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Report No: 97154

PROJECT PAPER

ON A

PROPOSED GRANT

IN THE AMOUNT OF US\$2.5 MILLION

TO THE

PALESTINE LIBERATION ORGANIZATION
FOR THE BENEFIT OF THE PALESTINIAN AUTHORITY

FOR A

GAZA SUSTAINABLE WATER SUPPLY PROGRAM
(PREPARATION OF ASSOCIATED WORKS AND RELATED STUDIES)

October 5, 2015

WATER GLOBAL PRACTICE
MIDDLE EAST & NORTH AFRICA

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CURRENCY EQUIVALENTS

Currency Unit	=	New Israeli Shekel (NIS)
NIS3.88	=	US\$1
US\$0.26	=	NIS 1

FISCAL YEAR
July 1 – June 30

ABBREVIATIONS AND ACRONYMS

CAS	Country Assistance Strategy
CM	Cubic Meter
CMWU	Coastal Municipalities Water Utility
EA	Environmental Assessment
EC	European Commission
EIB	European Investment Bank
EMMP	Environmental Management and Monitoring Plan
EPC	Engineering Procurement and Construction
ESIA	Environmental and Social Impact Assessment
FY	Fiscal or Financial Year
GDP	Gross Domestic Product
GRS	Grievance Redress Service
IWA	Israel Water Authority
MCM	Million Cubic Meters
M&E	Monitoring and Evaluation
MNA	Middle East and Northern Africa
NDP	National Development Plan
NGEST	Northern Gaza Emergency Sewerage Treatment Project
NPV	Net Present Value
O&M	Operation and Maintenance
PA	Palestinian Authority
PDO	Project Development Objectives
PIC	Project Implementation Consultant
PMO	Project Monitoring Office
PMU	Project Management Unit
PWA	Palestinian Water Authority
TA	Technical Assistance
TBD	To Be Determined
TFGWB	Trust Fund for Gaza and the West Bank
TOR	Terms of Reference

UN	United Nations
USAID	United States Agency for International Development
WB	World Bank
WBG	West Bank and Gaza
WSS	Water Supply and Sanitation

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COUNTRY
Project Name

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DATA SHEET

Palestine Liberation Organization
For the Benefit of the Palestinian Authority

Gaza Sustainable Water Supply Associated Works Program

Small RETF Grant Project Paper

Middle East & North Africa

Water Global Practice

Basic Information			
Project ID P150494	EA Category A - Full Assessment	Team Leader(s) Alexander A. McPhail	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints []		
	Financial Intermediaries []		
	Series of Projects []		
Project Implementation Start Date 02-Jul-2015	Project Implementation End Date 15-Mar-2017		
Expected Effectiveness Date 15-Oct-2015	Expected Closing Date 31-Aug-2017		
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 CD Decision			
Borrower: Ministry of Finance			
Responsible Agency: Palestinian Water Authority			
Contact: Telephone No.:	Mazen Ghunaim 972569116343	Title: Email:	Head mghunaim@pwa.ps
Project Financing Data(in USD Million)			
Total Project Cost:	2.50	Total Bank Financing:	2.50
Financing Gap:	0.00		

Financing Source	Amount
Borrower	0.00
West Bank & Gaza - Non IBRD Funded	2.50
Total	2.50

Expected Disbursements (in USD Million)

Fiscal Year	2016	2017	0000	0000	0000	0000	0000	0000	0000	0000
Annual	1.25	1.25	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Cumulative	1.25	2.50	0.00	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	Water supply	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	%
Urban development	Other urban development	20
Environment and natural resources management	Water resource management	80

Total	100	
Proposed Development Objective(s)		
The proposed Development Objective is to make available to the Palestinian Water Authority studies and key initiatives needed to support the preparation of the Gaza Sustainable Water Supply Program.		
Components		
Component Name	Cost (USD Millions)	
Tender Documents	1.75	
Environmental Impact and Social Assessment	0.25	
Complementary Studies	0.20	
Institutional Strengthening	0.30	
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 [] 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	
Subsidiary Agreement	No	Prior to Effectiveness	One time	
Description of Covenant: The Subsidiary Agreement referred to in Section I.B of Schedule 2 of the Grant Agreement has been executed on behalf of the Palestinian Liberation Organization and the Palestinian Authority.				
Conditions				
Source Of Fund	Name	Type		
Description of Condition				
Team Composition				
Bank Staff				
Name	Role	Title	Specialization	Unit
Alexander A. McPhail	Team Leader (ADM Responsible)	Lead Water and Sanitation Specialist		GWADR
Lina Fathallah Rajoub	Procurement Specialist	Senior Procurement Specialist		GGODR
Riham Hussein	Financial Management Specialist	Financial Management Specialist		GGODR
Claudine Kader	Team Member	Program Assistant		GWADR
Fifi Z. Antar	Team Member	Program Assistant		MNCGZ
Iyad Rammal	Team Member	Senior Infrastructure Specialist		GWADR
John R. Butler	Safeguards Specialist	Lead Social Development Specialist		GSURR
Khairy Al-Jamal	Team Member	Senior Infrastructure Specialist		GWADR
Khalida Seif El-Din Al-Qutob	Team Member	Program Assistant		MNCGZ
Tracy Hart	Environmental	Senior		GENDR

	Specialist	Environmental Specialist		
Eric Ranjeva	Disbursements Specialist	Finance Officer		WFALA
Mei Wang	Country Lawyer	Sr. Counsel		LEGAM
Mohammad Nadeem	Legal Specialist	Legal Analyst		LEGAM
David Meerbach	Peer Reviewer	Sr. Water Resources Specialist		GWADR
Lizmara Kirchner	Peer Reviewer	Sr. Water Supply & Sanitation Specialist		GWADR

Extended Team

Name	Title	Office Phone	Location

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments
West Bank and Gaza	Gaza Strip	Gaza		X	

Consultants (Will be disclosed in the Monthly Operational Summary)

Consultants Required in the following fields:
 Engineering,
 ESIA (Environmental and Social Impact Assessment)
 Household surveyors,
 Institutional strengthening

I. STRATEGIC CONTEXT

A. Country Context

2. The economic situation in Gaza has been very difficult for a number of years. According to the World Bank Assistance Strategy FY15-16 for the West Bank & Gaza (Report No. 89503-GZ, October 8, 2014, the Assistance Strategy), approximately 26 percent of the Palestinian population in the West Bank and Gaza (WB&G) lived under the basic needs-based poverty line. A recent World Bank report (Economic Monitoring Report to the Ad Hoc Liaison Committee, May 27, 2015) stated that the 2014 war in Gaza, together with the closure of tunnels with Egypt, severely impacted the Palestinian economy in Gaza resulting in overall negative growth, a reduction in GDP by US\$460 million (a 15 percent contraction) and an increase in average unemployment by 11 percentage points to 43 percent. In Gaza, the poverty rate in 2015 is now about 40 percent.

3. With these setbacks, real per capita income is 31 percent lower in Gaza than it was 20 years ago and the difference in per capita income with West Bank increased from 14 percent to 141 percent over this period in favor of the West Bank. Gaza's manufacturing sector has shrunk by as much as 60 percent in real terms, and its exports have virtually disappeared since the imposition of the 2007 blockade by Israel.

4. The water situation in Gaza is poor in terms of both quantity and quality, where the Coastal Aquifer in the Gaza Strip receives an annual average recharge of 55 -60 MCM/y mainly from rainfall, while the annual extraction rates from the aquifer is about 200 MCM. This unsustainable high rate of extraction has led to lowering the groundwater level and the gradual intrusion of seawater into the aquifer. Not surprisingly, average water consumption in Gaza in 2014 was just 90 l/c/d, which is far below the per capita water resources available in other countries in the Middle East and in the world. The existing water resource challenges are made more challenging by the extensive damage sustained during the 2014 war. A United Nations estimate put damages to the water sector infrastructure at more than \$31 million.

5. The Gaza Strip is, therefore, facing huge economic challenges while at the same time experiencing one of the world's most alarming water resource environments.

B. Sectoral and Institutional Context

6. The Palestinian water sector is undergoing a reform process. The policy, planning and regulatory roles on water resources management belong to an inter-ministerial body, the Palestinian Water Authority (PWA). On the service side, water production and provision is carried out in the West Bank by the West Bank Water Department, and municipal and private operators. Depending on the community, water distribution is managed in the West Bank by regional utilities, municipal departments in urban areas, or by Village Council water departments and Joint Service Councils in rural areas. The reform process includes building a regulatory service council to regulate the service provision side, a national water company to provide bulk water to regional utilities, regional water utilities to provide water and sanitation services and users associations to manage irrigation water.

7. In Gaza, the Palestinian political split has impeded the consolidation of all the municipal water departments into the newly established water utility, i.e., the Coastal Municipalities Water Utility (CMWU). Currently, the CMWU is responsible for water and sanitation service provision in 23 of the 25 Gaza municipalities. Notably, Gaza City and Jabaliya, representing 30% of the total Gaza population, are not part of the CMWU.

8. The existing Gaza water supply system is composed of 160 domestic water wells, 1700 km of water networks, 21 water reservoirs, and 14 water lifting and booster station. The service coverage for piped water supply is estimated at 98%. In addition to the lack of bulk potable water resources and quality issues, another major obstacle is frequent power supply interruptions. Most of Gaza's water supply and wastewater treatment facilities are equipped with standby generators; however extended operation of the generators places an unsustainable financial burden on the utility for the supply of fuel, maintenance, and spare parts.

9. The challenging water supply situation in Gaza has been extensively studied and a good master plan has been prepared (i.e., the CAMP II Study financed by USAID, January 2002). This earlier work included a non-revenue water program. Thus, there is a well-considered and technically based strategy, complemented by at least one study of alternatives. Broadly stated, the strategy is to: (a) recycle treated wastewater by injecting it to the aquifer to cover a portion of the irrigation demand (currently underway through the North Gaza Emergency Sewage Treatment Project, P074595); (b) to increase potable water imports from Israel; and (c) to fill the remaining gap by seawater desalination. In addition, the Project Implementation Consultant (PIC) for the desalination plant, financed by the European Union and implemented by the European Investment Bank, has in its TOR to determine the supply gaps by sector and to propose how those deficits can be met. Further details on how the scope of work was developed for the desalination PIC and the Associated Works PIC can be found in the Gaza Sustainable Water Supply Program: Brief Description Note (available as a separate document) in sections 1 and 2.

10. The recycling of treated wastewater component ("a" above) is currently underway through the North Gaza Emergency Sewage Treatment Project (P074595). In addition, other similar schemes will be established at two other central wastewater treatment facilities in Gaza and Khanyounis Governorates. The increase in imports from Israel and the desalination portions of the strategy ("b" and "c" above) are referred to as the **Gaza Sustainable Water Supply Program (the Program)**. This is comprised of two major components:

- i. The construction of a first phase 55 million cubic meter per year desalination plant, envisaged to be doubled by 2022; and
- ii. The construction of a North-South National Water carrier, a pipe, pumping and storage network to deliver water to customers from the desalination plant and purchases from Israel, and also to mix water from existing small wells and desalination plants. Also included is a non-revenue water improvement program. This component is referred to as the "**Associated Works**".

11. The overall cost of the Program is about US\$400 million, with this cost split equally between the two components described above. There is also the possible option to build a standalone power plant for the desalination facility, which would add about US\$40 million to the cost. Given the expected low ability to pay for the full cost of desalinated water in Gaza, these figures include substantial subsidies to guarantee operations over about five years. There are no loans anticipated to finance the Program, only grants.

12. In addition, the Bank and EIB will execute a Memorandum of Understanding for the Program's safeguard issues. It is planned that EIB will be responsible for ESIA matters with regards to the desalination site and the Mediterranean, and the Bank will be responsible for ESIA issues for the Associated Works.

13. At the end of FY13 the Bank, at the request of the PWA and the donor community, agreed to lead the overall effort to raise all required grant funds to finance the Program.¹ The Bank is working in close coordination with the European Investment Bank (EIB) on the Program. For example, the EIB using European Union grant funding, in December 2013 contracted with a Project Implementation Consultant (PIC) to advance the desalination plant to the point of selecting an EPC (Engineering, Procurement and Construction) contractor.

14. The World Bank will use this US\$2.5 million grant to finance a PIC for the Associated Works and related studies and institutional strengthening measures (see Project Description section below).

15. Construction of the Associated Works infrastructure would be required even if the desalination plant ends up not being built. The water demand in Gaza has already outgrown the existing infrastructure. The current water transmission and storage network does not allow water to be efficiently distributed, nor does it permit the blending of lower quality groundwater with higher quality sources such as desalination or water from Israel. Thus, the Associated Works infrastructure can take advantage of a number of different water resources to improve availability and quality for all residents of Gaza.

C. Higher Level Objectives to which the Project Contributes

15. The Program supports both strategic pillars of the World Bank Group's Assistance Strategy for the West Bank and Gaza for the Period FY15 – FY16. Under Pillar 1, Strengthen the Institutions of a Future State to Ensure Service Delivery to Citizens, engagement in the water and sanitation sector contributes to Outcome 1.3, Improved Access to Services by the Poor and Marginalized. Under Pillar 2, Support Private Sector Led Growth that Increases Employment Opportunities, engagement in the sector contributes to Outcome 2.2, Infrastructure Improved to Attract Private Investment. The Program is also linked to the Gaza Emergency Response Water Supply & Sewerage Systems Improvement Project, the North Gaza Emergency Sewage Treatment Project and the Water Supply and Sewage System Improvement Project.

16. In line with the underlying aim of the Assistance Strategy, the Program would support efforts through the production of key studies, tender documents and institutional strengthening. These activities would also help to achieve the World Bank Group's global twin goals of ending extreme poverty and boosting shared prosperity in a sustainable way by significantly improving the frequency, quantity and quality of water supplied to the residents of Gaza.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

17. The proposed development objective is to make available to the Palestinian Water Authority studies and key initiatives needed to support the preparation of the Gaza Sustainable Water Supply Program.

B. Project Beneficiaries

18. The Beneficiaries of the Program are the approximately 1.8 million residents of Gaza. Given the constrained physical space of the Gaza Strip and its dense settlement pattern that has almost all residents

¹ . A Bank-executed Trust Fund (West Bank and Gaza Norwegian Aid Coordination Trust Fund, TFM51695, P146609) provides the support for Bank staff to lead the Program funding effort.

living in an urban setting, it is anticipated that virtually every resident of Gaza will benefit from the improved reliability, quantity and quality that will be a result of the planned Program.

C. PDO Level Results Indicators

19. The PDO Level Results Indicators are:

- Associated Tender Works ready to Tender (Yes/No)
- The Environmental and Social Assessment Study is completed (Yes/No)
- The Non-Revenue Water Plan is under implementation (Yes/No)

III. PROJECT DESCRIPTION

A. Project Components and Cost

20. This grant will 100% finance the following activities to support and prepare the Associated Works component of the Program, estimated to cost US\$2.50 million:

- i. A Project Implementation Consultant (PIC) to prepare tender documents, design a revised/updated non-revenue water reduction plan, and assist the PWA to tender and award a contract for construction of potable water networks, storage and pumping facilities in Gaza. This PIC could also optionally provide construction supervision (US\$1.75 million);
- ii. A consultant to prepare an independent Environmental and Social Assessment Study for the Associated Works described above (US\$0.25 million);
- iii. Key studies to better inform the Program, including a tariff study, a study to better understand the burden of infrastructure service bills on households in Gaza, and a stakeholder consultation plan (US\$0.19 million);
- iv. Stakeholder consultation meetings and related materials, the translation of materials and studies (US\$0.01 million); and
- v. Measures to strengthen the technical capacity of the PWA and Coastal Municipalities Water Utility (US\$0.30 million).

B. Project Financing

21. Grant funds to support the above activities will come from the Partnership for Infrastructure Development in the West Bank and Gaza Multi-donor Trust Fund (TF071898). Under this TF, there is a client executed TF called “Gaza Sustainable Water Supply Associated Works” (P150494).

22. The World Bank is not intending to use the grant to finance any goods or works for either the desalination plant or the Associated Works.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

23. The Program will be implemented by the PWA and the CMWU. The improvement of non-revenue water will be delegated to and implemented by CMWU under PWA monitoring. The CMWU is

a semi-public entity, established by a ministerial decree, with its general assembly from Gaza Strip member municipalities. The shareholdings of member municipalities are proportional to their valuated water and sanitation assets. The utility has, despite the challenges of war and scarce financial resources, succeeded over the last several years to build its management capacity, with a unified billing system, financial management system, and GIS. The utility has a FM, procurement, and internal financial controller functions and submits its audited accounts to the Ministry of Finance. The utility is headquartered in Gaza City and has regional offices in Rafah, Khanyounis, and Deir el-Balah.

24. The PWA will establish a Project Monitoring Office (PMO) to oversee all components of the Program. The PMO will be hosted initially by the PWA but will soon be part of the National Water Company consistent with the latter's bulk water responsibilities. In principal, the core team in the PMO will be established using resources from the existing Project Management Unit (PMU) at CMWU, which is currently handling the implementation of other World Bank and donor financed projects in Gaza. Despite the difficulties experienced in 2014, the PMU remained fully staffed with a director, procurement, financial management, accountant, environmental, and other relevant technical staff. Key members of the PMU are experienced in implementing similar projects under the World Bank's procurement guidelines, policies and procedures.

25. Additional institutional strengthening measures will be designed over the coming year, given that the PWA and CMWU are already being strengthened under existing World Bank supported water and wastewater projects. Lessons learned from these ongoing activities will be studied and incorporated into the new programs. Based on current observations, areas expected to be further strengthened include customer relations and customer service, financial planning, leveraging IT advances, and wastewater reuse policies, planning and implementation.

B. Results Monitoring and Evaluation

26. Results monitoring will be done by the experienced monitoring and evaluation (M&E) section of the PMU, which will report on project implementation and achievement of key results indicators and targets. Periodic reports will be prepared and submitted to the World Bank indicating project status versus the defined implementation schedule. Monitoring of the achievement of the Project's Development Objective will be carried out as detailed in Annex 1 (Results Framework).

C. Sustainability

27. Given the recent war, deteriorating economic environment, the poor quality of water and frequent interruptions in supply, it is not surprising that the water and wastewater tariff collection rate in Gaza is below industry standards and that the utility has been unable to enforce payment. Even before 2014, the average collection rate was low and varied between governorates, e.g., in Rafah governorate it was 55% while in Khanyounis and Deir El-Balah it was around 40%. Figures for post-2014 are not known but can reasonably be assumed to be worse. Non-revenue water (mostly considered to be illegal connections as the physical network is fairly new) has also been high, at around 40%. These factors have negatively impacted the utility's cash flow, its ability to meet operating expenses and the availability of funds for network rehabilitation and expansion.

28. Updating the water tariff with affordability considerations for the poor, upgrading the billing system and metering, and reducing non-revenue water will all be important milestones for the utility to achieve operational sustainability. Further consolidation of the utility and expanding its asset and customer base are also key considerations, especially in Gaza City and Jabaliya which represent a large

percentage of the population. However, given the current situation in Gaza, it is expected that substantial subsidies will be required for the water sector for at least five years.

V. KEY RISKS AND MITIGATION MEASURES

Stakeholder Risk	Risk Rating	Mitigation measures
Implementing Agency Risk		
- Capacity	High	Inclusion of Institutional Strengthening measures in the Program
- Governance	Moderate	Use of Bank procurement guidelines and procedures
Project Risk		
- Design	Low	Following and updating the large number of technical studies already completed
- Social and Environmental	Moderate	Cooperation with EIB on safeguards and using WB Category A procedures
- Program and Donor	High	Development of a comprehensive and thorough Concept Note used for fund raising. Frequent donor meetings and periodic donor updates
- Delivery Monitoring and Sustainability	High	Realistic provision for operating subsidies provided through donor grants
- Working in Gaza	High	Current efforts center around sustained cooperation and negotiations largely on a case-by-case basis between donors, Palestinian officials and Israeli officials. Based on experience this methodology, although tedious and slow, has yielded the best results of any other procedure.
Overall Implementation Risk	High	

29. The Program's overall risk rating is "high". This overall rating is derived from the four key issues and accompanying risks which will have a direct impact on the Associated Works. These are:

- The Size of the Potable Water Deficit. Gaza has a potable water deficit of about 100 MCM per year, to be met in large part by a medium size desalination plant. Also important under the strategy is to increase water purchases from Mekorot, which can raise objections from Israeli citizens and especially in times of drought. Given the size of the deficit and, therefore, the inherent political visibility of the required proposed remedial actions, closing the water deficit will be very difficult to implement.
- Energy for the Water Supply System. The envisaged new water network alone (not counting the desalination plant) will require about 10 MW of energy. Currently there is an existing power deficit of about 105 MW in Gaza. Energy to operate the water supply network could come from a combination of three possible sources: 1) a dedicated power plant with renewable energy options built at the site of, or close to, the associated desalination plant; 2) increased electricity imports from Israel; and/or 3) increased electricity imports from Egypt. All three options have been discussed for several years, with none of them emerging as the consensus choice. Resolving the energy issue will require continued substantial dialogue at the political level.

- Ability to Pay. Unemployment in Gaza is about 40 percent (youth unemployment is over 45%) and more than 55,000 households receive support from the National Cash Transfer Program. Per capita income is estimated to be about \$3100/year and, assuming 6 persons per household, household income would be about \$1500/month. Thus, an important consideration will be to determine if households have the ability to pay for desalinated piped water. Making the issue more complex is the arrival of new facilities in Gaza for wastewater, and solid waste--all of which households must also pay for.
- Uncertainty of Working in Gaza. Besides the energy issue described above, construction activities and the delivery of materials are uncertain, given that Israel indirectly controls the former and completely controls the latter. Other projects in Gaza have suffered from significant delays for this reason.

VI. APPRAISAL SUMMARY

30. The principal economic benefit from the Program is the increased availability and reliability of good quality drinking water in Gaza. In the Gaza context, a financial analysis is well indicated given the quickly worsening water quality, growing water shortages and the population's suffering from periodic warfare. In such environments, and even though financial flows for all basic services are periodic at best, the Associated Works will attempt to quantify these flows though the planned Household Ability to Pay Study and the planned Tariff Study, described in Section III.

31. There are very few financial management or procurement issues associated with this small grant. For example, just two of the studies account for US\$2.0 million (80%) of the US\$2.5 million grant total (the Project Implementation Consultancy and the Environmental and Social Assessment Study) and the other studies will be limited in number and all of small amounts. The PWA has ample experience with World Bank Group procurement policies and procedures and cooperates well with World Bank procurement staff. The Task Team is likewise not expecting any safeguard issues, as the Program has been envisaged for more than a decade and all the planned rights of way and land for facilities were long ago set aside by the authorities.

A. Financial Management and Disbursement

32. *Financial Management.* Overall responsibility for the project's financial management (FM) and disbursement functions will rest with the PWA through the PMO. The PWA will hold the sole responsibility to disburse on behalf of the project to suppliers, contractors, and consultants.²

33. World Bank funds will be disbursed through a segregated Designated Account (DA) in US Dollars. The MoF will open the DA under the Central Treasury Account at the Bank of Palestine (in Ramallah) and it will be managed by the PWA.

34. The PWA's accounting system will be used to record, report, and monitor the project's accounts. The system is capable of capturing all project-related transactions by component and by each financier. The system will be used to generate the Quarterly Interim Unaudited Financial Reports (IFRs), while the variance analysis and DA reconciliation statement will be done using Excel. The PWA will submit the IFRs to the Bank within 45 days after the end of each period.

² Funds will not be channeled to the CMWU.

35. An external auditor, acceptable to the Bank, will be appointed by the Ministry of Finance (MOF) to audit the project's financial statements based on terms of reference (TOR) acceptable to the Bank. Additionally, an external auditor, using relevant technical specialists as needed, will conduct an annual technical audit.

36. **The overall financial management risk for this grant is assessed as “substantial”.** The implementation of risk mitigation measures previously put in place for Gaza projects will satisfy the Bank's financial management requirements.

37. *Disbursement:* Methods will include advances, reimbursements, direct payments, and special commitments. The project's Designated Account (DA) will be established under the Central Treasury Account. The PWA will be responsible for managing the DA and making all payments directly to contractors, consultants, and suppliers, including the incremental and operating costs of the PMO.

B. Procurement

38. 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. The “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants,” dated October 15, 2006 and updated January 2011, shall apply to the Project.

39. The responsibility for the implementation of project procurement will remain with the Palestinian Water Authority (PWA), which 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.

40. The project will mainly finance the contract for a Project Implementation Consultant (PIC), to assist with finalizing the design, tendering and supervision of the construction of the Gaza Desalination Plant Associated Works, including but not limited to transmission mains (primary); pumping stations; reservoirs and post chlorination facilities where required; distribution systems (secondary feeds), and bulk wholesale metering, supervisory control and data acquisition system, improvement of NRW and the Energy supply for the Associated Works. The TOR, shortlist and RFP for the US\$2.5 million assignment were cleared by the Bank. Six consultants were shortlisted whereas only four submitted proposals, which are currently under evaluation by PWA. The prevailing circumstances in Gaza and the restrictions on the movement of people has been the main reason behind limited participation and constitute the key risk to the project. The procurement risk rating is **High**.

World Bank Grievance Redress

41. 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.

1. ANNEX 1: RESULTS FRAMEWORK AND MONITORING

West Bank & Gaza: Sustainable Water Supply Program: Associated Works

Project Development Objective (PDO): To make available to the Palestinian Water Authority necessary studies and selected key initiatives to support the preparation of the Gaza Sustainable Water Supply Program.

PDO Level Results Indicators*	Core	Unit of Measure	Baseline	Cumulative Target Values**					Frequency	Data Source/ Methodology	Responsibility for Data Collection	Description (indicator definition etc.)
				YR 1	YR 2	YR3	YR 4	YR5				
Indicator One: Associated Works ready to Tender	<input type="checkbox"/>	Yes/No	No	No	Yes				Annually	Report	PWA	
Indicator Two: ESIA Report completed	<input type="checkbox"/>	Yes/No	No	No	Yes				Annually	Report	PWA	
Indicator Three: Non-revenue Water Plan is under implementation	<input type="checkbox"/>	Yes/No	No	No	Yes				Annually	Report	PWA	
INTERMEDIATE RESULTS												
Intermediate Result:												
<i>Intermediate Result indicator One:</i> Household Survey Carried Out	<input type="checkbox"/>	Yes/No	No	Yes					Annually	Report	PWA	
<i>Intermediate Result indicator Two:</i> Stakeholder Consultation Plan completed	<input type="checkbox"/>	Yes/No	No	Yes					Annually	Report	PWA	
<i>Intermediate Result indicator Three:</i> Non-revenue Water Plan designed and approved	<input type="checkbox"/>	Yes/No	No	Yes					Annually	Reports	PWA	

*Please indicate whether the indicator is a Core Sector Indicator (see further <http://coreindicators>)

**Target values should be entered for the years data will be available, not necessarily annually

