

**PROGRAM-FOR-RESULTS INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: 106497

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I. Country Context

1. **Public perception concerning 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, 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 has made progress in restoring security and reducing the level of civil unrest and initiating critical economic 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 Government of Egypt (GoE)’s economic and social programs and reforms, as articulated, most recently in the Government’s 2030 *Sustainable Development Strategy*.

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 country¹. The region is home to about

¹ *Promoting Poverty Reduction and Shared Prosperity: A Systematic Country Diagnostic*, WBG, November 2015. These rates are different from the official poverty rates. In discussions with CAPMAS, the Poverty team learned that for the HIECS 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 Systematic Country Diagnostic report

38 percent of Egypt's population, and 67 percent of its poor. In terms of shared prosperity, 41.5% of the bottom 40% 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.^{3/4} Upper Egypt governorates are land-locked 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.⁵

3. **However, Upper Egypt has nevertheless demonstrated growth potential.** Between 2004 and 2008, Upper Egypt registered higher growth than metropolitan Egypt and the nation overall⁶, driven mainly by agricultural activities around urban areas. The region has significant economic activity 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, and it lies inland of the Red Sea tourism resorts, which represent markets for food, handicrafts, and other goods consumed by tourists. Container terminal 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.

II. Sectoral (or multi-sectoral) and Institutional Context

4. **Three key constraints, in particular, contribute to weak economic activity in Upper Egypt and relatively low level of private investment:** (i) *limited empowerment, effectiveness and accountability of sub-national governments;* (ii) *continuing low levels of access and poor quality of infrastructure and services* to both citizens and businesses; and (iii) *poor investment climate* and absence of support services for value-chain development.⁷ 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.** Currently, 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

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 WBG, Egypt Systematic Country Diagnostic, September 2015.

³ *Improving Regional and Rural Development for Inclusive Growth in Egypt*, Hafez Ghanem, Brookings, 2014.

⁴ WBG, *Arab Republic of Egypt, Poverty in Egypt 2008-09: Withstanding the Global Economic Crisis*.

⁵ WBG, *Upper Egypt: Pathways to Shared Growth*, October 2009

⁶ WBG, *Upper Egypt: Pathways to Shared Growth*, October 2009.

⁷ *Promoting Poverty Reduction and Shared Prosperity: A Systematic Country Diagnostic*, WBG, November, 2015; Herrera, S. and Hon, V; *Reshaping Egypt's Economic Geography: Domestic Integration as a Development Platform*, WBG, 2012; Yemtsov, R.; *Upper Egypt: Pathways to Shared Growth*, WBG, 2009.

sanitation or a clear mandate for economic development.⁸ 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 critical for the local environment are fragmented and uncoordinated without a holistic, integrated view to 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.⁹ These challenges are compounded by the limited institutional and organizational capacity of governorate and district level service delivery entities and sub-optimal 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 a new way of local economic development policy and decision making.

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 country¹⁰. 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 distances – physical and with respect to communications – remain considerable.¹¹ 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.¹² Regional level connectivity is a similarly important constraint.¹³ In Sohag and Qena, two of the poorest governorates, only about 10% of households are served by sewerage networks with treatment plants and in the 32 poorest villages in Qena, less than 1% of households are connected to the public sanitation network. These access and quality challenges are compounded by poor maintenance. Estimates suggest that only about 40% of the most basic operations and maintenance needs were met by the Sohag governorate.¹⁴ ***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

⁸ The governorates' mandate is limited to five areas: i) local roads paving; ii) street lighting equipment and works; iii) environment improvement; iv) civil defense, traffic and security; and v) local units' support. Other infrastructure and services are provided through regional service directorates of central government ministries and other public entities.

⁹ The Local Administration Law (43/1979) provides for citizen participation in local planning and budgeting, assigning the consultative function to elected Local Popular Councils (LPC). These bodies are currently non-existent; even when they existed, LPCs merely articulated the demand for public services and infrastructure improvements, with all approval power remaining with central ministries.

¹⁰ For instance, only 25% of public investment in electricity, water, health and education in 2009 was made in Upper Egypt while 34% was made in metropolitan Egypt which housed roughly 17% of the Egyptian population (Ghanem 2014)

¹¹ Ibid

¹² Yemtsov, R

¹³ Herrera, S. and Hon, V 2012

¹⁴ WBG, Sohag Rural Development Project Implementation Completion Report, December 2008

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 poor 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. Corruption in government to business services, such as obtaining an operating license, construction permit, or electrical connection, is perceived as a major constraint by an estimated 63% of businesses in Upper Egypt, among the highest of the sub-regions in Egypt with 72% of enterprises reporting informal payment needed to obtain an operating license and nearly a third of firms reporting a payment for construction permits or utility connections.¹⁵ In Sohag and Qena, for example, over 55% of firms surveyed in industrial zones reported that it took more than three months to obtain their operating license, while 21% report 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.¹⁶ *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 of reducing 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 and integrated approach is needed to address the fundamental development challenges of the region to create jobs and reduce poverty. The IEDLR 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.

III. Program Scope

Government Program - Inclusive Economic Development Program for Lagging Regions

9. **The IEDLR is guided by the Egyptian Constitution and the Egypt 2030 Sustainable Development Strategy.** The objectives of IEDLR are to promote sustainable local development and create productive employment, in order to reduce poverty in targeted governorates by (i) improving citizen engagement, transparency, and monitoring and evaluation systems; (ii)

¹⁵ Political instability, electricity, and crime are also

¹⁶ From a World Bank survey of potential investors who applied for land in the industrial zones of Qena and Sohag.

improving service and infrastructure delivery for citizens through effective and empowered local administration; and (iii) improving 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 IEDLR's first pilot region, based on poverty levels and need. Planned government expenditures as part of the IEDLR program for the ten Upper Egypt governorates amount to approximately \$13 billion of which \$4.2 billion are allocated to Sohag and Qena from FY 2016/17 to 2020/2021. Sohag and Qena expenditures consist of \$1.1 billion managed at the local governorate level for wages, compensation, purchase of goods and services, grants, and capital investments, as well as \$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.¹⁷ Three years after launching the initial rollout of the pilot program in Upper Egypt, IEDLR will be reviewed and evaluated to consider expanding into other lagging regions.

10. Enhancing citizen engagement, transparency, and monitoring and evaluation 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, and by institutionalizing citizen engagement, feedback and partnership mechanisms. The forums are currently being piloted in Sohag, Fayoum, and Minya governorates and will be rolled out to other governorates over the course of 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.

11. Improving sustainable service and infrastructure delivery is a fundamental goal of 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 government to better allocate resources and provide relevant services through the governorate administration (*diwan aam*), deconcentrated service directorates of the ministries (*mudiriyat*) and other agencies. IEDLR will also address the immediate needs of the poor through targeted programs that improve their livelihoods, such as income support programs (e.g., Takaful and Karama) that support villages in rural Egypt, and provide social housing.

12. Improving competitiveness, infrastructure, and business environment for private sector led growth is viewed as the ultimate driver of improved development outcomes in Upper Egypt. IEDLR will support the improvement of locally provided government to business services and enhance the competitiveness of sectors with potential for economic growth and job creation by addressing constraints related to infrastructure and service, regulation, and markets. IEDLR views key sub-national projects, such as the Golden Triangle development strategy and the 1.5 million feddan land reclamation program as complementary programs that could give rise

¹⁷ Expenditures figures for mega-projects, such as the Golden Triangle, were not specified in the government program.

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, which would be an important benefit for Upper Egypt industrial firms. The GoE will help SMEs and industries to improve their competitiveness through technical assistance services, value chain development programs, technology and innovation, training, skills development, and sector specific strategies. IEDLR will support the modernization of existing industrial zones management and infrastructure.

PforR Program - The Upper Egypt Local Development Program for Results

13. **The Upper Egypt Local Development Program for Results (UELDP) and is aligned with the objectives of IEDLR.** However, it has a more limited geographic scope and finances only part of the IEDLP activities (see Table 1). For instance, IEDLR focuses on a wider range of activities across all of Upper Egypt including Megaprojects (i.e. Golden Triangle) and social safety net programs (i.e. Takaful & Karama) which are important initiatives to create new investment opportunities and protect the vulnerable respectively. While UELDP will complement these programs, it will not finance them. Instead, 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. In addition, **UELDP will target two of the ten Governorates of Upper Egypt, namely Qena and Sohag** which were selected based on population size, poverty rates, geographic contiguity, economic potential, and governorate readiness¹⁸. Lessons learned from UELDP could be applied to other governorates under IEDLR after evaluation at mid-term.

Table 1: Alignment of UELDP with the GoE program (IEDLR)

IEDLR Overview	UELDP Alignment
IEDLR Objective 1: <i>Improving Citizen Engagement, Transparency, and Monitoring & Evaluation</i> <i>by:</i>	Y
- Establishing local economic development forums in the governorates	Y
- Developing engagement, feedback, and partnership mechanisms for citizen	Y
- Establishing Public / Private coordination platforms	Y
IEDLR Objective 2: <i>Improving Service and Infrastructure Delivery Through Effective Local Administration, by:</i>	Y
- Carrying out key administrative reforms to gradually move to decentralization and improve service delivery (including strategic development plans and budgets at the Governorate and Markaz level).	Y

¹⁸ 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 between 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, the latter is part of the Government’s Golden Triangle Master Plan, which presents a major opportunity to catalyze development in the governorate. Taking this into consideration, Qena was selected for UELDP to allow for synergies between two development programs targeting the same geography.

- Supporting administrative capacity and resources of the governorates to meet service delivery needs.(i.e. sanitation program, roads program and other deconcentrated service delivery)	Y
- Supporting the local development sector programs, on local roads and public transportation, street lighting, environment improvement, traffic, firefighting, and security, and local units support.	Y
o Employee Wages and Compensations	N
o Purchase of Goods and Services	Y
o Subsidy, grants and social benefits	N
o Purchase of non- financial assets (Investments)	Y
- Targeting socials programs aimed at improving livelihoods of those in most and immediate need.	N
o Takaful and Karama social safety net program	N
o Social Housing program	N
o 1000 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 mega-projects.	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 technical assistance 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

14. **The UELDP will support systemic transformations designed to enable governorates to create a more conducive environment for private sector led job creation and citizen wellbeing.** The *first and most significant transformation will be a gradual shift towards greater autonomy and accountability at the governorate level for prioritizing investment and expenditure decisions* based on an improved local participatory planning process. Through UELDP, Governorates will be able to increasingly influence decisions beyond their existing mandates. The 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.* 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 government-to-business regulatory services as well as implement targeted, sector-specific initiatives with private-sector participation.

15. These two key transformations, coupled with *increased funding allocations to the Governorate* level during the Program, are expected to contribute to improving the business environment and economic competitiveness, as well as close the persisting gaps in infrastructure and service access and quality. Accordingly, UELDP comprises two sub-programs: (i) **improving business environment and competitiveness**, and (ii) **improving access to quality infrastructure and services**—both of which relate to IEDLR Objectives two and three respectively. These sub-programs are underpinned by **cross-cutting measures to improve citizens and business engagement** at the local level relating to IEDLR Objective one.

Sub Program 1: Improving the business environment and competitiveness.

16. **The Program will introduce an integrated approach to improving the business climate and competitiveness anchored at the governorate-level**, including: (i) improving local level government-to-business (G2B) services such as registration, licensing, and construction permits; (ii) targeted sector-specific initiatives for catalyzing investment and removing obstacles to business; and (iii) improving the management and services in industrial zones.

17. **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 the ongoing national reform of industrial licensing, which is supported by the *Fiscal Consolidation, Sustainable Energy, and Competitiveness* DPF, and which will call for implementation measures at the governorate level. Processes for obtaining an operating license, construction permit, electricity connection, and other services will be simplified with technical assistance provided by the Sub-national 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 Communications Technology (ICT)-enabled Government to Business (G2B) service delivery platform that will improve the efficiency and transparency of service delivery. Furthermore, GAFI's strategy to roll out One Stop Shops for business registration and post-registration procedures (for limited liability companies) in each governorate will be fast-tracked in Qena and Sohag.

18. **Sector-specific initiatives 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 through consultations 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, etc.) and potential for job creation, particularly as linked to the rural poor. Initiatives to improve cluster competitiveness and catalyze private sector investment will be devised jointly with the private sector on the basis of sector and market analysis. 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 cluster initiatives 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 business development service (BDS) programs for firm-level capacity and skills development, such as those offered through 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.

19. Improvement in industrial zone management and services will serve as a cross-cutting policy action and investment for all industrial sub-sectors. Currently, 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 provision of decentralized licensing and regulatory services, promotion, tenant services and maintenance, the promotion of mixed-use in 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 management framework to be agreed between the Industrial Development Authority (IDA) and the governorates as well as investments, capacity building, and allocation of an O&M budget. The Program 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. Industrial zone infrastructure upgrading will also be supported 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.

20. Early year investments in this sub-program are expected to focus on improvements in the governorate service centers and industrial zone upgrading plans. Investments in government-to-business service centers could potentially begin upon effectiveness, given the readiness of GAFI to create the one-stop-shops, 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.

Sub Program 2: Improving access to quality infrastructure and services.

21. Sub-program 2 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. In operationalizing these reforms, the Program will enable governorates to: (i) better identify needs, and address them in a coordinated manner; (ii) expand access to critical infrastructure and services over which they previously had limited influence; and (iii) address important sustainability challenges through improved focus on operations and maintenance.

22. 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, electricity, which are critical to boost competitiveness and the business environment, in addition to the five relatively limited areas currently under the governorates' remit (local roads paving; street lighting equipment and works; environment improvement and solid waste management; traffic; and local 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. The Program will also help address critical sustainability challenges by affording governorates more financing for operations and maintenance, and equipping them with tools to help manage assets. While there cannot be, at appraisal, an estimate of the likely sectoral split of investments and expenditures over the totality of the Program period¹⁹, 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 through consultations during preparation.

23. The Program will incentivize and measure governorate performance through the introduction of a performance-based grant mechanism. Governorates' ability to access annual indicative fund allocations for infrastructure and service expenditures will be based on their ability to pass an annual institutional performance assessment. The condition that Governorates receive the funds subject to performance offers dual benefits: (i) it reassures the central government and citizens that the governorates are fulfilling institutional performance expectations in advance of receiving funds; and (ii) it helps identify areas of strength and weakness in the governorates' performance. The indicators in the assessment are linked to key governorate performance constraints, and include both minimum access criteria, such as the introduction of participatory planning, disclosure requirements, etc., as well as performance targets, such as development of operations and maintenance plans, citizen report cards, use of feasibility studies for major investments, etc. The specific indicators are defined in the POM. Further, the Program will introduce a technical quality audit for the governorates' infrastructure and service expenditures to assess whether investments meet their objectives effectively.

24. Preparation for Sub Program 2 investments and expenditures will be made in advance of effectiveness to ensure rapid delivery in the first six months of the Program. The first performance grant annual assessment will be done on an exceptional basis in the second quarter of FY 2016/2017 (rather than in the fourth quarter of every FY) and will govern the transfer for the half year associated with the second half of FY 2016/2017. As soon as the Program is effective, the central government will be able to disburse this first performance grant to the governorates, on the basis of their compliance with the minimum access criteria. The funds will be used to finance investments and expenditures included in the FY 2016/2017 governorate Socio-Economic Development Plans, as well as the possibility of a highway expansion identified as key for regional connectivity in Qena.

Cross-cutting theme: Citizen and Business Engagement.

¹⁹ This is because of the Program orientation toward increasing governorate discretion with the participation of businesses and citizens through a structured, annual process

25. **The implementation of both Sub Programs will be enhanced through the integration of citizen engagement** as a means to strengthen the credibility of subnational institutions, enhance government accountability and restore citizens' confidence, in order to renew the 'social contract' between citizens and local authorities. UELDP will support a package of measures that institutionalize citizen engagement in Sohag and Qena. These include: (i) *participatory planning*: strengthening citizen and business participation in the identification, implementation and evaluation of sub-national investments through participation in the annual planning and budgeting process and enhancing access to information; (ii) *complaints handling*: harmonizing and upgrading (via ICT) the different grievance redress mechanisms (GRMs) operational at the governorate and district levels; and (iii) *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 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. These citizen engagement measures have been embedded in the design of the overall Program through inclusion in the performance metrics for the two sub-programs as well as in the Program Action Plan.

IV. Program Development Objective(s)

26. **The Program Development Objective (PDO)** is to improve the enabling environment for private sector-led growth and strengthen local government capacity and accountability for service delivery, in select Upper Egypt Governorates.

V. Environmental and Social Effects

27. **An Environmental and Social Systems Assessment (ESSA) was prepared according to OP 9.00.** The ESSA examined the existing environmental and social management systems at both the central and Governorates level. This included assessment of the legislations, procedures, practices and local capacities. It examined the potential environmental and social risks associated to the Program and the capacity of the existing systems to handle those risks. The ESSA identified the gaps in the systems (including the capacities) and identified number of recommended actions to bridge those gaps which will be incorporated in a POM. None of the Program interventions are considered of a significant, sensitive, diverse or unprecedented environmental impacts, and there will be a screening tool to make sure that such interventions are excluded during the Program implementation. The ESSA will be disclosed to the public before appraisal.

28. **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. During 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 ESSA team to obtain in-depth understanding of the existing environmental and social systems (including land acquisition and community engagement). Public consultations events have been conducted in the two governorates during March 2016 and was attended by different stakeholders including officials from the Diwans, the Environmental Management Units

(EMUs), the Regional Branch Office of the Egyptian Environmental Affairs Agency in Qena, the management and workers of industrial cities, large number of Community Development Associations (CDAs) and NGOs, representatives from local relevant governmental units, relevant directorates (Property Dept., Survey Directorate, Citizen Service Offices...etc.) and universities. Moreover, large number of women and youth participated in the various conducted events.

Environmental aspects under the Program

29. **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 in 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 (medium), environmental monitoring and follow-up is fragmented between two entities (medium) cluster competitiveness initiatives and action plans may not be environmentally sustainable (medium), risks on occupational health and safety in construction and industrial sites (medium), and risks of impacting 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. A manual will be prepared during the first year of the Program implementation that includes the different measures for improving the environmental system including measures for improving the environmental assessment system, improving environmental inspection and follow up system and improving waste management in industrial cities.

Social aspects under the Program

30. **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 wellbeing of the targeted communities. The improved service delivery will also help in strengthening the accountability of the Government to citizens strengthen the levels of trust between the two parties. Jobs creation is one of the key targets for the Program. It will help in creating economic opportunities to large numbers of young men and women in the Governorates.

Social risks related to land

31. **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. 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, since selection of specific investments has not been completed, it is difficult to know the exact amount of land that will be needed and their

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: (i) the limited capacities of the Governorate and associated relevant entities (e.g. the Directorates of Survey) in dealing with land issues; (ii) the potential delay in the scheduled timeframe as a result of land acquisition; (iii) the lack of a consistent and transparent approach in managing some of the land acquisition aspects; and (iv) the livelihood risks related to land acquisition, particularly on those without legal titles, squatters and illegal users. In order to mitigate those risks, a number of measures will be taken to support the Government. Those will be a range of support to the Governorates in setting a screening out system high risks activities, develop and implement social management manual including diligent land acquisition management. The implementation of the mitigation measure will require assigning appropriate human resources on various level and building their capacity..

32. **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 grievance redress mechanism or the WB’s Grievance Redress Service (GRS).** The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB’s independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance 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 Grievance Redress Service (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

VI. Financing

IBRD and Government Financing (\$ Million) (FY 2017 to FY 2021)

Source	Amount	% of Total
Government	477	49
IBRD	500	51
Total	977	100

VII. Program Institutional and Implementation Arrangements

33. **Implementation responsibilities by level of government.** The institutional arrangements of 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: an inter-ministerial Steering Committee (SC); a Program Coordination Office (PCO); the Local Executive Council (LEC) in each Governorate; and a Local Implementation Unit (LIU) in each Governorate.

34. **Inter-Ministerial Steering Committee (SC)** with oversight over the GoE's Government program as it relates to Upper Egypt, including but not necessarily limited to UELDP. The SC comprises the Ministry of International Cooperation (MoIC), the Ministry of Industry and Trade, (MIT), the Ministry of Local Development (MOLD)—all three represented at the Ministerial level, as co-chairs of the committee--the Ministry of Finance (MoF), and the Ministry of Planning (MoP). The Governors of Sohag and Qena attend and report to the meetings of the Steering Committee. The SC's role is to set strategy, review strategic plans, and review outcomes to guide the direction of the Program. The SC meets annually or semi-annually, in addition to ad-hoc meetings which may be called by any of the SC members or the Governors.

35. **Program Coordination Office (PCO)** at the central government level for coordination among GoE entities. The PCO acts as the Secretariat to the SC, and: (i) interfaces with World Bank on Program management, reporting, and monitoring & evaluation; (ii) hires and interfaces with IVA; (iii) carries-out inter-ministerial and inter-agency coordination on policy and technical agenda at the national level; (iv) assesses performance of Governorates implementation of the Program; and (v) reviews Program financial audits. Through the primary responsibility for fiduciary and social and environmental management will rest with the LIUs, fiduciary and social and environmental advisors will be added to the PCO to provide support to the LIUs, as necessary.

36. **Local Executive Councils (LEC)**. 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 (MTI, MOLD and others). This Council will review and adopt the implementation plans of the program and decide on Program funding allocations. The LEC will have multiple roles in the Program, including: (i) reviews and endorses plans for participation and consultation of citizens and private sector on the annual implementation plans; (ii) reviews/endorses annual implementation plans and Program funding allocations; (iii) reviews/endorses cluster development priorities and cluster action plans; and (iv) reviews results and endorses changes to the endorsed plans during implementation. The LECs are expected to form a sub-council to fulfill these roles which would meet more frequently and include membership from ministries and agencies directly relevant to Program implementation.

37. **Local Implementation Units (LIUs)**: *one* in each governorate, responsible for all elements of implementation and technical aspects of the project. The LIUs will comprise Governorate staff and consultants, and will be supported by ministries or other public entities (such as IMPA, GARBL, IMC, or ITIDA) or outsourced private entities (such as consulting, investment, or engineering firms). The LIUs take direction from LEDCs 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.

VIII. Contact point

World Bank

Contact 1: Axel Baeumler
Title: Sr. Infrastructure Economist
Email: abaumler@worldbank.org

Contact 2: Sherif Bahig Hamdy
Title: Sr. Operations Officer
Email: shamdy@ifc.org

Contact 3: Nabila Assaf
Title: Sr. Private Sector Development Specialist
Email: nassaf@worldbank.org

Borrower/Client/Recipient

Contact: Minister Dr. Sahar Nasr
Agency: Ministry of International Cooperation (MOIC)

Implementing Agencies

Name of Agency: Ministry of Trade and Industry
Contact: Mr. Ahmed Taha
Email: Ahmed.taha@imc-egypt.org

Name of Agency: Ministry of Local Development (MOLD)
Contact: Ambassador Hassan Ellaithy
Email: hasegypt09@gmail.com

IX. For more information contact:

The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: <http://www.worldbank.org/infoshop>