

**ANNEX 3**

of the Commission Implementing Decision on the Annual Action Plan 2014 in favour of Palestine<sup>1</sup>

**Action Document for Hebron Wastewater Treatment Plant (HWWTP)****1. IDENTIFICATION**

<i>Title/Number</i>	<i>Hebron Wastewater Treatment Plant (HWWTP)</i> <i>CRIS number: ENI/2014/30-874</i>		
<i>Total cost</i>	Total estimated cost: EUR 31,630,000 Total amount of EU budget contribution: EUR 15,000,000 This action is co-financed in joint co-financing by: - Agence Française de Développement (AFD): EUR 10,000,000. This action is co-financed in parallel co-financing by: - World Bank (WB): USD 4,000,000; - United States Agency for International Development (USAID): USD 5,000,000;		
<i>Aid method / Method of implementation</i>	<i>Project Approach</i> Indirect management with Agence Française de Développement (AFD) Direct management for procurement of audit, evaluation and communication/visibility services		
<i>DAC-code</i>	<i>14022</i>	<i>Sector</i>	<i>Sanitation - large systems</i>

**2. RATIONALE AND CONTEXT****2.1. Summary of the action and its objectives**

Water and Land Development is one of the European Union (EU)'s focal sectors of intervention in Palestine. The current action focuses on Wastewater management through the construction of a wastewater treatment plant (WWTP) in Hebron Governorate with a strong focus on the financial sustainability of the facility via the application of an adequate tariff policy. The project will be implemented through a delegation agreement with AFD.

<sup>1</sup> This designation shall not be construed as recognition of a State of Palestine and is without prejudice to the individual positions of the Member States on this issue.

## 2.2. Context

### 2.2.1. Country context

#### 2.2.1.1. Economic and social situation and poverty analysis

The economy of Palestine has been marked by the disruption of more than 40 years of occupation and conflict, during which the economic growth path has paralleled political developments. Restrictions of movements and accesses imposed by Israel has restrained growth and resulted in an economy highly dependent on the Israeli market and on donor aid.

The economic situation in Palestine continues to deteriorate. From 2007 to 2011, the consistently growth of the GDP in the West Bank (6-9% per year) was largely driven by government spending, in turn, funded by aid flows, and to a lesser degree easing of restrictions on movement and access by Israel. However, since 2012, growth has decelerated and is expected to further decrease to 3.4% in 2013 (for the West Bank).

Obstacles for economic development are multiple and many sided: limited access to land and water in the West Bank, severe restrictions on import of products considered by Israel to be of "dual use"<sup>2</sup>, disrupting effects of settlement activity and settlers, difficulty of obtaining movement permits, etc. are few restrictions with a direct impact on the water sector.

The PA has limited control of its revenues, remaining dependent on clearance revenue transfers from Israel (Israeli collects border revenues on behalf of the PA), which represent more than 65% of the PA national budget revenues. The withholding of these clearance revenues (from the sums transferred, the cost of utilities owned by Palestinian municipalities is deducted) and loss of revenue due to 'fiscal leakages' underline the PA's financial dependence on Israel.

In the short term, the PA will continue to depend on donor aid to cover its recurrent deficit, projected at USD 1.4 billion for 2013. The projected 2013 fiscal gap amounts to around USD 0.3 billion. In spite of some increase in donor aid (USD 1.3 billion against USD 0.8 billion in 2012, but down from USD 1.8 billion in 2008), this has been insufficient to cover the deficit in the past years. Consequently, in 2013 the PA has continued to accumulate considerable debts to the banking sector and arrears to the private sector which reach more than USD 0.5 million at this stage.

Therefore, the Palestinian economy is characterised by low levels of investment, low exports, geographical fragmentation, decline of the industrial and agricultural sectors, workers skills deficit across all sectors, high unemployment rates (for 2013 of 24% of unemployment – youth unemployment being above 40%). Poverty and social situation are strongly impacted by the degradation of the Palestinian economy.

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<sup>2</sup> Items that have both civilian and potentially security-threatening use.

### 2.2.1.2. National development policy

In spite of the challenging context, the PA has demonstrated some progress at political and administrative levels. The new Palestinian National Development Plan (PNDP) 2014-2016 (as a successor to the Palestinian Reform and Development Plan 2011-2013) sets out a medium-term agenda for Palestinian reform and development and contains a framework of goals, objectives and performance targets.

The international community has recognised over time the reform efforts of the PA and has concluded that the PA is institutionally ready for the establishment of a state (Ad Hoc Liaison Committee [AHLC] conclusions 2012). These efforts have been key in particular in improving law and order in the West Bank and have been crucial in bolstering institution- building and private sector dynamism.

With the resumption of direct peace talks in July 2013, an Economic Initiative for Palestine has been developed under the authority of US Secretary of State Kerry in collaboration with the Office of the Quartet Representative. The plan, which addresses the economic dimension of the peace process covering the period 2013-2016, is designed to create an enabling environment for peace. The plan relies heavily on private sector investment with the public sector/donor community playing a supporting role. The initiative aligns closely with the Palestinian National Development Plan for 2014-2016.

### 2.2.2. *Sector context: policies and challenges*

Palestinians living in the West Bank have very limited access to water. In the West Bank, development of water resources and infrastructure is subject to Israeli veto power under the Joint Water Committee (JWC) and Israeli restrictions<sup>3</sup>. These restrictions, along with weak Palestinian institutions and operators<sup>4</sup> and fast demographic growth, perpetuate water supply and sanitation infrastructure and service deficits as well as operational inefficiencies<sup>5</sup>.

Untreated wastewater disposal (domestic, agricultural and industrial) has environmental and health impacts and become a pressing environmental and public health issue. To date, almost 70%<sup>6</sup> of the West bank population is still not connected to a sewerage collection network.

Planning and regulation of water resources/wastewater treatment are very weak, and the potential of the irrigation sector remains largely underdeveloped. Key sector issues can be summarized as:

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<sup>3</sup> Currently 20% of the groundwater resources only are exploited, while the remaining 80% are for exclusive Israeli use (including the illegal settlements) and 60% of the water used in West bank is provided by the Israeli public company Mekorot.

<sup>4</sup> World Bank (2009) *Assessment of Restrictions on Palestinian Water Sector Development*, report 47567-GZ (aka *Water Restrictions Study*)

<sup>5</sup> 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/pc/day, dropping to a crippling 15 l/pc/day in some areas. All the while, water loss and bill collection rates hover around 35% and 50% respectively.

<sup>6</sup> Only 10 cities (30% of households) are connected to sewage networks.

Lack of control over West Bank water resources and water infrastructure development (as a result of a restricted access to water resources, few strategic planning and uncertainty/delays in infrastructure project authorisation and implementation);

Infrastructure deficits and inefficiencies in the West Bank, with inadequate and unreliable access to potable water, particularly in Area C, lack of wastewater treatment and reuse, and performance and sustainability of infrastructures variable;

Governance and capacity weaknesses in the Palestinian water sector<sup>7</sup> and need for institutional reform, aiming at defining clearer roles and accountability, reorganisation and capacity building.

The water & wastewater sector is undergoing a reform programme which was endorsed by the Prime Minister as well as all major donors, in the form of memorandum of understanding for alignment and harmonisation signed in July 2012.

The reform sector was already well engaged in 2013 with the Revision and adoption of the New Water Law which mainly spell out directions for the PWA to separate its ministerial functions from its regulation functions, restructure the West Bank Water Department, and separate from its Projects Management Unit.

### **2.3. Lessons learnt**

The project is built on studies implemented by USAID under the USAID-Funded West Bank Integrated Water Resources Program (2002-2006). The project was not implemented at that time due a change in the USAID strategy. Nevertheless, a feasibility study was achieved and the Israeli Civil Administration of the West bank issued the requested permit. The Feasibility study was updated in 2013 for the current project proposal.

The World Bank and AFD have organised 2 appraisal missions before the final design of the project. These missions have helped to fulfil partially the preconditions for funding (Action plan for industrial emissions, Institutional development and management plan including Hebron Municipality Tariff Road Map and Electrical connection written confirmation).

Lessons are drawn from similar projects: the Al Bireh WWTP the West Nablus WWTP and the North Gaza WWTP. The first one is operational, the second has been commissioned in 2013 and the third one will be commissioned early 2014. The main lessons learnt from these three projects are:

The minimal staff attendance needed in the plant and the importance of properly trained staff.

The quality of the design for the technical parameters.

The consistency of the bidding process and details in the bidding documents.

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<sup>7</sup> Including Palestinian Water Authority (PWA) and municipal service providers

The development and application of the tariff structure for the financial sustainability of the utility.

#### **2.4. Complementary actions**

Water is a focal sector of EU support to the Palestinians with a total of EUR 81.5 million invested by the EU from 2006 to 2013. The EU cooperation in this sector has also been increasing in quality and quantity over the past 2 years, with EUR 43 million committed in 2012 and 2013 alone, including EUR 25 million for Gaza (out of which EUR 10 million from the Instrument for Stability for a desalination project).

The draft Single Support Framework (SSF), prepared by EUREP (European Union Representative Office) in 2013, proposes "Support to water and land development" as a focal sector of EU interventions in Palestine in 2014-2015.

For the World Bank (WB), the Trust Fund for Gaza and the West Bank (TFGWB) was established in 1993 and until 2013 committed USD 95.5 million for the water/sanitation sector. The French Development Agency (AFD), granted Palestine EUR 68.4 million between 2009 and 2011 to the water sector. In 2012, further EUR 5.5 million were approved by AFD in the water sector. In 2011, the total amount granted by USAID to Palestine was USD 53.1 million<sup>8</sup>.

Currently, there are only two operational large-scale wastewater treatment plants in the West Bank, located in Ramallah-Al-Bireh and Nablus West<sup>9</sup>. Other major projects are presently under construction as the Northern Gaza Emergency Sewage Treatment (World Bank lead with EU investment of EUR 6 million), the Sheikh Eijleen wastewater treatment plant south of Gaza City (KfW) and the Nablus East (KfW lead with EU investment of EUR 20 million). Others currently in the pipeline are: wastewater treatment plants for Khan Younis (UNDP) and Ramallah regional (not yet determined).

At regional level the EU is funding the SWIM programme (Sustainable Water Integrated Management) which includes capacity building and pilot activities i.a. on wastewater issues (including tariff). In addition, wastewater is one of the three priority sectors of the EU funded initiative Horizon 2020 for depolluting the Mediterranean Sea (which includes an investment facility managed by the EIB, including capacity building). Synergies with the work carried out under these Initiatives should be ensured.

#### **2.5. Donor coordination**

Donor co-ordination is carried out with the support of the Local Aid Coordination (LAC) Secretariat in the form of working groups which gather all donors in the sector on average once every quarter. The Water and Sanitation Sector Working Group is co-chaired by the Palestinian Water Authority (PWA) and the German Development Cooperation.

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<sup>8</sup> Information available on respective development agencies websites as November 2013.

<sup>9</sup> Both funded by German co-operation.

In the sector of water and sanitation, the PA/ PWA, several development partners<sup>10</sup> have signed in July 2012 a Memorandum of Understanding (MoU). The MoU intends to align and harmonize strategies in support of the PWA.

**3. THE EU INTERVENTION IN THE SECTOR IS WELL COORDINATED WITH THE EU MEMBER STATES DEVELOPMENT COOPERATION SERVICES AS WELL AS WITH THE WORLD BANK AND USAID THROUGH REGULAR MEETINGS ON STRATEGIC AND PROJECTS RELATED ISSUES<sup>11</sup>. DETAILED DESCRIPTION**

**3.1. Objectives**

The overall objectives of the action are:

To contribute to the protection of water resources in the Hebron Governorate;

To reduce environment and health risks caused by inadequately treated wastewater released in the environment and increase the well-being of residents along Wadi As Samen.

The purpose (**specific objective**) is to improve wastewater management (collection and treatment) in the project area and to contribute to the availability of safe water for economic activities<sup>12</sup> in Hebron Governorate.

**3.2. Expected results and main activities**

The strategy for replying to untreated wastewater disposal (domestic, agricultural and industrial) and its environmental and health impacts is addressed through the construction of a wastewater treatment plant (WWTP) in Hebron Governorate.

The expected results are:

- A functional wastewater treatment plant (WWTP) with a capacity of 15,000 CM/day is connected to Hebron Municipality's existing sewer network;
- The institutional and financial capacity to manage, operate and maintain the WWTP is developed;
- A comprehensive strategy for the management of Hebron industrial wastewater is in place;
- The effluent of the plant is compliant with the Palestinian Authority's regulations standards.

The **main activities** are:

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<sup>10</sup> EUREP/EU, ADF, Austria, Finland, Germany, Norway, Spain, The Netherlands, USAID and WB.

<sup>11</sup> Informal meeting are organised in preparation of the Water and Sanitation Sector Working Group.

<sup>12</sup> E.g.: for agriculture (re-use of treated wastewater) or for industrial activities. A pre-feasibility study for the re-use of the water will be done under the project in perspective of future investments.

**Component 1: Wastewater Treatment Infrastructure** - 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, accommodating the current wastewater flow of 10,000 CM per day from Hebron city as well as pre-treated industrial wastewater and additional waste loads from currently connected communities (Support funded by AFD/EU). The WWTP will be constructed at a site with an adequate road access, electricity and water supply several meters downstream from the outfall of the trunk sewer (Support funded by USAID). The supervision of the work will be done by consulting engineering services (Support funded by the World Bank)

**Component 2: Capacity building for Sustainable Management** - This component will finance technical assistance in order to enhance the capacity of the Municipality to meet these financial targets: Support to the introduction of wastewater tariffs, implementation of water and wastewater tariff reforms, improve the collection of fees, to increase the financial revenue of the sector towards cost recovery and to implement an action plan to comprehensively address treatment and disposal of industrial wastewater (Support funded by AFD/EU).

The support related to the management, operation and maintenance will be funded by The World Bank and Palestinian Authority in a second phase of the project<sup>13</sup>.

**Component 3: Project Management, Monitoring, and Program Planning** - This horizontal component will cover the project management staffing and costs incurred by the PWA and the establishment of a Technical Operations Unit in Hebron Municipality (Support funded by the World Bank). In addition, a consultant services to design for future phase of the project that would potentially encompass financing for upgraded treatment, effluent conveyance to agriculture lands, to reuse for irrigated agriculture, to industrial activities, sewer network and connections expansion, and the associated technical assistance will be funded (Support funded by AFD/EU).

### **3.3. Risks and assumptions**

The implementation of EU's support to Palestine is subject to unusual types and high levels of risk, namely those arising from the continued Israeli occupation of the West Bank, the ongoing separation between the West Bank and Gaza Strip, the violent conflict between Palestinians and Israel, and the conflict between Palestinian factions. In particular, all projects are at substantial risk from unpredictable Israeli policies and actions e.g. further restrictions regarding the trade of goods and the free movement of service providers and demolitions and settler activity.

The project location Hebron is surrounded by Israeli settlements. Due to the technical design of the current sewage network the waste water of all inhabitants of the city will be treated by the plant. The PA is fully aware of this technical issue.

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<sup>13</sup> World Bank has indicated that the support to the project will be committed in 2 phases – The Operational and Maintenance will be funded through the second phase.

The Project will be implemented in a social environment with a tradition of low willingness to pay.

**Other risks** include (i) Lack of operations and maintenance capacity and resources from beneficiaries (mitigate through the training – Component 3); (ii) Lack of management for the industrial wastewater (mitigate through Technical Assistance support – Component 2).

The **Assumptions** for this programme are that (i) the security situation in the West Bank remains at the current level or improves, which still enables project implementation, (ii) the financial and technical sustainability is eased by the implementation of tariff policies and by commercial agreements between operator and users and (iii) the electricity supply in West Bank remains stable at its current levels.

The sustainability of the project will be based on the following factors: an appropriate technical design for the WWTP adapted to the institutional and human resource capacities of the plant operator<sup>14</sup>, the establishment of a viable wastewater management service in the Municipality, an adequate revenues collection for the service (to cover, at a minimum, the long-term operation and maintenance costs of the WWTP) and financial and technical support from the PA and PWA for capital investments in system upgrading and rehabilitation over time (as well as any financing gap not covered by the municipality for operation and maintenance).

### **3.4. Cross-cutting issues**

Good governance principles, the use of local systems and empowerment of local stakeholders are embedded in the design of the activities. In addition the specific project strategy to strengthen the capacity of a local authority - the Hebron Municipality - is in line with the EU's strategy towards local authorities.

Gender equality will be promoted in particular in the implementation of components 2 and 3.

Environmental sustainability and protection are the main objectives of the project together with health risk mitigation, as the project is specifically aiming at reducing environmental pollution and sanitary risks from untreated wastewater.

Climate change could be addressed in an envisaged future phase of the project through the re-use of treated wastewater.

### **3.5. Stakeholders**

The Palestinian Water Authority (PWA) is responsible for project implementation through its Project Implementation Unit (PIU).

Hebron Municipality will be responsible for the development of a Technical Operations Unit (TOU) at the beginning of the project implementation. The TOU

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<sup>14</sup> The plant operator, based on the final decision of the Municipality, could be either the Municipality, either private sector.



will be located within the Waste and Wastewater Department of the Municipality and will ensure the technical support for the construction monitoring. The TOU will ultimately take over plant management and operations.

The principal beneficiaries would include communities affected directly or indirectly by the uncontrolled disposal of raw sewage in Hebron Municipality, namely the citizens of Hebron Municipality with a current population of 200,000 people. The municipal population is projected to increase to over 275,000 within the twelve-year design life of the proposed WWTP before expansion will be required.

Additional beneficiaries include the residents of communities along Wadi As Samen downstream of the WWTP who will no longer be affected by raw sewage flowing into the Wadi.

#### **4. IMPLEMENTATION ISSUES**

##### **4.1. Financing agreement**

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 184(2)(b) of Regulation (EU, Euratom) No 966/2012.

##### **4.2. Indicative operational implementation period**

The indicative operational implementation period of this action, during which the activities described in sections 3.2. and 4.3. will be carried out, is 72 months from the date of entry into force of the financing agreement or, where none is concluded, from the adoption of this Action Document, subject to modifications to be agreed by the responsible authorising officer in the relevant agreements. The European Parliament and the relevant Committee shall be informed of the extension of the operational implementation period within one month of that extension being granted.

##### **4.3. Implementation components and modules**

###### **4.3.1. *Indirect management with Agence Française de Développement (AFD)***

This action with the objective "to contribute to the protection of water resources in the Hebron Governorate and to reduce environmental and health risks caused by inadequately treated wastewater released in the environment" will be implemented in indirect management with Agence Française de Développement (AFD) in accordance with Article 58(1)(c)(i) of Regulation (EU, Euratom) No 966/2012. This implementation is justified by (i) the substantial proven track-record of project implementation by AFD in the sector in the beneficiary country, (ii) the current implementation of the construction of the North Gaza Emergency Sewage Treatment Project (iii) the application of the principles of Paris Declaration and Accra Agenda in Donor's harmonisation and coordination, (iv), the contribution to the operation by AFD (EUR 10 million), (v) the need to avoid artificial project breakdown and administrative complexity for the Hebron Municipality and lastly (vi) the achievement of a better cost efficiency as a result of the simplified funding set-up and the related simplified contracted responsibilities.

The entrusted entity would be responsible for the overall administration of all activities to the exception of Evaluation & Audit and Communication & Visibility.

The AFD intends to sub-delegate the implementation of the project to the Palestinian Water Authority (PWA). Appropriate provisions will be included in the delegation agreement.

The entrusted entity is currently undergoing the ex-ante assessment in accordance with Article 61(1) of Regulation (EU, Euratom) No 966/2012. In anticipation of the results of this review, the responsible authorising officer deems that, based on a preliminary evaluation and on the long-standing and problem-free cooperation with this entity, it can be entrusted with budget-implementation tasks under indirect management.

The change of management mode from indirect to direct management, whether partially or entirely is not considered a substantial change.

#### **4.4. Scope of geographical eligibility for procurement and grants**

The geographical eligibility in terms of place of establishment for participating in procurement procedures and in terms of origin of supplies and materials purchased as established in the basic act shall apply.

The responsible authorising officer may extend the geographical eligibility in accordance with Article 9(3) of Regulation (EU) No 236/2014 on the basis of urgency or of unavailability of products and services in the markets of the countries concerned, or other duly substantiated cases where the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

#### **4.5. Indicative budget**

<b>Module</b>	<b>Amount in EUR thousands</b>	<b>Third party contribution in EUR thousands</b>
4.3.1. – Indirect management with AFD	14,000	10,000
4.7. – Evaluation and audit (direct management)	50	N.A.
4.8. – Communication and visibility (direct management)	100	N.A.
Contingencies	850	N.A.
Totals	15,000	10,000

#### **4.6. Performance monitoring**

Once a year, in line with its own procedures and systems, The EU Representative Office will be invited to joint monitoring missions by the Delegatee Body to monitor

the progress of the operation. The results of this mission will be summarized by the Delegation Body and submitted to the EU Representative Office, latest as part of the following annual report (or final report).

When meetings are held between AFD and major project stakeholders on the implementation of this action, AFD will inform the EU prior to the meeting and invite the EU delegation to participate to the meeting.

#### **4.7. Evaluation and audit**

When necessary, external mid-term, final or ex-post evaluation of projects component and/or global evaluation of the whole action will be conducted in accordance with European Commission procedures.

When necessary, external audits/ verification missions regarding the whole action or parts of the action will be conducted by the EU.

An indicative number of 2 contracts for the above-mentioned evaluation and audit assignments might be concluded in the form of procurement of services under direct management for an indicative total budget of EUR 100,000, tentatively in the 4th trimester 2015 and in the 2nd trimester 2020.

#### **4.8. Communication and visibility**

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated before the start of implementation and supported with the budget indicated in section 4.5 above.

The measures shall be implemented either (a) by the Commission, and/or (b) by the partner country, contractors, grant beneficiaries and entrusted entities. Appropriate contractual obligations shall be included in, respectively, financing agreements, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

An indicative number of 3 contracts for the above-mentioned communication and visibility assignments might be concluded in the form of procurement of services under direct management for an indicative total budget of EUR 50,000, tentatively in the 3rd trimester 2014, in the 3rd trimester 2015 and in the 1st trimester of 2018.