**ANNEX III**

to the Commission Decision on a Special Measure (Part III) in favour of Palestine, to be financed from the general budget of the European Union

Action Fiche for Palestine

1. **IDENTIFICATION**

<table>
<thead>
<tr>
<th>Title/Number</th>
<th>Sewerage Nablus East</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ENPI/2013/024-753</td>
</tr>
</tbody>
</table>

| Total cost                    | Total estimated cost: EUR 44,260,000 |
|                               | Total amount of EU budget contribution: EUR 20,000,000 |
|                               | This action is co-financed in joint co-financing by a grant from the German Government for an amount of EUR 19,870,000 |
|                               | This action is co-financed in parallel co-financing by local contributions for an amount of EUR 4,390,000 |

<table>
<thead>
<tr>
<th>Aid method / Method of implementation</th>
<th>Project approach</th>
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<tr>
<td></td>
<td>Component 1 - Indirect centralised management with Kreditanstalt Für Wiederaufbau (KfW)</td>
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<tr>
<td></td>
<td>Component 2 - Direct centralised management</td>
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</tbody>
</table>

<table>
<thead>
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<td></td>
<td>31140</td>
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<table>
<thead>
<tr>
<th>Sector</th>
<th>Sanitation - large systems</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Agricultural water resources</td>
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</table>

2. **RATIONALE AND CONTEXT**

2.1 **Summary of the action and its objectives**

Water and Sanitation is one of the European Union (EU)'s focal sectors of intervention in Palestine. The current action focuses on two sub-sectors within the Water and Sanitation sector development: (i) wastewater collection and treatment and (ii) reuse of treated wastewater for agricultural purposes.

The action consists of 2 components: 1. East Nablus Sewerage project, and 2. Capacity building and preparatory studies.
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 forty years of occupation and conflict, during which the economic growth path has paralleled political developments. The obstacles imposed by Israel have deterred growth and resulted in an economy highly dependent on the Israeli market and on donor aid. The Palestinian economy is characterised by low levels of investment, low exports, geographical fragmentation, the decline of the industrial and agricultural sectors, workers skills deficit across all sectors, high unemployment rates (women and youth in particular) and increasing poverty levels, despite a certain comparative advantage arising from a workforce with low wages compared to its high level of education.

Since mid-2011 the Palestinian Authority (PA) has been experiencing a serious fiscal crisis. Its liquidity problems have caused it to pay its salaries and pensions with delays and in instalments in various occasions. The PA has accumulated significant domestic payment arrears, notably to the private sector. Moreover, the situation has been aggravated by the withholding in several occasions of the transfer of "clearance revenues" by Israel due to several political developments. Although Israel has resumed the transfer of the clearance revenues, the outlook for the near future remains challenging. In September 2012, disturbances and demonstrations aimed against the PA took place, in the wake of increasing prices, high unemployment and the authority's inability to pay the civil service salaries for the previous month.

In April 2013 Salam Fayyad resigned as Prime Minister of the PA. A new government, led by Rami Hamdallah, was formed at the beginning of June 2013. According to the May agreement between Fatah and Hamas, this Cabinet should make way for a consensus government by mid-August 2013.

During the past years the Middle East Peace Process has largely stalled, with little progress made during 2012. In December 2012 the Council concluded that “In light of recent developments and taking into account previous Council Conclusions, the European Union firmly believes that now is the time to take bold and concrete steps towards peace” underlining “the urgency of renewed, structured and substantial peace efforts in 2013” and declared that “towards this end, it is ready to work with the US and other international partners, including within the Quartet”. The United States’ Secretary of State Kerry has, launched a new initiative to resume the peace talks recently.

2.2.1.2 National development policy

The three-year "Palestinian Reform and Development Plan 2008-2010" (PRDP) which laid out a three-year fiscal and policy agenda for reform and development received an unprecedented level of external support, notably from the European Union (EU). Subsequently, Prime Minister Fayyad presented in August 2009 the Palestinian Authority's (PA) "Ending Occupation, Establishing the State (Programme of the 13th Government)" plan. Based on the PRDP, it aims at building strong
governmental institutions that should serve as the basis for a future independent Palestinian State within a two-year time-frame.

In August 2010, the PA presented a new document called "Homestretch to Freedom", which reviews the achievements made in the first year of the aforementioned "Ending Occupation, Establishing the State" and puts forward the plans for its second and final year. In April 2011, during the Ad Hoc Liaison Committee (AHLC) in Brussels, the PA presented the "National Development Plan" (NDP) for the years 2011-13 to the donor community. The NDP is consistent with "Homestretch to Freedom" and the PRDP and has also received donor support. The PA has now started working on a new Palestinian NDP to take over from 2014.

2.2.2 Sector context: policies and challenges

Palestinians living in the West Bank have very limited access to water. Due to Israeli restrictions, they currently exploit 20% of the groundwater resources only, while the remaining 80% are for exclusive Israeli use (including the illegal settlements). The governance system established by the Oslo II agreement Article 40 requires the approval by Israeli authorities of any proposed PA management measure or infrastructure project within the West Bank. This arrangement, together with the way it has been implemented, gives Israeli authorities effective control over the allocation and management of West Bank water resources. Israeli territorial jurisdiction in Area C (over 60% of the West Bank) consolidates this control, which makes integrated planning and management of water resources virtually impossible for the PA. At best, the PA role is reduced to improving water and sanitation services to Palestinian communities within the constraints laid down. As an illustration, the Israeli Water Authority has used its role as de facto regulator to prevent Palestinian drilling in the Western Aquifer, despite growing demand from Palestinian consumers and whilst increasing its own off take from the aquifer above agreed levels.

Almost 70 % of the West Bank population is still not connected to a sewerage collection network. Untreated wastewater disposal (domestic, agricultural and industrial) has environmental and health impacts. In the West Bank, the percentage of wells not reaching the minimum requirements of the World Health Organisation in terms of nitrates concentration has risen from 11% in 2001 to 30% in 2009.

Unaccounted for water (network losses + water illegal connections) is estimated between 24 and 36% of the water produced in the West Bank. This situation is mainly due to the prevailing security, economic, water resource and institutional constraints which hinder the performance of service providers.

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3 WHO recommended limit : NO\(_3\) 50 mg/l.
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 a memorandum of understanding (MoU) for alignment and harmonization signed in July 2012. The MoU describes the reshuffling of functions in the water and sanitation sector. The Palestinian Water Authority (PWA) is expected to concentrate on its ministerial and planning functions while regulation, service provision and project implementation should be taken over by separate bodies.

This project mainly intends to address health and environmental concerns caused by the flow of untreated sewage in the environment (component 1) and to potentially (i) complement capacity building of the water and sanitation sector institutions in Palestine and/or (ii) prepare future EU projects in the sector (component 2). Currently, wastewater flows untreated into the environment from East Nablus, including industrial emissions, and the surrounding villages which are part of the same water basin. The effluent reaches the agricultural areas East of Nablus, the Wadi Sajour/Badan valley and eventually reaches the Jordan Valley.

In Nablus, Non-Revenue Water (NRW) is currently estimated to 35% of water produced. This is mainly due to the fact that the water network in Nablus is not divided into individual pressure zones and that the data basis for locating and identifying the main causes for NRW are insufficient. The ongoing Water Loss Reduction 2 project aims to address this situation.

2.3 Lessons learnt

For component 1, lessons are drawn from similar large scale sanitation projects: the West Nablus Wastewater Treatment Plant (WWTP) and the North Gaza WWTP both to be commissioned in 2013. Results oriented monitoring for the North Gaza WWTP was carried out in September 2012 raising mainly sustainability issues in a context of closure of the Gaza Strip which impedes economic development and the related recovery of costs for operators.

As for the reuse component, the identification of this project builds on the experience gained from developing the Water Sanitation and Reuse Programme (EUR 22,000,000, currently in the detailed design phase and in the same region, i.e. North-Western West Bank), as well as the reuse component of the North Gaza Emergency Sewage Treatment project (estimated cost USD 28,000,000; available EU funding USD 8,000,000) as well as the 2010 Food Security medium scale wastewater treatment and reuse programme being implemented in 6 villages (EUR 9,000,000). As for component 2, the potential capacity building sub-component would build on

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5 One of the components or the Water Loss Reduction 2 project is to finance the separation of the network into individual pressure zones and the installation of a Supervisory Control and Data Acquisition SCADA (Supervisory Control and Data Acquisition) system. Based on a subsequent detailed analyses of water balances for individual pressure zones the most effective investment measures to technically reduce water losses will be identified. At the same time a comprehensive hands-on capacity development measure will take place, aiming at transferring practical, operational knowledge to Nablus Municipality on how to reduce water losses in its supply system.
the lessons learnt from the ongoing Technical and Planning Advisory Team project\(^6\) as well as the Institutional Water Sector Review\(^7\) and related reform programmes.

### 2.4 Complementary actions

Water and sanitation is a focal sector of EU support to Palestine with a total of EUR 66,000,000 invested by the EU in the water and sanitation and solid waste management sectors from 2006 to 2012. The EU cooperation in this sector has also been increasing in quality and quantity over the past 2 years, with EUR 42,000,000 committed in 2011 and 2012 alone, as part of a sector wide approach, including EUR 20 million for Gaza (out of which EUR 10 million from the Instrument for Stability for a desalination project).

As of July 2011, the German Development Cooperation with Palestine totalled EUR 212,000,000 commitments for the drinking water/sanitation and waste management sector. As for the French Development Agency, at that time it had granted an estimated EUR 90,000,000 to the Palestinian water sector.\(^8\)

### 2.5 Donor co-ordination

Donor co-ordination is carried out with the support of the Local Aid Co-ordination 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 PWA and the German Development Co-operation.

EU Member States formulated a local water sector strategy in June 2010, updated in November 2011, outlining major sector needs, sector interventions and labour division between member states.

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\(^9\) through regular meetings on strategic and projects issues.

### 3. DETAILED DESCRIPTION

#### 3.1 Objectives

The **overall objectives** of the action are:

- contribute to the protection of water resources in the region,
- reduce health risks caused by inadequately treated wastewater released in the environment,

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\(^6\) Technical Assistance project financed by the World Bank, Agence Francaise de Developement and the Swedish cooperation.

\(^7\) Study financed by the Norwegian Representative office in 2011

\(^8\) Information available on respective development agencies websites as of February 2013

\(^9\) United States Agency for International Development
adaptation to climate change through the re-use of treated wastewater

The purpose (specific objective) is to improve wastewater management (collection and treatment) in the project area and contribution to future re-use of treated wastewater in Nablus Governorate.

3.2 Expected results and main activities

The expected results and relative key indicators of the project are the following:

- The operation of the Wastewater Treatment Plant (WWTP) is efficient and assures the compliance with the agreed effluent standards of Biological oxygen demand (BOD) 20mg/l, TSS 30 mg/l. (source: laboratory of the treatment plant)
- In case of re-using the effluent for irrigation, $N_{Total}$ 45 mg/l will apply (source: laboratory of the treatment plant)
- 95% of the domestic water in the area benefitting from the investment measures is collected either by sewerage networks or septic tanks and treated adequately (source: customer registry)
- The treated sludge generated by the WWTP is managed in an environmentally sound manner and in a sustainable way (sources: amount of sludge processed and transported to the landfill, PA Ministry of Environmental Affairs)
- The Nablus Municipality and all villages and towns benefiting from the investment measures within the framework of the project will apply tariff systems for water and sewerage services which cover at least 80% of all costs for the operation and maintenance of their respective water supply and wastewater management infrastructure. (sources: Nablus Municipality and PWA)

The main activities are:

Component 1: East Nablus Sewerage project, including but not limited to (i) Wastewater Treatment Plant (WWTP) for Nablus East and surrounding villages, (ii) trunk lines and adjustment of sewerage network, (iii) house connections, (iii) industrial pre-treatment facilities, (iv) initial operational assistance (v) pilot scheme for treated wastewater re-use in agriculture, (vi) project implementation and supervision services.

Component 2: Capacity building and preparatory studies for future programmes in the water and sanitation sector.

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10 Sewage East Nablus - Pre-appraisal mission - Minutes of Meeting, German Financial Cooperation with the Palestinian Authority, 09/10/2012.
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 persistent blockade of Gaza, 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; military actions in the Gaza Strip; demolitions and settler activity.

Other risks include (i) Lack of operations and maintenance capacity and resources from beneficiaries; (ii) Lack of social acceptance of treated wastewater reuse; (iii) industrial emissions to the municipal sewer impede the operations of the WWTP.

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, though at a slower pace than in a no conflict situation, (ii) the financial and technical sustainability is eased by the implementation of tariff policies mentioned above, by commercial agreements between operator and users, by the provision of technical and managerial training to the operator, (iii) the social acceptance of treated wastewater reuse is eased by awareness campaigns, sound technical design of reuse scheme, and to benefit from by on-going EU funded medium sized projects.

In line with the sector guidelines of the German Federal Ministry for Economic Cooperation and Development (BMZ) Nablus East has been appraised with the objective to achieve full coverage (100%) of costs for Operation and Maintenance (O&M). However, achieving full O&M cost recovery for the Nablus East project is a challenging target, due to the difficult economic situation in Palestine (besides, 25% of the targeted population live in the 2 refugee camps); therefore full O&M cost recovery is a medium-term objective. One year after its operational assistance has ended, i.e. three years after the commissioning of the infrastructure, the project will be evaluated by KfW. At that time an 80% cost recovery rate must have been achieved.

As for the risk of industrial emissions potentially impeding the operations of the plant for component 1, this issue was fully taken into account in the preparation of the project. The municipality developed an Action Plan for Technically Sound Management of Industrial Wastewater which was approved by the Municipality Council on 02 January 2013. Nablus Governorate is also committed to address the industrial emissions through the Health Safety Committee, a local inter-ministerial committee which has the mandate to impose restrictions on non-compliant industries.

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 Nablus Municipality, is in line with the EU’s strategy towards non state actors.
Gender mainstreaming was partially addressed in the environmental, social and climate change assessment study which was included in the feasibility study and the project. It will be a crucial and strategic aspect of the success of the reuse component of the operation as women are the leaders in this type of activity.

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 non treated wastewater and to climate change adaptation with the re-use of treated wastewater.

3.5 Stakeholders

Nablus Municipality will be in charge of the operation of the WWTP. The Municipality benefits from a 10-year experience of developing a similar plant for Nablus West water basin which is foreseen to become operational in summer 2013. By the time the Nablus East WWTP becomes operational, Nablus Municipality will have had 5 years of experience in operating a similar treatment plant. In addition, an initial Operational Assistance of two years is foreseen as an integral part of the project. During these two years the management and operational staff of the plant will be trained, guided and supervised by international experts with a strong operational background.

Civil society consultation workshops were carried out during the feasibility study stage.

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 the Financial Regulation.

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 60 months, subject to modifications to be agreed by the responsible authorising officer in the relevant agreements.

4.3 Implementation components and modules

4.3.1 Component 1: Contribution to Sewerage Nablus East project (Indirect centralised management with a German agency)

A part of this action with the objective "to improve wastewater management (collection and treatment) in the project area and to contribute to future re-use of treated wastewater in Nablus Governorate" will be implemented in indirect centralised management with KfW in accordance with Article 54(2)(c) of Financial Regulation 1605/2002. This implementation is justified because (i) equivalent contribution to the operation by KfW (EUR 19,87 million), (ii) substantial proven
track-record of project implementation by KfW (which is the lead donor in the water sector) in the beneficiary country (iii) to follow principles of Paris Declaration and Accra Agenda, (iv) the successful implementation by Nablus Municipality of the construction of West Nablus WWTP, (v) implementation rationality, to avoid artificial project breakdown and administrative complexity for the Nablus Municipality and lastly (vi) better cost efficiency as a result of the simplified funding set-up and the related simplified contracted responsibilities.

The agency will be responsible for the overall administration of all activities.

The agency intends to sub-delegate the implementation of the project to the Nablus Municipality, which will apply the procurement and contracting rules of the Delegatee body (KfW). All works and supply contracts will be signed by the Nablus Municipality with ex-ante approval and financial endorsement of KfW. All payments will be made directly from KfW to the contractors.

Appropriate provisions will be included in the delegation agreement.

The change of method of implementation constitutes a substantial change except where the Commission "re-centralises" or reduces the level of budget-implementation tasks previously entrusted to the agency.

4.3.2 Component 2: Capacity building and preparatory studies for future programmes (Procurement - direct centralised management)

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<th>Subject in generic terms, if possible</th>
<th>Type (works, supplies, services)</th>
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<th>Indicative trimester of launch of the procedure</th>
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<td>Capacity building</td>
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<td>Second Trimester of 2014</td>
</tr>
<tr>
<td>Preparatory studies for future programmes</td>
<td>Services</td>
<td>1</td>
<td>Second Trimester of 2014</td>
</tr>
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</table>

4.4 Scope of geographical eligibility for procurement in direct centralised and decentralised management

Subject to the following, 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.

In accordance with Article 27(4) of the basic act, the Commission decides that natural and legal persons from the countries eligible for funding under ENPI shall be eligible for participating in procurement procedures under this action because it is co-funded by that instrument.

The responsible authorising officer may extend the geographical eligibility in accordance with Article 21(7) of the basic act on the basis of the unavailability of
products and services in the markets of the countries concerned, for reasons of extreme urgency, or if the eligibility rules would make the realisation of this action impossible or exceedingly difficult.

4.5 Indicative budget

<table>
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<th>Component</th>
<th>Amount in EUR thousands</th>
<th>Third parties contribution (indicative)</th>
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<td>Component 1 - Indirect centralised management</td>
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<td>with KfW</td>
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<td>Component 2 - Direct centralised management</td>
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<td>24,260</td>
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<tr>
<td>Evaluation and audit</td>
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<tr>
<td>Communication and visibility</td>
<td>50</td>
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<tr>
<td>Contingencies</td>
<td>1,350</td>
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</tr>
<tr>
<td>Totals</td>
<td>20,000</td>
<td>24,260</td>
</tr>
</tbody>
</table>

Component 1 already includes a provision for unforeseen works (20%), consulting services (12%) and delegation fees (5%).

The contingencies line (EUR 1.350 M) provides a provision to cover a suspension of the project or any substantial expenses which may occur from possible unrests given the local context in occupied territory.

4.6. Performance monitoring

Component 1

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, as part of the annual monitoring exercise of all EU-funded projects. The results of this mission will be summarized by the Delegatee Body and submitted to the EU Representative Office, latest as part of the following annual report (or final report).

KfW will systematically inform the EU and invite the EU Delegation to participate to all the meetings and/or site visits held between KfW and major project stakeholders on the preparation, implementation and evaluation of this action.

Main key indicators are mentioned above in section 3.2.

4.7 Evaluation and audit

External mid-term and final evaluations, covering all the activities of the action, will be carried out in accordance with European Commission procedures.
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 will be undertaken by the EU.

4.8 Communication and visibility

In accordance with the EU visibility guidelines for external actions, the action will incorporate information and communication activities to raise awareness of the action, the EU support and the impact of this support. Each contractor will be responsible for implementing those activities in line with the EU guidelines and in consultation with the EU office in Jerusalem. The Beneficiary/contractor shall inform the EU about upcoming communication activities and invite the EU to visibility events.