

**PROJECT INFORMATION DOCUMENT (PID)**  
**ADDITIONAL FINANCING**

Report No.: 103022

|   |   |
|---|---|
| <b>Project Name</b>                                   | GZ-Second Municipal Development Project AF (P155268)  |
| <b>Parent Project Name</b>                            | GZ-Second Municipal Development Project (P127163)   |
| <b>Region</b>   | MIDDLE EAST AND NORTH AFRICA  |
| <b>Country</b>  | West Bank and Gaza  |
| <b>Sector(s)</b>                                      | Sub-national government administration (26%), Other Renewable Energy (5%), Transmission and Distribution of Electricity (23%), Urban Transport (23%), General water, sanitation and flood protection sector (23%) |
| <b>Theme(s)</b>                                       | e-Government (8%), Gender (5%), Urban services and housing for the poor (76%), Municipal governance and institution building (5%), Climate change (6%)  |
| <b>Lending Instrument</b>                             | Investment Project Financing  |
| <b>Project ID</b>                                     | P155268   |
| <b>Parent Project ID</b>                              | P127163   |
| <b>Borrower(s)</b>                                    | Palestine Liberation Organization   |
| <b>Implementing Agency</b>                            | Municipal Development and Lending Fund (MDLF)   |
| <b>Environmental Category</b>                         | B-Partial Assessment  |
| <b>Date PID Prepared/Updated</b>                      | 17-Dec-2015   |
| <b>Estimated Date of First Grant Approval</b>         | 08-Mar-2016   |
| <b>Appraisal Review Decision (from Decision Note)</b> | The review did authorize to proceed with Negotiations, in principle   |
| <b>Other Decision</b>                                 |   |

## I. Project Context

### Country Context

The Palestinian Authority (PA) was established initially for a five-year interim period after the Oslo Accords (1993-95) with responsibility for the administration of the territory under its control. During this time of relative political stability, the economy grew rapidly and in 2000, immediately prior to the intifada, growth was anticipated 5% in real terms and unemployment had reached a low of 9%. Subsequent to the end of the second Intifada (in 2004), the PA embarked on a process of recovery and reform. This stability was disrupted after the Palestinian Legislative Council elections in 2006, which resulted in the suspension of much of the international aid and the transfer of clearance revenues from the Government of Israel (GoI) to the PA. Subsequent to the establishment of the Caretaker Government in 2007, fiscal stabilization resumed with a new influx of Donor aid and in the transfer of clearance revenues with the accrued interest from Israel. The PA issued its Palestinian Reform and Development

Plan for 2008-10 (PRDP) with development partners pledging financial support.

The PA has progressed in building its institutions and macroeconomic policy in accordance initially with the PRDP and, more recently, with the Palestinian National Development Plan, 2014-2016 (PNDP). The 2014-2016 National Plan defines a results based approach to policy development and implementation along four key sectors: Economic Development and Employment, Good Governance and Institution Building, Social Protection and Development, and Infrastructure. Support for local government is defined under the Good Governance and Institutional Building pillar with an emphasis on capacity building for LGUs and increasing efficiency in service delivery.

In early June 2014, the PA announced the forming of a unified government to cover the total geographic area of the West Bank and Gaza (WB&G) but implementation did not materialize. Conflict broke out in Gaza in July and August 2014, which resulted in serious damage to infrastructure.

The PA faces an increasingly difficult fiscal situation and economic growth continues to be severely constrained by restrictions on movement, access and trade. The current multi-layered system of physical, institutional and administrative restrictions that have fragmented the territory into small enclaves continues to stand in the way of increased economic growth and private sector investment. The fragmentation goes beyond a West Bank and Gaza divide, with the West Bank further fragmented into Areas A, B and C, each with its concomitant administrative and security arrangements.

Following robust GDP growth in recent years, 8 percent from 2007-2011, growth has slowed down considerably to 2.7 percent from 2012-2015. According to the Palestinian Central Bureau of Statistics (PCBS), the real GDP growth rate dropped in 2013 as a result of the continuing restrictions and decline in donor aid. The Palestinian economy has been in recession since 2014.

### **Sectoral and institutional Context**

The Palestinian population is largely urban with 75% living in 138 municipalities. Municipalities, which existed prior to the establishment of the PA, have a clear role as the lowest level of governance, representation and accountability for citizens. However, municipal governments face profound challenges in meeting their responsibilities. Budgets have been shrinking due to the ongoing conflict, poor municipal management and a culture of nonpayment amongst users- thus eroding the coverage and quality of municipal services. Although municipalities can access seventeen revenue sources, collections are extremely volatile.

Nonetheless, the PA and municipalities have demonstrated significant progress in municipal and local development. In 2005, the PA established the Municipal Development and Lending Fund (MDLF) to address financing and capacity building of municipalities. Established by a Ministerial Decree, the MDLF has the legal mandate to provide development assistance to municipalities through transparent, rules-based and efficient financing. The MDLF is also the PA's preferred mechanism for channeling development assistance to municipalities. The PA, through the MDLF, has implemented several municipal reforms with the support of Donor financed projects (including the Local Government Capacity Building Project, Emergency Municipal Services Rehabilitation Project I&II). In 2009, the PA developed the Municipal Development Program (MDP) which was supported by Donors (including the World Bank through the Municipal Development Project 1) to operationalize the local government goals of the PRDP which is to strengthen local government through greater fiscal and administrative autonomy. The MDP is a multi-phase PA program which provides municipalities with a combination of technical assistance and performance based grants for sub-projects. The formula for performance grants is designed to create incentives for municipal performance improvements.

The Second Municipal Development Project (MDP2) was designed in two cycles, each with a duration of 18 months and this Additional Financing (AF) of US\$6.9 million financed from the Palestinian Partnership for Infrastructure Development Multi-Donor Trust Fund (PID MDTF) will be used for the second cycle. The project is providing performance based grants for capital investments, delivering capacity building for municipalities and piloting innovative approaches to municipal management. At mid-term the project is meeting or exceeding most of its key performance indicators including those related to the additional financing for Gaza emergency response provided in October 2014. With the proposed AF, there are no anticipated changes to the development objective and the Results Framework will remain unchanged, however its targets will be revised where the project has met or exceeded its original target indicators by mid-term.

The proposed AF is fully aligned with the World Bank Group's West Bank and Gaza Assistance Strategy FY15-16, Pillar 1: Strengthen public institutions to ensure service delivery to citizens, and fully aligned with the World Bank's MNA Regional Strategy, particularly the pillar on Renewing the Social Contract by increasing citizen trust and access to transparent and accountable service delivery. The AF is also aligned with the PA's Sector Strategy and its multiphase MDP. The PA program operationalizes the goal of strengthening local governments through enhancing their efficiency, effectiveness and assisting in supporting their fiscal stability through supporting performance-based grants and capacity building packages. This goal was included in the National Development Plan (2014-2016).

## **II. Project Development Objective(s)**

### **A. Current Project Development Objectives - Parent**

The objective of the Project is to improve the Recipient's municipal management practices for better municipal transparency and services delivery, and to restore priority municipal services following the conflict in Gaza.

### **B. Proposed Project Development Objectives - Additional Financing (AF)**

## **III. Project Description**

### **Component Name**

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 MDLF supports municipalities to graduate to a higher performance category, and supports the implementing agency to build its capacity (Total US\$6.25million, 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).

Component 5: Gaza Municipal Emergency Grants. (Total US\$15million, US\$ 3million from TGWB, US\$12million from PID MDTF).

### Comments (optional)

The MDP2 was designed in two cycles, each with a duration of 18 months. The proposed AF was anticipated at the beginning of the project and fully accounted for within the PDO and indicators at that time. The proposed additional grant would help close the financing gap of the second cycle of the project under Component 1, Municipal Grants for Capital Investments.

### IV. Financing (in USD Million)

|  |      |                       |               |
|--|------|-----------------------|---------------|
| Total Project Cost:  | 6.90 | Total Bank Financing: | 0.00          |
| Financing Gap:   | 0.00 |                       |               |
| <b>Financing Source</b>                                      |      |                       | <b>Amount</b> |
| Borrower   |      |                       | 0.00          |
| Partnership for Water and Urban Development in the West Bank |      |                       | 6.90          |
| Total  |      |                       | 6.90          |

### V. Implementation

The project will continue to be implemented in 5 components. These include (i) Component 1: Municipal Grants for Capital Investments allocates performance-based grants to municipalities for capital investments or operating expenditures through a transfer formula; (ii) Component 2: Support to Municipal Innovations and Efficiency facilitates learning and innovation to promote municipal development; (iii) Component 3: Technical Assistance for Municipalities and the Municipal Development and Lending Fund (MDLF) supports municipalities to graduate to a higher performance category, and supports the implementing entity to build its capacity; (iv) Component 4: Project Implementation Support and Management Costs finances project management. Component 5: Gaza Municipal Emergency Grants. Social Accountability and gender inclusion will be mainstreamed across all Components.

The project will be implemented by MDLF which will be responsible for project implementation including all payments to contractors and suppliers on behalf of municipalities. The MDLF has successfully demonstrated its capacity to effectively administer donor funded projects since its establishment in 2005 including the multi-donor financed MDP 1. MDP 2 is essentially a repeater of MDP 1.

The project's PDO and implementation progress have both been rated Satisfactory since effectiveness. The 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. However, all sub-projects currently implemented have complied with category B status. The implementation of Bank safeguards requirements is progressing well. The subproject 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.

### VI. Safeguard Policies (including public consultation)

| Safeguard Policies Triggered by the Project | Yes | No |
|---|-----|----|
| Environmental Assessment OP/BP 4.01         | X   |    |

|  |   |   |
|--|---|---|
| Natural Habitats OP/BP 4.04                    |   | X |
| Forests OP/BP 4.36                             |   | X |
| Pest Management OP 4.09                        | X |   |
| Physical Cultural Resources OP/BP 4.11         |   | X |
| Indigenous Peoples OP/BP 4.10                  |   | X |
| Involuntary Resettlement OP/BP 4.12            |   | X |
| Safety of Dams OP/BP 4.37                      |   | X |
| Projects on International Waterways OP/BP 7.50 |   | X |
| Projects in Disputed Areas OP/BP 7.60          |   | X |

**Comments (optional)**

**VII. Contact point**

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