June 24, 2015

H. E. Shukry Bishara
Minister of Finance
Palestinian Authority
West Bank and Gaza

Trust Fund Grant Agreement - Water Sector Capacity Building Project
(Partnership for Infrastructure Development in the West Bank and Gaza Multi-Donor Trust Fund)
(TF015756)

Amendment No. 1 to the Trust Fund Grant Agreement

Excellency:

We refer to the Trust Fund Grant Agreement (the “Agreement”), dated February 5, 2014, between the Palestine Liberation Organization (for the benefit of the Palestinian Authority) (the “Recipient”), and the International Bank for Reconstruction and Development and the International Development Association (collectively, the “World Bank”), acting as administrator of the grant funds provided under the Partnership for Infrastructure Development in the West Bank and Gaza Multi-Donor Trust Fund (“MDTF”) in support of the Water Sector Capacity Building Project (the “Project”). We also refer to: (a) our recent discussion between the Recipient and the World Bank to reallocate Grant proceeds among selected disbursement categories of the Project, revise the Project description, and include the Water Sector Regulatory Council as an additional implementation partner to carry out selected activities of the Project; and (b) to your letter dated November 25, 2014, requesting the World Bank for an additional contribution of two million United States Dollars (US$2,000,000) from the MDTF and an extension of the Closing Date of the Project from December 31, 2015, to December 31, 2017.

We are pleased to inform you that we have agreed to your request and, therefore, propose to amend the Agreement in respect of the provisions below:

1. First paragraph of the Agreement is amended to read as follows:

   “In response to the request for financial assistance made on behalf of Palestine Liberation Organization (“Recipient”), I am pleased to inform you that the International Bank for Reconstruction and Development and the International Development Association (collectively, the “World Bank”), acting as an administrator of grant funds provided under the Partnership for Infrastructure Development in the West Bank and Gaza Multi-Donor Trust Fund, proposes to extend to the Recipient for the benefit of the Palestinian Authority, a grant in an amount not to exceed: (a) one million United States Dollars (US$1,000,000) (“Original Grant”); and (b) two million United States Dollars (US$2,000,000) (“Additional Grant”) (collectively the “Grant”) on the terms and conditions set forth
or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project").

2. New definitions 10, 11, and 12 are added in Section 1.02 of the Annex to the Agreement to read as follows:

"10. "WSRC" means the Water Sector Regulatory Council, established by the Recipient’s President Decree No. 14/2014, dated August 7, 2014, delegated with the responsibility to oversee and monitor matters related to operation of the water and wastewater service providers in the Recipient’s territory.

11. "On-granting Agreement" means the agreement referred to in Section 2.03 (b) of the Annex to this Agreement pursuant to which the Palestinian Authority shall make part of proceeds of the Grant available to WSRC.

12. "Incremental Operating Expenses" means the incremental operating expenses incurred by: (a) PWA and PIU as a result of administering Project implementation, management, and monitoring, including office maintenance, office supplies and utility charges, translation and interpretation, printing and advertising, communications costs, transportation and travel PIU staff costs, and other miscellaneous costs directly associated with implementation of Part 1 and 3 (a) of the Project, all based on periodic budgets acceptable to the World Bank; and (b) WSRC as a result of administering Project implementation, management, and monitoring, including Project staff salaries, office rent and maintenance, office supplies and utility charges, translation and interpretation, printing and advertising, communications costs, transportation and WSRC travel and Training costs, and other miscellaneous costs directly associated with implementation of Part 2 and 3 (b) of the Project, all based on periodic budgets acceptable to the World Bank."

3. Section 2.01 of the Annex to the Agreement is amended to read as follows:

"Part 1: Advisory Services, Technical Assistance and Capacity Building

(i) Support PWA in developing and updating sector policies, strategies, plans, regulations, standards and guidelines; (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) carrying out sector reform process by developing the needed regulations, procedures and guidelines.


(a) WSRC institutional building through carrying out: (i) internal organizational procedures, staff regulations, policies, procedures and standards relevant to the water service providers and internal work of the WSRC; and (ii) developing and implementing WSRC business planning; and (b) capacity building and Training of WSRC staff."
Part 3: Project Management

(a) Support PWA, in Project management, monitoring and evaluation through the provision of consulting services, including audit and Training, and financing of Incremental Operating Expenses.

(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."

4. Section 2.02 of the Annex to the Agreement is revised to read as follows:

"2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause the Palestinian Authority to carry out: (a) Part 1 and 3 (a) of the Project through the Palestinian Water Authority’s Project Implementation Unit; and (b) Part 2 and 3 (b) of the Project through WSCR, in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) 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 revised in January 2011 ("Anti-Corruption Guidelines")."

5. Section 2.03 of the Annex to the Agreement is amended to read as follows:

"2.03. Institutional and Other Arrangements.

(a) To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Grant available to the Palestinian Authority under a subsidiary agreement (“Subsidiary Agreement”) between the Recipient and the Palestinian Authority, under terms and conditions approved by the World Bank.

(b) For purposes of carrying out Part 2 and 3 (b) of the Project, the Palestinian Authority shall, on-grant from part of proceeds of the Grant, to WSRC through an On-Granting Agreement (On-Granting Agreement) to be entered into between the Palestinian Authority and WSRC, under terms and conditions approved by the World Bank.

(c) The Recipient shall cause the Palestinian Authority: (i) to perform in accordance with the provisions of the Subsidiary Agreement all of the obligations of the Palestinian Authority therein set forth; (ii) to take all action, including the provision of funds, facilities, services and other resources, necessary or appropriate for the carrying out of the Project; and (iii) not to take or permit to be taken any action which would prevent or interfere with the carrying out of the Project.

(d) The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Grant. Except as the World Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions and the Recipient
shall cause the Palestinian Authority not to assign, amend, abrogate or waive the On-Granting Agreement or any of its provisions.

(e) The Recipient shall, through the Palestinian Authority, maintain overall responsibility for the Project including adequate compliance with the World Bank’s fiduciary requirements and carry out the Project through the Palestinian Water Authority’s Project Implementation Unit and the WSRC, all in accordance with the Project Implementation Manual and the Procurement Plan and shall not amend, suspend, abrogate, repeal or waive any provision of the Project Implementation Manual or the Procurement Plan without prior approval of the World Bank.

(f) To assist in the performance of the fiduciary functions, the Recipient shall, through the Palestinian Authority, cause the Palestinian Water Authority to maintain the Project Implementation Unit in a form and with functions, staffing and resources satisfactory to the World Bank, including specialists in procurement, financial management, and accounting. The Project Implementation Unit and the WSRC shall have responsibility for the fiduciary implementation and management, including procurement and financial management, of the Project, in accordance with the Project Implementation Manual.

(g) The Project Implementation Unit will report to the Water Sector Reform Coordination Unit. The Water Sector Reform Coordination Unit will supervise and provide guidance to the Project Implementation Unit and shall also assist the Project Implementation Unit as required with planning, implementation and provision of timely inputs on the Project.”

6. The table provided in Section 3.01 of the Annex to the Agreement is deleted in its entirety and is replaced with the Annex to this amendment letter.

7. Section 3.02 of the Annex is amended to read as follows:

“3.02. Withdrawal Conditions. Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed US$50,000 equivalent may be made for payments made prior to this date but on or after January 1, 2015, for Eligible Expenditures under the Project.”

8. Section 3.03 of the Annex to the Agreement is amended to read as follows:

“2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2017.”

9. Unless the context otherwise requires and except where otherwise defined in this Amendment Letter, all capitalized terms contained herein shall have the meanings given to them in the Agreement.

10. The following event is specified as a condition of effectiveness of this Amendment Letter, namely, that the: (a) Subsidiary Agreement has been revised according to the provisions of
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, consultants’ services, Training, and Incremental Operating Expenses under Part 1 and Part 3 (a) of the Project</td>
<td>2,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods, consultants’ services, Training, and Incremental Operating Expenses under Part 2 and Part 3 (b) of the Project</td>
<td>1,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>3,000,000</td>
<td></td>
</tr>
</tbody>
</table>
this Amendment Letter; and (b) On-Granting Agreement has been signed between the Palestinian Authority and WSRC to carry out Part 2 and 3 (b) of the Project.

11. All other provisions of the Agreement, except amended herein, shall remain unchanged.

Please indicate your agreement to the foregoing, on behalf of the Recipient, by countersigning and dating the form of confirmation on the two original copies of this letter provided and returning one original, as countersigned, to us. This amendment shall become effective as the date on which the World Bank dispatches to the Recipient notice of its acceptance of the evidence that the Amendment Letter effectiveness condition set forth above has been satisfied.

Sincerely,

INTERNATIONAL DEVELOPMENT ASSOCIATION

Ranjana Mukherjee
Acting Country Director

AGREED:

ON BEHALF OF THE
PALESTINE LIBERATION ORGANIZATION
(for the benefit of the Palestinian Authority)

Name: Shukri Bishara
Title: Minister of Finance
Date: July 2, 2015