I. Project Context

Country Context

The West Bank and Gaza are two geographically separated areas of around 5,600 km² and 260 km², respectively with a total population of 1.72 million in the West Bank and 1.82 million in Gaza. Economic and social development in West Bank and Gaza has been severely constrained by conflict and the uncertainty regarding the territorial authority of the Palestinian National Authority vis-à-vis Israel. Israel and the Palestinian National Authority (PNA) re-initiated peace negotiations in mid-2013 following a three-year hiatus aimed at reaching agreement on “Final Status” issues, but there has been no substantive progress as yet and talks halted April 2014. Following the breakdown in negotiations, the recent conflict in Gaza during July 8 through August 26 had devastating impacts. According to UNOCHA estimates, 2,131 people died, close to 11,000 people have been wounded, and 28% 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
The Government has been welcomed by most of the international community (except for the Government of Israel). Growth, which started falling since 2012 as a result of a decline in foreign aid, fell further to less than 2% in 2013. The closures of the illicit tunnels with 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). Israeli restrictions on economic activity, in particular those on trade, movement and access substantially increase the cost of trade and make it impossible to import many production inputs into the Palestinian territories. The economic decline is resulting in growing unemployment. 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.

Recent growth trends in the West Bank and Gaza underscore the importance of aid in driving the economy; most of the growth witnessed over the last several years was in the public and non-tradable sectors and was driven by donor-supported PNA expenditures. The restriction system put in place by the Government of Israel continues to obstruct potential private investment that could reduce dependence on donor aid. However, in spite of the PNA’s reform efforts, lower than expected foreign aid is both hindering growth and putting significant stress on the PNA’s fiscal situation. Donor aid for recurrent spending and development projects has declined from US$ 1.98 billion in 2008 to US$ 930 million in 2012. This has been compounded by shortfalls in revenue as well as higher than expected expenditures—particularly pension payments. The PNA has had to compensate for the lower than expected level of donor aid with domestic sources. This has been causing frequent delays in salary payments to public employees, accumulation of arrears to the private sector, as well as increased borrowing from local commercial banks.

The main industrial and economic center in the southern West Bank, still generating employment opportunities, is Hebron Municipality, with a population in 2013 of about 200,000 people. Hebron is the heart of the Palestinian stone-cutting industry, and its products in 2010 accounted for the largest share of Palestinian exports by value (27% of total exports, or US$155,364 million). Hebron Governorate is one of the largest in the West Bank in terms of area and population, and it has the second largest area of agricultural land, second only to Jenin, with more than 53,000 hectares of agriculture land. The few small areas with access to irrigation water predominantly grow high-value vegetable and fruit crops.

**Sectoral and institutional Context**

**General:**

Water is a key economic development and humanitarian issue in West Bank and Gaza. Palestinian water resources availability and rights to water are linked to the Oslo process and to Final Status negotiations. As a result of restrictions accompanying Israeli occupation of the West Bank and the 1995 Oslo II interim accord water provisions, Palestinians cope with one of the lowest levels of 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 non-potable 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 contamination of aquifers that are for the most part shared between Israel,
the West Bank, and Gaza. All the while, planning and regulation of water resources is very weak,
and the potential of the irrigation sector remains largely underdeveloped. In a context of harsh
water scarcity, now exacerbated by climate change, it is important for Palestinians to make the most
of wastewater as a recycled water resource, and to avoid losing usage rights to this resource in Final
Status negotiations.

Both institutional and infrastructure needs in the West Bank and Gaza water sector are supported
through coordinated donor-financed programs and NGO support. In order to address underlying
capacity weaknesses in the Palestinian water sector, a comprehensive reform program is
implemented by the Palestinian Water Authority (PWA), with support of the international donor
community, which will enhance the regulation of the sector, establish clearer roles and
accountability, provide for capacity building and training, and which will lay the foundation for
regional utilities responsible for water supply and wastewater management, to be established.
Critical infrastructure requirements are funded through both donor-specific projects as well as
multi-donor initiatives in which a combination of pooled, trust funds and parallel financing is
brought together in support of a single project or program.

Wastewater pollution in the Hebron Governorate:
A pressing environmental and public health issue is that most of the sewage from the main
Palestinian centers of population currently runs untreated through populated areas and
environmentally sensitive zones. In the case of the Hebron Governorate, the environmental damage
that the 10,000 CM per day of sewage of Hebron Municipality causes to the eastern aquifer and the
communities along the sewage stream in Wadi As-Samen, which runs south towards the green line
with Israel, was identified as a serious issue as far back as the 1970s. While the Israel Water
Authority (IWA) currently is treating the sewage from Wadi As-Samen in a tertiary WWTP at
Shoket in Israel, treatment costs are charged to the Palestinian National Authority (PNA) and
whereas the treated effluent does not benefit the Palestinian households living along Wadi As-
Samen, nor does it allow for the treated wastewater to be reused for agriculture in the West Bank.

Plans for a regional solution for wastewater management in the Hebron Governorate were
elaborated in the “Stormwater, Domestic Wastewater and Industrial Wastewater Master Plan for
Hebron” (2001), which was developed with financing of the United States Agency for International
Development (USAID) within the framework of the West Bank Water Resources Program, (WRP,
2001-2006). The WRP noted that pollution of the eastern-aquifer as a result of untreated sewage,
not only from Hebron Municipality but also from other communities in the Governorate, was
already occurring, and measured elevated nitrate concentrations in some potable water wells.
Detailed aquifer modeling showed that the ongoing pollution of the aquifer would lead to serious
detrimental effects on the potential of the eastern aquifer to provide safe potable water. Therefore,
the Master Plan proposed a comprehensive, phased program to addressing these regional
wastewater management issues. The development objective of the program would be to improve
wastewater management and reuse for the benefit of water users and the environment in the Hebron Governorate. The first phase of the program would address the immediate needs of treatment of the existing sewage stream coming from 80% of Hebron Municipality which is currently sewered, through construction of the first phase of Hebron regional wastewater treatment plant (HR WWTP). The second phase would consist of an agricultural project for the construction of an irrigation scheme for reuse of the treated effluent adjacent to the HR WWTP. Depending on the available financing, phase 3 would finance the construction of sewerage networks and associated treatment and reuse capacity for the remaining 20% of Hebron Municipality which is unsewered, with phase 4 financing sewerage, treatment and reuse capacity for communities alongside Wadi As-Samen, like Yatta and Al-Dahriyyeh. Since the institutional capacity for wastewater management among municipalities in the Governorate is low, technical assistance for management of sewerage, wastewater treatment and reuse infrastructure is a core component of the Master Plan, throughout each of the proposed phases. Total costs for implementation of these phases would be in excess of US$ 100 million. The plan and the first phase were approved by the PWA and the JWC, and the Civil Administration issued permits. The proposed Hebron Regional Wastewater Management Project-Phase 1 (HRWMP-1) covers the activities of the first phase of the Master Plan, namely the construction of a WWTP treating the existing sewage flow in Wadi As-Samen from Hebron Municipality.

Since treatment and prevention of industrial wastewater is of critical importance for the implementation of the Master Plan and the construction and Operation and Maintenance (O&M) of the proposed HR WWTP, Hebron Municipality and USAID in 2012 began a program to manage wastewater from stone-cutting operations in Hebron’s industrial area. Pre-treatment facilities at stonecutting factories were installed and enforcement measures were put in place to eliminate illegal disposal of industrial wastes in the sewer network and streams. The program successfully contained most of the stonecutting waste and was turned over to the Municipality and the PWA for management in July 2013. In that same month, USAID completed a Hebron Industrial Discharges Study that provides a strategic plan for comprehensive management of all industrial wastes from Hebron Municipality that is based on in situ pre-treatment and strengthened regulation. Based on the actions proposed in this study Hebron Municipality and the PWA agreed to implement an action plan to comprehensively address treatment and disposal of industrial wastewater.

II. Proposed Development Objectives
The objective is to reduce the environmental pollution from wastewater produced in the Hebron Municipality.

III. Project Description
Component Name
Wastewater treatment
Comments (optional)
This component will finance the detailed design and construction of a waste water treatment plant (WWTP) providing secondary treatment with a design capacity of 15,000 cubic meters (CM) per day.

Component Name
Operations, Maintenance, and Capacity-building
Comments (optional)
Financing for management, operations, and maintenance of the WWTP for five years after commissioning. Consulting services for TA and capacity building

Component Name
Project Management and program preparation

Comments (optional)
Construction supervision, special studies, project preparation.

IV. Financing (in USD Million)

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<td>EC European Commission</td>
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<td>FRANCE Govt. of [MOFA and AFD (C2D)]</td>
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V. Implementation

The financing instrument for the World Bank contribution is Investment Project Financing through a grant from the Trust Fund for Gaza and the West Bank. Joint co-financing of Euro 10.00 million will be provided by Agence Française de Dèveloppement (AFD). The European Community has indicated their intention to provide additional joint co-financing through a delegated arrangement with AFD of up to Euros 15.00 million. The United States Agency for International Development (USAID) has agreed to provide parallel co-financing in kind for construction of an access road and a trunk sewer connection between the sewer network and the WWTP, and provision of utility services for the WWTP. The estimated cost of the USAID contribution is US$4.17 million. The Hebron Municipality is expected to gradually assume full financial responsibility for operating and maintaining the WWTP and related waste water management services. The estimated value of Hebron Municipality’s financing is US$7.5 million during the life of the project. There is currently a financing gap of US$ 5.5 million, which is expected to be covered through an Additional Financing mid 2016-2017.

The World Bank and the EU will sign Financing Agreements (FA) with the Ministry of Finance (MoF), while AFD will sign a similar agreement with the Ministry of Planning and Administrative Development (MOPAD). The EU will channel financing for the project through a delegation arrangement with AFD. The PWA is responsible for project implementation and will sign two subsidiary agreements (SA), one with the MoF to implement World Bank-financed activities and the second with MOPAD for implementing AFD and EU-funded components. USAID will directly finance contractual services for the parts of the project they are supporting.

The PWA has a national Project Management Unit that is currently managing a number of similar projects in Ramallah, Nablus East and West, Bethlehem and other areas and has demonstrated that it has the necessary skills and personnel to implement the project. In addition, through the Bank-supported Water Sector Capacity-building Project PWA has a Project Implementation Unit (PIU).
which has financial management and procurement specialists who will be available to support financial management and procurement for the Project. Furthermore, the project will finance a project manager to manage the supervision and the civil works contracts during the project implementation, and work closely with the Project Management Consultant. Construction of civil works will be carried out through a competitively bid design-supply-install contract. The winning firm or consortium (Contractor/Operator “C/O”) will also be contracted to provide technical assistance to Hebron Municipality for managing, operating and maintaining the WWTP and training local staff to take over full management of the plant within a five year time frame.

During project construction, the PWA will hire an engineering consulting firm (Project Management Consultant “PMC”) to monitor and supervise project implementation and assist Hebron Municipality (HM) to establish a Technical Operations Unit (TOU) at the beginning of the project implementation that will be developed to ultimately take over plant management and operations. To provide core staff for the TOU, Hebron Municipality will employ a wastewater engineer, a process engineer, an electro-mechanical engineer and other personnel to be determined in consultation with the Project management Consultant (PMC) to work alongside the PMC and the C/O in order to gain experience and be trained in project monitoring activities.

Hebron Municipality will be responsible for implementing Component 2 of the project. The Municipality will carry out tariff reforms as agreed in the “road map” for achieving financial sustainability for wastewater services, and strengthen local institutions to manage the WWTP and related services sustainably, inter alia by establishing the TOU cited above and providing appropriately qualified staff.

VI. Safeguard Policies (including public consultation)

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<td>Projects in Disputed Areas OP/BP 7.60</td>
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Comments (optional)

VII. Contact point

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