

PROJECT INFORMATION DOCUMENT (PID)**ADDITIONAL FINANCING**

Report No.: 100630

Project Name	Water Sector Capacity Building Project Additional Financing (P153889)
Parent Project Name	GZ-Gaza Water Sector Capacity Building Project (P117443)
Region	MIDDLE EAST AND NORTH AFRICA
Country	West Bank and Gaza
Sector(s)	Water, sanitation and flood protection; General water, sanitation and flood protection sector (100%)
Theme(s)	Water resource management (20%), Urban services and housing for the poor (20%), Municipal governance and institution building (40%), Rural services and infrastructure (20%).
Lending Instrument	Investment Project Financing
Project ID	P153899
Parent Project ID	P117443
Borrower(s)	Palestine Liberation Organization (PLO) for the benefit of the Palestinian Authority (PA)
Implementing Agency	Palestinian Water Authority (PWA) and the Water Sector Regulatory Council (WSRC)
Environmental Category	C - Not Required
Date PID Prepared/Updated	13-March 2015
Estimated Date of Board Approval	20-May-2015
Initiation Note Review Decision	The review did authorize the preparation to continue

I. Project Context**Country Context**

1. The last conflict in Gaza from July 8 through August 26, 2014 had devastating impacts. According to UNOCHA estimates, 2,131 people died, close to 11,000 people have been wounded, and 28 percent of Gazans were displaced during the conflict. Prior to the conflict, a consensus Palestinian government under the leadership of President Abbas was established in May 2014, with a cabinet of technocrats, who are not affiliated to any political party, but with broad support from all Palestinian parties. Growth, which started falling since 2012 as a result of a decline in foreign aid, fell further to less than 2 percent in 2013. The closures of the tunnels into Egypt, which represented the main trade channel for imports and exports, particularly affected Gaza, and the economies of both the West Bank and Gaza went into recession in 2014. Preliminary estimates by

the Palestine Central Bureau of Statistics (PCBS) indicate that growth in the first quarter of 2014 amounted to -1 percent (0.5 percent in the West Bank and -4 percent in Gaza).

2. The restrictions on import and export and on movement of people in Gaza are particularly severe. All movement of people and goods in and out of Gaza has been restricted since June 2007. Israeli restrictions have been eased since 2010 for some construction materials, but exports are still virtually blocked from Gaza and must be destined to a third country (neither Israel nor the West Bank, which traditionally absorbed 85 percent of Gaza's exports.) The economic decline is resulting in unemployment growth. Unemployment reached 26 percent by the middle of 2014: 16 percent in the West Bank and a staggering 45 percent in Gaza. At 40 percent each, women and youth have particularly high levels of unemployment. Almost 23 percent of the workforce is employed by the public sector, an uncommonly high proportion that reflects the lack of dynamism in the private sector. A quarter of all Palestinians live in poverty according to a national poverty line based on a basic needs package of goods, with poverty rates in Gaza being twice that of the West Bank.

3. The economic impact of the conflict has not been fully quantified yet, but is doubtless severe. Based on preliminary estimates, the loss in national GDP compared to the pre-conflict forecast is estimated at more than US\$ 0.65 billion. Economic activity in Gaza has all but stopped for almost two months.

Sectoral and institutional Context

4. Water is a key economic development and humanitarian issue in West Bank and Gaza. In this context, Palestinian water outcomes and rights to water are linked to a defunct Oslo process and to elusive Final Status negotiations. As a result of restrictions accompanying Israeli occupation and obsolescence of the 1995 Oslo II interim accord water provisions, Palestinians cope with one of the lowest per capita water resource availability in MNA. In the West Bank, development of water resources and infrastructure is subject to Israeli veto power under the Joint Water Committee (JWC). In Gaza, it is curtailed by a security blockade. These restrictions, along with weak Palestinian institutions and operators and fast demographic growth, perpetuate water supply and sanitation (WSS) infrastructure and service deficits as well as operational inefficiencies. They result in heavy reliance on water trucking, makeshift desalination and other unregulated water supplies, while also increasing dependence on the Israeli bulk water utility Mekorot. The pervasive impacts of this situation are strongest in Gaza, in Area C, and on the poor. The lack of wastewater treatment contributes to widespread aquifer contamination. All the while, planning and regulation of water resources is very weak, and the potential of the irrigation sector remains largely underdeveloped.

5. The Water Sector in the West Bank and Gaza (WBG) has been suffering from technical and institutional challenges such as; (i) Lack of sovereign control over WBG 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 90% of water resources unfit for use by Gaza's 1.7 million inhabitants, due to saline water intrusions and untreated sewage infiltrations; (iv) Governance and capacity weaknesses in the Palestinian water sector, including Palestinian Water Authority (PWA) and municipal service

providers, in need of institutional reform, towards clearer roles and accountability, reorganization and capacity building.

6. PWA has developed a reform strategy, which was followed by an endorsement by the Cabinet of Ministers of the Palestinian Authority (PA) of an Action Plan for Reform, which details the blueprint and implementation mechanisms of an institutional and legislative reform program in the water sector. PWA has led the design, coordination and implementation of the program, under supervision by a Cabinet of Ministers Steering Committee (COMSC). The reform so far has resulted in issuing a new Water Law that articulates the roles and responsibilities of different institutions, at the policy and planning level by the Palestinian Water Authority, at the regulatory and monitoring level by the newly established Water Sector Regulatory Council (WSRC), at the level of national bulk water supply by a national public water company and at the level of water users' service delivery by the municipal and/or bulk water utilities.

7. In line with the objectives of the Water Law and the goal of the PA to accelerate the set-up of a viable administration of the Palestinian State, the water sector reform aims at achieving water security and integrated sustainable water resources which comprise of: (i) building the capacity and sustainability of institutions under an optimized legal framework, (ii) accelerating infrastructure development based on Palestine water security updated strategies, (iii) regulating service provision towards improved quality, efficiency and cost-recovery, and (iv) achieving and improving sustainable water service delivery through the water utilities.

8. The World Bank strategy will continue helping to support enhanced water security for the Palestinian people through the implementation of the Water Law by means of a programmatic approach of both capacity building and infrastructure financing in line with the core elements of the water sector reform. The strategy also integrates with the municipal and power supply reform agendas towards a consistent approach to supporting inclusive and sustainable service delivery, working with municipalities and other local authorities, as appropriate. The programmatic approach addresses the main elements of the water sector reform: (i) at the national level by building the capacity of the PWA and the WSRCs through the Water Sector Capacity Building Project (WSCBP) and its proposed AF and working with the PWA and other partners to prepare financing for bulk national water supply to Gaza; (ii) at the regional service provision level 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 through the Gaza Water Supply and Sanitation Improvement Project (WSSIP), the West Bethlehem Village Improvement Project and also the HWRMP. The proposed additional financing will continue supporting the institutional building at the national level.

9. The World Bank has led the support for the water sector reform through WSCBP which was approved by the Board on March 3, 2011, and became effective on August 1, 2011. 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.

10. During the preparation of the WSCBP in 2011, the financing plan outlined the following sources of funds; (i) US\$3.0 million grant from the Trust Fund for Gaza and West Bank (TFGWB), (ii) co-financing from SIDA (through a freestanding TF to be established) of (US\$ 1.6 million), (iii) parallel financing from Agence Française de Développement (AFD) (US\$1.4 million equivalent) provided to the PWA. The Bank signed the GA of US\$3M and AFD provided bilaterally Euro1.0 M (US\$1.4M equivalent). SIDA decided instead to establish a programmatic MDTF for Infrastructure in West Bank and Gaza, and advised the team to finance the expected

contribution outlined in the PAD from the new MDTF. Competing demands from other infrastructure projects resulted in a shortfall of \$0.6m in the allocation for the WSCBP project. As of March 2015, the project requires a restructuring to reduce the financing and deliverables for the original components, as well as restructuring to add funds (and associated activities) from the MDTF and from GIZ through parallel financing. This total additional financing amounts to \$2.3 M (\$2 M from the MDTF and \$0.3 M from GIZ) and is shown by activity in the table below.

Relationship to CAS/CPS/CPF

11. The proposed AF fits well with the Bank's Interim Strategy for the West Bank and Gaza for the Period FY15 – FY16. . The proposed AF is aligned to the first pillar of the World Bank Assistance Strategy to strengthen the institutions of a future state to ensure service delivery to citizens. The World Bank support achieving the water law objectives is at the heart of the service delivery reform agenda, embedded in a multi-sectoral approach focusing on (i) providing policy and regulatory support, (ii) strengthening local and central level institutions, and (iii) infrastructure investments aimed at improving service delivery performance and financial sustainability. This includes reducing fragmentation of service providers through consolidation (regional utilities), increasing emphasis on service outcomes and cost-recovery (commercialization), and support building of the enabling environment (sector governance structure). This programmatic approach in the water sector through the institutional building (WSCBP) at the national level (PWA and WSRC) and local/regional level (utilities) and capital investment funding to address infrastructure needs (large and small scale investment; i.e. water supply and wastewater and reuse) complements ongoing and planned operations in the energy and municipal sector, addressing similar sector-specific and multi-sectoral issues.

12. Within this context, the proposed AF would help PA efforts to complete the reform of the water sector by (i) strengthening the PWA as a planning and policy formulation entity and a leader of the water sector reform process; and (ii) supporting the establishment a modern regulatory institution capable of monitoring and regulating the provision of water and wastewater services. Effective development of national water plans, policies, strategies, regulations, guidelines and specifications, and monitoring the implementation of water sector reform will, in turn, improve the delivery of basic water and wastewater services, thus meeting both humanitarian needs as well as benefit the general economic growth. 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 Interim Strategy As such, proposed AF would contribute to achieving the Bank's global twin goals to eradicate poverty and promote shared prosperity.

II. Project Development Objective(s)

Proposed Development Objective(s)

13. The same Project Development Objective (to strengthen the capacity of the PWA to more effectively plan, monitor, and regulate water sector development in the West Bank and Gaza) of the parent project remains valid for the additional financing, therefore, RVP approval will be required. The Project is expected to contribute to the overall objectives of the Water Sector Reform Initiative as set forth by the Palestinian Authority to establish strong, capable, and sustainable institutions within a legal framework that clearly defines their roles, responsibilities and the interface (relationship) between them. The AF would allow for; (i) strengthening the capacity of PWA to formulate sector policies and strategies, and (ii) complete the ongoing water sector reforms by

establishing the WSRC and strengthen its capacity to exercise its regulatory role as stated in the water law.

Key Results

14. The Results Framework will be revised to include indicators relevant to the establishment of the WSRC related to monitoring and regulating functions for the water and wastewater service providers. It will also continue to capture the results under the original project related to the sector development under PWA responsibility.

The main new results under the additional financing will be

1. The WSRC is established (physical and institutional set up including defining vision, mission and objectives, hiring of key staff and developing of working procedures)
2. Strategic development plan and business plan is completed, approved and implemented.
3. Technical regulations, guidelines, standards, and systems are reviewed, updated or developed.

Under the ongoing PWA reform development.

1. PWA strategic Development Plan and business plan is developed, approved and implemented.
2. Organization structure is updated and staff are redeployed accordingly and trained.
3. Sector policies and strategies are developed and approved.

III. Project Description

15. The main additional activities under the additional financing are:

- (a) **Advisory Support, Technical Assistance and Capacity Building of PWA;** The main task under this component will support the PWA in implementing and completing the activities undertaken in the Water Sector Reform process under the original (parent) project (i) Advisory services and technical assistance (through consultancy services firms and individuals) to support PWA in developing and updating sector reform policies, strategies, plans, regulations, standards and guidelines, (ii) Capacity building for PWA to implement some strategies and action plans including; updating PWA organizational structure, job description, staff redeployment, training and business planning and implementation.
- (b) **Supplementary Assistance to establish the WSRC;** This will be implemented through component two of the AF which has been revised to read “Supplementary assistance for studies, training and establishment of the WSRC”. This component will include institutional set up of the WSRC; internal organizational settings, developing regulations policies, procedures and standards, developing and implementing business planning and developing staff regulation and building capacity, etc.
- (c) **Project management;** (i) Financing for incremental operating and consultant costs to be incurred by PWA for managing component 1 activities, (ii) Financing for 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.

IV. Financing (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
Special Financing			0.00
Total			2.00

V. Implementation

16. 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) will be responsible for implementing component 2 and relevant tasks under component 3.

VI. Safeguard Policies (including public consultation)

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

VII. Contact point

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