H.E. Shukry Bishara  
Minister of Finance  
Ministry of Finance  
Palestinian Authority  
Ramallah  

Re: PID MDTF Grant No. TF0B2334  
West Bank and Gaza: Water Security Development - Gaza Central  
Desalination Program — Associated Works Phase I Project  
Letter Agreement  

Excellency:

In response to the request for financial assistance made on behalf of the Palestine Liberation Organization ("Recipient"), I am pleased to inform you that the International Development Association ("Bank"), acting as administrator of grant funds provided by various donors ("Donors") under the Partnership for Infrastructure Development 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 forty-two million United States Dollars (USD 42,000,000) ("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").

This Grant is funded out of the abovementioned trust fund for which the Bank receives periodic contributions from the Donors. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donors under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.
Please confirm the Recipient's agreement to the foregoing by having an authorized official of the Recipient sign and date this Agreement and returning one duly executed copy to the Bank.

Very truly yours,
INTERNATIONAL DEVELOPMENT ASSOCIATION
(acting as Administrator for the Partnership in Infrastructure Development Multi-Donor Trust Fund)

By Kanthan Shankar
Country Director for West Bank and Gaza
Middle East and North Africa Region

AGREED:
PALESTINE LIBERATION ORGANIZATION
(for the benefit of the Palestinian Authority)

By
Authorized Representative

Name: Shukry Boris
Title: Minister of Finance
Date: 28/12/2020

Enclosures:
(1) “International Bank for Reconstruction and Development and International Development Association Standard Conditions for Grant Financing Made by the Bank out of Trust Funds” dated February 25, 2019
(2) Disbursement and Financial Information Letter of the same date as this Agreement, together with the “Disbursement Guidelines for Investment Project Financing”, dated February 2017
ANNEX I

(A) WHEREAS the Recipient, having satisfied itself as to the feasibility and priority of the Project, has requested the International Development Association ("Bank") to assist in financing the Project; and

(B) WHEREAS by agreement of even date herewith (the TFGWB Grant Agreement), the Bank, acting as administrator of the Trust Fund for Gaza and West Bank has agreed to extend to the Palestine Liberation Organization (for the benefit of the Palestinian Authority) a grant in the amount of fifteen million Dollars ($15,000,000) (the TFGWB Grant) to assist the Recipient in the financing of the Project.

The Recipient and the Bank hereby agree as follows:

Article I

Standard Conditions; Definitions

1.01. Standard Conditions. The Standard Conditions (as defined in Section 1.02 below) constitute an integral part of this Agreement.

1.02. Definitions. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions, the TFGWB Grant Agreement, or in this Section:

(a) "Anti-Corruption Guidelines" means, for purposes of paragraph 2 of the Appendix to the Standard Conditions, 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, and as of July 1, 2016.

(b) "Category" means a category set forth in the table in Section 3.01 of this Agreement.

(c) "Procurement Regulations" means, for purposes of paragraph 20 of the Appendix to the Standard Conditions, the "World Bank Procurement Regulations for IPF Borrowers", dated July 2016, revised November 2017 and August 2018.

(d) "Standard Conditions" means the "International Bank for Reconstruction and Development and International Development Association Standard Conditions for Grant Financing Made by the Bank out of Trust Funds", dated February 25, 2019, with the modifications set forth in the Appendix.

Article II

Project Execution

2.01. Project Objectives and Description. The objective of the Project is to improve the quality and quantity of bulk water supplied to the municipalities served in the Project area and to strengthen the capacity of the PWA. The Project consists of the following parts:
Part 1: Improved Supply of Bulk Water to the Southern and Middle Governorates of Gaza

Provision of support for the implementation of an integrated system of water carriers and reservoirs to convey and blend water from selected water sources to meet WHO Guideline, through the carrying out of the following activities:

(a) Establishment of a southern main carrier system through the enhancing of the capacity for blending, storage and bulk supply of drinking water to Rafah and Khan Younis Governorates.

(b) Carrying out of water supply network improvement works for Middle Gaza and Khan Younis Governorates to increase the capacity to effectively utilize drinking water at Bani Said and Bani Suhaila connection points.

(c) Reconfiguration of the water distribution system in the southern Governorate to increase water storage capacity in the Rafah and Khan Younis Governorates.

(d) Reconfiguration of the water distribution system in the middle Gaza Governorate where they connect with the new bulk water system to enable them to receive and effectively distribute the blended bulk water.

Part 2: Capacity Building and Performance Improvement of Selected Institutions

Strengthening the technical capacity of PWA to ensure the operation and maintenance of the STLVs during implementation and operation and maintenance stages of the integrated bulk water supply system, and provision of support for the design of a NSPIP to improve service delivery and reduce the need for sector subsidies, as well as to prepare priority bulk water investments in the Recipient’s territory, through the provision of support for the following activities:

(a) Establishment of a bulk water supply unit in Gaza to gradually take on responsibility for: (i) operation and maintenance of the STLVs; (ii) monitoring and management of bulk water purchases from Israel; (iii) management and operation of groundwater wells in the middle and southern Gaza governorates to be utilized for blending; (iv) blending of bulk water sources for distribution and onward sale to municipalities; and (v) billing and collection (on behalf of PWA) for bulk water sales to municipalities.

(b) Design of a national service provider improvement program to improve the operational and financial performance of service providers, setting out a framework of incentives that will: (i) support SPs to move up the performance ladder; (ii) separate water service provision from other municipal services; (iii) where appropriate, support clustering of SPs to achieve economies of scale and work towards the establishment of regional utilities; and (iv) promote future PPPs to the extent feasible, either through performance based contracts to reduce non-revenue water, meter reading, billing and collection, or more comprehensive management contracts.

(c) Identification of priority investment planning for bulk water supply in West Bank through the following activities: (i) updating the water sector policy and strategy;
(ii) preparing an integrated bulk water master plan for the West Bank, which will identify and prioritize investments to set up a bulk water supply and conveyance system; and (iii) preparing detail designs and ESIsAs for the identified priority investments related to distribution of water.

Part 3: Project Management and Implementation Support

(a) Provision of support to PWA and its PMSU for Project management, monitoring and evaluation, including: (i) Resettlement Costs and expenses associated with the implementation of the RAP for the Project; (ii) salaries of PMSU staff; (iii) PMSU operating costs; (iv) reasonable office equipment; (v) consultant services to support technical reviews and implementation of environmental and social safeguards; and (vi) overall project management, monitoring, evaluation and reporting.

(b) Provision of technical assistance to PWA for the supervision of the procurement processes necessary under the Project, including supervision of contract implementation.

(c) Provision of support for the new bulk water supply unit in Gaza to be created under Part 2(a) of the Project, including: (i) salaries and incremental operating costs for bulk water supply in Gaza; (ii) cost of STLVs' consumables, including fuel, lab testing kits; and (iii) maintenance costs.

2.02. Project Execution Generally. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall cause PWA to carry out the Project in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the Anti-Corruption Guidelines; and (c) this Article II.

2.03. Institutional and Other Arrangements. Without limitation upon paragraph 2.02 above, the Recipient, shall:

(a) The Recipient shall cause the PWA to implement the Project and to this end, shall cause the PWA to:

(i) maintain, throughout Project implementation, the Project Management and Support Unit ("PMSU") in charge of overall coordination of the Project and day-to-day management of its activities, including reporting requirements, in form and with terms of references, functions, composition, staffing and adequate resources acceptable to the Bank, and as further described in the Project Implementation Manual; and

(ii) carry out the Project in accordance with a manual, acceptable to the Bank ("Project Implementation Manual" or "PIM"); not amend, abrogate or waive the PIM or any of its provisions without the Bank's prior written consent; and (ii) ensure that, in case of any conflict between the provisions of the PIM and the provisions of this Agreement, the provisions of this Agreement shall prevail.
(b) **Steering Committee.** The Recipient shall cause PWA to maintain throughout Project implementation a committee (“Steering Committee”) with membership and terms of reference acceptable to the Bank, with the following functions: (i) review annual workplans and budget; (ii) review progress, achievements and discuss any pending issues that need to be resolved at higher levels; and (iii) provide overall policy guidance. The Steering Committee will meet at least twice a year and hold extraordinary meetings when necessary.

(c) **Subsidiary Agreement and On-Granting Agreement.** 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 Bank, which shall include the following:

(i) The Palestinian Authority shall on-grant the proceeds of the Grant to PWA under an on-granting agreement (“On-Granting Agreement”) to be entered into between the Palestinian Authority and PWA, under terms and conditions approved by the World Bank.

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

(iii) The Recipient shall exercise its rights under the Subsidiary Agreement and shall cause the Palestinian Authority to exercise its rights under the On-Granting Agreement, in such manner as to protect the interests of the Recipient, the Palestinian Authority and the Bank and to accomplish the purposes of the Grant. Except as the 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.

(d) **Arrangements with Service Providers.** The Recipient shall cause PWA to, not later than 12 months after the Effectiveness date, enter into arrangements, under terms and conditions acceptable to the Bank and included in the PIM, with Service Providers benefiting from the Project (jointly or through separate arrangements), for the purposes of: (i) handing over the management and operations of certain water production and storage infrastructure (including water wells) which will be part of the new bulk system; (ii) establishing a framework for gradual purchase of bulk water at an agreed price; and (iii) identifying, and outlining the capacity building and institutional support needed for said SP.
(e) Annual Work Plans and Budgets

(i) Not later than November 15 in each calendar year, the Recipient shall cause the PWA to submit an annual work plan and budget for the Project (including Training and Operating Costs) for the subsequent calendar year of the Project.

(ii) The Recipient shall cause the PWA to afford the Bank a reasonable opportunity to review such draft annual work plan and budget, and thereafter shall carry out such annual work plan and budget during such subsequent calendar year as shall have been approved by the Bank ("Annual Work Plan and Budget"). Only those activities that are included in an Annual Work Plan and Budget shall be eligible for financing out of the proceeds of the Grant.

(iii) The Recipient shall cause the PWA to carry out the Project in accordance with the Annual Work Plans and Budgets.

(iv) The Recipient (through PWA) may revise Annual Work Plans and Budgets as needed during Project implementation subject to the Bank’s prior written approval.

(f) Safeguards

(i) The Recipient shall, and shall cause the PWA to, carry out the Project in accordance with the ESIA/ESMP, Action Plan and the RAP. Except as otherwise agreed by the Bank, the Recipient shall, and shall cause the PWA to, not amend, abrogate, waive, or fail to enforce the ESIA/ESMP, Action Plan or the RAP, or any of their provisions.

(ii) The Recipient shall cause the PWA to establish, and thereafter, maintain, throughout Project implementation, and publicize the availability of a grievance and redress mechanism (GRM), in form and substance satisfactory to the Bank, to hear and determine fairly and in good faith all complaints raised in relation to the Project, and take all measures necessary to implement the determinations made by such mechanism in a manner satisfactory to the Bank.

2.04. Project Monitoring, Reporting and Evaluation. The Recipient shall ensure that each Project Report (semi-annual progress reports) is furnished to the Bank not later than forty-five days after each calendar semester, covering the calendar semester.

2.05. Procurement

All goods, works, non-consulting services and consulting services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in the “World Bank Procurement Regulations for IPF Borrowers” dated July 2016, revised November 2017 and August 2018 ("Procurement Regulations"), and the provisions of the Recipient’s procurement plan for the Project ("Procurement Plan") dated October 21, 2019
provided for under Section IV of the Procurement Regulations, as the same may be updated from time to time in agreement with the World Bank.

**Article III**

**Withdrawal of Grant Proceeds**

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions; and (b) this Section; to finance Eligible Expenditures in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table.

<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>Goods, works, non-consulting services, consulting services, Training and Operating Costs under the Project.</td>
<td>42,000,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td>42,000,000</td>
<td></td>
</tr>
</tbody>
</table>

*percentages of disbursements will be allocated following the specifications included in the Work Plans

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.

3.03. **Withdrawal Period.** The Closing Date is December 31, 2024.

**Article IV**

**Effectiveness; Termination**

4.01. This Agreement shall not become effective until evidence satisfactory to the Bank has been furnished that the conditions specified below have been satisfied in a manner and in form and substance satisfactory to the Bank:

(a) The execution and delivery of this Agreement on behalf of the Recipient and of the Implementation Agreement on behalf of PWA, have been duly authorized or ratified by all necessary governmental and corporate action.

(b) The Subsidiary Agreement has been executed on behalf of the Recipient and the Palestinian Authority.

(c) The On-granting Agreement has been executed on behalf of the Palestinian Authority and PWA.

(d) The TFGWB Grant Agreement have been executed and delivered and all
conditions precedent to its effectiveness have been fulfilled

Article V
Recipient’s Representative; Addresses

5.01. Recipient’s Representative. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is its minister of finance.

5.02. Recipient’s Address. For purposes of Section 7.01 of the Standard Conditions, the Recipient’s Address is:

Ministry of Finance
Palestinian Authority
Ramallah, West Bank and Gaza

Telephone: 970-2-297 8846
Facsimile: 970-2-297-8845

5.03. Bank’s Address. For purposes of Section 7.01 of the Standard Conditions, the Bank’s address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America; and

Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: 1-202-477-6391
APPENDIX

Modifications to the Standard Conditions

The Standard Conditions are modified as follows:

1. Section 2.11, Procurement is deleted in its entirety and the remaining Section 2.12, Anti-Corruption in Article II is renumbered accordingly.

2. Paragraph (18) of the Appendix is deleted and, consequently, paragraphs (19) through (28) are re-numbered as paragraphs (18) through (27).