I. Key development issues and rationale for Bank involvement

1. Water is a key economic development and humanitarian issue in West Bank and Gaza (WBG). Water is also a prize in the Israeli-Palestinian conflict. In this context, Palestinian water outcomes and rights to water are linked to a defunct Oslo process and to elusive Final Status negotiations.

2. 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 levels of per capita water resource availability in MNA\(^1\). In the West Bank, development of water uses and infrastructure is subject to Israeli veto power under the Joint Water Committee (JWC). In Gaza, it is curtailed by the security blockade. These restrictions, along with weak Palestinian institutions and operators\(^2\) and fast demographic growth, perpetuate water supply and sanitation (WSS) infrastructure and service deficits as well as operational inefficiencies\(^3\). They result in

\[^{1}\] 75 m\(^3\)/per capita/year in the West Bank and 125 m\(^3\)/pca/yr in Gaza (<500m\(^3\)/pca/yr defines “water stress”).


\[^{3}\] Although 90% of the population and 64% of communities have access to a water network, service discontinuity results in average consumptions as low as 50 l/cap/day, dropping to a crippling 15 l/cap/day in some areas. All the while, water loss and bill collection rates hover around 35% and 50% respectively.
heavy reliance on water trucking, makeshift arrangements for desalination of brackish water and treatment of other non-potable water supplies, while also increasing dependence on the Israeli bulk water utility Mekorot. The impacts of this situation are strongest in Gaza, in area C, and on the poor. The lack of wastewater treatment also contributes to widespread aquifer contamination. In addition, planning and regulation of water resources is very weak, and the potential of the irrigation sector remains largely underdeveloped.

3. Nonetheless, irrigation is estimated to consume 60-70% of water resources in the West Bank and Gaza through inefficient practices and deteriorating infrastructure. Irrigated agriculture is an important economic sector, contributing about 12% to GDP and employing about 117,000 people. However, with the restrictions on movement and export of goods, dwindling water availability, inefficient irrigation practices, and almost no new or replacement water sources receiving permits, the economic cost of foregone opportunity in irrigated agriculture is significant⁴.

4. Key sector issues can be summarized as:

- **Lack of sovereign control over WBG water resources and water infrastructure development**, leading to (i) highly restricted access to water resources (and potential erosion of Final Status water rights), (ii) perpetuation of ad-hoc emergency planning as opposed to strategic planning, and (iii) uncertainty and delays in infrastructure project authorization and implementation.
- **Major WSS infrastructure deficits and inefficiencies in the West Bank and in Gaza**, with (i) inadequate and unreliable access to potable water, particularly in Gaza and Area C, (ii) lack of wastewater treatment and reuse, and (iii) uneven reliability, performance and sustainability of WSS operations, and (iv) restricted growth of irrigated agriculture.
- **Impending environmental and public-health collapse in Gaza**, with 95% of water resources unfit for use by Gaza’s 1.5 million inhabitants, due to saline intrusions and untreated sewage infiltrations.
- **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.

5. The Palestinian Water Authority (PWA) is the central agency in the water sector⁵. In a context of overall weak institutional capacity and governance, PWA straddles ad-hoc strategy, planning, regulation and infrastructure program implementation agendas, with unique JWC and donor coordination challenges. A new chairman, in place since March 2008, has engaged PWA into refreshing initiatives such as i) a critical review of projects and operations (Audit)⁶, ii) an in-house governance clean-up⁷ iii) a campaign to push back on Oslo’s water governance provisions.

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⁴ Upper bound estimates are as high as 10% of GDP and 110,000 jobs.
⁵ The “Water Sector” includes water resource management (WRM) and water supply and sanitation (WSS) activities.
⁷ Associated with misprocurement and investigations in the Bank’s Emergency Water Project.
PWA has also initiated the spin-off of its West Bank Water Department, to create an autonomous bulk water utility. Two years into change, PWA initiatives are making slow progress, and the agency has yet to fully recover from the initial loss of morale and capacity felt in its ranks.

6. Following the Norwegian-funded Audit, PWA has engaged the PA in a comprehensive reform of the sector. According to the Audit existing water sector programs and institutions do not sufficiently address the needs of the Palestinian people. The Water Law establishing PWA and the National Water Council\(^8\) (NWC) fails to identify the roles of other institutions, in particular municipalities and service providers, and to define a sector architecture which NWC and PWA must lead, support and regulate. Policy and strategy development in the sector also highly inadequate; ongoing projects appear to have been developed in a largely donor-driven, ad-hoc emergency fashion, distorted by Israeli restrictions. The Audit calls for a major strategy and institutional refocusing effort. It stresses PWA’s urgent need for strategic planning technical assistance (TA).

7. On December 14th 2009 the Cabinet of Ministers of the Palestinian Authority (PA) endorsed a PWA-drafted Action Plan for Reform for the definition and implementation of an institutional and legislative reform program in the water sector. PWA is expected to lead the design, coordination and implementation the program, under supervision by a Cabinet of Ministers Steering Committee (COMSC)\(^9\). The reform is to include PWA’s own strategy update, reorganization and capacity increase.

8. In line with the PA goal to accelerate the set-up of a viable Palestinian State-administration, the water sector reform thrusts are understood as comprising: (i) building the capacity and sustainability of institutions under an optimized legal framework, (ii) accelerating infrastructure development based on updated strategies, (iii) regulating service provision towards improved quality, efficiency and cost-recovery, and (iv) achieving more sustainable water resources management.

9. As illustrated in figure 1, the envisioned reform sequence includes the following components:

- A sector-wide Institutional Water Sector Review (IWSR) with the goal of proposing a responsive sector architecture, with clear roles, responsibilities and accountability, optimizing cooperation. The IWSR is to September 2010, funded by Norway. Following a period of consultations and consensus building, PA is expected to decide on a new sector architecture in 2011.

- A sector-wide Legislative Review (LR), for a redrafting of the Water Law to reflect the preferred architecture, with relevant decrees and updated bylaws for key agencies and operators. The LR is foreseen to be funded by Greece.

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\(^8\) The National Water Council (NWC) is the interministerial body responsible for developing the overarching water policy, including planning and development as well as strategic matters. NWC has never convened.

\(^9\) Key stakeholder ministries include Ministry of Local Governments (MOLG), Ministry of Agriculture (MOA), Ministry of Planning (MOPAD), and Ministry of Finance (MOF).
• A PWA-specific program of reform coordination, strategy development, capacity building and reorganization, supported by CB/TA initiatives such as:

  o a **Technical Planning and Advisory Team (TPAT)**, for which PWA seeks co-financing by Agence Française de Developpement (AFD), the Swedish International Development Cooperation Agency (SIDA), and the World Bank (WB).

  o an **Organizational Review (OR)** and a **Change Management Technical Assistance (CMTA)**, to assist the implementation of OR recommendations, which currently lack TORs and funding.

• Other capacity building initiatives for key sector institutions and operators, to adapt to the requirements of the new sector architecture (such as supported by GTZ and EU).

Figure 1: Timeline of the Water Sector Reform Action Plan

10. The Bank plays a key role in helping the PA respond to water emergencies, with operations such as i) the Emergency Water Project in southern West Bank (completed in 2008), ii) the North Gaza Emergency Sewage Treatment Project (since 2004), iii) the Gaza Emergency Water Project (since 2004), and iv) the Hebron Wastewater Management Project (to be identified for FY11 delivery)\(^{10}\). Following the governance turnaround at PWA and the release of the *Water Restrictions Study*, the PA has asked for a greater Bank involvement in institutional support to PWA, a request echoed by some other sector donors.

\(^{10}\) The *Red Sea-Dead Sea study*, conducted with no MNSWA involvement, is not considered here.
II. Higher Level Objectives to which the Project Contributes

11. The Project is expected to contribute to the overall objectives of the Water Sector Reform Initiative as set forth by the Palestinian Authority:

- With regard to institutions, to establish strong (capable) and sustainable institutions within a legal framework that clearly defines their roles, responsibilities and the interface (relationship) between them.
- With regard to infrastructure needs, to improve water supply and sanitation strategies, policies, investment programs, project designs, and the implementation of projects, in an effort to substantially accelerate infrastructure development.
- With regard to service provision, to accelerate equitable access to a quality service, while providing improved efficiency and cost-recovery of effectively regulated water operators.
- With regard to water resources management, to build the institutional knowledge, policies, and monitoring and enforcement capacities, as part of an effort to achieve a more sustainable water resources management strategy.
- With regard to water consumers, improving water demand management awareness in line with the development of water conservation policies.

III. Project Development Objectives

a. PDO

12. The Project’s development objective is to strengthen the capacity of the PWA to more effectively plan, monitor, and regulate water sector development in the West Bank and Gaza.

b. PDO-level Results Indicators

13. Progress towards meeting the PDO will be measured through the following indicators:

- Progress of the water sector reform process as measured by the delivery of key contributions expected from TPAT. These expected contributions from TPAT to the water sector reform process include: (i) a detailed reform planning document for all Sector Reform Processes; (ii) an Action Plan to ensure appropriate transition of the sector approved and adopted by the sector institutions; (iii) monitoring tools necessary for an efficient management interface with service providers.
- Comprehensive updating of the PWA policies, strategies and guidelines and technical planning tools as measured by the delivery by TPAT and subsequent adoption of key policies, strategies and guidelines, as well as technical planning tools.
- Increased capacities of the PWA as measured by data collected in semi-annual progress reports. The Bank will conduct semi-annual supervision mission in order to assess key outputs and work plan updates recorded in semi-annual TPAT progress reports to be prepared by the Reform Coordination Unit.
IV. Project Description

a. Project components

14. The project will comprise the following three components:

- Component 1: Advisory support, Technical Assistance, and Capacity Building to be provided by the Technical and Policy Advisory Team (TPAT)
- Component 2: Additional consultancy, Technical Assistance and Capacity Building activities outside the scope of TPAT
- Component 3: Project Management

Component 1: Advisory, Technical Assistance and Capacity Building to be provided by the TPAT (Estimated Budget: US$5.5 million).

Sub-component 1.1. Advisory services and technical assistance to support the development and implementation of sector reforms by PWA, including:

- Assistance for sector reform coordination
  - Optimize reform planning & coordination
  - Assist management of consultancy services (LR, OR, CMTA)
  - Track progress & issues, report to PWA & stakeholders

- Legal advice for reform implementation
  - Identify WSS/WRM issues/gaps to be addressed in new Water Law
  - Draft regulations, standards & guidelines for implementing the new Water Law
  - Draft legal arrangements between PWA & other sector stakeholders

- Reform Communications Action Plan

Sub-Component 1.2: Technical assistance to the PWA for the development of updated strategies and action plans for water supply and sanitation infrastructure and service provision, as well as for water resources management, including:

- Needs assessment
- Develop & assist implementation of needed WSS and WRM policies, strategies, regulations & investment programs
- Develop & assist application of policies, strategy & regulations for efficiency & cost-recovery in WSS service
- Identify funding gaps

- Water resources management:
  - Updated assessment of available water resources
  - Analysis and proposals to increase the sustainable use of fresh water resources
Sub-Component 1.3: Capacity building for effective sector strategies implementation, including:

- Needs assessment
- Development of CB action plans for the update and implementation of WSS/WRM strategies, policies and investment programs
- Assist the implementation of the above action plans
- Build PWA’s capacity in legal affairs & communications

Component 2: Studies and Training Fund (Estimated Budget: US$ 0.3 million). “Studies & Training Fund” for additional TA and CB activities, not contemplated within the scope of TPAT, but identified in TPAT-developed action-plans (e.g. master plans, development of standards, feasibility studies for selected projects to be identified during the first six months of implementation). The identification and implementation of these tasks is PWA’s responsibility, and the proposed funding facility will accelerate their implementation.

Component 3: Project management (Estimated budget: US$ 0.2 million). Incremental operating and consultant costs for managing TPAT and component 2 activities in accordance with the reporting, financial management, and procurement requirements of the World Bank and donor partners.

V. Safeguard policies that might apply: None

Tentative financing

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<th>Source</th>
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<td>Borrower</td>
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<td>Special Financing (IDA Trust Fund)</td>
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<td><em>Agence Française de Développement</em></td>
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<td>Swedish International Development Cooperation Agency</td>
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</tbody>
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VI. Contact point:

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