

Document of
The World Bank

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Report No: PP1309

PROJECT PAPER

ON A

PROPOSED ADDITIONAL GRANT
IN THE AMOUNT OF 2.0 USD MILLION

TO THE

PALESTINE LIBERATION ORGANIZATION

FOR A

ADDITIONAL FINANCING TO THE
WATER SECTOR CAPACITY BUILDING PROJECT

May 7, 2015

Water Global Practice
Middle East and North Africa Region

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CURRENCY EQUIVALENTS

April 30, 2015

Currency Unit = NIS
US\$1 = NIS 3.8877

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

| | |
|----------|---|
| AF | Additional Financing |
| AFD | Agence Française de Développement |
| DA | Designated Account |
| FM | Financial Management |
| GIZ | German Technical Assistance |
| IBRD | International Bank for Reconstruction and Development |
| ICB | International Competitive Bidding |
| IDA | International Development Association |
| ISN | Interim Strategy Note |
| MENA | Middle East and North Africa |
| MOF | Ministry of Finance |
| MT | Management Team |
| NCB | National Competitive Bidding |
| PA | Palestinian Authority |
| PID-MDTF | Partnership for Infrastructure Development of the Multi- Donor Trust Fund |
| PLO | Palestine Liberation Organization |
| PIU | Project Implementation Unit |
| PRDP | Palestinian Recovery and Development Plan |
| PWA | Palestinian Water Authority |
| QCBS | Quality and Cost Based Selection |
| SIDA | Swedish International Development Agency |
| TFGWB | Trust Fund for Gaza and the West Bank |
| ToR/TOR | Terms of Reference |
| TPAT | Technical Planning and Advisory Team |
| WA | Withdrawal Applications |
| WB | World Bank |
| WB&G | West Bank and Gaza |
| WSCBP | Water Sector Capacity Building Project |
| WSRC | Water Sector Regulatory Council |
| WWTP | Waste water treatment plant |

| | |
|----------------------------------|-----------------------|
| Vice President: | Hafez M. Ghanem |
| Country Director: | Steen Lau Jorgensen |
| Senior Global Practice Director: | Junaid Kamal Ahmad |
| Practice Manager: | Steven Schonberger |
| Task Team Leader: | Iyad Rammal |
| Co – Task Team Leader | Pieter David Meerbach |

WEST BANK AND GAZA
ADDITIONAL FINANCING TO THE
WATER SECTOR CAPACITY BUILDING PROJECT
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WEST BANK AND GAZA

**ADDITIONAL FINANCING TO THE
WATER SECTOR CAPACITY BUILDING PROJECT**

ADDITIONAL FINANCING DATA SHEET

Report No.: PP1309

| Basic Information | | | |
|--|---|---|---|
| Project ID P153889 | EA Category C - Not Required | Team Leader(s) Iyad Rammal, Pieter David Meerbach | |
| Lending Instrument Investment Project Financing | Fragile and/or Capacity Constraints [] | | |
| | Financial Intermediaries [] | | |
| | Series of Projects [] | | |
| Project Implementation Start Date 01-Jun-2015 | Project Implementation End Date 31-Dec- 2017 | | |
| Expected Effectiveness Date 01-Jun-2015 | Expected Closing Date 30-June 2018 | | |
| Joint IFC No | | | |
| Practice Manager/Manager Steven N. Schonberger | Senior Global Practice Director Junaid Kamal Ahmad | Country Director Steen Lau Jorgensen | Regional Vice President Hafez M. H. Ghanem |
| Approval Authority | | | |
| Approval Authority RVP Decision | | | |
| Borrower: | | | |
| Responsible Agency: Palestine Liberation Organization (PLO) for the benefit of the Palestinian Authority | | | |
| Contact: Shokri Bshara | | Title: Representative (Minister - MoF at the Palestinian Authority) | |
| Telephone No.: +972 2 2978830 | | Email: minister@pmof.ps | |
| Project Financing Data(in USD Million) | | | |
| Total Project Cost: | 2.00 | Total Bank Financing: | 0.00 |
| Financing Gap: | 0.00 | | |
| Financing Source | | | Amount |
| Borrower | | | 0.00 |
| Partnership for Water and Urban Development in the West Bank | | | 2.00 |

Expected Disbursements (in USD Million)

| Fiscal Year | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 |
|-------------|--------|---------|-----------|------|------|------|------|------|------|------|
| Annual | 20,000 | 947,000 | 1,033,000 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Cumulative | 20,000 | 967,000 | 2,000,000 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |

Institutional Data**Practice Area (Lead)**

Water

Contributing Practice Areas**Cross Cutting Topics**

- Climate Change
- Fragile, Conflict & Violence
- Gender
- Jobs
- Public Private Partnership

Sectors / Climate Change

Sector (Maximum 5 and total % must equal 100)

| Major Sector | Sector | % | Adaptation Co-benefits % | Mitigation Co-benefits % |
|--|---|-----|--------------------------|--------------------------|
| Water, sanitation and flood protection | General water, sanitation and flood protection sector | 100 | | |
| Total | | 100 | | |

I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.

Themes

Theme (Maximum 5 and total % must equal 100)

| Major theme | Theme | % |
|--|---|-----|
| Environment and natural resources management | Water resource management | 20 |
| Urban development | Urban services and housing for the poor | 20 |
| Urban development | Municipal governance and institution building | 40 |
| Rural development | Rural services and infrastructure | 20 |
| Total | | 100 |

Proposed Development Objective(s)

To strengthen the capacity of the Palestinian Water Authority to more effectively plan, monitor, and regulate water sector development in the West Bank and Gaza

| Components | | | |
|---|--|-----------------|----------------------------|
| Component Name | | | Cost (USD Millions) |
| Advisory Support, Technical Assistance and Capacity Building for PWA | | | 0.700 |
| Supplementary assistance for studies, training and Institutional Building of the WSRC | | | 0.600 |
| Project Management | | | 0.700 |
| Total | | | 2.00 |
| Compliance | | | |
| Policy | | | |
| Does the project depart from the CAS in content or in other significant respects? | | Yes [] | No [X] |
| Does the project require any waivers of Bank policies? | | Yes [] | No [X] |
| Have these been approved by Bank management? | | Yes [X] | No [] |
| Does the project meet the Regional criteria for readiness for implementation? | | Yes [X] | No [] |
| Safeguard Policies Triggered by the Project | | Yes | No |
| Environmental Assessment OP/BP 4.01 | | | X |
| Natural Habitats OP/BP 4.04 | | | X |
| Forests OP/BP 4.36 | | | X |
| Pest Management OP 4.09 | | | X |
| Physical Cultural Resources OP/BP 4.11 | | | X |
| Indigenous Peoples OP/BP 4.10 | | | X |
| Involuntary Resettlement OP/BP 4.12 | | | X |
| Safety of Dams OP/BP 4.37 | | | X |
| Projects on International Waterways OP/BP 7.50 | | | X |
| Projects in Disputed Areas OP/BP 7.60 | | | X |
| Legal Covenants | | | |
| Name | Recurrent | Due Date | Frequency |
| | | | |
| Description of Covenant | | | |
| | | | |
| Conditions | | | |
| Source Of Fund | Name | Type | |
| Partnership for Infrastructure MDTF | Partnership for Infrastructure Development Multi-donor Trust Fund (PID MDTF) | Grant | |
| Description of Condition | | | |
| | | | |

Team Composition

Bank Staff

| Name | Role | Title | Specialization | Unit |
|-----------------------|----------------------------------|------------------------------------|----------------|-------|
| Iyad Rammal | Team Leader (ADM Responsible) | Senior Infrastructure Specialist | | GWADR |
| Pieter David Meerbach | Team Leader | Sr Water Resources Spec. | | GWADR |
| Lina Fathallah Rajoub | Procurement Specialist | Senior Procurement Specialist | | GGODR |
| Riham Hussein | Financial Management Specialist | Financial Management Specialist | | GGODR |
| Fifi Z. Antar | Team Member | Program Assistant | | MNCGZ |
| John R. Butler | Social Specialist | Lead Social Development Specialist | | GSURR |
| Mohammad Nadeem | Counsel | Legal Analyst | | LEGAM |
| Tracy Hart | Environmental Specialist | Senior Environmental Specialist | | GENDR |
| Eric Ranjeva | Finance Analyst | Finance Analyst | | WFALA |

Extended Team

| Name | Title | Office Phone | Location |
|------|-------|--------------|----------|
| | | | |

Locations

| Country | First Administrative Division | Location | Planned | Actual | Comments |
|---------|-------------------------------|----------|---------|--------|----------|
| | | | | | |

Consultants (Will be disclosed in the Monthly Operational Summary)

Consultants Required?

PROJECT PAPER

I. INTRODUCTION

1. This Project Paper seeks the approval of the Regional Vice President to provide an additional financing grant (AF) in the amount of US\$ 2.0 million from the Partnership for Infrastructure Development Multi-donor Trust Fund (PID MDTF) to the Palestinian Liberation Organization for the Water Sector Capacity Building Project (WSCBP) (P117443, Grant No. TF-99491 and TF-15756). The PID MDTF received contributions from the Swedish International Development Agency (SIDA), the governments of Denmark, Finland, the Netherlands, Norway, Croatia and Portugal and the Agence Française de Développement (AFD). It also seeks the approval for the restructuring of the parent Project (P117443 - TF099491) by reallocating Grant proceeds among selected disbursement categories of the Project and to extend the closing date of the Project up to June 30, 2018 to provide flexibility for the Client to achieve the Project Development Objectives.

2. The proposed AF would help finance the cost associated with completing and scaling-up project activities in order to: (i) achieve the original project target outcome to operationalize a functional Water Sector Regulatory Council (WSRC) by building its institution; and to (ii) support the Palestinian Water Authority (PWA) to further implement the water sector reform plan and improve its capacity. The Palestinian Authority, represented by the Ministry of Finance (MOF) and in consultation with the PWA and the WSRC¹, request the additional financing for institutional development activities, including goods, consulting services, non-consulting services, training, operating costs and recurrent costs. The main outcomes of the AF would be: (i) institutional building of the a functional WSRC to monitor and regulate the service provision of the water sector in West Bank and Gaza; and (ii) enhance the capacity of the PWA in planning and policy formulation, and in implementing the water sector reform process. The direct beneficiaries from the proposed AF would be: (i) the population of West Bank and Gaza (around 4.5 million people) who will benefit from better management of water resources and better regulation of services; and (ii) the PWA and the WSRC that will be able to manage and regulate the sector more efficiently.

3. The major changes proposed under the AF are restructuring and scaling up of Component 1 (Advisory Support, Technical Assistance and Capacity Building) and Component 2 (Supplementary assistance for studies and training), corresponding changes to Component 3 (Project Management) and an extension of the end implementation date by 24 months from December 31, 2015 to December 31, 2017. There are no changes to the Project Development Objective, and the fiduciary and safeguards mechanism. The implementation arrangements will be modified, where the WSRC will be responsible for the implementation of activities related to its institutional building, with oversight from the Project Implementation Unit (PIU) at the Palestinian Water Authority (PWA). Therefore, due to the addition of a new implementation entity (WSRC), there will be an amendment to the disbursement arrangement by creating a second designated account dedicated to WSRC.

¹ The Palestinian Authority has approved the establishment of the WSRC and appointed its Board of Directors on August 7, 2014.

4. The original WSCBP is co-financed by the Trust Fund for West Bank and Gaza and the PID MDTF, and has received parallel financing of AFD.

II. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING IN THE AMOUNT OF US\$ 2.0 MILLION.

5. *Sector background:* The water sector in the West Bank and Gaza (WB&G) is suffering from technical and institutional challenges such as; (i) *Lack of sovereign control over WB&G water resources and water infrastructure development*, leading to highly restricted access to water resources, perpetuation of ad-hoc emergency planning as opposed to strategic planning, and uncertainty and delays in infrastructure project authorization and implementation; (ii) *Major water supply and sanitation infrastructure deficits and inefficiencies* with inadequate and unreliable access to potable water, particularly in Gaza and Area C of West Bank, lack of wastewater treatment and reuse, and uneven reliability, performance and sustainability of water supply and sanitation operations, and restricted growth of irrigated agriculture; (iii) *Impending environmental and public-health collapse in Gaza*, with 96% of water resources unfit for use by Gaza's 1.8 million inhabitants, due to saline water intrusions and untreated sewage infiltrations; (iv) *Governance and capacity weaknesses in the Palestinian water sector*, including of the PWA and municipal service providers, which are in need of institutional reform, reorganization and capacity building in order to define clearer roles and accountability and increase organizational effectiveness.

6. *Sector reform:* In order to address these issues, the PWA developed a strategy for water sector reform, and based on this strategy, the Cabinet of Ministers of the Palestinian Authority (PA) endorsed the Action Plan for Reform, which details the blueprints and implementation mechanisms of an institutional and legislative reform program in the water sector. Design, coordination and implementation of the reform program is done under supervision by a Cabinet of Ministers Steering Committee (COMSC). The objective of the reform process is to achieving water security and integrated sustainable water resources through: (i) building the capacity and sustainability of institutions under an optimized legal framework as part of the set-up of a viable administration of the future Palestinian State, (ii) accelerating infrastructure development based on Palestinian water security needs and updated strategies, (iii) regulating service provision to enhance quality, efficiency and cost-recovery, and (iv) achieving and improving sustainable water service delivery through water utilities.

7. The water sector reform resulted in a new water law that aims at developing and managing the Water Resources in Palestine, to increase their capacity, to improve their quality, to preserve and protect them from pollution and depletion, and to improve the level of water services through the implementation of integrated and sustainable water resources management principles. This aim of the water law can be achieved through new water sector structure which also has been described in the water law (more details can be found in Annex 6). This sector structure consist of three levels;

- a. National level consists of; (i) Palestinian Water Authority (a public institution which enjoys a Legal personality. Its budget is part of the General Budget of the Government and it reports to the Cabinet of Ministries, responsible for the management of the water resources and issuing of water sector policies, strategies

and plans), (ii) the Water Sector Regulatory Council (The Council enjoys a legal personality and is financially and administratively independent. The objective of the Council is to monitor all matters related to the operation of water Service Providers including production, transportation distribution, consumption and wastewater management, with the aim of ensuring water and waste water service quality and efficiency to consumers at affordable prices).

- b. Bulk Water supply level consists of the National Water Company which is public company to be established in accordance with the provisions of water law by a law. The Company is mainly responsible for the supply and sale of bulk water to water undertakings, local authorities, joint water councils and associations. It will also extract water from Water Resources, desalination of water, and bulk water transmission in accordance with a license issued by the Authority for this purpose.
 - c. Regional Service Delivery level consists of; (i) Regional water Utilities (enjoy a legal personality, are financially independent, and have the right to own, use and dispose of movable and immovable assets, with the aim of achieving their objectives. They also enjoy the full legal capacity to carry out their activities and responsibilities, including the conclusion of contract, the right to sue or be sued, or delegate and authorize a person of its choosing to act on their behalf in judicial proceedings with the aim of achieving their responsibilities and mandate), and (ii) Water Users Associations (established with the aim of managing the service of supplying irrigation water at the local level in a sustainable manner, in accordance with a regulation issued by the Cabinet of Ministers. They are financially independent, and have the right to own, use and dispose of movable and immovable assets with the aim of achieving their objectives. They also enjoy the full legal capacity to carry out their activities and responsibilities, including the conclusion of contract, the right to sue or be sued, or delegate and authorize a person of its choosing to act on their behalf in judicial proceedings with the aim of achieving their responsibilities and mandate).
8. The reform process is supported under the original WSCBP as well as under the proposed AF. The key elements of the Water Law as explained above and detailed in Annex 6 are to be the guiding frame for the water sector reform which the project is supporting.

9. *Alignment with Assistance Strategy.* The activities financed under the proposed AF contribute to the Bank's Assistance Strategy for the West Bank and Gaza for the period FY15 – FY16. The proposed AF is aligned to the first pillar of the Assistance Strategy to strengthen the institutions of a future state to ensure service delivery to citizens, since the support under the AF to achieving the objectives of the water sector reform and the Water Law is essential to enhancing improved service delivery in the water sector. It is critical to supporting the efforts of the Palestinian Authority to create an enabling environment for private sector-led growth, (i.e. improving the water and wastewater sector structure, institutions, performance and infrastructure will be reflected in encouraging the private sector investment in agriculture, industrial and other sectors which will result in creating jobs and therefore in well-being of the people) which constitutes the second pillar of the Assistance Strategy As such, proposed AF would contribute to achieving the Bank's global twin goals to eradicate poverty and promote shared prosperity.

10. *Strategy of Bank's support to the water sector:* The Bank's strategy for strengthening the water sector is to continue supporting enhanced water security for the Palestinian people through the implementation of the water sector reform as defined in the Water Law. This is achieved through a programmatic approach of inter-related projects for capacity building and infrastructure financing in line with the core elements of the water sector reform. This strategy is aligned in consistent approach with the Bank's strategy in supporting the reform agenda of the municipal and energy sector (power supply) towards inclusive and sustainable service delivery. The programmatic approach for the water sector addresses the main elements of the reform: (i) at the national level by building the capacity of the PWA and the WSRC through the Water Sector Capacity Building Project (WSCBP) and its proposed AF, and through working with the PWA and other partners to prepare financing for bulk national water supply; (ii) at the regional service provision level by financing infrastructure and capacity building through the Northern Gaza Emergency Sewage Treatment Project (NGEST) and the Hebron Regional Wastewater Management Project (HRWMP); and (iii) at the municipal service provision level by financing infrastructure and capacity building investments through the Gaza Water Supply and Sanitation Improvement Project (WSSIP), the West Bethlehem Village Improvement Project and the HWRMP. The proposed additional financing will continue supporting the institutional building at the national level.

11. *Original financing:* The World Bank has led the support for the water sector reform through the WSCBP (US\$ 3.0 million from the Trust Fund for Gaza and West Bank (TFGWB) which was approved by the Board on March 3, 2011, and became effective on August 1, 2011. Additional financing of US\$ 1.0 million from the PID-MDTF was approved on February 5, 2014 and AFD provided parallel financing of US\$ 1.4 million equivalent. The Project Development Objective (PDO) is to strengthen the capacity of the PWA to more effectively plan, monitor, and regulate water sector development in the West Bank and Gaza. The WSCBP consists of three components: Component 1: Technical Planning and Advisory Team (TPAT), US\$ 4.9 million; Component 2: Supplementary Studies and Training (US\$ 0.3 million) and Component 3: Project Management (US\$ 0.8 million). There have been no changes to the PDO, design and scope but there are slight changes to the implementation mechanisms of the project.

12. The WSCBP is currently rated Moderately Satisfactory for achievement of the PDO and for Implementation Progress. Disbursement from the TFWB&G stands at 91%, and from the PID-MDTF at 3%. There is adequate compliance with the key covenants in the legal agreements, and there are no outstanding fiduciary or safeguards issues. Significant headway has been made in implementing the WSCBP and moving the Palestinian water sector reform agenda forward, and the following has been achieved: (i) a new Head for the PWA was appointed; (ii) the Water Law was endorsed by the President of the Palestinian Authority; and (iii) the cabinet of Ministers established the Water Sector Regulatory Council (WSRC) and endorsed the appointment of its Board of Directors (chairman and members). The Board of the WSRC has developed a road map for the institutional building of the WSRC following its establishment started by the appointment of a Chief Executive Officer.

13. The PWA project team also made significant progress on key project activities: (i) preparing the strategic development and business plans; (ii) terms of reference were developed, and procurement was initiated for contracting the second phase of the Technical Planning and Advisory Team consultancy services (TPAT – Phase 2) to continue the capacity development process, complementing the work of the first phase of the consultancy services; (iii) the water

sector policy, strategy and action plan were developed; (iv) a number of relevant regulations have been drafted and are ready to be submitted to the PA cabinet approval, whereas others are being identified and under development; and (v) training for PWA staff was conducted. Therefore, the project continues to progress towards its development objectives and will achieve them if the proposed additional financing be provided and the end implementation date is extended.

14. *Rationale for the proposed additional financing:* The WSCBP was designed to improve the capacity of the PWA and support its attempt to reform the water sector. In 2011, the estimated project cost at appraisal was US\$ 6.0 million (equivalent) while available financing totaled US\$ 5.4 million (equivalent), leaving a financing gap of US\$ 0.6 million. Taking into account currency devaluations and the revised and clarified work program, it is estimated that additional financing of US\$ 2.0 million; US\$1.0 million (US\$ 0.6 million covering the financing gap and US\$ 0.4 million for cost over-runs of the original activities) is required to complete project activities envisaged at the time of appraisal. In addition to these activities, the PWA requested to scale up the WSCBP to provide another US\$ 1.0 million in additional financing to support the institutional building of the Water Sector Regulatory Council.

15. The Water Sector Regulatory Council (WSRC) is part of the new water sector structure, which constitutes one of the main outputs of the water sector reform process (see annex 6 for more details). The WSRC is to monitor operational performance related activities of water service providers including production, transportation, distribution, consumption, wastewater collection, treatment and disposal, and reuse of treated wastewater for irrigation, in order to ensure the quality and efficiency of sector services like water provision and wastewater disposal in West Bank and Gaza that are provided to consumers at affordable prices. This would require the council to develop performance based incentive system and develop and publish monitoring reports to support and encourage the service providers' performance.

III. PROPOSED CHANGES

16. *Project Development Objectives (PDO) and project design:* There are no changes to the PDO, which is “to strengthen the capacity of the PWA to more effectively plan, monitor, and regulate water sector development in the West Bank and Gaza”. The key changes to the project design under the proposed AF are:

- a. Restructuring of Component 1 (Advisory Support, Technical Assistance and Capacity Building) to concentrate the advisory support and capacity building for the PWA to strengthen its institution as a policy and planning entity, develop its internal system and support for the reform process. Activities financed under this component will include:
 - (i) Advisory services and technical assistance to support PWA in developing and updating sector policies, strategies, plans, regulations, standards and guidelines, and
 - (ii) Capacity building of the PWA to implement key strategies and action plans including updating the PWA's organizational structure, job descriptions, staff redeployment, staff training and business planning and implementation and
 - (iii) continue the sector reform process by developing the needed regulations, procedures and guidelines.
- b. Scaling-up and restructuring of Component 2 (Supplementary assistance for studies and training) to include supplementary assistance to strengthen the institutional setup of the WSRC. This component is renamed to “Supplementary assistance for studies,

- training and institutional building of the WSRC”. Additional activities financed under this component will include: (i) developing the WSRC institutional set up, internal organizational procedures, and staff regulations; (ii) developing regulations, policies, procedures and standards for the sector; (iii) developing and implementing WSRC business planning; and (iv) capacity building and training of WSRC; (v) and (v) enhancing transparency in the sector by ensuring disclosure of comparative performance information for utilities and engaging citizens in the regulatory decision making process. The implementation of the WSRC institutional building will be the responsibility of the WSRC, where the Project Implementation Unit (PIU) will provide support for procurement and financial management.
- c. Corresponding changes to Component 3 (Project Management) to include financing for: (i) incremental operating and consultant costs to be incurred by PWA for managing component 1 activities, and (ii) incremental operating and recurrent cost and consultant costs to be incurred by WSRC for managing component 2 activities and implementing institutional activities in relation to the institutional business plan.
 - d. An extension of the end implementation date by 24 months (from December 31, 2015 to December 31, 2017) and the closing date up to June 30, 2018.
 - e. New indicators are added to the results framework to reflect the scaling up of the project concerning the institutional building of the WSRC.
 - f. Reallocation between disbursement categories; In order to provide the implementing agencies the required flexibility to allocate funds as needed, under the original grant and the AF there will be one disbursement category for "Goods, Non-consulting Services, Consultants' Services, Training, Operating Costs, and Recurrent Costs".

| Ln/Cr/TF | Currency | Current Category of Expenditure | Allocation | | Disbursement % (Type Total) | |
|-----------|----------|---|------------|-----------|-----------------------------|----------|
| | | | Current | Proposed | Current | Proposed |
| TF-099491 | USD | Goods, consultants' Services and training | 2,390,767 | 2,336,647 | 100.00 | 100.00 |
| | | Incremental Operating Expenses | 609,767 | 663,353 | 100.00 | 100.00 |
| | | Total: | 3,000,000 | 3,000,000 | | |
| TF15756 | USD | Goods, consultants' services, and Training under Part1 and Part 3 (a) of the Project | 1,000,000 | 2,000,000 | 100 | 100 |
| | | Goods, consultants' services, and Training under Part 2 and Part 3 (b) of the Project | 0.00 | 1,000,000 | 100 | 100 |
| | | Total: | 1,000,000 | 3,000,000 | | |

17. *Beneficiaries and risks:* The direct beneficiaries of the project remain the population of West Bank and Gaza (around 4.5 million people) who will receive better services and will be able to more easily voice their concerns regarding the sector as a result of the improved institutional capacities and the PWA which will be able to manage the sector more efficiently. Additional beneficiary will be the WSRC which will be able to regulate the sector more effectively. The proposed AF has the same implementation risks and mitigation measures as the original WSCBP (country political context, macro-economy, institutional capacity for implementation and sustainability), with an additional plus a risk associated with the institutional building of the WSRC. Additional mitigation measures include: (i) support from the PA, as demonstrated through the appointment of a new Head for the PWA and through the approval of the Water Law; and (ii) the appointment of the Board of Directors of the WSRC, consisting of experienced water sector professionals with extensive knowledge of the sector. Overall implementation risk is rated as Substantial.

18. *Project outcomes indicators.* Additional outcome indicators related to the scaling up of the project include: (i) the WSRC is strengthened (physical and institutional set up including defining vision, mission and objectives, hiring of key staff and developing of working procedures), (ii) Strategic development plan and business plan is completed, approved and implemented; and (iii) Related legal framework and documents developed and approved.

19. *Changes to institutional and fiduciary arrangements.* There are changes to the projects financial management, disbursement and procurement arrangements as detailed below. A revised procurement plan has been prepared during preparation of the AF. There is a change in institutional and implementation arrangements as the WSRC will implement the activities pertaining to its institutional building, while the Project Implementation Unit (PIU) at the PWA will provide support for procurement and financial management to the WSRC and keep responsibility for the implementation of the project activities at PWA.

20. *Project costs and financing.* The changes to the project cost and financing plan are noted in the table below:

| Activity | Original costs | | | | Total actual (MUS\$) | Changes with AF | | Revised costs Total with AF (MUS\$) |
|---|----------------|-----------------------------------|-------------------|--------|----------------------|-----------------------|----------------------------|--|
| | TFWBG (MUS\$) | AFD (parallel financing) (M US\$) | PID MDTF (M US\$) | | | AF PID/ MDTF (MUS\$) | AF GIZ (Parallel) (M US\$) | |
| | | | Planned | Actual | | | | |
| Comp. 1. Advisory, Technical Assistance and Capacity Building | 2.1 | 1.4 | 1.4 | 0.8 | 4.3 | 0.7 | 0 | 5.0 |
| Comp.2. Supplementary Assistance for Studies, Training and Institutional Building of the WSRC. | 0.1 | 0.0 | 0.2 | 0.2 | 0.3 | 0.6 | 0.3 | 1.2 |

| | | | | | | | | |
|--|------------|------------|------------|------------|------------|------------|-------------|------------|
| Comp. 2a. Studies & Training Fund | 0.1 | 0 | 0.2 | 0.2 | 0.3 | 0 | 0 | 0.3 |
| Comp. 2b. Institutional Building of the WSRC | 0 | 0 | 0 | 0 | 0 | 0.6 | 0.3 | 0.9 |
| Comp. 3. Project Management | 0.8 | 0.0 | 0 | 0 | 0.8 | 0.7 | 0.0 | 1.5 |
| Sub-comp. 3a. Project Management | 0.8 | 0.0 | 0.0 | 0.0 | 0.8 | 0.3 | 0.0 | 1.1 |
| Sub-comp. 3. Project Management | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 | 0.0 | 0.4 |
| Total | 3.0 | 1.4 | 1.6 | 1.0 | 5.4 | 2.0 | 0.3* | 7.7 |

* GIZ total support to the water sector program (2.3 million Euros) and has agreed to provide parallel financing for the WSRC and other regulatory activities (US\$ 0.3 million equivalent).

IV. APPRAISAL SUMMARY

21. *Economic analysis.* The nature of the activities to be financed by the Project does not lend itself to the standard quantitative cost-benefit analysis. The main objectives of the Project are to (i) support the PWA in its role as implementation agency for the Water Sector Reform, (ii) provide technical expertise for the comprehensive updating of the PWA policies, strategies and guidelines and technical planning tools, (iii) institutional building of the WSRC and (iii) identify and develop capacity building activities. The benefits of these activities cannot be reliably estimated in monetary terms. The WSCBP concept has been developed based on this analysis and the expected improvement in terms of PWA's and WSRC capacities to effectively plan, monitor, and regulate the sector is expected to bring significant indirect economic benefits.

22. *Technical.* The additional support to the WSRC is based on a detailed roadmap and financing plan for the WSRC. This roadmap and financing plan anticipate donor contributions on a declining scale over the first years of institutional building of the WSRC, while the WSRC will be increasingly financed through the water resources fee established under the Water Law. The proposed AF is technically feasible, as it includes mostly technical assistance and goods to improve national level capacity in developing and monitoring the water sector. Activities to be financed have been identified by the PWA and the WSRC as a result of a series of reports and assessment prepared by an international consultancy firm which recommended the new structure for the water sector with the establishment of the water sector regulatory council (WSRC) as the main new actor.

23. *Environmental and safeguards.* There are no changes made to the project scope, thus no changes to the environmental safeguards classification. Due to the low potential for negative social environmental impacts expected from the proposed project, the project has been transferred to the Global Practice. This project continues to be classified as a category C, unless and until additional information is obtained or modifications made to the project design which would change the safeguards risk rating of the project.

24. *Exceptions and waivers.* There are no exceptions to Bank policies or procedure, and no waivers to Bank policies either under the original project or the proposed AF.

V. WORLD BANK GRIEVANCE REDRESS

25. Communities and individuals who believe that they are adversely affected by a World Bank (WB) supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. Project 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.

**ANNEX 1: RESULTS FRAMEWORK AND MONITORING
WEST BANK AND GAZA: ADDITIONAL FINANCING FOR THE WATER SECTOR
CAPACITY BUILDING PROJECT (P153889)**

| Revisions to the Results Framework | | Comments/ Rationale for Change |
|--|--|--|
| PDO | | |
| <i>Current (PAD)</i> | <i>Proposed</i> | |
| The Project Development Objective (PDO) is to strengthen the capacity of the PWA to more effectively plan, monitor, and regulate water sector development in the West Bank and Gaza. | | Continued. No-change |
| PDO indicators | | |
| <i>Current (PAD)</i> | <i>Proposed change*</i> | |
| 1. Sector Reform Planning Document developed, Updated yearly approved yearly by PWA and COMSC | | Continued |
| 2. Water law is updated and consulted with stakeholders and approved by responsible Authorities | | Continued |
| 3. Water Sector Policy and Strategy approved by PWA | | Continued |
| 4. PWA's improved capacities are effectively applied as measured by (i) 85 Staff Trained; Among which 18 females, and (ii) 14 Training Courses conducted | | Continued |
| 5. Water Regulatory Council establishment and action Plan developed | 5. WSRC is strengthened and operationalized. | <p>Revised. This was intermediate indicator and has been modified to be a PDO indicator because the WSRC will be responsible for monitoring the service delivery of the service providers and its major goal of the project.</p> <p>One major objective of the project is to strengthen the monitoring aspect in the water sector. The main output of the original project was the PA decision to create the WSRC and therefore, the AF will help supporting the WSRC institution to be functional including; continue the preparation of the basic logistical needs (i.e. office rent, furniture and equipment, etc.), essential staff hiring, and working procedures developed, including information disclosure and stakeholder consultation procedures and processes, Organizational Settings include</p> |

| Revisions to the Results Framework | | Comments/ Rationale for Change |
|--|--|---|
| | | defined objectives, mission and core functions and job description, HR system, licensing fees started to be collected, and Public awareness campaigns to Service Providers are conducted. |
| | 6. Monitoring Reports on Service Providers performance is developed and published annually | New. Benchmarks indicators developed by the WSRC and communicated with the Services Providers to be the measured and reported by the WSRC. These reports shall be published and disclosed to the public. |
| Intermediate Results indicators | | |
| <i>Current (PAD)</i> | <i>Proposed change*</i> | |
| 1. Quarterly Status Memoranda on Sector Reform produced | | Continued |
| 2. New restructured PWA established and the redeployed staff implement its functions based on the developed job descriptions | | Continued |
| 3. Water Regulatory Council establishment action Plan developed | | Continued |
| 4. National Water Company Bylaw developed | | Continued |
| 5. Regional Water Utilities Bylaw developed | | Continued |
| 6. Strategies produced and consulted | | Continued |
| 7. Technical regulations, guidelines, standards, are reviewed/ updated/, developed | | Continued |
| 8. Plans and planning support tools developed | | Continued |
| 9. Relevant Studies conducted | | Continued |
| | 10. WSRC strategy and implementation plan developed and implemented | New. To complete the institutional building of a functional regulatory institution, a development strategy and action plan is needed. This document is outlining the WSRC working strategy and action plan with a clear objectives and goals together with a defined expected outcomes within a defined time frame. |
| | 11. WSRC Information system created and maintained | New. This is an active system including a combination of hardware, software, infrastructure and trained personnel organized to facilitate planning, control, coordination, and decision making in the WSRC operations and reporting. |

| Revisions to the Results Framework | | Comments/ Rationale for Change |
|------------------------------------|--|--|
| | <p>12. Technical regulations, guidelines, standards, and systems are reviewed/ updated/, developed</p> | <p>New. Legal documents on the regulations that describe the main functions, duties and responsibility of the council and guide its main due diligence.</p> <p>Working documents covering the design of WSRC financial system (budget structure, accounting regulation), administrative system and human resources regulations, and lines of communications and then the “Board of Directors by-law”.</p> <p>This may also include: Procedures for monitoring of water supply arrangements, Quality standards for water supply and sanitation, Procedures for licensing bottled water factories, water tankers, RO desalination, distillation factories licensing and treatment plants licensing, Procedures for monitoring the quality standards, Procedure to set individual performance targets for service providers, information disclosure to the public, and complain system, as well as a SP incentives system design.</p> |
| | <p>13. Plans and procedures developed</p> | <p>New. This will complete the functionality of the institution by developing specific technical plans and procedures such as; communication plan, public awareness campaign, water supply and wastewater monitoring procedures, licensing procedures, quality and performance standards and indicators.</p> |

Project Development Objective (PDO):

The Project Development Objective (PDO) is to strengthen the capacity of the PWA to more effectively plan, monitor, and regulate water sector development in the West Bank and Gaza.

| PDO Level Results Indicators | Core | Unit of Measurement | Baseline Original Project Start (2011) | Progress To Date (2014) | Cumulative Target Values | | | Frequency | Data Source/ Methodology | Responsibility for Data Collection |
|---|--------------------------|---------------------|--|---|--|--|--|-------------|--------------------------|------------------------------------|
| | | | | | 2015 | 2016 | 2017 | | | |
| 1. Sector Reform Planning Document developed, Updated yearly approved yearly by PWA and COMSC | <input type="checkbox"/> | Yes/ No | No | Yes | Yes | Yes | Yes | Semi-annual | PWA Progress Report | PWA |
| 2. Water law is updated and consulted with stakeholders and approved by responsible Authorities | <input type="checkbox"/> | Yes/ No | No | Yes | Yes | Yes | Yes | Semi-annual | PWA Progress Report | PWA |
| 3. Water Sector Policy and Strategy approved by PWA | <input type="checkbox"/> | Yes/ No | No | Yes | Yes | Yes | Yes | Semi-annual | PWA Progress Report | PWA |
| | | | | | | | | | | |
| 5. WSRC is strengthened and functional. | <input type="checkbox"/> | Yes/ No | No | Government Decree issued. BOD appointed | 1. Essential Staff & CEO appointed 2. Office rented, equipped and furnished 3. Organizational Structure and job description developed. 4. HR guidelines drafted 5. Road map to complete establishment developed and approved by the BOD. | 1. Organizational Structure and job description approved by the BOD 2. HR Guidelines approved by the BOD 3. All staff appointed 4. Licensing bylaw is developed and approved 5. public awareness campaign is planned | 1. Licensing fees started to be collected 2. Public awareness campaigns to Service Providers are conducted. | Semi-annual | WSRC progress report | WSRC |

| | | | | | | | | | | | | |
|--|--|--------------|---|---|--|--|--|--|--------------|-----------------|------|--|
| 6. Monitoring Reports on Service Providers performance is developed and published annually | | Docu ment | 0 | 0 | | Indicators and benchmarks has been developed | Report is developed, published and disclosed | | annual ly | WSRC reports | WSRC | |
|--|--|--------------|---|---|--|--|--|--|--------------|-----------------|------|--|

REVISED PROJECT RESULTS FRAMEWORK

| Intermediate Results and Indicators | | | | | | | | | | | | |
|--|--------------------------|---------------------|--|---|---|--|---|-----------|--------------------------|------------------------------------|-----|--|
| Intermediate Results Indicators | Core | Unit of Measurement | Baseline Original Project Start (2011) | Progress To Date (2014) | Target Values | | | Frequency | Data Source/ Methodology | Responsibility for Data Collection | | |
| | | | | | 2015 | 2016 | 2017 | | | | | |
| Intermediate Result 1: Water Sector Reform agenda is developed. Through Component 1; Advisory Support, Technical Assistance and Capacity Building for PWA | | | | | | | | | | | | |
| 1. Quarterly Status Memoranda on Sector Reform produced | <input type="checkbox"/> | Yes/No | No | Yes | Yes | Yes | Yes | | Semi-annual | PWA Progress Report | PWA | |
| 2. New structured PWA established and the redeployed staff implement its functions based on the developed job descriptions | <input type="checkbox"/> | Key document | No | Yes | Yes | Yes | Yes | | Semi-annual | PWA Progress Report | PWA | |
| 3. National Water Company Bylaw developed | | Key Document | No | No | No | Yes | Yes | | Semi-annual | PWA Progress Report | PWA | |
| 4. Regional Water Utilities Bylaw developed | | Key Document | No | No | No | Yes | Yes | | Semi-annual | PWA Progress Report | PWA | |
| Intermediate Result 2: Improved Capacity of PWA. through Component 1; Advisory Support, Technical Assistance and Capacity Building for PWA | | | | | | | | | | | | |
| 5. Strategies produced and consulted | <input type="checkbox"/> | Number | 0 | 3 Strategies covering: 1-Sustainable financing, | 7 Strategies covering 1- Capacity development , 2-Sludge disposal | 8 Strategies covering 1-Trans boundary | 9 Strategies covering 1-Public Awareness and civil engagement | | Semi-annual | PWA Progress Report | PWA | |

Intermediate Results and Indicators

| Intermediate Results Indicators | Core | Unit of Measurement | Baseline Original Project Start (2011) | Progress To Date (2014) | Target Values | | | Frequency | Data Source/ Methodology | Responsibility for Data Collection |
|--|--------------------------|---------------------|--|---|---|---|--|-------------|--------------------------|------------------------------------|
| | | | | | 2015 | 2016 | 2017 | | | |
| | | | | 2-Non Revenue Water 3- Communication | 3- PWA Strategic Plan (2015 -2017) 4-General Policy for Water Demand Management Concepts and Principals | | | | | |
| 6. Technical regulations, guidelines, standards, are reviewed/ updated/, developed | <input type="checkbox"/> | Number | 0 | 6 1-Technical Guidelines for PMU, 2-PMU Financial Guidelines 3-Drinking water quality standards 4-PWA regulation on water tariff, 5 PWA regulations on House connection 6-PWA guidelines produced on Planning & Design | 9 PWA regulations produced on: 1. Water Resource drilling, and abstraction, 2- Licensing of services providers 3-PWA guidelines produced on Fin & Adm. | 12 PWA regulations produced on: 1-Unified Water & WW Tariff & Connection Services Fees 2-Updated Water & WW Sector Specifications & Design Guidelines 3. Standard Operation Procedure to PWA | 14 1- Guideline for Pricing Services 2-WR and facilities protection | Semi-annual | PWA Progress Report | PWA |
| 7. Plans and planning support tools developed | | Number | 0 | 6 1-Climate change mitigation measures produced | 10 1-Communication Plan under implementation 2-PWA Implementation | 14 1-PWA Implementation (business) Plan for 2016 | 16 1- National Water Safety Plan 2- PWA implementation (business) plan for 2017 | Semi-annual | PWA Progress Report | PWA |

| Intermediate Results and Indicators | | | | | | | | | | |
|-------------------------------------|------|---------------------|--|--|--|--|---|-------------|--------------------------|------------------------------------|
| Intermediate Results Indicators | Core | Unit of Measurement | Baseline Original Project Start (2011) | Progress To Date (2014) | Target Values | | | Frequency | Data Source/ Methodology | Responsibility for Data Collection |
| | | | | | 2015 | 2016 | 2017 | | | |
| | | | | 2-Evaluation of surface water and groundwater surface models produced 3-Assessment of Hydro monitoring equipment, and specifications produced 4-Standard Formats and Methodology for Planning produced 5-ToR for Master Plan N-NE West Bank produced 6-Communication Plan produced | (business) Plan for 2015 3. Water Information System developed and under implementation 4-Improved PWA Human Resource System | 2-Public Awareness Action Plan is developed 3-Licensing for drilling and abstraction data base system is developed 4-Complains System is developed | | | | |
| 8. Relevant Studies conducted | | Number | 0 | 1 Assessment of Acquired Regional Experience on Wastewater Treatment, Reuse and Sludge Management Study | 1 Assessment of Acquired Regional Experience on Wastewater Treatment, Reuse and Sludge Management | 1 Assessment of Acquired Regional Experience on Wastewater Treatment, Reuse and Sludge Management | 1 Assessment of Acquired Regional Experience on Wastewater Treatment, Reuse and Sludge Management | Semi-annual | PWA Progress Report | PWA |

Intermediate Results and Indicators

| Intermediate Results Indicators | Core | Unit of Measurement | Baseline Original Project Start (2011) | Progress To Date (2014) | Target Values | | | Frequency | Data Source/ Methodology | Responsibility for Data Collection |
|---|--------------------------|---------------------|--|---------------------------|--|--|---|-------------|--------------------------|------------------------------------|
| | | | | | 2015 | 2016 | 2017 | | | |
| 9. PWA's improved capacities are effectively applied as measured by (i) 85 Staff Trained (ST); Among which 18 females, and (ii) 14 Training Courses (TC) conducted | <input type="checkbox"/> | Number | 0 | 35 ST (8 females), & 4 TC | 50 ST (10 females) & 6 TC | 70 (14 females) & 12TC | 85 ST (18 females) & 18 TC | Semi-annual | PWA Progress Report | PWA |
| Intermediate Result 3: Improved Capacity of WSRC. Through Component 2; Supplementary assistance for studies, training and institutional building of the WSRC | | | | | | | | | | |
| 10. WSRC strategy and implementation plan developed and implemented | <input type="checkbox"/> | Yes/No | No | No | No | Yes | Yes | Semi-annual | WSRC progress reports | WSRC |
| 11. WSRC Information system created and maintained | <input type="checkbox"/> | Yes/No | No | No | Yes | Yes | Yes | Semi-annual | WSRC progress reports | WSRC |
| 12. Technical Regulations, guidelines, standards and systems are reviewed, updated and developed. | | Number | 0 | 0 | 5 Regulations produced on: 1.WSRC Financial and Admin 2.Internal regulations, Systems developed on: 3.Financial System, 4.Human Resource System, 5.Administrative System | 10 1. Regulations produced on. Promotion 2. Standard operation procedures. 3. Procurement Procedures 4. Operational systems (licensing, complains, etc.). 5. Public information system | 11 1. Complain System developed | Semi-annual | WSRC progress reports | WSRC |

ANNEX 2. SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

| Risk Category | Rating |
|---|--------------------|
| 1. Political and Governance | High |
| 2. Macro-economic | High |
| 3. Sector Strategies and Policies | Moderate |
| 4. Technical Design of Project or program | Moderate |
| 5. Institutional Capacity for Implementation and Sustainability | Substantial |
| 6. Fiduciary | Moderate |
| 7. Environment and Social | Low |
| 8. Stakeholders | Substantial |
| 9. Others | |
| OVERALL | Substantial |

ANNEX 3. DETAILED DESCRIPTION OF MODIFIED OR NEW PROJECT ACTIVITIES

The main additional activities under the additional financing are:

Component 1: *Advisory Support, Technical Assistance, and Capacity Building to PWA;* (Estimated Budget (US\$2.04 Million): includes remaining from the original project US\$1.34 million (AFD US\$0.148M equivalent, PID MDTF US\$0.976M and TFWB&G US\$0.22M) and the Additional financing of US\$0.7M).

The main task will support the PWA in implementing the activities undertaken in the Water Sector Reform process, in particular the Institutional Water Sector Review (IWSR) recommendations in reorganizing the water sector structure and the technical assistance to PWA. This component will be implemented by PWA through the PIU that was established for such purpose. This component will be supported by consultancy services firm(s) and individuals² to implement its activities. This support will include, but not limited to, the following:

- (a) The development of Strategic Development Plan for the PWA and Business (action) plans for the years 2015-2017 and implement them.
- (b) Update the PWA organizational structure, job description and redeployment and training of staff to improve PWA capacity. Review, with particular attention to PWA staff training and capacity needs, and develop relevant capacity building programs, action plans and budgets. It will also include implementation of Capacity Building Action Plans based on available budget. Building capacities, systems and methods within PWA to improve internal and external communication and coordination of key local and international stakeholders in the Sector. Building PWA's capacity in financial modeling towards multi-year planning for capital as well as recurrent budgets.
- (c) Update and develop needed policies, strategies and procedures; (i.e. sustainable financing, sludge disposal, general policy for water demand management concepts and principals, public awareness and civil engagement, etc.).
- (d) Completing and updating the needed regulations, by laws, Guidelines and specification that are required to enhance the sector restructuring and to development (i.e. National Water Company Regulation, Regional Water Utility Regulation);
- (e) Update and develop technical regulations, guidelines and standards; (i.e. water resources drilling and, abstraction, water resources and facilities protection, licensing of service providers, unified water and wastewater tariff and connection services fees, PWA guidelines produced on; planning and design, finance and Administration, pricing services, standard operation procedure to PWA, updated water and wastewater sector specifications and design guidelines, etc.).

² Technical Planning and Advisory Team (TPAT) consultancy to be hired as phase 2, since the TPAT phase one contract was expired before completing all needed technical assistance support to PWA. Some activities can still be done under individual consultancy services (some of those are already under-procurement process). TOR and EoI for the recruitment of TPAT phase 2 have been developed and cleared by the Bank and is now under procurement process.

- (f) Defining the rules and interfaces among the sector institutions and other stakeholders including coordination mechanisms in accordance with the new institutional arrangement and needs.
- (g) Implement the internal and external communication plans to promote and inform relevant institutions, stakeholders, and concerned staff on the Sector Reform, and to design a public awareness and civil engagement programs.
- (h) Support for further developing and implementing reformed water supply, sanitation, and water resource management policies, strategies, regulations and investment programs.

Component 2. Supplementary Assistance for Studies, Training and Institutional Building for the WSRC³. (Estimated Budget (US\$0.9 Million): includes additional financing of US\$0.6M from the PID MDTF and US\$0.3M equivalent from the GIZ for the regulatory activities for the water sector).

This component will finance the institutional building of an operational WSRC. The new water sector institutional structure stresses the establishment of Water Sector Regulatory Council (WSRC) to monitor the Water Service Providers operational performance in order to ensure the quality and efficiency of sector services. This component will support a sustainable operational WSRC by formulating its policies and internal regulations and guidelines, operational procedures and functional systems. This will also include formulation of a communication strategy and techniques, technical and operational tools and formats to carry out its regulatory activities towards the water and wastewater service providers. The component will finance consultancy services to provide support to build the institution of the WSRC by providing, but not limited to, the following activities:

- (a) Revising existing, or developing new policies and regulations to ensure service quality, efficient operations and maintenance, sustainable cost recovery and effective regulations;
- (b) Assist the coordination, endorsement by the PA, and adoption by service providers of such strategies, policies and regulations;
- (c) Development of WSRC financial and administrative regulations; (i.e. employment conditions, salary scale, financial and administrative systems, organizational structure, organizational development plan, key job descriptions, management arrangements, etc);
- (d) Development of WSRC tools; (i.e. communication and awareness, technical regulations, licensing, billings and collecting fees from service providers, tariff reviews, service performance measuring and incentives system, quality standards, planning and design, service provider survey, citizen engagement, etc.);
- (e) Implementation and Capacity Building to WSRC development; exposure to others experiences, consultants coaching, capacity building and training to BoD and staff during implementation

³ The WSRC was established, by the Palestinian Authority Government on July 8, 2014, to monitor all matters related to the operation of water service providers including production, transportation distribution, consumption and wastewater management, with the aim of ensuring water and wastewater service quality and efficiency to consumers in Palestine at affordable prices. The WSRC is an independent institution governed by a Board of Directors. The subcomponent of supplementary assistance for studies and training has been changed under the AF and will not be including any funding. Training will be done under the first component.

Component 3: Project Management (Estimated budget: USD 0.7 million, financed by the PWUD/PID MDTF and divided between the PWA (US\$ 0.3 million) and the WSRC (US\$ 0.4 million)

- (a) Support PWA (PIU) in Project management, monitoring and evaluation through the provision of consulting services, including audit and Training, and financing of Incremental Operating Expenses.”⁴
- (b) Support WSRC in Project management, monitoring and evaluation through the provision of consulting services, including audit and Training, and financing of Incremental Operating Expenses.”⁵.

⁴ Incremental Operating Cost is defined in the amended grant agreement

⁵ Article 25 of the law limits the financial resources of the council to fees collected from Service Providers and to grants and donations. In the best case scenario, it is estimated that the WSRC will not be able to depend on own financial resources for the first two years. This support will help in strengthening the WSRC to start issuing licenses and collect fees. Incremental Operating Expenses are defined in the amended Grant Agreement.

ANNEX 4. DETAILED COST OF MODIFIED OR NEW PROJECT ACTIVITIES

26. The additional financing for the WSCBP will total US\$ 2.3 million equivalent (PID MDTF US\$ 2.0 million and GIZ US\$ 0.3 million equivalent). The remaining funds under the original project total US\$ 1.38 million (Trust Fund for Gaza and West Bank - US\$ 0.26 million, PID MDTF - US\$ 0.967 million, and AFD - US\$ 0.14 million equivalent), with overall disbursement around 70 percent. A total of US\$ 2.3 million Additional Financing is required, as shown in the Table below.

| Components | Additional Financing (AF) | | | AF from the PID MDTF % Financing | Original and Remaining Funds from the Parent Project | | | | | | Total Remaining Funds from Parent project | Net Total of the AF and remaining |
|--|---------------------------|---------------|------------|----------------------------------|--|-------------|---------------|--------------|-------------|--------------|---|-----------------------------------|
| | GIZ (parallel) | WB (PID MDTF) | Total | | WB (WB>F) | | WB (PID MDTF) | | AFD | | | |
| | US\$ millions equivalent | | | | US\$ millions equivalent | | | | | | | |
| | | | | | original | Remaining | original | Remaining | Original | Remaining | | |
| Comp. 1. Advisory Support, Technical Assistance and Capacity Building for PWA | 0.0 | 0.7 | 0.7 | 100% | 2.1 | 0.22 | 1.4 | 0.976 | 1.4 | 0.148 | 1.34 | 2.04 |
| Component 2: Supplementary Assistance for Studies, Training and Institutional Building for the WSRC | 0.3 | 0.6 | 0.9 | 100% | 0.1 | 0.00 | 0.2 | 0.00 | 0.00 | 0.00 | 0.00 | 0.9 |
| Sub-comp 2a. Studies and training fund | 0.0 | 0.00 | 0.00 | 0.0 | 0.1 | 0.00 | 0.2 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 |
| Sub-comp. 2b. Institutional building of the WSRC | 0.3 | 0.6 | 0.9 | 67% | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.9 |
| Comp 3. Project Management | 0.0 | 0.7 | 0.7 | 100% | 0.8 | 0.04 | 0.00 | 0.0 | 0.00 | 0.0 | 0.04 | 0.74 |
| Sub-comp 3a. PM for PWA | 0.0 | 0.3 | 0.3 | 100% | 0.8 | 0.04 | 0.00 | 0.00 | 0.00 | 0.00 | 0.04 | 0.34 |
| Sub-comp 3b. PM for WSRC | 0.0 | 0.4 | 0.4 | 100% | | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.40 |
| Total | 0.3 | 2.0 | 2.3 | 87% | 3.0 | 0.26 | 1.6 | 0.976 | 1.4 | 0.14 | 1.38 | 3.68 |

ANNEX 5. REVISED IMPLEMENTATION ARRANGEMENTS AND SUPPORT

27. The Project's implementing agency will be the Palestinian Water Authority (PWA) for component 1 and relevant tasks under component 3 and the Water Sector Regulatory Council (WSRC)⁶ will be responsible for implementing component 2 and relevant tasks under component 3 as indicated in annex 3.

28. **Under Component 1;** the PWA has received a clear mandate from the PA's Cabinet of Ministers to define and lead the implementation of the Water Sector Reform as defined in the Action Plan for Reform that was approved by the Cabinet on December 19th, 2009 and still continue working in the water sector reform. A Project Implementation Unit (PIU) was established at the PWA for day to day implementation of the project. The PIU is comprised of a Project Manager, a procurement specialist, a Financial Management Specialist and an administrative specialist. Within the PWA, a Reform Coordination Unit (RCU) has been created to act as the focal unit in charge of supervising the PIU. The RCU team is composed of group of PWA directors in the West Bank, Gaza and advisers to the head of PWA.

29. The TPAT consultants will report to the Head of PWA, through the PIU. The RCU will, through the PIU, also ensure day to day support and oversight of consultants and review their outputs. Consultants reporting outputs may be utilized by the PWA to inform the Reform Steering Committee (RSC) appointed by the Council of Ministers to oversee the implementation of the Action Plan for Reform.

30. **Under Component 2;** the WSRC is newly established and has its BoD and the CEO, who will be responsible for day to day management of component 2, The WSRC will appoint needed staff (management team (MT)); administrative/procurement and financial management staff to administer together with the CEO the contracts under component 2. The PIU at the PWA will continue to provide support to the WSRC in financial and procurement aspects. The World Bank (WB) financial and procurement specialists will train the WSRC staff in WB procurement guidelines and required financial management procedures. The PWA has updated the Project implementation Manual (PIM) and included the activities to be implemented by the WSRC. The PIM includes procurement and financial procedures that was cleared by the WB on May 6, 2015. The WSRC management team are monitored by the BoD and will have monthly progress meeting (organized by the MT and attended by members of the BoD and donors) where the MT will present the progress under component 2. The PIU at the PWA will continue be responsible of overall reporting and will continue provide procurement and financial support to the WSRC.

31. **Under Component 3:** the project management cost under the Parent project was funded from the TF099491 only but under the AF it will be funded by the TF015756 for both PWA and WSRC (US\$0.3 million and US\$0.4 million respectively).

⁶ The WSRC is an independent institution (reports to the Cabinet of Ministers "CoM") was established by President Decree no14/2014 (Water law) on August 7, 2014 to monitor all matters related to the operation of the water and wastewater service providers to ensure water and wastewater service quality and efficiency to the consumers at affordable prices. The WSRC is managed by Board of Directors (BoD) nominated by the CoM and appointed by the President and they represent public, private and civil society sectors. The BoD appoints the Chief Executive Officer (CEO) and staff. The WSRC is responsible for the licensing, monitoring of the service providers performance and approve tariffs.

I. Financial Management

32. The Project funds will be provided by the World Bank and disbursed through a two new U.S. Dollar Designated Account (DA), opened by the MOF at Bank of Palestine in the West Bank and managed by the PIUs at PWA and WSRC (following the project implementation arrangements). The PIU/WSRC will follow the tax regulations issued by the PA. PWA will ensure that the Project's financial management, including accounting functions and reporting activities, will utilize the government accounting system (Bisan) that suits the project's components.

33. The FM team conducted an update of the financial management assessment of the PWA. The assessment reviewed the organizational structure of the PWAs Financial Department and its capacity for implementing the project. All past audit reports were submitted on time and with unmodified opinions. The assessment concluded that there is adequate capacity within the PWA for implementing the project. All past audit reports were submitted on time and with unmodified opinions. The PWA will be the responsible party for managing, implementing and supervising component 1 of this project, including financial management. PWA will be responsible for preparing and issuing the annual work program for component 1 and operating budgets as well as all the progress and financial reports, and the Interim unaudited Financial Reports (IFRs). It will also be responsible for providing consolidated IFRs (for all components of the project) and annual audited financial reports for the entire project.

34. As part the project preparation for component 2 the FM team conducted a financial management assessment of the WSRC and reviewed the proposed organizational structure of the WSRC and financial functions for implementing the project. The WSRC has sufficient capacity and will be responsible for maintaining operating budgets, providing progress and financial reports as well as Interim unaudited Financial Reports (which will be provided to PWA/PIU for consolidation). The WSRC has installed an appropriate accounting system and in the process of recruiting a financial specialist. The WSRC has a finance committee in place to monitor internal financial management and an external audit will be appointed. The PIU at the PWA will provide support to the WSRC in financial and procurement issues.

35. **Role of Partners:** While the project is not dependant on the co-financing, co-financing options were identified between GIZ and WB during project identification. It is understood that SIDA, Finland, Denmark, Croatia, Portugal, Netherlands, Norway and AFD made their funds available through PID MDTF established with the World Bank and is administered by the World Bank. AFD is providing parallel co-financing of its share of TPAT costs directly to PWA for the parent project. Accordingly, PWA will manage and be accountable to two sources of TPAT funding, with distinct accounts, request for payments, and fiduciary requirements⁷. PWA will clearly indicate the source of financing on each accounting record (receipts/invoices/contracts) and Statement of Expenditure (SOE) forms that accompany withdrawal applications.

36. The financing of component 2 (the institutional building of the WSRC) will be from two sources; from the World Bank PID MDTF and from GIZ parallel co-financing to share the costs under component 2 directly to WSRC. The Project will include a provision for retroactive financing of about US\$ 50,000 to cover necessary expenses related to WSRC incremental and

⁷ The two sources of funds are from the West bank and Gaza Trust Fund and from the PID MDTF, both administered by the World Bank..

recurrent cost, that was spent during the preparation of this AF (January 1st, 2015 up to July 31, 2015).

37. During Appraisal, co-financing arrangements **will be** finalized between the different financiers, and where the parallel financing is used, the activities and items to be financed in parallel form to be identified and agreed between all donors.

38. **Project Financing:** The project will provide funding for PWA’s second phase of the “Technical and Planning Advisory Team” (TPAT 2), and for additional consultancies and capacity building activities to be defined and delivered outside the scope of TPAT. GIZ has confirmed their intention to provide 2.3 million Euros for the water and wastewater program implemented for different levels and process under the water sector, where about US\$300,000 could be directed to the institutional building of the WSRC and other regulatory functions under this project to be provided as parallel direct co-financing.

39. The cost of component 2 is estimated at US\$0.9 million, of which 0.6 million from the PID MDTF through the World Bank and about \$0.3 million as parallel co-financing from GIZ. The World Bank will provide \$0.6 million for project management costs.

40. **Flow of Funds:** The Bank financing will be a Grant from the Partnership for Water and Urban Development (PWUD)/ Partnership Infrastructure Development Multi Donor Trust Fund PID MDTF for the West Bank and Gaza to be disbursed through a Designated Account (DA1) opened by the MOF under the Central Treasury System and managed by the PWA for Component 1 and the PWA share of Component 3 and another Designated Account (DA2) opened and managed by the WSRC by the authority of Ministry of Finance (MoF) for Component 2 and the part of component 3 implemented by the WSRC..

41. The PWA and WSRC each have prepared their detailed quarterly budget (disbursement plan), according to which the ceiling of the DA was be defined atUS\$300,000, to facilitate the availability of funds necessary for on-time project implementation. Separate Accounting records will be maintained for each DA.

42. The FM risk rating for the AF is **Substantial**.

Disbursement Plan

| | Q4: 2015 | Q1: 2016 | Q2: 2016 | Q3: 2016 | Q4: 2016 | Q1: 2017 | Q2: 2017 | Q3 2017 | Q4 2017 | |
|--|----------------------------|---------------------------|--------------------------------------|----------------------------|----------------------------|--------------------------|---------------------------|----------------------------|----------------------------|------------------|
| | April 1st- June 30th, 2015 | July 1st- Sept 30th, 2015 | Oct. 1 st Dec. 31st, 2015 | Jan. 1st- March 31st, 2016 | April 1st- June 30th, 2016 | July 1st-Sept 30th, 2016 | Oct. 1st- Dec. 31st, 2016 | Jan. 1st- March 31st, 2017 | April 1st- June 30th, 2017 | Total |
| Additional Financing | | | | | | | | | | |
| PWA | 20,000 | 48,000 | 44,000 | 55,000 | 115,000 | 320,000 | 224,000 | 144,000 | 30,000 | 1,000,000 |
| WSRC | 0 | 150,000 | 145,000 | 200,000 | 190,000 | 140,000 | 105,000 | 40,000 | 30,000 | 1,000,000 |
| Total | 20,000 | 198,000 | 189,000 | 255,000 | 305,000 | 460,000 | 329,000 | 184,000 | 60,000 | 2,000,000 |
| Co-financing MDTF (Original Fund) | | | | | | | | | | |
| PWA | 10,000 | 228,000 | 185,000 | 447,000 | 106,000 | | 0 | 0 | 0 | 976,000 |

| | | | | | | | | | | | |
|---|---------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|---------------|------------------|------------------|
| Total from PID | | | | | | | | | | | |
| MDTF | 30,000 | 426,000 | 374,000 | 702,000 | 411,000 | 460,000 | 329,000 | 184,000 | 60,000 | 2,976,000 | |
| Parent Project (West Bank and Gaza Trust Fund) | | | | | | | | | | | |
| PWA | 54,000 | 85,000 | 70,000 | 24,000 | 4,000 | 17,000 | 0 | 0 | 5,000 | 259,000 | |
| Total from WB&G TF | | | | | | | | | | | 3,590,322 |

43. The PWA and WSRC each will maintain its DA denominated in Unites Sate Dollars (USD) to which the initial deposit and replenishments from Bank resources will be deposited and will be used in financing project components according to the approved budget, the Grant Agreement, and Project Paper.

44. Withdrawal Applications submitted to the Bank will be prepared by PWA and WSRC, signed by the authorized signatures at the MOF before submission to the Bank.

45. Staffing: The FM aspects of the project will be the responsibility of the financial managers at the PIU in PWA as well as the one hired at the WSRC. Financial control supervision and internal auditors will be provided by the MoF for PWA and will be the responsibility of the Board of Directors and the specialized committees assigned by the WSRC. The PWA has previous experience with World Bank projects; however, capacity building and strengthening will be required for WSRC. PWA has assigned one of its FM staff (Financial Manager at PWA) to follow up on the FM aspects for the project and who will be responsible for any consolidated reports and who will also support the FM staff at WSRC. The FMS in charge of this project will also provide orientation and training on Bank guidelines concerning IFRs, audit, and disbursements to be ready for project implementation to WSRC. Additional training from the Bank FM team will be provided to the PWA and WSRC throughout the project implementation period as required.

46. Financial Control: Financial control for the PWA is the responsibility of MOF financial controllers stationed at the PWA. According to the MOF financial controller mandate, all project activities implemented by line ministries have to be reviewed and cleared by the financial controller based in that line ministry. This will include the Project as well. The Financial Controller’s function is important to ensure that Project activities are in compliance with the Implementation manuals and donor guidelines as well as in compliance with internal control mechanisms. Financial control for the WSRC will be ensured by proper segregation of duties as well as ex-post reviews by an internal finance committee as well as the external auditor.

47. Internal Audit: The internal audit function is also centrally established at the MOF, with a mandate to cover all line ministries and public entities including the PWA. MOF’s internal audit function is under way to be fully functional. The internal auditor will ensure that the processes and procedures of the whole PWA are properly applied. The internal audit reports will also be submitted to the PWA chairman.

48. For WSRC, finance committee has been established from independent members and will (i) ensure that financial statements are understandable, transparent, and reliable, (ii) ensure that the risk management process is comprehensive and ongoing, rather than partial and periodic, (iii) help achieve an organization-wide commitment to strong and effective controls, (iv) review

policies relating to compliance with laws and regulations, ethics, conflicts of interest, and the investigation of misconduct and fraud, (v) establish a direct reporting relationship with the external auditors, and (vi) review internal audit plans, reports, and significant findings.

49. Information system: The system currently used by the PWA and MOF (the Bisan system) will be configured through the opening of a separate cost center that will be used to account for, record, report and monitor the project accounts and generate the project financial reports, by category, component, and by each financing donor separately. WSRC has procured an accounting system (Bisan).

50. Financial Reporting and Monitoring: The PWA will be mainly responsible for all financial activities of the parts of the proceeds of the grant that is supporting activities managed by the PWA and the WSRC will be responsible for the financial management of the parts of the proceeds of the Grant that will be supporting the WSRC activities. However, PWA will be responsible for the overall financial management reporting by consolidating the reports and financial data of the Grant, specifically for the following issues in coordination with the WSRC; i) consolidating the grant financial data; ii) preparing activity budgets (Disbursement Plan) quarterly as well as annually, monthly DA reconciliation statement, and periodic SOEs, withdrawal schedule, quarterly IFRs and annual financial statements; and iii) ensuring that project FM arrangements are acceptable to the PA and the World Bank.⁸

51. For the WSRC, financial oversight will be the responsibility of the finance committee of the Council. The finance committee is comprised of three experienced members of the committee. One member of this committee will be an authorized signatory and the finance committee will periodically review financial transactions and ensure compliance with internal procedures.

52. The PWA will produce quarterly and annual reports as outlined below and submit these to the Bank for the purpose of monitoring project implementation.

53. Financial Reports include a statement showing for the period and cumulatively (project life or year to date) inflows by sources and outflows by main expenditure classifications; opening and closing cash balances of the project; and supporting schedules comparing actual and planned expenditures with detailed deviation analysis between actual and budgeted figures. The reports will also include cash forecast for the following six months:

- (a) A Statement of Sources and Uses of Funds (by grant category / activity showing Bank separately from other financiers);
- (b) A Statement of cash Position for project funds;
- (c) Statements reconciling the balances on the various bank accounts (including DA) to the bank balances shown on the Statement of Sources and Uses of Funds;
- (d) SOE Withdrawal Schedule listing individual WAs relating to disbursements by SOE method, reference number, date and amount; and

⁸ The PWA will be responsible for the financial management of the funds that support the PWA activities, while the WSRC will be responsible for the financial management of the funds supporting its activities. However, the PWA will be responsible for the specific activities as indicated under section 28 above to consolidate the project financial management data. Furthermore, the PIU will provide support to the WSRC in the financial and procurement activities when needed.

- (e) Notes to the Financial Statements for significant accounting policies and all other relevant information.

54. Indicative formats for the IFR are outlined in the *Financial Monitoring Reports: Guidelines to Borrowers*.

55. External Audits: The Grant Agreement will require the submission of annual Audited Project Financial Statements within six months after year-end. The audited financial statements will report separately each financier contribution and related disbursement to the Project. Project Financial Statements are to be audited in accordance with international audit standards by an independent, experienced, and internationally recognized audit firm acceptable to the World Bank and recruited on a competitive basis based on TORs acceptable to the Bank. The audit reports will be submitted to the World Bank within six months after the end of each fiscal year. The cost of the audit will be financed jointly from the financiers of the Project.

56. In addition to the audit report, the external auditors will be expected to prepare a Management Letter giving observations and comments, and providing recommendations for improvements in accounting records, systems, controls and compliance with financial covenants in the Bank Trust Fund Grant Agreement. The audit TORs scope of work will include attestation the Internal Control System of the PWA can be relied on and provide a basis for producing the project financial statements.

57. PWA will maintain separate accounting records for each financier based on the co-financing arrangements and percentages. Reporting will be consolidated on the project level reporting each financier separately. Audit TORs will include verifying that the parallel financing is in accordance with the project financing agreements. The audited annual project financial statements will be publicly disclosed according to the Bank disclosure policy.

58. Training and Implementation Support: The Bank will provide training to the PWA and WSRC staff on Bank financial management and disbursement guidelines and procedures and will provide financial management support during project supervision.

II. Disbursement Arrangements

59. Disbursements from the Bank Grant will follow the transaction-based method, i.e., traditional Bank procedures: SOEs, Direct Payments, and Special Commitments. For certain payments, above the “Minimum Application Size” as specified in the Disbursement Letter, Withdrawal Applications (WAs) will be submitted to the Bank for payments to suppliers and consultants directly from the Grant Account. The existing PWA Designated Account (DA) will remain under the responsibility of the PWA and will be used for PWA parts of the Project. A second DA will be opened under the responsibility of the WSRC for its part of the project, while other disbursement arrangements (disbursement methods available, minimum application size, documentation requirements, etc.) remain the same.

60. The DA will be held in USD. The initial deposit into the DA will be based on a four months forecast prepared by the PWA and submitted with the Withdrawal Application. Subsequent disbursements into the DA will be based on SOE, and accompanied with Withdrawal Applications, reconciled bank statements and copies of all bank statements. The supporting documentation for requests for direct payment should be records evidencing eligible expenditures (copies of receipt, supplier's invoices).

61. There are some actions that the implementing agencies (PWA and WSRC) need to accomplish before the request of the first replenishment; (i) recruitment of the finance officer for the Project by the WSRC as the ToR has been agreed with the Bank, (ii) Development of accounting books and formatted IFRs by the WSRC by negotiation, (iii) Opening of the DAs by the PWA and the WSRC and informing the Bank about the designated signatories on the WAs, and (iv) PWA and the WSRC to prepare and submit the ToR of the external auditor to the Bank for clearance.

62. Disbursement by Component and Co-financing arrangements: The following schedule shows the additional financing from the PID MDTF and the financing amounts to be provided by the co-financiers with the respective financing percentage from the PID MDTF to the project beside the disbursement by component of the remaining fund from the original project. Withdrawal Applications to be submitted to the Bank will show a total of 100% of amounts disbursed on behalf of the project and specify the financing sources of which the Bank will be financing its share as per the summarized financing percentages below. The accounting records will include total project disbursements recorded separately and specify disbursed amounts related to each financier.

| Components | Additional Financing | | | AF from the PID MDTF % Financing | Remaining Funds from the Original Project | | | Total Remaining Funds from Parent project | Net Total |
|--|--------------------------|---------------|-------|----------------------------------|---|---------------|-------|---|-------------|
| | GIZ (parallel) | WB (PID MDTF) | Total | | WB (WB&G TF) | WB (PID MDTF) | AFD | | |
| | US\$ millions equivalent | | | | US\$ millions equivalent | | | | |
| | | | | | | | | | |
| Comp. 1. Advisory Support, Technical Assistance and Capacity Building for PWA | 0.0 | 0.7 | 0.7 | 100% | 0.22 | 0.976 | 0.148 | 1.34 | 2.04 |
| Supplementary Assistance for Studies, Training and Institutional Building for the WSRC | 0.3 | 0.6 | 0.9 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.9 |
| Comp 2a. Studies and training fund | 0.0 | 0.0 | 0.00 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Comp. 2b. Institutional | 0.3 | 0.6 | 0.9 | 67% | 0.0 | 0.0 | 0.0 | 0.0 | 0.9 |

| | | | | | | | | | |
|----------------------------|------------|------------|------------|------------|-------------|--------------|--------------|-------------|-------------|
| building of the WSRC | | | | | | | | | |
| Comp 3. Project Management | 0.0 | 0.7 | 0.7 | 100% | 0.04 | 0.0 | 0.0 | 0.04 | 0.74 |
| Sub-comp 3a. PM for PWA | 0.0 | 0.3 | 0.3 | | 0.04 | 0.0 | 0.0 | 0.04 | 0.34 |
| Sub-comp 3b. PM for WSRC | 0.0 | 0.4 | 0.4 | | 0.0 | 0.0 | 0.0 | 0.0 | 0.4 |
| Total | 0.3 | 2.0 | 2.3 | 87% | 0.26 | 0.967 | 0.148 | 1.38 | 3.68 |

III. Procurement

63. The same procurement arrangements in place for WSCBP shall apply to the AF with few changes. Procurement of goods and consultants' services under the project will be carried out in accordance with the 'Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits & Grants' published by the Bank in January 2011, revised in July 2014 and the 'Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits & Grants' published by the Bank in January 2011, revised in July 2014,' the Grant Agreement and the Procurement Plan approved by the Bank.

64. Overall responsibility for the implementation of project procurement will remain with the Palestinian Water Authority (PWA), through the PIU. The PIU would act as the main counterpart to the Bank for all procurement aspects of the project and would ensure that project procurement is carried out in accordance with the grant agreement and the procurement plan. WSRC, assisted by the PIU, will be responsible for carrying out procurement for their respective activities under Component 2.

65. Procurement performance for WSCBP has been satisfactory. The PIU has an experienced Procurement Specialist with good knowledge in Bank Procurement and Consultants Guidelines. WSRC is a newly established institution which is at the stage of developing its internal bylaws, systems and procedures. A qualified procurement officer will be hired in WSRC to handle procurement, with the PIU support. The AF will be supporting the implementation of priority actions in the framework of the water sector reform efforts. This would require decisions to be made at the highest level in the government. Moreover, the lack of proper coordination between WSRC and PWA, and the resistance to change by those opting to maintain the status quo, could result in procurement delays and slow down project implementation. The procurement risk rating for the AF is Substantial.

66. The AF will mainly finance technical assistance packages: development of bylaws, regulations and standard operating procedures, development of management information system, communication strategies and awareness campaigns, and goods: office furniture and equipment. All Terms of Reference for TA packages will be subject to the Bank's prior review. A procurement plan for the AF was prepared by the PIU with inputs from the WSRC and will be

finalized during appraisal. The PP, summarized below, will be updated at least annually or as required to reflect the actual program implementation needs and improvements in institutional capacity.

67. Summarized Procurement Plan (TBC)

(A) General

1. Project Name: Additional Financing to Water Sector Capacity Building Project
2. Period covered by this procurement plan: June 2015- December 2016

(B) Goods

1. Procurement Methods and Prior Review Thresholds: Procurement Decisions subject to Prior Review by the Bank as stated in Appendix 1 to the Guidelines for Procurement:

| Category | Method of Procurement | Threshold (US\$ Equivalent) | Prior Review Threshold (US\$ Equivalent) |
|----------|-----------------------|--------------------------------|---|
| Goods | NCB | <500,000 | None |
| | Shopping | <100,000 | None |
| | Direct Contracting | No threshold | All contracts |

2. Summary of the Procurement Packages planned during the first 18 months after project effectiveness

| 1 | 2 | 3 | 4 | 5 | 6 | 7 |
|----------|--|-----------------------------|--------------------|---------------------------------|----------------------------------|----------|
| Ref. No. | Description | Estimated Cost ,000 US\$ | Procurement Method | Domestic Preference (yes/no) | Review by Bank (Prior / Post) | Comments |
| 1. | Office Equipment, Furniture and software (multiple packages) | 145 | Shopping | No | Post | |
| | Total | 145 | | | | |

(C) Selection of Consultants

1. Selection Methods and Prior Review Thresholds: Selection decisions subject to Prior Review by Bank as stated in Appendix 1 to the Guidelines Selection and Employment of Consultants:

| Category | Selection Method | Threshold | Prior Review Threshold |
|---------------------------|------------------|-------------------|------------------------------|
| | | (US\$ Equivalent) | (US\$ Equivalent) |
| Consulting Services Firms | QCBS | No threshold | Contracts above US\$ 500,000 |
| | CQS/FBS/LCS | <300,000 | None |
| | Sole Source | No threshold | All contracts |
| Individuals | IC | No threshold | Contracts above \$200,000 |
| | Sole Source | No threshold | All contracts |

2. Short list comprising entirely of national consultants: Short list of consultants for services, estimated to cost less than \$300,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

3. Consultancy Assignments with Selection Methods and Time Schedule

| 1 | 2 | 3 | 4 | 5 | 6 |
|----------|--|-----------------------------|------------------|----------------------------------|----------|
| Ref. No. | Description | Estimated Cost ,000 US\$ | Selection Method | Review by Bank (Prior / Post) | Comments |
| 1. | Water Information System | 250 | QCBS | Post | |
| 2. | PWA regulations, guidelines and manuals in the framework of PWA Strategic Plan | 100 | QCBS | Post | |
| 3. | PWA communications tools | 50 | QCBS | Post | |
| 4. | Training of PWA redeployed staff | 150 | QCBS | Post | |

| | | | | | |
|----|-------------------------------------|-----|------|------|--|
| 5. | WSRC Business Plan | 30 | IC | Post | |
| 6. | WSRC internal bylaws and SOPs | 100 | QCBS | Post | |
| 7. | WSRC information System and Website | 50 | CQS | Post | |
| 8. | External Audit | 40 | LCS | Post | |
| | Total | | | | |

IV. Environmental and Social

68. The project is currently classified as an environmental category “C” as it is primarily financing institutional development, training and capacity building activities. The sectoral policy reforms and/or studies financed will not involve design, preparation, and/or implementation of specific investments or future lending operations. The studies themselves, as well as the potential actions resulting from these studies, are not expected to result in any adverse environmental impacts

69. Like the parent project, the Water Sector Capacity Building Project (WSCBP), the policy on Involuntary Resettlement, OP 4.12, does not apply to the Additional Finance as activities to be financed under the AF WSCBP will focus on T.A. and capacity building and not involve any civil works. In other words, activities financed under this project will not result in direct economic and social impacts caused by the involuntary taking of land resulting in relocation or loss of shelter; loss of assets or access to assets; loss of income sources or means of livelihoods, whether or not the affected persons must move to another location.

Annex 6. The Water Law and the Sector Institution Structure:

70. The Water Law aims at developing and managing the Water Resources in Palestine, to increase their capacity, to improve their quality, to preserve and protect them from pollution and depletion, and to improve the level of water services through the implementation of integrated and sustainable water resources management principles.

This main objective should be achieved through a clear sector structure that has been also described in the water law as follows: 71. Palestinian Water Authority (PWA); The PWA is a public institution and enjoys a Legal personality. Its budget is part of the General Budget of the Government and it reports to the Cabinet of Ministries. The main responsibilities of the PWA are:

- a. Managing Water Resources, applying principles of integrated and sustainable management of water resources.

- b. Preparing general water policies, strategies and plans, seeking their approval, and ensuring their implementation in coordination and cooperation with relevant parties, as well as submitting periodic status reports on water to the Cabinet of Ministers.
- c. Surveying the available Water Resources, proposing water allocations for various sectors, and their utilization priorities on the basis of integrated and sustainable management principles, ensuring effective water demand management.
- d. Protection of Water Resources and their surrounding environment through the establishment of protection zones to prevent pollution, in cooperation and coordination with relevant authorities.
- e. Licensing and development of Water Resources utilization, in cooperation and coordination with the relevant authorities.
- f. Setting a general policy for the planning and evaluation of water and wastewater projects in terms of their economic and social feasibility, setting design and quality control standards, technical specifications, and monitoring their implementation.
- g. Taking measures and developing plans as may be required for the establishment and development of the National Water Company and the Regional Water Utilities, in coordination with the relevant authorities.
- h. Supervising the organization of awareness raising campaigns in the sphere of water and wastewater and promoting the use of water saving fixtures, in coordination and cooperation with the relevant authorities.
- i. Development and coordination of effective participation in technical cooperation programs at the international, regional, bilateral and local levels, in the sphere of integrated and sustainable management of water resources.
- j. Cooperate with the relevant authorities in creating a climate that is stable and conducive to investments with the aim of encouraging private sector investment in the water sector, and implement required institutional, regulatory and economic reforms to encourage partnership with the private sector in accordance with a regulation issued for that purpose.

72. Water Sector Regulatory Council (WSRC); is established by a decision of the Cabinet of Ministers. The Council enjoys a legal personality and is financially and administratively independent. The objective of the Council is to monitor all matters related to the operation of water Service Providers including production, transportation distribution, consumption and wastewater management, with the aim of ensuring water and waste water service quality and efficiency to consumers at affordable prices. The WSRC has the following responsibilities:

- a. The Council submits to the Cabinet of Ministers a semi-annual report with respect to the management performance of water and wastewater services and a semi-annual report on its activities and the quality of its performance.
- b. The Board of Directors consists of a Chairperson and six competent, integrant and specialized members representing the public, private, and civil society sectors who were appointed by a decree of the President upon the recommendation of the Cabinet of Ministers.
- c. Approval of water prices, costs of supply networks and other services required for the delivery of water and waste water services, as well as review and monitoring of these costs to ensure compliance with the policy adopted by the PWA.
- d. The issuance of licenses to Regional Water Utilities and any operator that establishes or manages the operation of a facility for the supply, desalination, or treatment of water or the collection and treatment of waste water, and the levying of license fees, in accordance with the provisions of this law and a regulation issued by the Cabinet of Ministers.
- e. The Monitoring and inspection of compliance with the terms, requirements and indicators stipulated in licenses and permits.
- f. The development of performance incentives programs for Service Providers, in accordance with a regulation issued by the Cabinet of Ministers for this purpose.
- g. The approval of internal bylaws, the financial and administrative regulations and organizational structure of the Council (including the annual budget) and their submission to the Cabinet of Ministers duly issuance.
- h. Monitoring operation processes related to the production, transport, and distribution of water and operational processes of wastewater management.
- i. Monitoring water supply agreements, and ensuring that production, transport, distribution and wastewater treatment costs take into consideration the interests of all concerned parties.
- j. Setting quality assurance standards for the provision of technical and administrative services by Service Providers to consumers, in line with relevant laws and regulations, and their dissemination to the public.
- k. Monitoring the compliance of the National Water Company and Service Providers with the adopted standards for the provision of water and Sanitation services.
- l. The establishment of a database for technical, financial and statistical information and the publication of this information periodically.
- m. Addressing complaints of consumers against Service Providers.
- n. Conducting a general review for the performance of the Council and its departments as well as a review of staff performance development plans, at least

once per annum. And contracting experiences and competent experts, advisors, and technicians to implement tasks to be entrusted to them.

- o. Setting the basis for regulating the extent and percentage of local authorities' participation in the general assemblies of water utilities and ensuring implementation, in accordance with the provisions of the law and the applicable regulations.
- p. The Financial resources of the Council shall (be deposited in an account specific to the

73. Council) consist of; (i) fees for licenses and services granted by the Council in accordance with the provisions of water law by a law, and (ii) grants, aids and any other resources approved by the Cabinet of Ministers.

- a. The Council shall be responsible for its expenditures and for the preparation of annual financial reports, which shall be audited by an external and duly authorized auditing firm. The audited financial reports shall be submitted to the relevant authorities.

74. The National (Bulk) Water Company; A company named "The National Water Company" shall be a public company established in accordance with the provisions of water law by a law. The Company may not alter its legal status except by a law. The Company main responsibilities are:

- a. The supply and sale of bulk water to water undertakings, local authorities, joint water councils and associations. It will also extract water from Water Resources, desalination of water, and bulk water transmission in accordance with a license issued by the Authority for this purpose.
- b. The management, upgrade and development of any assets received from the Authority.
- c. Ensuring and guaranteeing smooth commercial relations with customers and suppliers.
- d. The provision of all the means necessary for the development of all activities and infrastructure works related to the supply of bulk water.
- e. The preparation of proposals for water supply tariff and related services and their submission to the Council for approval.
- f. A Board of Directors shall oversee the management of the Company. The Board of Directors shall be composed of a Chairperson and four members, all of whom are experienced, competent and proficient Palestinian nationals to be appointed by a decision of the Cabinet of Ministers upon the recommendation of the Authority.

g. The Company's Board of Directors is the supreme authority for the adoption of decisions in the company, and it is entrusted with the implementation of the Company's policies and overseeing the management of its operations for the advancement of the policy approved by the Authority. The Company's Board of Directors enjoys the full powers necessary for the achievement of the Company's responsibilities pursuant to water law by a law.

h. The Company's Board of Directors shall enter into a contract with a certified auditor to audit the Company's finances and the submission of annual reports to the Company's Board of Directors.

i. The Company's Board of Directors shall submit quarterly reports to the Cabinet of Ministers and the Council on the financial and legal affairs and activities of the Company, in addition to an annual report annexed to the auditor's report.

75. Regional water Utilities and Water Users Associations; The PWA shall establish, in coordination and cooperation with the relevant competent authorities, and in line with the public interest pursuant to the provisions of the water law, Regional Water Utilities for the provision of water and wastewater services. The responsibilities, powers, and procedures pertaining to the licensing, structure, management, financial resources, dissolution, and all other matters related to the work of Regional Water Utilities shall be regulated pursuant to a regulation issued by the Cabinet of Ministers. While the law gives every person the right to obtain his needs of suitable quality drinking water for utilization at specific prices set in accordance with the Tariff Regulation issued by the Cabinet of Ministers, the Water Service Providers shall take the necessary measures to ensure this right and prepare the plans required for the development of services in this regard, in accordance with the General Water Policy. Main responsibilities of the Regional Water Utilities are;

a. Regional Water Utilities enjoy a legal personality, are financially independent, and have the right to own, use and dispose of movable and immovable assets, with the aim of achieving their objectives. They also enjoy the full legal capacity to carry out their activities and responsibilities, including the conclusion of contract, the right to sue or be sued, or delegate and authorize a person of its choosing to act on their behalf in judicial proceedings with the aim of achieving their responsibilities and mandate.

b. The provision of water and wastewater services to consumers for various uses in line with sustainable economic, social and environment principles.

c. Meeting the needs for water of suitable quality and wastewater services through implementation of the required and appropriate measures and the development of the necessary plans and programs to develop these services.

d. Water Users Associations shall be established with the aim of managing the service of supplying irrigation water at the local level in a sustainable manner, in accordance with a regulation issued by the Cabinet of Ministers upon a joint recommendation of the Minister of Agriculture and the Head of the Water Authority. The regulation shall

stipulate the licensing procedures, responsibilities, powers, management, financial resources, dissolution and all other matters related to the work of Water Users Associations.

- a. Water Users Associations enjoy a legal personality, are financially independent, and have the right to own, use and dispose of movable and immovable assets with the aim of achieving their objectives. They also enjoy the full legal capacity to carry out their activities and responsibilities, including the conclusion of contract, the right to sue or be sued, or delegate and authorize a person of its choosing to act on their behalf in judicial proceedings with the aim of achieving their responsibilities and mandate.