1. Key development issues and rationale for Bank involvement

Poverty continues to be a major challenge in Egypt. Based on the recent Poverty and Social Impact Assessment (PSIA) Egypt - Towards a More Effective Social Policy: Subsidies and Social Safety Nets, about one out of five Egyptians lives in poverty. Poverty declined during the second half of the nineties from 19 to 17 percent, but preliminary evidence suggests that poverty has inched upwards in the early 2000s as growth stagnated. Moreover, a significant share of households have consumption expenditures just above the poverty line, making them vulnerable to falling into poverty in the case of adverse events, like job loss and health shocks.

Poverty is concentrated in rural areas and in Upper Egypt. Poverty reduction in the 1990s was concentrated in Lower and Metropolitan Egypt, but poverty actually grew in Upper Egypt during the same period. About three-quarters of the poor live in rural areas, with 55 percent living in rural Upper Egypt. In addition to lower consumption, rural dwellers and residents of Upper Egypt have less access to basic infrastructure and services, which limits their capacity to rise out of poverty. To improve welfare in Upper Egypt will require better identification of local priorities and the use of more flexible means to deliver public services.

Unemployment is a key determinant of poverty in both urban and rural areas. Official estimates put unemployment in Egypt at about 11 percent. Gender and regional differences in unemployment contribute to societal inequities. Widespread youth unemployment exacerbates social ills and raises political tensions. In a 1999 study by IFRI, employing one...
additional household member would reduce the national poverty rate by between 2 and 3 percent, accompanied by predicted declines in the depth and severity of poverty.

**Steady progress has been made in improving health indicators over the last twenty years, but significant challenges remain.** Large inequities persist in health outcomes. For instance, the poorest households experience twice the rate of infant mortality. The expansion of basic health services, increased participation by NGOs and community groups, and introduction of micro-insurance mechanisms are crucial to redressing the equity imbalances in the health sector and protecting vulnerable households from the impoverishing effects of health crises.

While meant to serve the poorest and most vulnerable households, public safety net and subsidy systems are badly targeted, making them costly and inefficient in reducing poverty. Egypt spends 2 percent of GDP on the ‘core’ social safety net, including consumer food subsidies, employment generation through the Social Fund for Development, and cash transfers, and an additional 8 percent of GDP is spent on energy subsidies to producers and consumers. Of the total 10 percent of GDP, the poorest quintile of the population receives only 16 percent of the benefits while the wealthiest quintile receives 28 percent. Realigning the safety net will require: (a) better targeting methods like proxy means testing and geographical targeting to increase the share of benefits to the poor, (b) consideration of a conditional cash transfer program to help the poor build human capital; and (c) introduction of a workfare program to provide temporary jobs for the able-bodied poor. Such a strengthened safety net can help mitigate the negative impact of phasing out ineffective subsidies.

To address these development challenges, the Government intends to promote private sector growth, enhance provision of public services and address equity, the three pillars of its Fifth Five Year Plan for Socio-Economic Development (2002-2007). An improved business climate along with public investments in infrastructure and education and targeted interventions to vulnerable groups are expected to help Egypt reduce unemployment in the context of a growing labor force. The Government will pursue equity through redesigning safety net programs to be more effective, including through administrative decentralization, community-based approaches and the use of NGOs. In addition, inter-regional equity will be addressed in part through targeted investments in Upper Egypt. Government’s commitment to poverty is further evidenced by the fact that it has co-authored the Poverty Reduction in Egypt, Diagnosis and Strategy and the 2004 Poverty Reduction Strategy with the World Bank. This was complemented by UNDP’s support to prepare a Poverty Reduction Action Plan (PRAP) the “AMMAR Program” which translates the 2004 Poverty Reduction Strategy into an action plan with verifiable outputs, including achieving the strategic objective of reducing poverty in Egypt by 50 percent by 2015, in line with the Millennium Development Goals (MDGs). To this end, Government commitment to the proposed project’s objectives is strong.

The proposed Community and Local Development Project (Social Fund IV) is one of the main lending vehicle to support the Bank’s CAS objectives for FY06-09, dated May 2005, to help the GOE achieve its goals in promoting equity. The CAS identifies four priorities to address equity, namely to improve the coverage and effectiveness of safety nets, to reduce disparities between Upper and Lower Egypt, to improve access and quantity of health care for the poor, and to reduce gender disparities. The proposed operation would directly support the achievement of the results-based CAS’s outcome indicators in these areas. Given its multi-sectoral focus, the project will also complement on-going and planned World Bank operations in education, health and infrastructure development.
The Bank is uniquely poised to assist Egypt in promoting redesign part of the public safety net through community and local development mechanisms managed by the Social Fund for Development. An international dialogue on safety net programs chaired by the Prime Minister and attended by World Bank President James Wolfenshon and key members of the Egyptian cabinet was facilitated by the World Bank in Luxor in February 2005. This high level meeting was followed with analytical support through completion of the PSIA review of the subsidies and the social safety net. The Government of Egypt seeks to tap into the World Bank’s international leadership on safety net and community-driven development issues and practical experience in assisting countries implement workfare programs, social funds and community-driven mechanisms. The Bank was one of the original financiers of the SFD and has supported the growth in its capacity over the years. Moreover, it is expected that by bringing in World Bank experience to design more innovative safety net interventions, it will attract substantial grant funding from other donors, as has been the case with the SFD in the past. Government policy stipulates that most foreign loans must leverage grants funds.

The Social Fund for Development (SFD) is a well established organization with a 15 year track record and disbursements exceeding $1 billion via funding by over 20 donors as well as the central and local governments. The SFD, a legally autonomous, permanent development organization has played a significant role in poverty reduction, employment creation and small enterprise development in Egypt since 1991. The World Bank has so far granted three IDA credits to the SFD. The third phase of Bank support is nearing successful completion and steps are underway to carry out an ICR, where lessons learned will be taken into account in the design of this project. Donors have joined forces in reviewing SFD’s programs through joint Multi-Donor Reviews which have taken place every four years. The most recent Multi-Donor Review completed in November 2004 as well as an Impact Assessment Study dated September 2004 found that the SFD is effective in the Egyptian context and its four main programs (community development, public works, human resource development and small enterprise development) have channeled resources to needy areas, institutions and people. However, this review highlighted the need for SFD to strengthen its monitoring and evaluation capacity, mainly in the area of solid impact evaluations. The SFD is now moving into a new phase focused toward integrated services for the poor, local area development, population and community health, and public workfare. Given the strong track record and installed institutional capacity, the SFD offers an effective instrument for meeting the Community and Local Development Project objectives, particularly given that the CAS has identified weaknesses in the institutional capacity in Egypt to manage the reform process as one of the main CAS risks. Cooperation between development partners has been close and effective overall in Egypt and the history of joint donor financing and supervision of the SFD will ensure effective donor harmonization around the supported themes. SFD is taking the lead in project preparation. In addition to preparing the necessary documentation, SFD will be allocating some funds to pilot programs. Lessons learned from these pilots will be built into the design of the project.

The project is an important part of an integrated approach that the Bank is adopting taking into account lessons learned from several projects implemented in various sectors in the last few years. These lessons learned, along with a number of initiatives adopted by the Egyptian Government represent the platform upon which a number of Bank projects under preparations are set. The main pillars of this platform are a) decentralization: where more authorities and responsibilities are being shifted from the center to the governorates’ and other decentralized structures such as district and village councils; b) area-based development: where
poverty and vulnerability are addressed on a geographical basis where many actors across sectors try to jointly enhance the quality of life of the poor and vulnerable, and c) establishing partnerships between government and non-government actors.

Given this framework, a certain division of roles and interventions has been agreed upon for some upcoming Bank-financed projects. While this project will use the “local development approach” and focus on rural areas, the Alexandria Growth Pole Project (led by the urban sector) will mainly focus on urban areas in Alexandria with a strong growth motivation. The Integrated Governorates Projects I & II (led by the urban and rural sectors respectively) will use the same approaches with more emphasis on furthering the decentralization agenda, building public-private partnerships and enhancing local planning and implementation capacity. The experience of the on-going Health Sector Reform Project (led by HNP sector) together with the experience of the Egypt Population Project (closed in 2005) provide the main grounds for the community health component which will be taken to scale under the Family Health Project (led by HNP sector - scheduled for 2007). Coordination is on-going among the various Bank teams to ensure that lessons learned are widely disseminated and successful experiences scaled up.

2. Proposed objectives

The project will assist the Government in promoting equity through well-targeted interventions that provide temporary employment to the poor and access to basic infrastructure and health services among underserved communities. This would be achieved by: (a) scaling up the local area development approach by funding at least 1,000 sub-projects implemented by local governments in district and villages that are ranked in the lowest 25% of the poverty map, with a special emphasis on Upper Egypt and projects benefiting women would be funded in priority; (b) creating at least two millions persons-days of temporary employment for persons living below the poverty line through the establishment of a more efficient workfare program based on international best practice; and (c) funding at least 200 community based health interventions in poor communities to address inequities in health outcomes, in partnership with the Ministry of Health and Population (MOHP), local governments and NGOs.

3. Preliminary description

**Local Area Development $60 million estimated cost.**1 Local Area Development (LAD) in the Egyptian context is defined as several multi-sectoral integrated activities or sub-projects which are: (i) aimed at improving the welfare of the population in areas where there is a very high concentration of poor people as identified through a geographic targeting mechanism; (ii) selected by the population through a participatory process; (iii) managed by eligible district (hay) councils in urban areas or village councils in rural areas for the benefit of the population of those districts or villages; (iv) implemented through contracts with civil works contractors, suppliers, consultants and public or private service providers; and (v) supervised by district and village councils assisted by technically qualified and experienced public or private sector entities. SFD is keen on applying best practice experience from other parts of the world and becoming an innovative “community driven development” instrument which would support

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1 Indicative amount – funding allocations to be discussed at appraisal;
local level decision making and community participation. The LAD program would focus on instituting participatory planning mechanisms at the local level – based on the rural participatory assessments piloted under SFD III – in order to improve coordination and heighten sustainability, as well as gradual capacity strengthening of local actors within the context of their participation in the sub-project cycle. Sub-projects to be funded will include the rehabilitation of village infrastructure (schools, health posts, feeder roads, markets, small bridges) and service provision activities such as literacy programs and early childhood development programs.

**Public Workfare Program (PWFP) $10 million**

This would support SFD’s orientations to move from a public works program, where the main emphasis has been on the infrastructure created, to a public workfare safety net program which would maximize temporary employment opportunities for poor people. The PWFP will include: (i) setting up efficient mechanisms within SFD to establish a well-targeted public workfare program; (ii) launching the PWFP in a limited number of governorates, using the poverty map to target the poorest of the villages within those governorates and (iii) capacity building at different levels (SFD HQ and RO, PIU, district and village councils and Executing Agencies) in managing highly labor-based sub-projects. The PWFP will be launched in a limited number of governorates, using the poverty map to target the poorest of the villages within those governorates. Further targeting would be done by setting wage rates below the minimum wage and setting labor-intensive criteria. International experience of programs like Trabajar in Argentina would be integrated into PWFP design.

**Community Health estimated cost $20 million.**

This component will contribute to the achievement of the health MDGs, i.e. infant mortality and maternal mortality, in communities that would lag behind in reaching these goals. The community-based health and population interventions would complement MOHP reform program and would focus on three areas: (i) the increased demand for health services and the promotion of health care activities at the household and community levels using NGOs, an area where SFD has a comparative advantage; (ii) the involvement of community based organizations (CBOs) to address gaps in service delivery and support to the Ministry of Health and Population (MOHP) in providing primary health care and other public health programs; (iii) the piloting of community-based financing schemes to mobilize resources to help the poor manage health risks.

4. Safeguard policies that might apply

The Environmental Assessment (OP/BP 4.01) safeguard policy is triggered. The Environmental Management Plan which was prepared under the on-going project is currently being revised to make it consistent with the approaches set for in the Manual for Safeguard Compliance for CDD Projects. Capacity building activities are envisaged for stakeholders and other partners to ensure that the have a clear understanding of the environmental issues and the use of the environmental checklist. It is unclear whether the involuntary resettlement safeguard policy will be triggered. However, a resettlement policy framework will be developed which

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2 Indicative amount – funding allocations to be discussed at appraisal;
3 Indicative amount – funding allocations to be discussed at appraisal
will outline procedures for addressing social impacts related to involuntary resettlement in a systematic fashion.

5. Tentative financing

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6. Contact point

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