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Report No: PAD1154

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROJECT PAPER

ON A

PROPOSED ADDITIONAL GRANT

IN THE AMOUNT OF US\$15.0 MILLION

TO THE

PALESTINE LIBERATION ORGANIZATION
(FOR THE BENEFIT OF THE PALESTINIAN AUTHORITY)

AND RESTRUCTURING

FOR THE

GAZA EMERGENCY RESPONSE ADDITIONAL FINANCING TO THE SECOND MUNICIPAL
DEVELOPMENT PROJECT (MDP-2)

October 17, 2014

Urban, Rural and Social Development Global Practice
Middle East and North Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective August 31, 2014)

Currency Unit	=	
EUR0.76	=	US\$1
ILS3.57	=	US\$1

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AFD	Agence Française de Développement (French Development Agency)
BoD	Board of Director
BTC	Belgian Technical Cooperation
CE	Cost Efficiency
CQS	Consultants' Qualifications Selection
CMWU	Coastal Municipal Water Utility
DA	Designated Account
DaLA	Damage and Loss Assessment
DANIDA	Danish International Development Agency
EA	Environmental Assessment
EMP	Environmental Management Plan
ESIA	Environmental and Social Impact Assessment
ESMF	Environmental and Social Management Framework
EU	European Union
EUR	Euro
FM	Financial Management
FNPV	Financial Net Present Value
FP	Funding Partners
GA	Grant Agreement
GiZ	German International Cooperation
GRM	Grievance Redress Mechanism
IBRD	International Bank for Reconstruction and Development
ICB	International Competitive Bidding
IDA	International Development Agency
IFRs	Interim Financial Reports
ILS	Israeli New Sheqalim
IMF	International Monetary Fund
KfW	Kreditanstalt für Wiederaufbau
LCS	Least Cost Selection
LTCs	Local Technical Consultants
MDLF	Municipal Development and Lending Fund
MDP	Municipal Development Program
MDP-1	First Municipal Development Project
MDP-2	Second Municipal Development Project
MDTF	Multi-Donor Trust Fund
MIS	Management Information System

M&E	Monitoring and Evaluation
MoF	Ministry of Finance
MoLG	Ministry of Local Government
NERRPG	National Early Recovery and Reconstruction Plan for Gaza
NCB	National Competitive Bidding
NGO	Non-Governmental Organization
NPV	Net Present Value
O&M	Operations and Maintenance
OM	Operations Manual
OP	Operational Policy
ORAF	Operational Risk Assessment Framework
PA	Palestinian Authority
PCBS	Palestine Central Bureau of Statistics
PDO	Project Development Objectives
PID	Partnership for Infrastructure Development
PLO	Palestinian Liberation Organization
PMP	Pest Management Plan
PP	Procurement Plan
PNDP	Palestinian National Development Plan
PRDP	Palestinian Reform and Development Plan
QBS	Quality Based Selection
QCBS	Quality and Cost Based Selection
RF	Results Framework
S	Satisfactory
SBDs	Standard Bidding Documents
SDC	Swiss Agency for Development and Cooperation
SIDA	Sweden International Development Agency
SOE	Statement of Expenses
SRFP	Standard Request for Proposal
TFGWB	Trust Fund for Gaza and West Bank
TTL	Task Team Leader
UNDP	United Nations Development Programme
UNMAS	United Nations Mine Action Service
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
US\$	United States Dollar
UXO	Unexploded Ordnance
VNG International	International Cooperation Agency of the Association of Netherland Municipalities
WB&G	West Bank and Gaza

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WEST BANK AND GAZA

GAZA EMERGENCY RESPONSE ADDITIONAL FINANCING TO THE SECOND MUNICIPAL DEVELOPMENT PROJECT

CONTENTS

Additional Financing Data Sheet	v
Project Paper	
I. Introduction	1
II. Background and Rationale for Additional Financing in the amount of US\$15.0 million	2
III. Proposed Changes	7
IV. Appraisal Summary	13
Annexes	
Annex 1: Results Framework	17
Annex 2: Operational Risk Assessment Framework (ORAF)	23
Annex 3: Overview of Municipal Damages	28

WEST BANK AND GAZA

GAZA EMERGENCY RESPONSE ADDITIONAL FINANCING TO THE SECOND MUNICIPAL DEVELOPMENT PROJECT

ADDITIONAL FINANCING DATA SHEET

West Bank and Gaza

GZ Emergency Response Second Municipal Development Project AF (P152523)

MIDDLE EAST AND NORTH AFRICA

GSURR

Basic Information – Parent									
Parent Project ID:	P127163			Original EA Category:	B - Partial Assessment				
Current Closing Date:	30-Jun-2017								
Basic Information – Additional Financing (AF)									
Project ID:	P152523			Additional Financing Type (from AUS):	Scale Up				
Regional Vice President:	Inger Andersen			Proposed EA Category:	B - Partial Assessment				
Country Director:	Steen Lau Jorgensen			Expected Effectiveness Date:	10-Nov-2014				
Senior Global Practice Director:	Ede Jorge Ijjasz-Vasquez			Expected Closing Date:	28-Feb-2018				
Practice Manager/Manager:	Nina Bhatt			Report No:	PAD1154				
Team Leader:	Bjorn Philipp								
Borrower									
Organization Name	Contact	Title	Telephone	Email					
Palestine Liberation Organization	Ms. Laila Sbaih	Director General	0599111731	lsbaih@yahoo.com					
Project Financing Data–Parent (GZ-Second Municipal Development Project-P127163)									
Key Dates									
Project	Ln/Cr/TF	Status	Approval Date	Signing Date	Effectiveness Date	Original Closing Date	Revised Closing Date		
P127163	TF-14164	Effective	07-Jul-2013	07-Jul-2013	22-Aug-2013	28-Feb-2017	28-Feb-2018		
P127163	TF-16476	Effective	26-Mar-2014	26-Mar-2014	17-Apr-2014	30-Jun-2017	28-Feb-2018		
Disbursements									
Project	Ln/Cr/TF	Status	Currency	Original	Revised	Cancelled	Disbursed	Undisbursed	% Disbursed

P127163	TF-14164	Effective	USD	10.00	10.00	0.00	5.19	4.81	51.93
P127163	TF-16476	Effective	USD	25.80	25.80	0.00	6.39	19.41	24.76
Project Financing Data –Additional Financing GZ Emergency Response Second Municipal Development Project AF (P152523)									
<input type="checkbox"/> Loan <input checked="" type="checkbox"/> Grant <input type="checkbox"/> IDA Grant <input type="checkbox"/> Credit <input type="checkbox"/> Guarantee <input type="checkbox"/> Other									
Total Project Cost:		15.00			Total Bank Financing:		15.00		
Financing Gap:		0.00							
Financing Source – Additional Financing (AF)								Amount	
Borrower								0.00	
Partnership for Infrastructure Development in the West Bank and Gaza								12.00	
Special Financing								3.00	
Total								15.00	
Policy Waivers									
Does the project depart from the CAS in content or in other significant respects?							No		
Explanation									
Does the project require any policy waiver(s)?							No		
Explanation									
Team Composition									
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Verena Pfeiffer		Economist (Consultant)			
Locations					
Country	First Administrative Division	Location	Planned	Actual	Comments
West Bank and Gaza	Gaza	Gaza		X	
West Bank and Gaza	West Bank	West Bank		X	
Institutional Data					
Parent (GZ-Second Municipal Development Project-P127163)					
Practice Area / Cross Cutting Solution Area					
Social, Urban, Rural and Resilience Global Practice					
Cross Cutting Areas					
[] Climate Change					
[] Fragile, Conflict & Violence					
[] Gender					
[] Jobs					
[] Public Private Partnership					
Sectors / Climate Change					
Sector (Maximum 5 and total % must equal 100)					
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %	
Public Administration, Law, and	Sub-national	26		3	

Justice	government administration			
Transportation	Urban Transport	23		
Water, sanitation and flood protection	General water, sanitation and flood protection sector	23		
Energy and mining	Transmission and Distribution of Electricity	23		
Energy and mining	Other Renewable Energy	5		100
Total		100		
Themes				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		
Urban development	Urban services and housing for the poor	76		
Public sector governance	e-Government	8		
Environment and natural resources management	Climate change	6		
Urban development	Municipal governance and institution building	5		
Social dev/gender/inclusion	Gender	5		
Total		100		
Additional Financing GZ Emergency Response Second Municipal Development Project AF (P152523)				
Practice Area / Cross Cutting Solution Area				
Social, Urban, Rural and Resilience Global Practice				
Cross Cutting Areas				
[] Climate Change				
[X] Fragile, Conflict & Violence				
[X] Gender				
[] Jobs				
[] Public Private Partnership				
Sectors / Climate Change				
Sector (Maximum 5 and total % must equal 100)				
Major Sector	Sector	%	Adaptation Co-benefits %	Mitigation Co-benefits %

Public Administration, Law, and Justice	Sub-national government administration	26		
Energy and mining	Transmission and Distribution of Electricity	23		
Transportation	Urban Transport	23		
Water, sanitation and flood protection	General water, sanitation and flood protection sector	23		
Energy and mining	Other Renewable Energy	5		
Total				
		100		
<input checked="" type="checkbox"/> I certify that there is no Adaptation and Mitigation Climate Change Co-benefits information applicable to this project.				
Themes				
Theme (Maximum 5 and total % must equal 100)				
Major theme	Theme	%		
Urban development	Urban services and housing for the poor	76		
Public sector governance	e-Government	8		
Environment and natural resources management	Climate change	6		
Social dev/gender/inclusion	Gender	5		
Urban development	Municipal governance and institution building	5		
Total				
		100		

I. Introduction

1. This Project Paper seeks the approval of the Executive Directors to provide an additional grant and restructuring in the amount of US\$3 million to the Palestine Liberation Organization (PLO) for the benefit of the Palestinian Authority (PA), West Bank and Gaza, funded from the Trust Fund for Gaza and the West Bank for the Second Municipal Development Project. In addition, the project will be co-financed by a grant in the amount of US\$12 million from the World Bank administered Partnership for Infrastructure Development Multi-Donor Trust Fund (PID-MDTF), for the Second Municipal Development Project (P127163, Grant No. TF014164 and TF016476). The AF has been requested by the PA, through the Municipal Development and Lending Fund (MDLF) on behalf of the Ministry of Local Government (MoLG). The proposed Additional Financing (AF) was prepared in accordance with OP/BP 10.00 paragraph 12 “Projects in Situations of Urgent Need of Assistance or Capacity Constraints”. In addition, the original Project will be restructured to extend the closing date in alignment with the closing date of the AF, to make revisions to the Project Development Objective (PDO), the Results Framework (RF), and the Project Components.

2. The proposed AF to the Second Municipal Development Project (MDP-2) would finance the costs associated with the scaling-up of project activities to support the emergency response efforts in Gaza following the damages and service interruptions incurred during the conflict in Gaza in July-August 2014. The scale-up would provide funding for investment grants to Gaza municipalities to assist in restoring critical municipal service provision in Gaza. The type of sub-projects to be financed would be identical to those eligible under the original grant. However, a different grant allocation procedure would be applied. Investments financed by the AF would be selected based on the critical needs identified in a municipal damage assessment completed by the PA. Grants to individual municipalities would be allocated based on the results of the damage assessment. Sub-project investments per municipality would be further prioritized according to the procedure of the original project and as outlined in the MDP-2 Operational Manual (OM). Similar to the original grant, the AF will also finance recurrent expenditures of eligible municipalities in Gaza. The AF will apply simplified procurement procedures and the option of retroactive financing per OP/BP 10.00 paragraph 12.

3. The proposed changes under the AF include (i) a change in the PDO to reflect the Gaza municipal service emergency response; (ii) a restructuring of the Project Components to include an additional component for the Gaza Emergency investments financed by the AF; (iii) a revision of procurement arrangements in line with OP/BP10.00 paragraph 12 to allow simplified procurement procedures; and (iv) a revision of the RF to include results indicators measuring the performance of activities financed by the AF. An extension of the closing date of the original grant (TF14164 and TF16476), to February 28, 2018 would be necessary to absorb the additional funds. No changes would be made to the implementation arrangements with the Municipal Development and Lending Fund (MDLF) being fully responsible for all project implementation, safeguards, fiduciary, monitoring and reporting arrangements. The current safeguards instruments in place for the parent operation are sufficient and in full compliance with the Bank’s OP/BPs. All impacts of the proposed Emergency AF will be addressed through the existing safeguards instruments.

4. The AF will be funded from Special Financing from the Trust Fund for Gaza and the West Bank (TFGWB), and supplemented by co-financing from the World Bank administered Partnership for Infrastructure Development (PID) Multi-Donor Trust Fund (MDTF). All necessary co-financing for the Gaza Emergency AF to MDP-2 has been committed through donor contribution agreements for the PID MDTF. Denmark has agreed to make a supplemental contribution of DKK 60 million. The Amendment to the Trust Fund Administration Agreement was signed on September 22, 2014. Germany, through KfW, is expected to provide financing in parallel. The donors are collectively referred to as “Funding Partners”. In addition, the PA is currently in discussion with several Donors for additional financing to fund long-term reconstruction needs exceeding the scope of this AF.

5. Project financing under this AF reflects the full amount required for this project and allocated from all sources, but does not reflect cash at hand since donor funding for the MDTF is provided in tranches. As such, the Grant Agreement (GA) for the PID MDTF co-financing will be issued only up to the amount of cash currently available from the trust fund. The GA would be amended as supplemental tranches from donors are received, but would not exceed the total financing envelope for this Emergency AF as detailed in this document. Such supplemental amendments to the GA would not be considered “Additional Financing” per OP/BP 10.00 and would not require Board approval.¹ The additional financing from the World Bank’s TFGWB is secured and will be reflected in an amendment to the original GA.

II. Background and Rationale for Additional Financing in the amount of US\$15.0 million

Strategic Alignment of the AF

6. **Alignment with the World Bank Group’s twin goals of ending extreme poverty and boosting shared prosperity.** Beneficiaries of the proposed AF are the population of Gaza municipalities, equivalent to more than 90 percent of the 1.8 million residents in Gaza. Activities financed by the AF will restore basic municipal services to improve the livelihoods of Gaza residents which were devastated by the July-August 2014 Gaza conflict. While there are no recent poverty estimates, it is believed that close to half of Gaza’s population lives in poverty. Some 70 percent of Gaza’s population had already been aid dependent prior to the recent conflict. Already prior to the conflict, unemployment in Gaza had jumped to 45 percent (June 2014), with youth unemployment close to 70 percent. The recent Gaza conflict further exacerbated living conditions in Gaza, already at very low levels, with further significant reduction in income expected from the economic losses incurred as a result of the conflict.

7. **Alignment with Assistance Strategy.** The AF is aligned with the proposed World Bank Group’s West Bank and Gaza Assistance Strategy FY15–16 (Report No: 89503-GZ), Pillar 1: Strengthen public institutions to ensure service delivery to citizens, and fully in line with the World Bank’s MNA Regional Strategy, supporting the pillar on sustainable growth. It is aligned by improving municipal performance through the implementation of a performance based grant and municipal capacity building packages focused on municipal finance, social accountability and community based strategic planning.

¹ Any project restructuring will be prepared and processed in line with OP/BP 10.00 and the associated instructions. Amendments to the GA would be subject to standard clearance procedures prior to signature.

8. **Link with the PA Sector Strategy.** The multiphase Municipal Development Program² operationalizes the PA's goal of strengthening local governments through enhancing their efficiency and effectiveness and assisting in supporting their fiscal stability through supporting performance-based grants and capacity building packages. Such a goal was outlined in the Palestinian National Development Plan³ (2011-2013) and reconfirmed in the National Development Plan (NDP) 2014-2016.⁴ The Emergency AF is fully in line with the PA's National Early Recovery Plan aiming at restoring municipal services following the conflict in Gaza.⁵

Original Grant

9. The original Grant in the amount of US\$10 million in Special Financing from the Trust Fund for Gaza and West Bank (TFGWB) was approved by the World Bank Board of Directors on May 23, 2013. The grant was signed on July 7, 2013, and became effective on August 22, 2013. The original closing date of MDP-2 is February 28, 2017. Co-financing in the amount of US\$25.8 million equivalent is provided by Denmark and Sweden through the World Bank administered PID MDTF. Other Funding Partners⁶ are providing financing in parallel in the total amount of EUR20.6 million (US\$27.2 million equivalent). The PA contributes ILS42.3 million (US\$11.9 million equivalent). The original PDO is *"to improve the Recipient's municipal management practices for better municipal transparency and service delivery."* To meet its development objectives, the MDP-2 finances the following four components:

- Component 1: Municipal Grants for Capital Investments allocates performance-based grants for capital investments or operating expenditures through a transfer formula based on population, need and municipal performance. (Total US\$53.6 million, US\$7.03 million from TFGWB, US\$18.99 million from PID MDTF).
- Component 2: Support to Municipal Innovations and Efficiency promotes learning and innovation to promote municipal development (Total US\$6.5 million, US\$0.77 million from TFGWB, US\$2.91 million from PID MDTF).
- Component 3: Capacity-Building for municipalities and the Municipal Development and Lending Fund (MDLF) supports municipalities to graduate to a higher performance

² The multiphase national Municipal Development Program has a three stage hierarchy of objectives: a) *Sector-Level Objective*: To strengthen municipal governance to enable municipalities to become creditworthy; b) *Program Level Objective*: Support municipalities in providing better coverage and improved coverage of services over the medium term; c) *Municipal Development Program Phase 1 Objective*: To improve municipal management practices for better transparency.

³ Palestinian Authority, 2010. The Palestinian National Development Plan has as a strategic objective 'to empower local government and bring services closer to the people'. 'Accelerating fiscal decentralization' appears as a priority policy under that strategic objective.

⁴ National Development Plan 2014-2016. State Building to Sovereignty. Palestinian Authority, 2014.

⁵ The National Early Recovery and Reconstruction Plan 2014-2017. Palestinian Authority. Draft not yet authorized for circulation.

⁶ Funding Partners include: Germany (through KfW and GiZ), the Netherlands (through the International Cooperation Agency of the Association of Netherland Municipalities, VNG International), Belgium (through the Belgian Technical Cooperation, BTC), the European Union (EU), France (through AFD), and Switzerland (through Swiss Agency for Development and Cooperation, SDC).

category, and supports the implementing agency to build its capacity (Total US\$6.25 million, US\$0.60 million from TFGWB, US\$1.17 million from PID MDTF).

- Component 4: Project Implementation Support and Management Costs (Total US\$8.5million, US\$1.60 million from TFGWB, US\$2.73 million from PID MDTF).

10. **Status of implementation of the original grant.** Since effectiveness, the project's PDO and implementation progress have both been consistently rated as 'Satisfactory'. Ratings for Environmental and Social Safeguards are also 'Satisfactory', as are Procurement and Financial Management ratings. OP4.01 (Environmental Assessment) and OP 4.09 (Pest Management) were triggered. The implementation of Bank safeguards requirements is progressing well. The sub-project level screening mechanism, Environmental Management Plan (EMP) formulation, implementation, supervision, and reporting procedures are satisfactory, with quarterly progress reports being submitted in a timely manner. The legal covenants, most of which are recurrent, are continuously being monitored and complied with.

Rationale for requesting Additional Financing

11. The July-August 2014 Gaza conflict caused significant damage across Gaza. Municipal infrastructure has been severely hit. The MDLF, in close collaboration with the 25 Gaza municipalities, has prepared a municipal damage assessment endorsed by the Ministry of Local Government (MoLG). The assessment estimates total damages to around US\$58.6 million. In addition to the physical damages, municipalities' ability to sustain basic service provision has been seriously affected by the conflict's impact on their financial position. Municipal revenue sources comprise predominantly of user fees and charges from citizens who are unable to pay following the conflict. Gaza municipalities require significant financial support to restore basic service provision to the population. Immediate needs to support municipal operation and maintenances costs are estimated at around US\$14.5 million. MDP-2 has been a reliable source of investment funding to municipalities and is considered a dependable and fast channel to provide demand-based support through a transparent allocation mechanism. However, although grants provided by MDP-2 have been an important source of municipal investment financing in Gaza in the past, the limited funds available under the project would not allow meeting the critical emergency needs faced by Gaza municipalities following the July-August 2014 conflict. The AF will provide funding to support restoring high priority basic municipal services.

12. Gaza Emergency AFs are also proposed for the ongoing Bank-financed Water Supply and Sewage System Improvement Project (P101289) and the Gaza Electricity Network Rehabilitation Project (P116199) to address urgent needs and restore critical services in the water and wastewater, and energy sectors. Although total available funding will not suffice to address the full scope of damages from the July-August 2014 conflict, the proposed Gaza Emergency AF operations are critical given the urgent need to ensure delivery of critical basic services in the three sectors and enable the PA to respond to the emergency needs. Funds across the three sectors were allocated in close coordination with the PA sector authorities, based on the rapid damage assessments prepared with support from the Bank, and considering availability of sector funding from other donors, including for parallel financing. Allocation within sectors follows the priorities identified by the PA sector authorities. However, significant additional funding for

recovery and reconstruction will be required and would need to be mobilized by the PA, as outlined in the following section.

Sector policy or strategy

13. **The recent conflict in Gaza had devastating impacts.** According to the United Nations Office for the Coordination of Humanitarian Affairs (UNOCHA) estimates, 2,131 people died, close to 11,000 people were wounded, and 28 percent of Gazans were displaced during the conflict. Prior to the conflict, a consensus Palestinian government under the leadership of President Abbas was established in May 2014, with a cabinet of technocrats, who are not affiliated to any political party, but with broad support from all Palestinian parties. Growth, which started falling since 2012 as a result of a decline in foreign aid, fell further to less than two percent in 2013. The closures of the illicit tunnels with Egypt, which represented the main trade channel for imports and exports, particularly affected Gaza, and the economies of both the West Bank and Gaza went into recession in 2014. Preliminary estimates by the Palestine Central Bureau of Statistics (PCBS) indicate that growth in the first quarter of 2014 amounted to -1 percent (0.5 percent in the West Bank and -4 percent in Gaza). Israeli restrictions on economic activity, in particular those on trade, movement and access substantially increase the cost of trade and make it impossible to import many production inputs into the Palestinian territories.⁷

14. **The restrictions on import and export and on movement of people for Gaza are particularly severe.** Movement of people and goods in and out of Gaza has been restricted since June 2007. Israeli restrictions have been eased since 2010 for some construction materials, but exports are still virtually blocked from Gaza and must be destined to a third country (neither Israel nor the West Bank, which traditionally absorbed 85 percent of Gaza's exports.) The economic decline is resulting in increased unemployment. Unemployment reached 26 percent by the middle of 2014: 16 percent in the West Bank and a staggering 45 percent in Gaza. At 40 percent each, women and youth have particularly high levels of unemployment. Almost 23 percent of the workforce is employed by the public sector, an uncommonly high proportion that reflects the lack of dynamism in the private sector. A quarter of all Palestinians live in poverty according to a national poverty line based on a basic needs package of goods, with poverty rates in Gaza being twice that of the West Bank.

15. **The economic impact of the conflict has not been fully quantified yet, but is doubtless severe.** The loss in national GDP compared to the pre-conflict forecast is estimated at more than US\$0.65 billion. Economic activity in Gaza has all but stopped for almost two months. The World Bank and International Monetary Fund (IMF) are forecasting that the Palestinian economy will shrink by almost four percent in real terms, with growth projected at -15 percent for Gaza and 0.5 percent for the West Bank for 2014.

16. **The conflict resulted in massive destruction of infrastructure.** Needs for immediate relief and early recovery assistance are enormous. The PA has been preparing a comprehensive strategy and plan to deal with the aftermath of the Gaza conflict. As the first phase in the planning process, the PA has launched rapid damage assessments for specific sectors. An early

⁷ According to the Government of Israel, these restrictions are for the purpose of enhancing the security of Israel and Israeli citizens.

draft of the plan called “The National Early Recovery and Reconstruction Plan for Gaza” (NERRPG) has been shared with the Bank and other donor partners. It comprises a vision for Gaza’s reconstruction and socioeconomic recovery; early damage estimates; and principles for the implementation of the plan. Given that full damage and needs assessments for all relevant sectors are yet to be completed, the plan will be a living document for the next few months.

17. **The total damage and needs are not fully known yet but are likely to be in the billions of dollars.** The Bank has been active from early stages in the joint effort to design a recovery and reconstruction plan for Gaza. The PA has asked the Bank, the United Nations Development Programme (UNDP), and the European Union (EU) to take the lead on the post-humanitarian phase needs assessments, which will be a critical input to enable the PA to revise and finalize the NERRPG. At the request of the PA, the Bank also contributes to the damage assessments in the sectors where the Bank is one of the PA partners in project implementation. These include water and sanitation, energy, and municipal development. Rapid assessments estimate damages to the water and sanitation infrastructure at around US\$34 million; and at around US\$42.5 million in the electricity sector.

18. **Damages to municipal infrastructure and public facilities are estimated at more than US\$58 million,** excluding the infrastructure and networks owned and operated by utilities. Damaged infrastructure includes local roads, solid waste management infrastructure, administrative buildings and equipment, street lighting, but also municipal cultural centers, markets, public parks and other recreational facilities.⁸ About 50 percent of the damages are born by Gaza City (US\$27.8 million), followed by Rafah (US\$5.7 million), Beit Hanoun (US\$4.6 million), and Khuza’aa (US\$3.1 million). Seven other municipalities incurred estimated damage of over US\$1 million. Although the larger municipalities with a wider range of assets have suffered greater damages in terms of absolute costs, the smaller municipalities have accumulated higher per capita damages. For example, Wadi Gaza and Khuza’a, both located close to the green-line (i.e., the Gaza restricted access zone next to the Gaza separation wall), account for some of the highest per capita damages in the range of US\$326 to US\$356 per capita. A summary overview table of the type, location, and cost of damages is attached in Annex 3.

⁸ In Gaza City, damages to the water and wastewater infrastructure were included in the assessment given that the municipality is responsible for the sector. However, it was agreed between Gaza City and the Coastal Municipal Water Utility (CMWU) that CMWU would address recovery needs in the water and wastewater sector with funding provided by KfW.

Alternatives to Additional Financing

19. Preparing a stand-alone emergency response operation was considered as an alternative to AF. However, this option was rejected for the following reasons: (i) sector-specific infrastructure investment operations in the water, energy and municipal sector exist that can be scaled-up swiftly with additional financing using effective and well-performing implementation arrangements; (ii) MDP-2 has a strong track record among municipalities and Development Partners and is considered the preferred funding channel to provide funds quickly to Gaza municipalities in need; (iii) the PDO, project design and RF only require modest revisions to accommodate the AF; and (iv) no changes to the implementation arrangements would be required, with similar fiduciary and safeguards arrangements that are performing satisfactory and suitable for scaling-up. Based on the above, AF has been considered as the most efficient and fastest alternative.

III. Proposed Changes

Summary of Proposed Changes	
Given the satisfactory performance of MDP-2, proposed changes will be minor to accommodate the proposed AF and reflect a different allocation mechanism for the Gaza emergency funds. The original Project will be restructured to align its closing date with the closing date of the AF, make revisions to the PDO, the Project Components, and the RF. The AF does not require changes to the implementation arrangements. MDLF will remain responsible for all elements of project implementation, including procurement, financial management, and environmental and social safeguards. The proposed AF is processed under streamlined procedures in line with OP10.00 paragraph 12 "Projects in Situations of Urgent Need of Assistance or Capacity Constraints".	
Change in Implementing Agency	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Project's Development Objectives	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Change in Results Framework	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Change in Safeguard Policies Triggered	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change of EA category	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Other Changes to Safeguards	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Legal Covenants	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Loan Closing Date(s)	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Cancellations Proposed	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Disbursement Arrangements	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Reallocation between Disbursement Categories	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Disbursement Estimates	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Change to Components and Cost	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]

Change in Institutional Arrangements	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Financial Management	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]
Change in Procurement	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Change in Implementation Schedule	Yes [<input checked="" type="checkbox"/>] No [<input type="checkbox"/>]
Other Change(s)	Yes [<input type="checkbox"/>] No [<input checked="" type="checkbox"/>]

Development Objective/Results

Project's Development Objectives

Original PDO
 The objective of the project is to improve municipal management practices for better service delivery and municipal transparency.

Change in Project's Development Objectives

Explanation:
 The original PDO “to improve the Recipient’s municipal management practices for better municipal transparency and service delivery” will be revised to reflect the Gaza municipal service emergency response. The PDO is revised to reflect the scale-up of activities to respond to Gaza municipalities’ urgent needs to restore municipal services following the conflict in Gaza.

Proposed New PDO - Additional Financing (AF)

The revised PDO will be “to improve the Recipient’s municipal management practices for better municipal transparency and service delivery, and to restore priority municipal services following the conflict in Gaza.”

Change in Results Framework

Explanation:
 The RF would be revised to (i) reflect the results specific to the Gaza emergency response activities financed under Component 5; and (ii) adjust target values to account for the damages to municipal infrastructure and services. The following two result indicators would be included:

- a. affected population in Gaza with access to restored municipal services (number); and
- b. share of identified priority damages repaired by Gaza municipalities (percentage).

Compliance

Covenants - Additional Financing (GZ Emergency Response Second Municipal Development Project AF - P152523)

Source of Funds	Finance Agreement Reference	Description of Covenants	Date Due	Recurrent	Frequency	Action
				<input type="checkbox"/>		

Conditions					
Source Of Fund		Name		Type	
PID MDTF		Article V 5.01 (a)		Effectiveness	
Description of Condition					
The execution and delivery of this Agreement on behalf of the Recipient and of the Project Agreement on behalf of the Project Implementing Entity have been duly authorized or ratified by all necessary governmental and corporate action.					
Source Of Fund		Name		Type	
PID MDTF		Article V 5.01 (b)		Effectiveness	
Description of Condition					
The Subsidiary Agreement referred to in Section I.A of Schedule 2 to this Agreement has been executed on behalf of the Recipient and the Palestinian Authority.					
Source Of Fund		Name		Type	
PID MDTF		Article V 5.01 (c)		Effectiveness	
Description of Condition					
The On-Granting Agreement referred to in Section I.A of Schedule 2 to this Agreement has been executed on behalf of the Palestinian Authority and the Project Implementing Entity.					
Finance					
Loan Closing Date - Additional Financing (GZ Emergency Response Second Municipal Development Project AF - P152523)					
Source of Funds			Proposed Additional Financing Loan Closing Date		
Partnership for Infrastructure Development in the West Bank (PID MDTF)			28-Feb-2018		
West Bank & Gaza - IBRD Funded			28-Feb-2018		
Loan Closing Date(s) - Parent (GZ-Second Municipal Development Project - P127163)					
Explanation:					
An extension of closing date from February 28, 2017 to February 28, 2018 would be proposed to align the closing date of the original loan with the closing date of the AF, and allow accommodating absorption of the additional funds.					
Ln/Cr/TF	Status	Original Closing Date	Current Closing Date	Proposed Closing Date	Previous Closing Date(s)
TF-14164	Effective	28-Feb-2017	28-Feb-2017	28-Feb-2018	28-Feb-2017
TF-16476	Effective	30-Jun-2017	30-Jun-2017	28-Feb-2018	30-Jun-2017
Change in Disbursement Arrangements					
Explanation:					
Two separate U.S. Dollar Designated Accounts (DAs) will be opened solely for this AF for each funding source at Bank of Palestine (Ramallah), using the same disbursement arrangements as under the original funds. An external auditor, acceptable to the Bank, will be appointed by the MDLF to audit the AF's financial statements based on terms of reference acceptable to the Bank.					
Change in Disbursement Estimates (including all sources of Financing)					

Explanation:										
Disbursement estimates are revised to reflect the Gaza Emergency AF.										
Expected Disbursements (in USD Million) (including all Sources of Financing)										
Fiscal Year	2014	2015	2016	2017	2018					
Annual	6.00	12.00	12.00	10.80	10.00					
Cumulative	6.00	18.00	30.00	40.80	50.80					
Allocations - Additional Financing (GZ Emergency Response Second Municipal Development Project AF - P152523)										
Source of Fund	Currency	Category of Expenditure	Allocation		Disbursement % (Type Total)					
			Proposed		Proposed					
SPF	USD	Sub-grants and Recurrent Expenditures under Part 5 of the Project	2.79		100.00					
SPF	USD	MDLF Management Fee (including financial audit)	0.21		100.00					
		Total:	3.00							
PID	USD	Sub-grants and Recurrent Expenditures under the Project	11.16		100.00					
PID	USD	MDLF Management Fee (including financial audit)	0.84		100.00					
		Total:	12.00							
Components										
Change to Components and Cost										
Explanation:										

The Project Components will be revised to include an additional component for the AF financed investments in Gaza municipalities. The additional Component 5 “Gaza Municipal Emergency Grants” would apply an allocation mechanism different from the MDP-2 performance-based formula applied in Component 1 “Municipal Grants for Capital Investment”. The allocation amount under Component 1 is determined through a transfer formula consisting of performance (50 percent), population (30 percent) and need (20 percent). To determine performance, municipalities are ranked from A through E, based on 16 good governance indicators. The performance-based grants provide an incentive to municipalities to implement reforms for better municipal management to achieve the PDO. The proposed Component 5 would use the allocation mechanism described below in order not to distort the current performance based-system.

Component 5: Gaza Municipal Emergency Grants. This component will allocate grants to Gaza municipalities for capital investment service provision, per mandate of municipalities defined in the Local Councils Law No. 1 of 1997, for sectors described as eligible in the Operations Manual (OM) as well as for operating expenditures, similar to Component 1. Allocations to municipalities will be made based on the results of the Municipal Damage Assessment, which will determine the share of grants allocated to individual municipalities. Municipalities will then propose priority sub-projects which will be financed and implemented with assistance from the MDLF. Public disclosure of sub-project information will ensure transparency and enhance social accountability between municipalities and citizens. The Component will finance the costs of goods, works and consultant services related to capital assets and operating expenditures. Eligible sectors include, but are not limited to (i) municipal water and wastewater services, if not provided by an utility; (ii) solid waste management services; (iii) roads and sidewalks; (iv) public facilities; (v) street lighting; and (vi) municipal electricity services, if not provided by an utility.

Additional financing would also be allocated to Component 4 “Project Implementation Support and Management Costs” to ensure sufficient capacity for project implementation support is maintained at the MDLF and cover management costs.

Current Component Name	Proposed Component Name	Current Cost (US\$M)	Proposed Cost (US\$M)	Action
Municipal Grants for Capital Investments	Municipal Grants for Capital Investments	26.02	26.02	No Change
Support to Municipal Innovations and Efficiency	Support to Municipal Innovations and Efficiency	3.68	3.68	No Change
Capacity Building for Municipalities and MDLF	Capacity Building for Municipalities and MDLF	1.77	1.77	No Change
Project Implementation Support and Management Costs	Project Implementation Support and Management Costs	4.33	5.38	Revised cost
	Gaza Municipal Emergency Grants	0.00	13.95	New
	Total:	35.8	50.8	

Other Change(s)		
Implementing Agency Name	Type	Action
Municipal Development and Lending Fund	Implementing Agency	No Change
Change in Financial Management		
<p>Explanation:</p> <p>There will not be any change to the existing Financial Management (FM) and disbursement arrangements. The same arrangements in place for MDP-2 will be used. The FM performance rating for MDP-2 as well as the predecessor "MDP-1" has been "Satisfactory" since its effectiveness. The FM and disbursement arrangements of the ongoing MDP-2 will continue to be implemented under the proposed AF, and the MDLF will continue to manage the FM and disbursement functions for the Project. The MDLF FM department is adequately staffed and the accounting system is well functioning and captures all project-related transactions by component and by each financier. The MDLF has a proven track record of effectively operating in the complex political and institutional environment of Gaza. Previous Interim Financial Reports have been submitted in a timely and acceptable manner. There are no overdue audit reports. The audit report and management letter for MDP covering the year ended December 31, 2013 has been submitted to the Bank in a timely manner, the auditor expressed unqualified "clean" opinion and management letter did not include significant observations. A provision for retroactive financing for eligible expenditures made on or after August 26, 2014 up to an amount not exceeding US\$3.0 million is applicable under this AF.</p>		
Change in Procurement		
<p>Explanation:</p> <p>Given the emergency nature of this AF, the simplified procurement procedures for works and goods and selection procedures for consultants' services will apply. The MDLF will prepare an annex to the Procurement Manual and submit it for the Bank's review and clearance, prior to effectiveness. The annex will specify the simplified procurement arrangements that can be used under the AF, as follows:</p> <p>A. Works and Goods</p> <p>Direct Contracting. Direct contracting for the procurement of works and goods (as per paragraph 3.6 (a) and (e) of the Procurement Guidelines) may be used to extend an existing contract or award new contracts. For such contracting to be justified, the Bank should be satisfied that the price is reasonable and that no advantage could be obtained by further competition.</p> <p>Shopping. Shopping in accordance with paragraph 3.5 of the Procurement Guidelines may be used for procuring readily available off-the-shelf goods of values less than US\$200,000 or simple works of values less than US\$500,000. The PMU shall solicit at least three price quotations for the purchase of goods, materials, small works, or services (other than consulting services), to formulate a cost comparison report.</p> <p>B. Consultants' Services</p> <p>Single-Source Selection. Single-source selection of consulting firms and individuals (paragraphs 3.10 (b) and 5.4, respectively, of the Consultant Guidelines) may be used only if it presents a clear advantage over competition for the required consulting services.</p>		

Advertising/Shortlists For assignments that are estimated to cost less than US\$100,000, advertisement is not mandatory as long as a shortlist of at least three qualified firms is established.

MDLF's prior review requirements for municipalities can be revised accordingly and apply to municipalities.

Summarized Procurement Plan:

Given their demand-driven nature, procurement packages for municipal infrastructure sub-projects may not be defined upfront. The respective municipality will prepare a simplified sub-project procurement plan for submission to the MDLF as pre-requisite for signing the Grant Implementation Agreement for the sub-project.

Other than the emergency procedure, procurement for the AF will follow the same arrangements in place for the original project. In particular, procurement of goods, works, and non-consulting services will be carried out in accordance with the Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers (World Bank, January 2011, and revised July 2014). For the selection of consultants, Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers will be used (World Bank, January 2011, revised July 2014). Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants, shall apply to the AF (World Bank, October 15, 2006, and revised January 2011). Funding partners agreed that the Bank Procurement Guidelines will apply to procurement under parallel financing, following the same modality in place for the original project.

The AF will finance goods, works and non-consulting services for municipal infrastructure sub-projects in Component 5 "Gaza Municipal Emergency Grants". The overall responsibility for project procurement will rest with MDLF, which will act as the Bank's counterpart for all procurement aspects of the project. The beneficiary municipalities will be responsible for sub-project procurement, under MDLF's supervision. Procurement shall be processed in accordance with the sub-project procurement plan and the MDLF Procurement Manual. Municipalities will also be responsible for contract management and for advising MDLF on the release of payments to contractors/suppliers in accordance with the signed contracts.

MDLF has established a sound control and audit system of procurement activities carried out by municipalities for infrastructure sub-projects. The system, which requires municipalities to seek MDLF's no objection prior to proceeding with key steps of the procurement process, will continue to apply for the AF.

Change in Implementation Schedule

Explanation:

The implementation schedule of activities financed under the original loan will not change. The performance-based grants allocated under Component 1 will be implemented in two cycles of approximately 18 months each. However, implementation of activities under Component 5 will be on a demand-basis defined by the Gaza municipalities emergency response needs.

Appraisal Summary

Economic and Financial Analysis

Explanation:

Allocation of emergency investment grants will be based on the municipal damage assessment and

priorities identified by municipalities to restore critical municipal service provision. Hence, identification and prioritization of municipal sub-projects will be made by each participating municipality on a demand-driven basis. The economic and financial benefits of the sub-projects therefore cannot be measured ex-ante. However, sub-projects (including roads rehabilitation, construction equipment, street lighting, public buildings, public parks, water and sewage) will be evaluated based on methodologies detailed in the “guidelines for the economic and financial analysis of sub-projects” which is included in the Operational Manual. Financial Rate of Return will be calculated for revenue generating sub-projects. Cost efficiency (CE) measured by net present value (NPV) per beneficiary will be calculated for the remaining sub-projects.

Sub-projects with the following characteristics can be rejected by the MDLF and require separate justification by the applicant Municipality: (i) high costs per beneficiary expressed in a Financial Net Present Value (FNPV) above EUR100. This applies to all projects except those without clearly identifiable beneficiaries, such as construction equipment, municipal workshops or similar, roads projects that include investments of other types of infrastructure such as water or wastewater lines or culverts on the same road; (ii) a Financial Rate of Return below 15 percent for all projects conceived as revenue generating projects, such as market stalls and shops; (iii) revenues below Operations and Maintenance (O&M) costs for public services such as water supply or solid waste management; and (iv) own costs higher than 90 percent of comparable rental costs for public buildings and construction equipment. For such projects, MDLF’s technical unit and Local Technical Consultants (LTCs) shall advise on technical alternatives or a different sub-project that is more likely to yield higher benefits for the community.

Technical Analysis

Explanation:

The Gaza emergency funds are allocated to municipalities based on the results of the municipal damage assessment. The damage assessment was prepared by the MDLF applying the Damage and Loss Assessment (DaLA) methodology. DaLA uses objective, quantitative information on the value of destroyed assets, based on pre-event baseline data, and temporary production losses to estimate, first, government interventions for the short term and, second, post-disaster financing needs. Sub-projects will be identified and prioritized by municipalities and implemented with assistance from MDLF. Quality of sub-projects will be assured by: (i) ensuring that all works conform to national technical norms and standards for each type of sub-project; (ii) enforcing these norms and standards through technical design and community-responsive, effective procurement procedures, systematic program supervision of the contractor by municipalities using qualified specialists (and LTCs when these are not available); (iii) ensuring the involvement of technical experts in the design and supervision of works; (iv) capacity building for appropriate municipal staff in relevant areas of quality enhancement; and (v) conducting technical audits, in addition to verifying technical soundness and compliance with safeguards.

Social Analysis

Explanation:

MDP-2 will continue applying the citizen engagement and gender-focused approach adopted for municipal capital investment planning, implementation and monitoring. This includes public disclosure of the damage assessment results and investment plans, periodic citizen satisfaction assessments, and public participation in the preparation of investment plans.

The social development impacts of this project are expected to be positive, and will include the following activities: restoring municipal services, purchase of goods, minor rehabilitation of pre-existing structures, and labor costs. Potential negative impacts of the project are in general limited to construction phase and

may include dust, obstruction to access to business but are expected to be managed appropriately, including through the use of an appropriate Grievance Redress Mechanism (GRM).

As OP 4.12 was not triggered for MDP-2, the sub-project level screening process will ensure that all activities will be excluded that would cause direct economic and social impacts caused by the involuntary taking of land resulting in relocation or loss of shelter; loss of assets or access to assets; loss of income sources or means of livelihoods, whether or not the affected persons must move to another location. In addition, the sub-project level screening will ensure there is no restriction of access to designated parks or protected areas caused under the project. Given the nature of the sub-projects involving rehabilitation, sub-projects will not be on sites where internally displaced people are present. Any sub-projects involving rehabilitation/ reconstruction that are potentially on-sites with internally displaced people will be excluded through the social sub-project screening form. No voluntary land donation is envisioned under this project thus far. However, if the sub-projects were to change necessitating voluntary land donations (not triggering OP 4.12) , it is worth noting that under MDP, there was one case of voluntary land donation, which was documented to ensure that land was freely provided with no coercion. The World Bank should be notified of any sub project change and consider on a case by case basis if voluntary land donation is proposed that it can be done in the same way (and avoid policy triggering). Consultations were held throughout the West Bank and Gaza (in Gaza participants included 26 municipal members, NGOs and CBOs) prior to appraisal. Most participants were supportive of the current project. The questions raised in consultations were related to mechanisms for detecting contractors non-compliance, the enforcement of environment penalties, how to handle unrealistic community complaints, difficulties in meeting 30 percent target of gender and youth involvement in consultations for strategic plans. Updated information on the project will be communicated as necessary through updates in environmental and social documentation and redisclosure locally in local language (Arabic). Integrated Data Sheet (ISDS) was redisclosed on September 25, 2014, both in English and Arabic.

Under the current project, a complaints mechanism (GRM) does exist, however documentation of complaints is not systematic in all municipalities. MDLF is in the process of developing one-stop-shops kiosks, where communities can type in their complaints at municipalities and receive responses, which is recorded in a computer system. This one-stop-shop kiosk will be developed for approximately half of the total of 137 municipalities. Currently, there are around 38 kiosks in the West Bank and three in Gaza (financed through different donor funding). There are an additional 17 in the West Bank and five in Gaza under construction. The kiosks complement traditional methods of receiving complaints. For the rest of the municipalities, the means of receiving complaints (complaint box, Facebook pages, internet, verbal, letters etc.) and documenting them varies. MDLF through its social staff and local technical staff will follow up with the municipalities to ensure documentation of complaints for the emergency project. This should include ensuring that it is well communicated in ways accessible to the local population.

Environmental Analysis

Explanation:

The project activities are expected to have significant positive environmental and social impacts on the entire population of Gaza by restoring critical municipal services that were interrupted due to the July-August 2014 Gaza conflict in all 25 municipalities in Gaza. The scope of works and activities of sub-projects envisaged in this AF are similar in nature and scale to the original activities of the parent project (MDP-2), and the additional financing to MDP-2 will have the same environmental category (B) as MDP-2. The parent project (MDP-2) and this proposed AF triggers only OP 4.01 and OP 4.09, no activities of the AF are expected to trigger other safeguards policies.

The sub-projects and activities planned for the AF are expected to have minor negative environmental

impacts such as dust, noise, and disruption of traffic and services. Those are easily mitigated and adequately addressed in the Environmental Management Plan (EMP) of the original project's safeguards instrument (Environmental and Social Management Framework, ESMF) that was prepared, consulted, and publicly disclosed in 2011. If the project will finance any pest and vector management chemicals, the MDLF and involved municipalities will adhere to safe handling, storage, and disposal of pest management substances and equipment as detailed in the Pest Management Plan (PMP) annexed to the original project ESMF.

Construction debris removal is now in process in many places in Gaza, largely guided by UN agencies. Although construction debris is expected to be largely recycled for residential and road construction, mostly new materials will be used for the civil works in this project. If recycled aggregates are to be used for rehabilitation of roads, the MDLF and municipalities will ensure those aggregates are verifiably safe. Similarly, UN Mine Action Service (UNMAS) as well as other humanitarian agencies are responsible for the safe removal of unexploded ordnances (UXO) and other explosive materials. Written documentation demonstrating completion of UXO clearance will be required as part of sub-project screening processes prior to commencement of civil works, as will be amended in relevant sections of the Operations Manual.

Implementation of MDP-2 as well as the predecessor operation (MDP-1), both implemented by MDLF, has been proceeding successfully. Both MDLF and involved municipalities demonstrated adequate capacity of managing environmental risks, screening sub-projects, and implementing the EMPs successfully. Their performance on safeguards compliance for MDP-2 has been rated 'Satisfactory' for the entire duration of the project.

Risk

Explanation:

The overall risk rating is High, due to the exceptional political and security situation in Gaza. Under the cease-fire agreements reached on August 26, 2014, the Government of Israel has committed to ease restrictions on the imports of goods into Gaza. However, restrictions on the import of construction materials into Gaza may affect project implementation progress.

ANNEX 1: RESULTS FRAMEWORK
GAZA EMERGENCY RESPONSE ADDITIONAL FINANCING TO THE SECOND MUNICIPAL DEVELOPMENT PROJECT

Project Name:	GZ Emergency Response Second Municipal Development Project AF (P152523)	Project Stage:	Additional Financing	Status:	DRAFT
Team Leader:	Bjorn Philipp	Requesting Unit:	MNC04	Created by:	Noriko Oe on 11-Sep-2014
Product Line:	Special Financing	Responsible Unit:	GSURR	Modified by:	Bjorn Philipp on 12-Sep-2014
Country:	West Bank and G	Approval FY:	2015		
Region:	MIDDLE EAST AND NORTH AFRICA	Lending Instrument:	Investment Project Financing		
Parent Project ID:	P127163	Parent Project Name:	GZ-Second Municipal Development Project (P127163)		

Project Development Objectives

Original Project Development Objective - Parent:

The objective of the project is to improve the Recipient's municipal management practices for better municipal transparency and service delivery.

Proposed Project Development Objective - Additional Financing (AF):

The revised PDO will be to improve the Recipient's municipal management practices for better municipal transparency and service delivery, and to restore priority municipal services following the conflict in Gaza.

Results

Core sector indicators are considered: Yes

Results reporting level: Project Level

Project Development Objective Indicators

Status	Indicator Name	Core	Unit of Measure		Baseline	Actual(Current)	End Target
New	Affected population in Gaza	<input type="checkbox"/>	Number	Value	0.00	0.00	1000000.00

	with access to restored municipal services			Date	15-Oct-2014	15-Oct-2014	28-Feb-2018
				Comment			This is an estimate. The final target will be determined upon submission of sub-project list by Gaza municipalities
Revised	Number of municipalities that graduate up the performance category in which they are currently classified, by the end of MDP-II	<input type="checkbox"/>	Number	Value	0.00	0.00	30.00
				Date	28-Mar-2013	28-Jan-2014	28-Feb-2018
				Comment		Will be updated after Cycle 1 in 2015 and Cycle 2 in 2016	Target revised to reflect the setback in Gaza municipalities as a result of the conflict
Revised	Number of municipalities that graduate to A ranking, by the end of MDP-II	<input type="checkbox"/>	Number Sub Type Breakdown	Value	0.00	0.00	2.00
				Date	28-Mar-2013	28-Jan-2014	28-Feb-2018
				Comment		Will be updated after Cycle 1 in 2015 and Cycle 2 in 2016	Target revised to reflect the setback in Gaza municipalities as a result of the conflict
Revised	Number of Municipalities that graduate to B ranking	<input type="checkbox"/>	Number Sub Type Breakdown	Value	0.00	0.00	14.00
				Date	28-Mar-2013	28-Jan-2014	28-Feb-2018
				Comment		Will be updated after Cycle 1 in 2015 and Cycle 2 in 2016	Target revised to reflect the setback in Gaza municipalities as

							a result of the conflict
No Change	Percentage of municipalities that apply social accountability measures, specifically, at least two public disclosure mechanisms, by the end of MDP-II.	<input type="checkbox"/>	Percentage	Value	68.00	68.00	80.00
				Date	28-Feb-2013	28-Jan-2014	28-Feb-2018
				Comment		Will be updated after Cycle 1 in 2015 and Cycle 2 in 2016	
No Change	Municipalities publically disclosing external audit reports with minimum standards, and with unqualified opinion	<input type="checkbox"/>	Number Sub Type Supplemental	Value	0.00	0.00	55.00
No Change	Municipalities publically disclosing participatory SDIP execution and updates.	<input type="checkbox"/>	Number Sub Type Supplemental	Value	0.00	0.00	90.00
No Change	Municipalities establishing service quality standards for tracking in Citizen Service Support Centers	<input type="checkbox"/>	Number Sub Type Supplemental	Value	8.00	8.00	16.00
No Change	Percentage of investments financed under the Project that are operational and in an adequate state of usability, according to technical audits.	<input type="checkbox"/>	Percentage	Value	0.00	0.00	90.00
				Date	28-Feb-2013	28-Jan-2014	28-Feb-2018
				Comment		Will be updated during January 2015 mission	
No Change	Direct project beneficiaries	<input checked="" type="checkbox"/>	Number	Value	0.00	0.00	2000000.00
				Date	28-Mar-2013	28-Jan-2014	28-Feb-2018
				Comment		Will be updated during the next	This is an estimate.

						mission	Targets will be determined when the demand-driven sub-projects are known.
No Change	Female beneficiaries	<input checked="" type="checkbox"/>	Percentage Sub Type Supplemental	Value	0.00	0.00	49.00
No Change	Beneficiaries from roads and public parks established/rehabilitated, by the end of MDP-II	<input type="checkbox"/>	Number	Value	0.00	0.00	1200000.00
				Date	28-Mar-2013	28-Jan-2014	28-Feb-2018
				Comment		Will be updated after Cycle 1 in 2015 and Cycle 2 in 2016	This is an estimate. Targets will be determined when the demand-driven sub-projects are known.

Intermediate Results Indicators

Status	Indicator Name	Core	Unit of Measure		Baseline	Actual(Current)	End Target
New	Share of identified priority damages repaired by Gaza municipalities.	<input type="checkbox"/>	Percentage	Value	0.00	0.00	30.00
				Date	15-Oct-2014	15-Oct-2014	28-Feb-2018
				Comment			This is an estimate. Will be determined upon submission of sub-project list by Gaza municipalities

No Change	Number of people in urban areas provided with access to all-season roads within a 500 meter range under the project	<input checked="" type="checkbox"/>	Number	Value	0.00	0.00	260000.00
				Date	28-Mar-2013	28-Jan-2014	28-Feb-2018
				Comment		Will be updated during the next January 2015 mission	This is an estimate. Targets will be determined when the demand-driven sub-projects are known.
No Change	Roads rehabilitated, by the end of MDP-II	<input type="checkbox"/>	Kilometers	Value	0.00	0.00	200.00
				Date	28-Mar-2013	28-Jan-2014	28-Feb-2018
				Comment		Progress will be assessed during the next mission in January 2015	This is an estimate. Targets will be determined when the demand-driven sub-projects are known.
No Change	Number of municipalities that have succeeded in implementing one of the following innovative ideas under Component 2 (renewable energy, E-Municipality, and Local Economic Development)	<input type="checkbox"/>	Number	Value	0.00	0.00	8.00
				Date	28-Feb-2013	28-Jan-2014	28-Feb-2018
				Comment		Progress will be updated during the next mission in January 2015	
No Change	Direct Beneficiaries from social infrastructure projects implemented in merged municipalities	<input type="checkbox"/>	Number	Value	0.00	0.00	40000.00
				Date	28-Feb-2013	28-Jan-2014	28-Feb-2018
				Comment		Progress will be assessed during next mission in	Targets could not be determined at

						January 2015	Appraisal due to the demand-driven nature of the sub-projects.
No Change	Number of municipalities that have updated their fixed assets and valuation database	<input type="checkbox"/>	Number	Value	0.00	0.00	50.00
				Date	28-Feb-2013	28-Jan-2014	28-Feb-2018
				Comment		Progress will be assessed during next mission in January 2015	
No Change	Number of municipalities that have updated their Strategic Development and Investment Plans (SDIPs) through applying participatory approach	<input type="checkbox"/>	Number	Value	0.00	0.00	60.00
				Date	28-Feb-2013	28-Jan-2014	28-Feb-2018
				Comment		Progress will be assessed during next mission in January 2015	
No Change	Number of municipalities where the Operations and Maintenance Manual is rolled out and being applied, by the end of MDP-II.	<input type="checkbox"/>	Number	Value	10.00	0.00	50.00
				Date	28-Feb-2013	28-Jan-2014	28-Feb-2018
				Comment		Will be updated after Cycle 1 in 2015 and Cycle 2 in 2016	
No Change	Percentage of municipalities that recorded at least 20% reduction in processing time for at least two of the defined set of services in Citizen Service Centers.	<input type="checkbox"/>	Percentage	Value	0.00	0.00	100.00
				Date	28-Feb-2013	28-Jan-2014	28-Feb-2018
				Comment		Progress will be assessed during next mission in January 2015	

Annex 2

Operational Risk Assessment Framework (ORAF)

GAZA EMERGENCY RESPONSE ADDITIONAL FINANCING TO THE SECOND MUNICIPAL DEVELOPMENT PROJECT (P152523)

Stage: Additional Financing

Risks

1. Project Stakeholder Risks

1.1 Stakeholder Risk	Rating	Moderate				
<p>Risk Description:</p> <p>NATIONAL GOVERNMENT: The importance of the MDLF and the MDP has been highlighted in both the PA 2009-2011 Plan (the PRDP) and the 2011-2013 Plan (the PNDP). However, changes in Government may lead to changes in priorities and affect strategic choices.</p> <p>MUNICIPALITIES AND DONORS: The incentive system of the MDP would be jeopardized if municipalities receive financing from other Donors without having to achieve performance targets. Thus far other Donors financing municipalities have joined the project, or focused on alternate issues that do not affect the performance incentives (e.g., amalgamation). However, there is a likelihood that other Donor agencies, who</p>	Risk Management:					
	Continuous dialog with the PA, the MoF and the MoLG on the role of the MDLF.					
	Resp: Bank	Stage: Both	Recurrent:	Due Date: 28-Oct-2017	Frequency:	Status: In Progress
	Risk Management:					
	Continued engagement with Donors through Sector Working Groups meetings. Continued interaction with MOPAD, MoF, and MoLG.					
	Resp: Bank	Stage: Implementation	Recurrent:	Due Date: 28-Oct-2017	Frequency:	Status: In Progress
Risk Management:						
Close dialog with with Donors to align Gaza municipal emergency response activities under one unified approach.						
Resp: Both	Stage: Both	Recurrent:	Due Date: 30-Oct-2015	Frequency:	Status: In Progress	

currently do not support the MDP, may not subscribe to the performance targets set out by the PA and followed in the MDP. There is also a risk that Gaza municipalities seek emergency response funds from different donors, without using the Gaza Emergency Response window established under the MDP-2 AF.						
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2. Implementing Agency (IA) Risks (including Fiduciary Risks)

2.1 Capacity	Rating	Moderate				
<p>Risk Description:</p> <p>The MDLF, has reached its full staff complement. However, additional capacity might be needed to manage and provide implementation support to the project. Furthermore, a recent assessment of the institutions revealed that performance incentives for staff are required in order to continue to retain qualified staff members.</p> <p>Capacity in some municipalities is still low. Gaza municipalities have been significantly affected by the conflict.</p>	Risk Management:					
	Continuous on-the-job training and capacity building is part of project design and costs. Thus far training has included project management, human resource development, and management for development results, conflict resolution as well as various computer skills training. The MDLF has completed a training needs assessment to ensure that skills match institutional requirements.					
	Resp: Client	Stage: Both	Recurrent:	Due Date: 28-Oct-2017	Frequency:	Status: In Progress
	Risk Management:					
	Local Technical Consultants will continue to be hired to provide municipalities with assistance in project implementation.					
	Resp: Client	Stage: Implementation	Recurrent:	Due Date: 28-Oct-2017	Frequency:	Status: In Progress
Risk Management:						
The MDP-2 Gaza Emergency Response AF provides critical support to municipalities affected by the conflict.						
Resp: Client	Stage: Implementation	Recurrent:	Due Date: 28-Oct-2016	Frequency:	Status: In Progress	
2.2 Governance	Rating	Moderate				
Risk Description:	Risk Management:					

MDLF is governed by an independent Board of Director (BoD), which has been diligent about meeting. However, BoD may, in the future, fail to meet in a timely manner.	GiZ, which provides parallel financing to the project, will continue to provide TA to the MDLF BoD				
	Resp: Client	Stage: Implementation	Recurrent:	Due Date: 28-Oct-2016	Frequency:

3. Project Risks

3.1 Design	Rating	Moderate
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<p>Risk Description:</p> <p>Sub-project design and implementation could be delayed, particularly in Gaza. Gaza municipalities were heavily affected by the conflict and priority is given to the emergency response.</p> <p>Possible complaints from bigger municipalities on the reduction of the 'population' aspect of the formula.</p> <p>Risk of overpayments under the recurrent expenditures scheme to Gaza municipalities.</p> <p>Risk of limited FM capacity at selected municipalities that will have increased responsibilities to manage funds and FM arrangements of their subprojects.</p> <p>Risk of disbursement delays or inaccurate reporting due to poor coordination between MDLF and municipalities.</p> <p>Risk of commingling Program's funds with the on-going Program and/or with other partner's funds.</p>	<p>Risk Management:</p> <p>The MDLF has hired additional staff for Gaza and local technical consultants are also closely supervising works in Gaza to avoid delays. MDLF will make direct payments to suppliers and contractors against original invoices for the recurrent expenditure scheme to Gaza municipalities. MDLF and the local technical consultants will conduct weekly field visits to verify the existence of contracted workers. On the other hand, the external auditor's scope will explicitly include verification of daily workers' wages under the recurrent expenditures to Gaza municipalities. MDLF Finance and Administration Department has in house adequate capacity to manage the overall Program and coordinate with all municipalities, and will guide the selected pilot municipalities in their capacity building needs. MDLF has opened a separate general ledger in its accounting system to separately account for MDP 2 funds and expenditure incurred by Window, component, financing partner, and by municipality. Furthermore, MDLF maintains a comprehensive sub-grants allocation sheet that include all municipalities' sub-projects and linked to the funds of respective financing partner. This tool minimizes the risk of co-mingling of Program funds with other financing partners' funds. An independent external auditor, acceptable to the Bank, will be hired on a competitive basis, to perform annual external audit for the Program's financial statements. In addition, the auditor has been required to review the quarterly Interim Financial Reports (IFRs), in accordance to Terms of Reference acceptable to the Bank. MDLF estimates cash flow projections based on the approved annual budget and disbursement plan</p>
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Resp: Client	Stage: Implementation	Recurrent:	Due Date: 28-Oct-2016	Frequency:	Status: In Progress
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<p>Risk Management:</p> <p>Incentives are strong for municipalities to remain engaged with the MDP due to the fiscal crisis and the increase in the performance aspect of the formula. MDLF will carry out workshops with municipalities on the rankings and the new transfer mechanism and demonstrate the benefits of the revised system.</p>
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<p>Risk of overestimating Program's cash flow projections or replenishments.</p> <p>Possible complaints from bigger municipalities on the reduction of the 'population' aspect of the formula</p>	(eg. small incremental changes within the rankings can yield significant increases in resources)					
3.2 Social and Environmental	Rating	Moderate				
<p>Risk Description:</p> <p>There is a risk that the effective management of social and environmental safeguards is overlooked due to lack of staffing or necessary technical skills. A ESMF has been prepared and EMPs are prepared for sub-projects.</p> <p>There is a risk that municipalities do not select sub-projects based on public participation.</p>	<p>Risk Management:</p> <p>The MDLF has hired two social specialists (one in West Bank and one in Gaza) and an environmental specialist to help ensure that safeguards related risks are effectively managed. EMPs are prepared for sub-projects. Environmental impacts will be mitigated by the MDLF through EMP implementation and the project is classified as category "B". Furthermore, the size of funds available to municipalities under this program limit the scope of the subprojects, and hence larger scale subprojects which require a full-fledged EIA (category A) will be excluded (through a negative list) in the sub-project screening process and will not be feasible due to the ceilings of funds available under the project.</p>					
	Resp: Client	Stage: Implementation	Recurrent:	Due Date: 28-Oct-2016	Frequency:	Status: In Progress
	<p>Risk Management:</p> <p>Community participation in choosing sub-projects is a condition for the MDLF's approval of the municipalities' sub-project selection.</p>					
	Resp: Client	Stage: Implementation	Recurrent:	Due Date: 28-Oct-2016	Frequency:	Status: Not Yet Due
3.3 Program and Donor	Rating	Moderate				
<p>Risk Description:</p> <p>Since the MDP is financed by several Donors, a risk exists that donors decide to make significant changes on design and disbursement issues.</p>	<p>Risk Management:</p> <p>The Funding Partners conducted joint project preparation. As with MDP 1, an MoU with all Donors is planned even as Donors work with the PA towards a SWAP in the sector. Preparation of the Gaza Municipal Emergency Response was closely coordinated among donors who fully support the MDP-2 AF approach.</p>					
	Resp: Both	Stage: Implementation	Recurrent:	Due Date: 28-Oct-2016	Frequency:	Status: In Progress

3.4 Delivery Monitoring and Sustainability	Rating	Moderate				
<p>Risk Description: There is a risk that sub-project investment and infrastructure supported by the project would not be maintained.</p>	<p>Risk Management: O&M capacity building is being piloted under MDP 1 and will be rolled out under MDP 2. MDP 2 will also provide qualified municipalities with capacity building packages for revenue enhancements.</p>					
	Resp: Client	Stage: Both	Recurrent:	Due Date: 28-Oct-2016	Frequency:	Status: In Progress
4. Overall Risk						
Overall Implementation Risk: High						
<p>Risk Description: The overall risk rating is High, due to the exceptional political and security situation in Gaza. Under the cease-fire agreements reached on August 26, 2014, the Government of Israel has committed to ease restrictions to the imports of goods into Gaza.</p>						

Annex 3

Overview of Municipal Damages

GAZA EMERGENCY RESPONSE ADDITIONAL FINANCING TO THE SECOND MUNICIPAL DEVELOPMENT PROJECT (P152523)

Governorate	Municipality	Municipal Facilities	Local Roads	Water	Street Lighting	Solid Waste	Waste Water	Equipment	Total US\$
North	Jabalia	200,000	420,000	119,300	220,000	85,000	148,150	75,000	1,267,450
	Beit Lahia	690,000	280,000	191,000	38,000	12,500	284,000	270,000	1,765,500
	Beit Hanun	280,000	2,351,000	460,000	425,000	75,000	900,000	90,000	4,581,000
	Um Al-Naser	395,000	350,000	60,000	49,000	3,750	40,000	-	897,750
Gaza	Gaza	1,210,300	15,000,000	5,000,000	2,000,000	300,000	2,800,800	1,500,000	27,811,100
	Al-Moghraqa	15,000	-	40,000	-	-	6,500	-	61,500
	Al-Zahra	1,000	4,000	2,700	8,000	-	-	-	15,700
	Wadi Gaza	55,000	852,200	184,000	36,000	65,000	-	-	1,192,200
Middle	Al- Nuseirat	50,000	64,000	19,000	28,000	6,000	31,000	-	198,000
	Deir Al-Balah	70,000	261,500	553,000	38,800	39,000	35,500	-	997,800
	Al Braij	30,000	85,000	27,250	36,500	5,000	15,000	35,000	233,750
	Al-Maghazi	20,000	88,000	27,500	-	2,000	5,000	-	142,500
	Al-Zawayda	-	41,000	8,000	10,000	-	20,000	-	79,000
	Al-Masdar	-	267,200	197,000	37,000	25,000	80,000	8,000	614,200
	Wadi Al-Salqa	-	271,250	124,250	159,500	25,000	252,000	-	832,000
Khan Younis	Khan Younis	175,000	184,000	41,250	60,900	-	5,000	-	466,150
	Bani Suheila	67,500	1,417,800	366,250	285,000	300,000	136,600	40,000	2,613,150
	Al-Qarara	325,000	339,750	63,500	70,700	30,000	-	-	828,950
	Abasan Al-Kabira	40,000	1,071,500	268,700	35,500	15,000	35,000	10,000	1,475,700
	Khuza'aa	50,000	2,070,750	638,000	169,000	38,700	88,000	5,900	3,060,350
	Abasan Al-Jadeeda	55,000	690,950	366,250	285,000	-	136,600	40,000	1,573,800
	Al Fukhari	-	280,000	60,500	-	10,000	-	-	350,500
Rafah	Rafah	4,470,000	700,000	67,150	295,000	-	73,370	84,000	5,689,520
	Al-Shokah	315,000	692,000	225,600	240,600	140,000	93,500	90,000	1,796,700
	Al Naser	7,000	66,750	4,020	24,900	-	-	-	102,670
TOTAL US\$		8,520,800	27,848,650	9,114,220	4,552,400	1,176,950	5,186,020	2,247,900	58,646,940