomings will be mitigated by the development and implementation of SBDs and a procurement procedures manual, as well as the provision of TA.

Governance, Fraud, and Corruption

46. **The governorates at different levels, including directorates, do not have clear guidelines for handling complaints or clear contractual dispute resolution procedures.** The practice is that the complaints are addressed to the governor or the head of the directorate who in turn forwards them to the respective departments prepare the official response. As such, the system cannot be considered independent or transparent. The governorates and regional service directorates will receive TA support both through the implementation support team and additional TA to develop and implement a robust complaint handling mechanism to enhance transparency and provide clear procedures how to handle complaints.

47. **As noted above, the two governorates have limited capacity for providing adequate contract administration and management.** Hence, they will need significant capacity development to enable them to absorb the increased scope of responsibilities under this Program.

48. **In August 2014, the GoE adopted an administrative reform initiative aimed at enhancing transparency and integrity in public administration.** This initiative is trying to address complex issues such as the complicated organizational structure of the state, lack of transparency and accountability, and prevalence of corruption. The program design seeks promoting accountability to ensure strengthened governance. The PforR approach adopting DLIs and the use of minimum conditions and performance criteria will contribute to enhanced governance structure. Requirements such as technical audits, setting performance targets, and verifying them will contribute to achieving accountability. Citizen engagement in developing investment plans and the role of local councils (yet to be elected) according to the constitution will ensure meaningful participation of citizens.

49. **There are several regulatory and oversight entities responsible for governance and anticorruption issues in Egypt.** These include the Administrative Control Authority, the CAO, among others. The mandate of these entities encompasses all public funds and public officials. These entities have the right to refer identified cases to the general prosecutor. While these oversight bodies' entities are required to publish annual reports according to the Egypt 2014 Constitution amendment, these reports are not made publicly available. In the CAO's case for example, its current law has not been yet amended to align with the new constitutional requirements and to regulate the publishing arrangements. Nevertheless, this Program requires making the governorates' audit reports accessible to the public.

50. **The overall fiduciary risk for the program has been rated as High.** While the measures that were identified to strengthen the fiduciary systems and address the gaps through DLIs, as well as in the PAP, will provide reasonable assurance that the funds will be used as intended according to the World Bank's PforR policy, on the basis of the assessment findings, particularly considering the weaknesses and constraints, the overall fiduciary risk for the program has been determined as High.

Fiduciary Performance Monitoring

51. The following actions are intended as capacity-building measures that will start to be addressed promptly. However, it is expected that implementation of these actions will need to be carried out gradually during Program implementation.

Inconsistent Application of Rules and Procedures

Actions to Address Shortcomings:

(a) Develop and implement a Procurement Procedures Manual that would include increasing of thresholds and delegating authority to the lower level as per the new amended procurement law to be adopted by all implementing entities in the two governorates including directorates.

(b) Develop SBDs to be adopted by the two governorates at all levels and including directorates.

(c) Improve procurement practices, that is, not allow bidders to offer discounts after bid due date, no price negotiations unless allowed for and regulated in the BDs, require that bidders' qualification (financial and technical) be verified before contract award, reduce rebidding, and so on.
(d) Provide training to procurement staff at all levels.

Indicators:

(a) Procurement Procedures Manual developed and adopted by the two governorates and related directorates and any other entity assigned to procure specific activities under this program
(b) SBDs developed and adopted by the governorates and directorates and any other entity assigned to procure specific activities under this program
(c) Number of procurement staff trained from the different levels and directorates

Lack of Performance Information, Linked to an Inability to Collect and Interpret Data

Actions to Address Shortcomings:

(a) Ensure that all bidding opportunities, BDs, bid evaluation results, including on direct contracting, original, and final contract amounts are advertised in the GoE e-portal, www.etenders. gov.eg.
(b) Agree on performance indicators.
(c) Collect and analyze data.

Indicators:

(a) Number of bidding opportunities being advertised in the e-procurement portal
(b) Data analysis and ongoing application of performance indicators
(c) Time to conclude procurement process by ranges in value (low-value contracts ≤ US$1 million, contracts between US$1 million and US$10 million, contracts above US$10 million)
(d) Quantity of bids being retendered
(e) Number of contracts awarded on sole source basis
(f) Spread between estimated cost, original contract amount, and final contract amount
(g) Number of contracts subject to cost and/or time overruns

Lack of Accountability Mechanisms such as a Functioning Complaints and Grievance Mechanism

Actions to Address Shortcomings:

(a) Develop and implement independent complaints mechanism.
(b) Disseminate and promote the usage of the complaints mechanism with the private sector and civil society at large.

Indicators:

(a) Complaints mechanism developed and implemented
(b) Complaints mechanism disseminated with the private sector and civil society at large

Quality of Works, Including Weaknesses in Contract Management

Actions to Address Shortcomings:

(a) Ensure quality and completeness of designs and specifications, including reliable and accurate of cost estimates.
(b) Ensure that selection of consultants that prepare designs and specifications as well as those selected to carry out construction supervision follows a quality- and cost-based selection to ensure minimum requirements of general and specific experience as well as expertise in the respective field.
(c) Verify and confirm technical and financial qualifications of contractors.
(d) Develop and implement a training program for technical staff in the two governorates responsible for quality control and supervision of works contracts.

Indicators:

(a) Procedures for selection of consultants and procurement of contractors adopted and enforced
(b) Implementation support consultant selected and mobilized to governorates

Delays in Releasing Funds, Lengthy Transaction Processing, and Effect on Implementation

Actions to Address Shortcomings:

(a) Advance procurement planning.
(b) Review the transaction processing procedures and stipulate binding lead times.

Indicators:

(a) Improvement in projects implementation progress and completion times

Lack of Proper Rewarding Mechanism to Incentivize Expedited Service Delivery and Ensure Accountability

Actions to Address Shortcomings:

(a) Establish a performance-based financing mechanism.
(b) Develop a performance index that serves as a basis for implementing entities' recognition and financial rewarding.

Indicators:

(a) Functioning performance-based mechanisms

Absence of Publicly Available Information on the Governorates' Budgets, Financial Results, and Audits

Actions to Address Shortcomings:

(b) Require the publishing of budgets and final accounts.
(c) Require the publishing of program audit results.

Indicators:

(a) Public access to data and citizen satisfaction

Fiduciary Input to the Implementation Support Plan

52. Implementation progress and changes in fiduciary risks to the program will be monitored regularly. During the planned supervision missions, verification of compliance with the activities required to address the weaknesses and constraints identified in the FSA will be monitored. Fiduciary staff will continue to be fully integrated in the task team to examine the achievement of Program results, the DLIs that are of a fiduciary nature, and the implementation of the PAP.

53. Hands-on support, on-the-job training, and capacity building will be provided to the staff at all levels, including directorates, through the implementation support activities to be provided under the program.

54. The performance indicators agreed with the borrower will be applied to measure the performance of the fiduciary systems. Data will be collected from the e-procurement portal and analyzed to produce the desired indicators. Final accounts and audit reports will be reviewed to ensure timely issuance, acceptability, public availability, and corrective actions to address any major control issues or suspected fraud.

Annex 6: Summary Environmental and Social Systems Assessment

1. **In general, the local legislation, policies, and guidelines sufficiently address the environmental and social issues associated with the program**; however, the capacity of implementing agencies in the governorates is not as robust. The current procedures and correspondent gaps in complying with national legislation, policies, and guidelines are discussed in the following paragraphs. Measures have been proposed to strengthen the system and have been included in the PAP.

2. **The ESSA was developed based on a consultative and participatory process.** This entailed information reviews, field visits, consultations, and discussions with various program entities and relevant stakeholders. From November 2015 through February 2016, a number of consultation meetings and group discussions were conducted with groups of relevant stakeholders in both governorates. The consultations at this stage were designed to allow the Bank to obtain in-depth understanding of the existing environmental and social systems (including land acquisition and community engagement). Public consultation events were conducted in the two governorates during March 2016 and were attended by different stakeholders, including officials from the *diwans*; the EMUs; the RBO of the Egyptian Environmental Affairs Agency in Qena; the management and workers of industrial cities; a large number of CDAs and NGOs; representatives from local relevant governmental units; relevant directorates (property department, survey directorate, citizen service offices, and so on); and universities. Moreover, a large number of women and youth participated in the various events. Along the lifetime of the Program, consultation will take place on an ongoing process and efforts will be made to reach out to the vulnerable and marginalized groups to ensure that their voices are heard and incorporated at different stages. In particular, appropriate and culturally sensitive arrangements will be in place to ensure that women, youth, and the poor are represented and engaged. Arrangements and approaches to be followed will be elaborated in detail in the environmental and social implementation manual to be adopted as part of the POM within one month after effectiveness.

3. **Environmental assessment.** Environmental assessment for projects is included in Law 4/1994 modified by Law 9/2009 or 'The Law for the Environment', which is the main legislation regulating environmental protection in Egypt and is being regulated by the Ministry of State for Environmental Affairs and its executive agency, the Egyptian Environmental Affairs Agency. Since the effectiveness of the law in 1994, significant improvements have been introduced to the environmental legal system following the experience gained through implementing the law in the past 20 years. According to Law 4/1994, the Environmental Impact Assessment (EIA) is a licensing requirement for development projects that are likely to cause impacts to the environment. The existing EIA guidelines (modified in 2009) include detailed requirements for the EIA process, including social assessment and consultation, and are compatible, to a great extent, with the World Bank Group environmental assessment requirements. However, there are some gaps in the procedural side and the compliance with the law and guidelines requirements, including the following:

- Preparation of the EIAs as a licensing requirement is limited to the private sector, while many projects initiated by the Government do not prepare EIAs.

- In many cases, the EIAs are prepared as a formality with risk assessment, and the resulting mitigation measures are not commensurate with the nature of risk.

- Environmental Management Plans are not sufficiently followed up and environmental inspection is fragmented between EMUs of the governorates and RBOs of the environment agency with little coordination.

- Construction sites are not usually monitored for Environmental Management Plan compliance.

- There are limited qualified environmental and social consultants in the governorate, and the expertise for EIA preparation is usually imported from other governorates.

4. **Hazardous substances and wastes.** The handling procedures of hazardous substances and wastes are included in Law 4/1994 with adequate level of details. Those procedures are generally in conformity with the requirements of recognized international standards. With regard to actual implementation on the ground, there are no sufficient resources to comply with the requirements of the law. The identified gaps include the following:

- Law 4/1994 does not specifically demand having an impervious secondary containment of 110 percent of storage tank volume.

- Hazardous, nonflammable substances are not effectively tracked.

- Industries do not have feasible means to comply with hazardous waste disposal standards because there are no licensed facilities in Upper Egypt to handle hazardous waste.

5. **Air quality.** Ambient air quality, emission standards, and stack height requirements of Law 4/1994 generally are compatible with recognized international standards, with a few exceptions that have little significance in the UELDP context. The main gaps are as follows:

- Stack heights are not usually complied with by industrial facilities, and there is little follow-up in this regard.

- Emissions are rarely monitored for lower active stacks, and no emission inventories are established. Engines, burners, and furnaces are rarely checked for efficiency.

- Ambient air quality is monitored only at a few points in the two governorates, not including the industrial cities and many major roads. Monitoring data are not disclosed to the public and are not used in the EIA and licensing procedures.

6. **Water resources.** The quality of freshwater resources, including the River Nile, irrigation canals, agriculture drains, and groundwater aquifers, is regulated by Law 48/1982, which includes comprehensive standards for ambient water quality as well as allowable discharge standards for wastewater discharged in different water bodies. Industrial facilities and workshops are required to comply with Law 93/1962 and its modified executive regulations (Decree 44/2000), which also

includes comprehensive discharge standards and standards of treated effluent to be reused in agriculture. The gaps are mainly procedural, including the following:

- Areas unserved with sanitation are not provided with an adequate septage management system.

- Wastewater treatment plants with stabilization ponds do not have frequent plans for desludging and safe disposal of sludge.

- Forests receiving treated effluents are not provided with arrangements for water balance in different seasons.

7. **Noise.** Law 4/1994 includes standards for ambient noise during night and day in addition to standards of occupational noise and correspondent exposure periods. The main gaps are as follows:

- The standards of the law do not include requirements to avoid raising the background noise at baseline conditions.

- Ambient noise monitoring is not consistently measured, and the monitoring data are not disclosed to the public and are not used in the EIA and licensing procedures.

- There is no effective tracking of compliance with occupational noise exposure.

8. **Solid waste management.** Law 38/1967 regulates general cleanliness and solid waste management; also, a decree has been issued in 2005 to add solid waste services fees to the electricity bills. Generally, solid waste management services are performed in the two governorates by the local authority, but usually, they lack sufficient financial resources to deliver quality service. There was a success story in Qena City in 2000/01, where a service fee was effectively collected from households and commercial facilities, but it was undermined by the lack of finance, especially after the 2011 revolution. The main gaps are as follows:

- The service is not inclusive to all citizens and is available only in cities (and sometimes to parts of cities).

- The manpower and equipment, including vehicles, are insufficient for adequate service delivery.

- The service providers are not accountable for ineffective services or unregulated disposals.

- Disposal is done in open dumpsites with low environmental and health standards; sometimes such sites are close to urban settlements.

9. **Health and safety.** The Labor Law (Law 12/2003) is the main legislation regulating health and safety issues. The law comprehensively regulates physical, dynamic, biological, and chemical risks. The gaps are mainly on the implementation front and the compliance of industry workers to such standards. The main gaps are as follows:

- There is no general awareness among employers and workers to adhere to safe working measures.
- There is limited capacity to monitor health and safety issues in industrial sites.
- Construction activities are usually not inspected for health and safety issues.

10. **Natural habitats.** Law 102/1984 regulates natural protected areas, which includes 144 islands in the River Nile. Usually, development of the protected areas is well monitored to keep its natural conditions; however, the following gap has been noticed in the UELDP governorates:

- There is no effective law enforcement in Nile islands, and many of those islands already comprise many urban development activities.

11. **Cultural heritage.** Law 117/1983 has been issued for protection of antiquities and culturally valuable sites. Being one of the richest countries of the world with antiquities from ancient civilizations, the GoE gives the law high importance and weight. The law includes stipulations for structural protection of known and unknown antiquities through certain procedures for chance finds. The stipulations of the law will adequately safeguard against negative impacts during the construction phase of the Program interventions, and the antiquity authorities are closely inspecting the protection of registered sites.

12. **Land tenure and laws on land expropriation in Egypt.** There are three main forms of land ownership in Egypt: public or state land (*Amlak Amiriya* in Arabic), private land (*Mulk horr*), and *waqf* land (land held as a trust/endowment for religious or charitable purposes). Article 33 of the 2014 Constitution provides that “the State shall protect the three types of ownership: public, private, and cooperative.” Article 35 of the Constitution also provides that “private properties shall be protected, and the right to inheritance thereto is secured.” The Constitution (Article 63) states that “all types of involuntary relocation using force or excessive violence is banned, and violators of this article will be dealt with by the Courts.” Law 10 of 1990 on the Expropriation of Ownership for Public Interest regulates cases where private land is needed for public interest projects. Expropriation of property is further regulated by Law 59 of 1979 on the Establishment of New Urban Communities and Law 3 of 1982 on Urban Planning. The term ‘public interest’ in an expropriation context is defined in Article 2 of Law 10/1990, which covers, among others, water supply and sewage projects. Law 10/1990 describes the expropriation procedures, starting with a declaration of public interest pursuant to a presidential decree, accompanied by a memorandum on the required project and a complete plan for the project and its buildings (Law 59/1979 and Law 3/1982 provide for the prime minister to issue the decree). The decree and the accompanying memorandum must be published in the official gazette, with a copy (of the decree) displayed for public viewing in the main offices of the local administrative unit concerned. Several operational steps are followed before the land is finally acquired. At the central level, the government agency responsible for implementing the land expropriation in the public interest is the Egyptian General Authority for Land Survey (Environmental and Social Assessment [ESA]). The ESA is charged with the formation of the expropriation and compensation committees. The ESA is represented by directorates at the level of the governorates. The executing body could be another ministry (for example, the Ministry of Housing) or a governorate. This executing body will accordingly be responsible for paying compensation to affected groups through the ESA (or under its supervision),

offering alternative resettlement options, and implementing the resettlement project. At the local level, several local departments and directorates would be involved in the resettlement program depending on the type of program to be implemented and the type of the land ownership. Although Law 10/1990 does not clearly specify that lessees could be entitled to compensation, the lessees implicitly belong to the group of 'rights holders' referred to in this law. It is clear, however, that lessees may not have recourse against the landlord for the termination of their lease agreements as a result of the expropriation act. Another important issue that has not been addressed in Egyptian law is the right of squatters to claim compensation in the event of displacement or resettlement. Egyptian legislation does not recognize squatters' rights. However, Egypt's experience in dealing with this issue demonstrates that because of political pressure and the importance of the social dimension, the Government has been forced to provide alternatives for these groups of households, for alternative shelter, cash or in-kind (for example, jobs) compensation.

13. **Land acquisition procedures.** As a rule of thumb, priority is given to the selection of state-owned land for the implementation of a public interest infrastructure project to avoid negative resettlement impacts on the population. In the cases where the option of private-owned land is resorted to because of absence of state-owned land, a number of approaches (for example, eminent domain, willing buyer willing seller, and donation) could be followed depending on the type of project (for example, roads, sanitation, and so on). The land acquisition procedures largely depend on the type of project to be implemented and the approach used in acquiring the land. For instance, for the sanitation project, the following four common ways of obtaining land for pumping stations and treatment plants are followed: (a) voluntary land donation; (b) a community contribution, which is a very common approach for siting pumping stations; (c) a willing buyer, willing seller approach; and (d) acquiring land through the use of eminent domain. For the linear projects that entail permanent land acquisition (for example, bridges and roads), Law 10/1990 is normally applied and the procedures related to eminent domain are followed. For linear projects that involve temporary land acquisition (for example, natural gas or electricity transmission lines) other associated sector-specific arrangements apply (for example, Natural Gas Law 217/1980). The ESSA examined the procedures for each of the followed approaches and focused on the application of Law 10/1990 for the eminent domain. The Directorates of Survey (governorate level of the ESA) were also interviewed and consulted during the preparation of the ESSA. A number of challenges related to the application of Law 10/1990 were examined in the ESSA, most importantly, (a) the limited capacities of the governorate and associated relevant entities (for example, the Directorates of Survey) in dealing with land issues; (b) the potential delay in the scheduled time frame as a result of land acquisition; and (c) the lack of a consistent and transparent approach in managing some of the land acquisition aspects (for example, the valuation of land price, the poor level of consultation with affected groups, and the absence of an appropriate local-level grievance mechanism for issues related to land, interference of other laws, and affecting the value of the compensation like the improvement law). The above legal and procedural challenges usually have negative implication on (a) the timelines of the implementation of the projects and (b) the livelihood risks related to land acquisition, particularly on those without legal titles, squatters, and illegal users.

14. **Procedures for engaging with communities.** The ESSA examined the existing mechanisms for engaging with local communities in the two governorates. The key observation and most critical shortfall is that citizens have no structured mechanism to engage in planning of the services, monitoring of the quality of services, or the budgets associated with the service

delivery. Like the case in all Egyptian governorates, one important official mechanism is the LPC, which is formed of elected members at the governorate, districts, town, urban subdivision, and village levels. The members of the LPCs are the only elected members in the local administration. Their role is to bridge communities' claims to the executive council and to monitor the performance of the executive council and monitor the allocation of the budget to ensure that the priorities of the communities are reflected. However, in real practice, there are a lot of challenges related to the functionality of this mechanism. Moreover, the LPCs have been dismantled based on a decree from the Administrative Court in the aftermath of the 2011 revolution and have not been elected again since then.

15. **In both Qena and Sohag, a large number of CDAs are actively operating.** About 1,100 CDAs are in Qena (about 500 charity-oriented associations and 600 development-oriented associations) and 1,400 CDAs are in Sohag (600 charity-oriented associations and 800 development-oriented associations).[66] A number of CDAs were consulted in each of the governorates. The Bank also met with the Directorates of the Social Solidarity. The development-oriented CDAs in the two governorates are characterized by being generally active and have long experience in engaging with their local communities. This specifically returns to the heavy involvement of donors and development agencies with the CDAs of Upper Egypt during the last 20 years. The CDAs in the two governorates are a good asset that could be structurally used to strengthen the level of engagement with local communities, which is one key objective and mission for them. The key challenges that are facing the CDAs in the governorates are the limited resources and all the associated implications related to limitations in the activities and the human resources, absence of dialogue between the Government and the CDAs, the domination of the charity and solidarity approach (even among the development associations), and the absence of an integrated and sustainable vision for developing the communities. In the meantime, some of the special funds (for example, the NGOs/CDAs support fund) that used to be managed in a decentralized manner at the governorate level turned lately in 2015 to be centralized and managed by the MoF.

Procedures for Grievances Redress

16. **In both governorates, there are multiple channels for receiving the complaints of the citizens.** This ranges from sending direct complaints to the governor or the secretary general, passing through the other channels like the government portal, sending mails, and submitting complaints to the Citizens Service Department (which is represented with offices at the level of each of the *markazs*). The latter is decentralized with regard to location. However, the central level at the *diwan* level is still holding much of the power of this department. In the meantime, each of the governors assigns one day for direct interaction with the citizens (Monday of each week in Qena and Tuesday in Sohag). The open weekly day is called 'Citizens Meeting'. The protocol of each of the governorates in managing this day is very similar, where the executive council is present to discuss with the citizens who attend their preregistered complaints in the governorate introduction of the weekly meetings by the governors.

17. **While the existence and operation of diverse channels poses a favorable choice to the citizens, the analysis of the existing mechanisms clearly revealed a number of drawbacks and**

[66] Those figures are based on the meetings with the Directorate of the Social Solidarity in each of the governorates. The team was also informed that the numbers decreased because some of the CDAs have been dissolved.

opportunities for improvement in the current system. It was clear that citizens (particularly those living in urban and rural areas of the *markazs*) do not trust the functionality of grievance system at the *markaz* level. This lack of trust from the citizens, doubled by the tendency of the governorate-level departments to hold the power, is greatly contributing to the 'centralization' of the system and the disfunctionality at the *markaz*/district level. The cost of this practice is heavily paid by the poor and vulnerable groups of women, elderly, and groups having special needs who have to travel to the capital city where *diwan* is located to file complaints. There are also a lot of challenges related to the registry of complaints, the tracking system, and the lack of efficiency and responsiveness to the complainers. The poor facilities and working conditions of the Citizens Service Department are serious challenges that discourage the teams in charge. In the meantime, the referral to relevant entities (for example, the water/electricity authority and so on), in most of the cases, dilute the responsibilities and the accountability, specifically because the coordination mechanism between those entities and the Citizens Service Department is inexistent.

18. **Screening of Category A-type interventions.** The borrower shall ensure that the Program excludes any activities which, in the opinion of the World Bank, are likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people, as defined in the World Bank policy on PforR financing. The Program interventions under the PGs are generally expected to be relatively small-scale projects that will not have significant, diverse, sensitive, or unprecedented impacts that could affect a wide area of influence. However, the exact subprojects of the PGs will only be known in the plans that will be developed during the Program implementation; therefore, the ESSA comprises procedures to be followed by the PCO/LIUs to screen any possible Category A-type intervention. The PCO/LIUs will be trained to screen such projects, especially in sectors with environmental significance, such as solid waste management, roads, wastewater, and slaughter houses. The only potential investment that is known at the preparation phase is the widening of a 44 km road sector between Qena and Nagaa Hammadi, and the Bank assessed this intervention as not to fall under the definition of Category A-type interventions.

19. **Risk screening.** A preliminary risk assessment has been carried out using the Environmental and Social Risk Screening Format included in the World Bank's policy on PforR financing, and the likely environmental and social effects have been addressed. Regarding the context, the Program will be in Upper Egypt where it is heavily populated within the Nile valley and mostly uninhabited desert in western and eastern parts of the valley, and most of the interventions with relative significance will be implemented in desert uninhabited areas. The PAP includes procedures to make sure that adequate measures are taken to prevent negative impacts to physical cultural resources and natural protected areas. With regard to sustainability, the Program has a strategic objective of improving services and economic activities in lagging regions, and the PGs under the Program are addressing services that will improve the environmental sustainability in the Program governorate and reduce the pressures from the urban development. The only risk on the decisions of the future generations is the change of land use in desert areas, which is considered to be a low risk and will be further minimized by the improved environmental assessment system, through the PAP, which will minimize risks more effectively and maximize the environmental benefits of interventions. The design of the investment menu paid attention to the need for minimizing the negative implications of involuntary land acquisition (impacts on assets and livelihoods and risk of impoverishing certain groups) by setting screening criteria to the type of investments that may result in physical relocation or significant resettlement impacts.

20. **With regard to institutional complexity, there is some complexity in the monitoring/follow-up system as two entities (RBOs and EMUs) are currently responsible for that with relatively little coordination.** The institutional capacity of both entities is limited, with a limited number of staff and equipment, and the PAP includes measures for capacity building of different stakeholders. There are no known governance or corruption risks associated with the environmental aspects of the Program. The overall environmental and social risks have been rated as Substantial.

21. **Environmental benefits, risks, and impacts.** The environmental benefits are providing better infrastructure and services to reduce the existing environmental pressures in the two governorates. Those benefits will be particularly achieved through better solid waste management, water supply, and sanitation. There are a number of indirect benefits through improvement of roads as it will reduce traffic congestions (with associated air pollution and noise) and will also directly improve road safety, reduce accidents, and reduce dust emissions from rocky roads that will be surfaced.

22. **The main environmental risks** are institutional capacity to manage environmental aspects (Substantial); insufficient waste-handling facilities to serve industrial cities and infrastructure projects (Moderate); environmental monitoring and follow-up fragmented between two entities (Moderate); environmentally nonsustainable CCIs and action plans (Moderate); occupational health and safety in construction and industrial sites (Moderate); and impact on natural protected areas or physical cultural resources (Low).

23. **The main environmental impacts** are changing land use at the footprints of different project interventions and subproject-specific impacts on land, water, and air. These impacts are generally considered of low significance, and the Environmental and Social Impact Assessment improved system will include mitigation measures to minimize such impacts.

Social Benefits, Risks, and Impacts

24. **The Program will have a number of positive impacts and benefits to the local communities within the two governorates.** The Program will strengthen the service delivery with regard to both coverage and quality. This, in turn, will reflect positively on the well-being of the targeted communities. The improved service delivery will also help in strengthening the accountability of the G2Cs and strengthen the levels of trust between the two parties. The Program will help create economic opportunities in the governorates, including for young men and women.

25. **Land acquisition and the associated impacts are among the key social risks identified by the ESSA.** There is a high likelihood that need for land acquisition will emerge as part of the infrastructure and service delivery strengthening component. Although acquiring vacant state-owned land is normally the most economic and straightforward option that the Government gives priority to, in many cases, the lack of availability for state-owned land obliges the Government to resort to expropriation of privately owned land. Land expropriation is one particular area of risk for the Program. If not handled carefully, land acquisition could result in serious impacts on landowners and users. At this stage, because selection of specific investments has not been completed, it is difficult to know the exact amount of land that will be needed. Consequently, it is difficult to estimate either the number of landowners and/or users who will be affected by the land

acquisition process or the severity of the impact of land expropriation on them and their families. The design of the investment menu paid attention to the need for minimizing the negative implications of involuntary land acquisition (impacts on assets and livelihoods and risk of impoverishing certain groups) by setting screening criteria to the type of investments that may result in physical relocation or significant resettlement impacts. 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 cause of potentially negative social impacts and social risks if not handled carefully. The most important of the land-related risks are the following: (a) the limited capacities of the governorate and associated relevant entities (for example, the Directorates of Survey) in dealing with land issues, including the communication and consultation with the affected groups; (b) the potential delay in the scheduled time frame as a result of land acquisition, including in the cases where the absence of land title creates problems and imposes delay on projects ; (c) the lack of a consistent and transparent approach in managing some of the land acquisition aspects (for example, the valuation of land price, the poor level of consultation with affected groups, and the absence of appropriate local-level grievance mechanisms for issues related to land); and (d) the livelihood risks related to land acquisition, particularly on those without legal titles, squatters, and illegal users. Moreover, the ESSA examined a number of other issues, including the application of the willing buyer, willing seller, or voluntary land donation method.

26. **The ESSA also identified a number of other non-land-related risks:** (a) risk of weakened sense of communities' ownership of Program interventions because of the absence of appropriate participatory mechanisms to engage with various categories of communities; (b) cultural challenges and absence of structured modalities for engaging with women and youth; (c) poor information-sharing mechanism; (d) fragmented and poorly managed grievance redress systems; and (e) the limited level of capacities at the local level (including capacities to conduct social assessments, identify social risks, and manage the social aspects of the Program).

27. **To mitigate those risks, the following actions would be taken**:

(a) The World Bank will support the governorates in setting a screening system for the projects and the activities that may result in significant impacts on individuals.

(b) The PCO/LIUs will follow a manual (to be adopted as part of the POM within one months of effectiveness) that includes the different measures for improving the social system. Among other aspects, the manual will focus on incorporating the requirements and measures to address the land-related issues through the development of land acquisition guidelines and securing the needed coordination mechanism to ensure the process of land acquisition is not delaying projects or affecting the population; support the governorates in establishing and functioning a responsive and simple local-level grievance redress system; develop participatory SDPs for the two governorates using an inclusive approach for stakeholders' engagement; support the governorate to adopt appropriate modalities for engaging with youth and other community groups; support the governorates in strengthening their social impacts assessment as part of the PGM and the POM, including the consultation and information sharing process; and introduce performance audits (including social audits).

(c) Appropriate human resources will be assigned at the various levels of the Program to ensure that the social issues are properly handled.

(d) The capacity of the PCO/LIUs and the other executing agency will be strengthened to manage land acquisition.

Actions to Address Identified Risks and Gaps

28. **The ESSA has developed measures that aim to address the identified gaps.** All the proposed measures are to strengthen the local capacity for effective implementation of existing laws and regulations. None of the measures are suggesting regulatory reforms or will have any impacts on the existing environmental and social regulations because most of the identified gaps are in the procedural aspects of implementing those laws.

29. **A qualified environmental and social specialist will be recruited at the PCO and LIU levels, and there will also be a parallel TA to enhance the capacity of different implementing agencies to improve the environmental and social system.** The PCO/LIUs will review the investment plans once they are ready and will screen projects to determine their eligibility for PforR financing. This is included in the MAC for new investments. The PCO/LIUs will follow a manual to be adopted within one month of effectiveness that includes the different measures for improving the environmental system. The manual will include measures for the following:

- Improving the environmental assessment through ensuring preparation of quality Environmental and Social Impact Assessments during subproject planning, focusing on subprojects with relatively higher risk (roads, sanitation, and solid waste management) and for projects in sensitive areas (natural protected areas and near antiquity sites). Also, CCIs will include strategic environmental assessment and the assessment recommendations adopted in the action plans.

- Improving environmental inspection and follow-up system through carrying out coordinated environmental inspection and follow-up plans prepared collectively by EMUs and RBOs and improving inspection on health and safety issues in construction sites and industrial facilities.

- Improving waste management in industrial cities guided by a risk management approach for handling waste according to the best available techniques. The PCO/PIUs will start dialogue with stakeholders to initiate a hazardous waste facility in Upper Egypt.

- Establishment of workers centers in the industrial zone that will provide services in the fields of health and safety. The centers will have access to health and safety experts to advise workers on health and safety conditions specific to their work and provide medical advice on occupational health-related issues. The workers centers would also provide special facilities to the women workers in the industrial zones (for example, day care centers for children, awareness classes, and so on). These are meant to be measures to encourage women participation in the jobs that will be created in the industrial zones.

- Improving risk management through introducing an assessment system and screening mechanism for the land-related high-risk activities.

- Incorporating the requirements and measures to address the land-related issues through the development of land acquisition guidelines.

- Supporting the governorates in establishing and functioning a responsive and simple local-level grievance redress system.

- Developing participatory SDPs for the two governorates using an inclusive approach for stakeholders' engagement (including special arrangement to ensure that women and youth are participating in the planning, implementation, and monitoring of projects).

- Supporting the governorate to adopt appropriate modalities for engaging with youth and other community groups.

- Supporting the governorates in strengthening their social impacts assessment as part of the PGM and the POM, including the consultation and information-sharing process.

- Introducing performance audits (including social audits).

30. **Developing and implementing the Environmental and Social Implementation Manual will require training and capacity building of the different entities responsible for implementation.** A training and capacity-building program will be undertaken within six months after effectiveness of the Program and will include the following:

- Training for PCO/LIUs to classify projects category according to World Bank requirements to screen projects to determine their eligibility for PforR financing. This will be provided by the World Bank upon recruitment of PCO/LIUs' environmental and social staff.

- Training for RBOs and EMUs on effective environmental auditing and inspection. This will take different forms, from traditional face-to-face training workshops to on-the-job training provided by PCO/LIUs staff.

- Training on risk assessment and management to be provided to RBOs, EMUs, and management of industrial cities.

- Training the relevant teams at the central and governorate levels on carrying out risk assessment and screening projects to determine their eligibility for PforR financing.

- Training on social impacts assessment, including methods for carrying out quantitative and qualitative social surveys.

- Training on consultation, communication, and information sharing

- GRM.
- Participatory M&E.
- Mechanisms for introducing beneficiary feedback.
- Training on the application of the land acquisition guidelines.

31. **The training and capacity-building program** shall be reviewed annually and updated as necessary.

Annex 7: Systematic Operations Risk Rating (SORT)

EGYPT: Upper Egypt Local Development Program for Results

Systematic Operations Risk-Rating Tool (SORT)	
Risk Category	**Rating**
1. Political and Governance	High
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Substantial
4. Technical Design of Project or Program	Substantial
5. Institutional Capacity for Implementation and Sustainability	High
6. Fiduciary	High
7. Environment and Social	Substantial
8. Stakeholders	High
9. Other (DLI)	Moderate
OVERALL	**High**

Annex 8: Program Action Plan

Action Description	DLI	Covenant	Due Date	Responsible Party	Completion Measurement
Program Coordination and Implementation					
POM, including PGM and CIM, is adopted	☐	☒	1 month after effectiveness	IMSC	POM with details on all Program operational aspects is adopted
PCO and LIU staff trained on overall Program implementation aspects	☐	☐	3 months after effectiveness	PCO, LIUs	Training plan for the PCO and LIUs as defined in the POM developed and staff trained
ICT plans developed for Sohag and Qena	☐	☐	6 months after effectiveness	PCO, LIUs	ICT plans and technical specification documents developed
Contracting of implementation support consultants	☐	☒	3 months after effectiveness	PCO	Implementation support consultants contracted
Annual capacity-building plan developed and implemented	☐	☐	3 months after effectiveness; annually thereafter	PCO, LIUs	Annual capacity-building plan for all key Program implementation aspects developed and implementation has begun
Business Environment and Competitiveness					
Establish a PPD forum within the governorates	☐	☐	6 months after effectiveness and annually thereafter	LIUs	Framework for PPD created and implemented
Prepare a strategic economic study for each governorate	☐	☐	6 months after effectiveness	PCO, LIUs	Strategic study completed for each governorate and accepted by the SC
Design the framework for industrial zone management	☒	☐	9 months after effectiveness	LIUs, Industrial Development Authority	Framework document prepared and agreed by the Industrial Development Authority with each governorate
Design cluster development and firm-level assistance programs, tailored to the needs of Sohag and Qena	☒	☐	9 months after effectiveness	LIUs, IMC	Additional guidance in line with the CIM prepared and implemented
Infrastructure and Services					
APA assessor recruited in line with the POM	☐	☐	3 months after effectiveness	PCO	Assessor recruited and contracted if necessary
Technical quality audit firm contracted in line with the POM	☐	☐	15 months after effectiveness	PCO	Technical quality audit firm contracted
Citizen and Business Engagement					
GRM upgrading plan developed	☐	☐	6 months after effectiveness	PCO, LIUs	Plan for harmonization and integration of multiple grievance mechanisms at the

Action Description	DLI	Covenant	Due Date	Responsible Party	Completion Measurement
					governorate level developed
Citizen report card surveys administered	☐	☐	Annual	PCO, LIUs through the survey firm/agency	Annual publication of citizen report card survey report and data
Financial Management and Procurement					
Fiduciary Implementation Manual, which is part of the POM, including training material and SBDs for procurement, adopted	☐	☒	1 month after effectiveness	PCO, LIUs	Fiduciary Implementation Manual adopted
Develop and implement training and capacity-building plan on fiduciary implementation issues	☐	☐	6 months after effectiveness and refresher training to be replicated every 6 months	PCO, LIUs	Training and capacity-building plan developed and implemented
Open Program bank accounts in both governorates to receive the Program funds	☐	☐	3 months after effectiveness	Governorates, MoF	Bank accounts are opened
Annual procurement plans discussed and approved at the governorate level and all bidding opportunities, BDs, and bid evaluation results, including on direct contracting, estimates, original, and final contract amounts, are advertised in the GoE e-portal: www.etenders.gov.eg	☐	☐	Annually	PCO, LIUs	Verification that the procurement plan and all relevant information are being published in the GoE procurement portal
Environmental and Social Measures (more details are in the ESSA)					
Environmental and Social Implementation Manual, part of the POM, including different measures to bridge identified gaps, adopted	☐	☒	1 month after effectiveness	PCO, LIUs	Environmental and Social Implementation Manual adopted
Develop and implement training and capacity-building plan on environmental and social issues	☐	☐	6 months after effectiveness and refresher training to be replicated every 6 months	PCO, LIUs	Training and capacity-building plan developed and implemented

Annex 9: Implementation Support Plan

1. **Strategy and approach for implementation support.** The innovative approach of the UELDP operation, the specific nature of the Program activities, the existing capacity of the implementing ministries and governorate, the involvement of other line ministries, and the Program risk profile require intensive implementation support, particularly in the initial stages of Program implementation. Consequently, the World Bank's implementation support plan was designed based on the risks that may arise from these, and the lessons learned from past operations in the country and programs of similar nature globally. The implementation support plan will mainly focus on implementing the risk mitigation measures identified in the SORT.

2. **Core World Bank Group support.** Key World Bank Group team members involved in implementation support will be based in Washington, D.C., and in the Cairo country office to ensure timely, efficient, and effective implementation support. The core team is expected to conduct periodical formal implementation support missions during the first year of implementation, including field visits to Cairo, Qena, and Sohag. After the first year of implementation, the periodicity of the implementation support missions is expected to be reduced. The core team will closely monitor Program implementation to promote coordination; detect and address possible issues that could lead to implementation slowdown or gridlock; and support government efforts in ensuring clear division of roles between the implementing units, levels, and partners (PCO, LIUs, LEDs, Local Administrative Reform Unit, IMC, and others).

3. **Additional capacity-building support (parallel TA funding).** Beyond the core World Bank Group implementation support, the Government, together with the World Bank Group, will seek additional funds for parallel TA to provide capacity building and TA with the objective of empowering and readying the governorates for transformative governance and development. This parallel capacity-building TA is envisioned to build capacity so that the Government's program, the IEDLR, can be implemented in an impactful and sustainable manner. It will cover each of the areas under the UELDP—namely demand-driven competitiveness support, governorate performance management, as well as specialized areas such as environmental and social aspects, procurement and financial fiduciary responsibility, and ICT operations and management, among others.

Key Areas for Implementation Support

4. **Cluster competitiveness.** Through both the World Bank core team and potentially the capacity-building parallel TA program, capacity building for demand-driven competitiveness of sectors will be provided. This will include PPD facilitation, cluster development analysis and strategy, and service standards for the industrial zones, among others.

5. **Performance grant management.** The Bank will offer technical support to the LIU and PCO teams as well as other departments within the governorates involved in Program implementation linked to Subprogram 2. This support will comprise overall Program management support.

6. **Fiduciary requirements.** The Program will require intensive procurement and financial management implementation support due to the limited capacity of the LIUs and the need to

provide good quality and acceptable interim financial reports that provide cash forecast or eligible expenditures that will be reimbursed upon satisfaction of agreed DLI results. Formal implementation support of financial management reports and procurement will be carried out semiannually for post-review of contracts below the prior review threshold, while prior review will be carried out for contracts specified in the POM, as required. Furthermore, training will be provided by the World Bank's financial management and procurement specialists to help the LIUs strengthen its fiduciary and procurement capacity during implementation.

7. **Environmental and social systems.** The World Bank's environmental and social specialists will provide training to the PCO/LIUs in screening subprojects of the PGs for environmental and social risks, once the PCO/LIUs environmental and social staff are onboard. The Bank will support the client to prepare the Environmental and Social Implementation Manual, due within one month after effectiveness, including the monitoring milestone of different measures as detailed in the ESSA. The Bank will continue assessment of the Program risks during implementation through reviewing documentation and progress reports and conducting field visits. Risk evaluation will be dynamic and new risks/mitigation measures will be identified as necessary during implementation.

8. **Communication.** Adequate support will be provided for the design and implementation of a strong communication and outreach strategy to facilitate two-way information dissemination about the Program and its objectives and ensure engagement of a wide range of stakeholder groups. Given the local context, the strategy will focus on the decentralization of information, bottom-up communication, and feedback channels. An inclusive stakeholder engagement plan will be developed to ensure inclusion of citizens, women, and youth groups (both urban and rural) as part of the participatory planning process.

9. **Citizen engagement.** Support will be provided for strengthening the participation, transparency, and social accountability elements of the Program. In particular, through parallel TA support, training on conducting user feedback surveys (citizen report cards) as well as on GRM upgrading and citizen budgets will be provided.

10. **M&E.** The Bank will provide support to both the PCO and LIU on M&E-related activities, including reporting of Program activities, DLIs, and results as set forth in the results framework. Support will be particularly at the LIU level in the governorates.

Skills Mix Required *(please refer to the Implementation Support Needs Matrix in the following section)*

Implementation Support Needs Matrix

Focus Area	Skills Needed	Estimated Level of Effort (Weeks)	Frequency	Number of Trips
Subprogram 1. Competitiveness of Economic Sectors				
• Program management	Senior operations officer	16 weeks/year	FY2017–21	4 trips/year
• G2B	G2B/G2C service systems specialist	4 weeks/year	er FY2017–21	2 trips/year
• Sector development	Clusters/sector development specialist	8 weeks/year	FY2017–21	4 trips/year
• Industrial zone	Industrial zones design and management specialist	8 weeks/year	FY2017–21	4 trips/year
Subprogram 2. Provision of Infrastructure and Services				
• Program management	Senior operations officer	16 weeks/year	4FY2017–21	4 trips/year
• Performance-based block grants	Economist or institutional development specialist	16 weeks/year	FY2017–21	2 trips/year
• Institutional development	Institutional development specialist	16 weeks/year	FY2017–21	4 trips/year
Roads				
• Review of engineering design for 44 km road section Qena-Nagi Hammadi	Highway engineer	2 weeks/year	FY2017/18	2 trips/ year
• Review of design for local road improvements	Highway engineer	4 weeks/year	FY2017/18/19	4 trips/ year
• Due diligence technical supervision during construction of 44 km road between Qena and Nagi Hammadi	Transport sector specialist/and environmental/social specialist	3 weeks/ year	FY2017/18/19	3 trips/ year
• Due diligence technical supervision during construction of local roads in Sohag and Qena governorates	Transport sector specialist/and environmental/social specialist	4 weeks/ eyar	FY2017/18/19	4 trips/ year
Fiduciary: Procurement				
• (a) Follow up implementation progress (including that of the PAP);	Procurement specialist	4-6 staff weeks/ year	FY2017-21	2-3 trips/ year

Focus Area	Skills Needed	Estimated Level of Effort (Weeks)	Frequency	Number of Trips
(b) provide support on resolving emerging Program implementation issues and on building procurement capacity at all levels of the two governorates; and (c) monitor the adequacy of system performance and compliance with legal agreements				
Fiduciary: Financial Management				
• Review of transaction processing duration from initial invoicing to final payment	Audit specialist	2 weeks/year	FY2017-21	3 trips/ year
• Tracking contracts' execution within scheduled time frame	Audit specialist	1 week/year	FY2017-21	1 or 2 trips/ year
• Supporting the preparation of Program financial reports	Accountingauditing specialist	3–4 weeks/year	FY2017-21	2 trips/ year
• Preparing simplified summary financial reports to be shared with community/citizens	Transparency and financial reporting specialist	3 weeks/ year	FY2017-21	2 trips/ year
Environmental and Social				
• Train the PCO and LIUs on screening subprojects to determine their eligibility for PforR financing	Environmental and social specialist	1 week/year	Upon recruitment of environmental and social staff with annual refresher training	4 trips/year first two years; then 2 trips/year
• Monitoring PAP milestones according to the ESSA and performing risk assessment during implementation	Environmental and social specialist	4 weeks/year	Quarterly during first two years; then semiannually	
Results Measurement				
• Train PCO and LIU staff on M&E procedures	M&E specialist	4 weeks/year	FY2017	2 trips first year

Focus Area	Skills Needed	Estimated Level of Effort (Weeks)	Frequency	Number of Trips
Communications / Citizens Engagement				
• Preparing communications and outreach strategy	Communications specialist	4 weeks in year 1	FY2017/18	2 trips/year
• Preparing inclusive stakeholder engagement plan to ensure citizens and youth inclusion	Communications/stakeholders engagement	8 weeks in year 1 and 2	FY2017/18/19	4 trips/year
• GRM upgrading support	GRM specialist	4 weeks in year 1	FY2017	2 trips/year
• Citizen Report Card/User Feedback Survey support	Participatory M&E specialist(s)	8 weeks in year 1 and 4 weeks in year 2	FY2017/18	2 trips/year
ICT System				
• Review of ICT plan implementation	ICT policy specialist	4 weeks/ year	FY2017/18/19/20	2 trips/year first two years; then annually