

Document of
The World Bank

FOR OFFICIAL USE ONLY

Report No: PAD1696

PROJECT APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF USD5.0 MILLION

FROM THE TRUST FUND FOR GAZA AND WEST BANK

TO THE

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

FOR A

INTEGRATED CITIES AND URBAN DEVELOPMENT PROJECT

August 23, 2016

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

This document is being made publicly available prior to Board consideration. This does not imply a presumed outcome. This document may be updated following Board consideration and the updated document will be made publicly available in accordance with the Bank's policy on Access to Information.

CURRENCY EQUIVALENTS

Exchange Rate Effective August 1, 2016

Currency Unit = ILS (Israeli New Sheqalim)
USD1 = ILS 3.806

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AMAL	Affordable Mortgage and Loan Corporation
DA	Designated Account
DP	Development Partner
EoI	Expression of Interest
ESMF	Environmental and Social Management Framework
EU	European Union
FforJ	Finance for Jobs
FM	Financial Management
FMIS	Financial Management Information System
GG	Good Governance
GoI	Government of Israel
GRS	Grievance Redress Service
GUF	Global Urban Footprint
IBRD	International Bank for Reconstruction and Development
ICA	Israeli Civil Administration
ICC	International Criminal Court
ICUD	Integrated Cities and Urban Development
IDA	International Development Association
IRA	Integrated Risk Assessment
JCU	Joint Cooperation Unit
JSC	Joint Services Council
LAP-2	Second Land Administration Project
LC	Local Coordinator
LED	Local Economic Development
LG	Local Government
LGU	Local Government Unit
LGSIP	Local Governance and Services improvement Program
M&E	Monitoring and Evaluation
MDLF	Municipal Development and Lending Fund
MDP	Municipal Development Program

MoLG	Ministry of Local Government
MoPWH	Ministry of Public Works and Housing
MoU	Memorandum of Understanding
NDP	National Development Plan
PA	Palestinian Authority
PAD	Project Appraisal Document
PDO	Project Development Objective
PforR	Program for Results
PNGO	Palestinian NGO Project
POM	Project Operational Manual
PP	Procurement Plan
PPP	Public-Private Partnership
PGMIS	Program Management Information System
RAB	Ramallah-Al Bireh-Bitounia
RBMM	Results-Based Monitoring Manual
RFP	Request for Proposals
RPF	Resettlement Policy Framework
SDIP	Strategic Development and Investment Planning
SSWMP	Southern West Bank Solid Waste Management Project
SWMP	Solid Waste Management Project
TA	Technical Assistance
ToR	Terms of Reference
TFGWB	Trust Fund for Gaza and West Bank
TS	Technical Supervisor
UR	Urbanization Review
VC	Village Council
VLD	Voluntary land donation
VNDP	Village and Neighborhood Development Project
WB&G	West Bank and Gaza
WB	World Bank
WBG	World Bank Group

Regional Vice President:	Hafez M. H. Ghanem
Country Director:	Marina Wes
Senior Global Practice Director:	Ede Jorge Ijjasz-Vasquez
Practice Manager:	Ayat Soliman
Task Team Leader:	Noriko Oe

WEST BANK AND GAZA
Integrated Cities and Urban Development Project

TABLE OF CONTENTS

	Page
I. STRATEGIC CONTEXT	1
A. Country Context.....	1
B. Sectoral and Institutional Context.....	1
C. Higher Level Objectives to which the Project Contributes	5
II. PROJECT DEVELOPMENT OBJECTIVES	5
A. PDO.....	5
B. Project Beneficiaries	6
C. PDO Level Results Indicators.....	6
III. PROJECT DESCRIPTION	7
A. Project Components	7
B. Project Financing	8
C. Lessons Learned and Reflected in the Project Design.....	8
IV. IMPLEMENTATION	9
A. Institutional and Implementation Arrangements	9
B. Results Monitoring and Evaluation	11
C. Sustainability.....	11
V. KEY RISKS	12
A. Overall Risk Rating and Explanation of Key Risks.....	12
VI. APPRAISAL SUMMARY	15
A. Economic and Financial Analysis.....	15
B. Technical.....	16
C. Financial Management.....	16
D. Procurement	17
E. Social (including Safeguards).....	17
F. Environment (including Safeguards)	18
G. World Bank Grievance Redress.....	19

Annex 1: Results Framework and Monitoring	20
Annex 2: Detailed Project Description.....	25
Annex 3: Implementation Arrangements	28
Annex 4: Implementation Support Plan	38

PAD DATA SHEET*West Bank and Gaza**GZ-Integrated Cities and Urban Development Project (P150991)***PROJECT APPRAISAL DOCUMENT***MIDDLE EAST AND NORTH AFRICA**0000009352*

Report No.: PAD1696

Basic Information			
Project ID P150991	EA Category B - Partial Assessment	Team Leader(s) Noriko Oe	
Lending Instrument Investment Project Financing	Fragile and/or Capacity Constraints []		
	Financial Intermediaries []		
	Series of Projects []		
Project Implementation Start Date 15-Dec-2015	Project Implementation End Date 01-Dec-2020		
Expected Effectiveness Date 01-Nov-2016	Expected Closing Date 30-Jun-2021		
Joint IFC No			
Practice Manager/Manager Ayat Soliman	Senior Global Practice Director Ede Jorge Ijjasz-Vasquez	Country Director Marina Wes	Regional Vice President Hafez M. H. Ghanem
Borrower: PALESTINE LIBERATION ORGANIZATION (FOR THE BENEFIT OF THE PALESTINIAN AUTHORITY)			
Responsible Agency: Municipal Development Lending Fund (MDLF)			
Contact: Telephone No.:	Tawfiq Budeiri 02-2966610	Title: Email:	Managing Director tbdeiri@mdlf.org.ps
Responsible Agency: Ministry of Local Government			
Contact: Telephone No.:	Mohammad Jabarin 02-2401455	Title: Email:	Deputy Minister mohjabarin@yahoo.com
Project Financing Data(in USD Million)			
<input type="checkbox"/> Loan	<input type="checkbox"/> IDA Grant	<input type="checkbox"/> Guarantee	
<input type="checkbox"/> Credit	<input type="checkbox"/> Grant	<input checked="" type="checkbox"/> Other	

Total Project Cost:	5.00	Total Bank Financing:	0.00							
Financing Gap:	0.00									
Financing Source		Amount								
Borrower		0.00								
Special Financing		5.00								
Total		5.00								
Expected Disbursements (in USD Million)										
Fiscal Year	2017	2018	2019	2020	2021	0000	0000	0000	0000	0000
Annual	0.50	1.00	1.50	1.75	0.25	0.00	0.00	0.00	0.00	0.00
Cumulative	0.50	1.50	3.00	4.75	5.00	0.00	0.00	0.00	0.00	0.00
Institutional Data										
Practice Area (Lead)										
Social, Urban, Rural and Resilience Global Practice										
Contributing Practice Areas										
Proposed Development Objective(s)										
The proposed PDO is to enhance the capacity of participating urban areas to plan for sustainable urban growth.										
Components										
Component Name						Cost (USD Millions)				
Component No. 1: Planning for Sustainable Urban Growth						4.55				
Component No. 2: Project Implementation Support and Management Cost						0.45				
Systematic Operations Risk- Rating Tool (SORT)										
Risk Category								Rating		
1. Political and Governance								Substantial		
2. Macroeconomic								High		
3. Sector Strategies and Policies								Substantial		
4. Technical Design of Project or Program								Moderate		
5. Institutional Capacity for Implementation and Sustainability								Substantial		
6. Fiduciary								Substantial		
7. Environment and Social								Moderate		

8. Stakeholders	Moderate		
9. Other			
OVERALL	Substantial		
Compliance			
Policy			
Does the project depart from the CAS in content or in other significant respects?	Yes []	No [X]	
Does the project require any waivers of Bank policies?	Yes []	No [X]	
Have these been approved by Bank management?	Yes []	No []	
Is approval for any policy waiver sought from the Board?	Yes []	No [X]	
Does the project meet the Regional criteria for readiness for implementation?	Yes [X]	No []	
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	
Legal Covenants			
Name	Recurrent	Due Date	Frequency
Additional Remedies (Article 4.01 of the Grant Agreement)			
Description of Covenant			
<p>The Additional Events of Suspension referred to in Section 4.02 (k) of the Standard Conditions consist of the following:</p> <p>(a) The Recipient has taken or permitted to be taken any action which would prevent or interfere with the performance by the Project Implementing Entity of its obligations under the Project Agreement.</p> <p>(b) The Project Implementing Entity has failed to perform any obligation under the Project Agreement.</p> <p>(c) IBRD or IDA has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by IBRD or IDA, or otherwise to participate in the preparation or implementation of any project financed in whole or in part by IBRD or IDA (including as administrator of funds provided by</p>			

another financier), as a result of (i) a determination by IBRD or IDA that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by IBRD or IDA; and/or (ii) a declaration by another financier that the Project Implementing Entity is ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.

(d) As a result of events which have occurred after the date of this Agreement, an extraordinary situation has arisen which makes it improbable that the Project Implementing Entity will be able to perform its obligations under the Project Agreement.

(e) The Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.

(f) Event prior to Effectiveness. The World Bank has determined after the Effective Date referred to in Section 5.03 of this Agreement that prior to such date but after the date of this Agreement, an event has occurred which would have entitled the World Bank to suspend the Recipient's right to make withdrawals from the Grant Account if this Agreement had been effective on the date such event occurred.

Conditions

Source Of Fund	Name	Type
	Effectiveness condition as per article 5.1 (a,b)	Effectiveness

Description of Condition

(a) 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

(b) 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 PA.

Source Of Fund	Name	Type
	Effectiveness condition as per article 5.1 (c,d)	Effectiveness

Description of Condition

(c) 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.

(d) The Recipient has adopted a Project Operational Manual in form and substance satisfactory to the World Bank.

Team Composition

Bank Staff

Name	Role	Title	Specialization	Unit
Noriko Oe	Team Leader (ADM Responsible)	Urban Specialist		GSU11
Lina Fathallah Rajoub	Procurement Specialist (ADM)	Senior Procurement Specialist	Procurement	GGO05

	Responsible)			
Nadi Yosef Mashni	Financial Management Specialist	Financial Management Specialist		GGO23
Andrianirina Michel Eric Ranjeva	Team Member	Finance Officer		WFALA
Bjorn Philipp	Team Member	Program Leader		MNC04
Chandan Deuskar	Team Member	Consultant		GSU10
Dania Mosa	Safeguards Specialist	Consultant	Social Safeguard	GEN07
Ellen Hamilton	Team Member	Lead Urban Specialist		GSU11
Hana Salah	Safeguards Specialist	Consultant	Social Safeguard	GSU04
Maha Muhammad Bali	Team Member	Senior Program Assistant		MNCGZ
Mei Wang	Counsel	Senior Counsel		LEGAM
Mohammad Nadeem	Counsel	Legal Analyst		LEGAM
Rafeef Abdel Razek	Team Member	Operations Officer		MNC04
Ruxandra Costache	Team Member	Senior Counsel		LEGLE
Sophie Hans-Moevi	Team Member	Sr Program Asst.		AFSEC
Tracy Hart	Safeguards Specialist	Senior Environmental Specialist		GEN05
Zeyad Abu-Hassanein	Safeguards Specialist	Senior Environmental Specialist	Environmental Safeguard	GEN05

Extended Team

Name	Title	Office Phone	Location

Locations

Country	First Administrative Division	Location	Planned	Actual	Comments
West Bank and Gaza	Gaza Strip	Gaza	X		Gaza City
West Bank and Gaza	West Bank	Ramallah	X		Ramallah Area
West Bank	West Bank	Nablus	X		Nablus Area

and Gaza					
West Bank and Gaza	West Bank	Bethlehem	X		Bethlehem Area
West Bank and Gaza	West Bank	Hebron	X		Hebron Area
Consultants (Will be disclosed in the Monthly Operational Summary)					
Consultants required? Consultants will be required					

I. STRATEGIC CONTEXT

A. Country Context

1. The Palestinian economy has begun to recover from the 2014 recession which resulted from the latest war in Gaza. The economy is estimated to have grown by 3.5 percent in 2015, in real terms. Reconstruction efforts provided a boost to the Gaza economy where real Gross Domestic Product growth amounted to 6.8 percent in 2015, mainly driven by the construction, wholesale, and retail trade sectors. Meanwhile, real GDP growth in the West Bank slowed to 2.5 percent in 2015 – 2.7 percentage points lower than its 2014 level – mainly due to a significant decline in foreign aid. The unemployment rate in Palestine remains persistently high with a quarter of the labor force out of work. Given that poverty is highly correlated with labor market outcomes, it is not surprising that 16 percent of the Palestinian population lives below the USD 5.50 a day poverty line according to preliminary estimates by the World Bank. Despite the challenging economic conditions, the PA managed to reduce the overall fiscal deficit from 12.5 percent in 2014 to 11.4 percent of the GDP in 2015. However, donor aid steeply declined by one-third, resulting in a USD 650 million financing gap. The PA has resorted to accumulation of arrears and domestic borrowing to cover the gap.

2. Local governments in Palestine have a long history with some created as early as the second half of the 19th century. Overall, Local Government Units (LGUs) predate the Palestinian Authority (PA) which was created as the first Palestinian central government administration after signing the Oslo Accords in September 1993. Until then, LGUs were the only administrative institutions allowed to exist and function officially in Palestine which was under military rule by the Government of Israel (GoI). Over decades, LGUs have performed under the complexities of different political and legal regimes. The PA was initially established for a five-year interim period after the Oslo Accords with responsibility for the administration of the territory partly under its control. However, the Oslo Accords were never fully implemented and came to a full halt with the beginning of the second Intifada in 2000. The consequence today is a multilayered system of physical, institutional, and administrative restrictions, which have fragmented Palestine into small enclaves. The fragmentation goes beyond a West Bank and Gaza divide, with the West Bank further divided into Areas A, B and C, each with its concomitant administrative and security arrangements. With increasing political and geographical fragmentation over the last two decades, LGUs have gained paramount importance providing services to the local population, particularly in areas where the relatively young central government was politically, geographically, and fiscally constrained.

B. Sectoral and Institutional Context

3. Palestine is facing rapid urbanization fueled by high demographic growth rates and spatially concentrated development with limited space to expand. Already today, 74 percent of Palestine is considered urban. Additionally, Palestinians have extremely limited access to

Area C¹, which comprises 61 percent of the West Bank and is under Israeli civil and security control. LGUs and residents face serious constraints in access to land and service restrictions resulting from the Israeli Civil Administration (ICA) control of permits for local service infrastructure, construction, and most forms of development. The resulting land scarcity and spatial fragmentation combined with rapid urban growth and uneven development within Palestine have increased pressure on local authorities. LGUs, legally mandated to provide key public services and infrastructure, struggle to address the swelling service needs of their rapidly increasing urban populations, let alone to invest in rehabilitation and upgrading of strained infrastructure networks. Incomplete laws and regulations and outdated practices govern the urban sector, and LGUs have difficulty formulating comprehensive well laid out urban plans. As a result, Palestine is experiencing uneven development and random urbanization.

4. Rapid urbanized growth of the leading urban areas in Palestine – Hebron, Nablus, Bethlehem, Ramallah, and Gaza City – has resulted in extended built-up space connecting cities, refugee camps, towns, and peri-urban areas such as villages, with indistinguishable socio-economic borders. These five densely populated urban areas are major drivers of Palestine’s national economy, as they collectively represent over a fourth of national population and continue to grow. Their agglomerate nature also presents key opportunities for shared visions among LGUs to create holistic strategies, plans, and projects for their greater urban areas. However, weak institutional capacity at local and national levels coupled with constrained public resources curb the urban areas from reaching their full socio-economic and spatial potential. Multiple distinct legal authorities exist within the urban areas including LGUs, Ministry of Local Government (MoLG) District Offices who govern areas outside of LGU administrative boundaries, and refugee camps; and currently, no mechanism or practice exists for these authorities to coordinate spatial planning to leverage economies of scale for service delivery, infrastructure investment, and economic growth, or for strategic alignment of development priorities. By LGUs planning and operating independently, urban areas lose mutually beneficial opportunities to share development activities, maintenance burdens and administration for cost effectiveness and functional proficiency, and to promote efficient land use. Additionally, the linkages between LGUs and urbanized refugee camps imbedded within urban areas are tenuous with little consideration of camps in urban planning processes. As a result of these weak administrative and organizational associations, there is a gap between the urban growth currently taking place and the development of livable, well-functioning cities which provide for citizens’ needs.

5. Current urban planning in Palestine lacks elements of forward-thinking planning. LGUs are overwhelmed by existing demands for services and lack basic data, instruments, and processes to utilize available spatial resources, forecast future estimates, and manage overall

¹Area A covers 18 percent of the West Bank and is under full security and civil control of the PA. Area B comprises 21 percent of the West Bank and is under PA’s civil control and Israeli security control. Area C constitutes about 61 percent of the West Bank territory. It is defined by the 1995 Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip as “areas of the West Bank outside Areas A and B, which, except for the issues that will be negotiated in the permanent status negotiations, will be gradually transferred to Palestinian jurisdiction in accordance with this Agreement”. Source: West Bank and Gaza: Area C and the Future of Palestinian Economy. October 2013, World Bank.

urban growth. Building often precedes planning and service delivery, resulting in inefficient land use and infrastructure development. New “neighborhoods” are built across multiple administrative borders leading to uneven service delivery, while land connected to existing public services within central urban locations remains vacant and undeveloped. LGUs are reticent to address the unused land within central areas, and have limited knowledge of tools to facilitate efficient land use or to promote smart and compact growth. They are forced to respond to expanding peripheries and unplanned built-up space with *ad hoc* service and infrastructure provision, as well as post-construction, *de facto* planning within new or updated master plans. This also results in the already financially beleaguered LGUs providing costly services to newly-expanded areas or relying on donors or individual citizens to do so, rather than allowing for densification of under-utilized land. Moreover, the system of zoning classification for residential areas (type A-D) is not equally applied across LGUs, nor is it based on defined scientific standards – geographic location, market value of real estate, available land in relation to population size and growth percentage – when determining classification type.

6. Connectivity issues among LGUs plague all the urban areas. Traffic congestion, mobility constraints, and insufficient infrastructure are affecting the quality of life for residents and impeding the potential for economic growth. LGUs within urban areas are still functioning administratively as monocentric spatial entities with one central business district despite the existing polycentric structures of large urban areas with multiple centers. As a result the activity centers are not well connected, hindering growth potential and constraining daily interaction with city space. Sectoral plans for traffic and infrastructure networks are not aligned among the different administrative units of the urban areas. Trunk infrastructure and their services weave irregularly along administrative boundaries within the urban areas rather than following efficient connectivity patterns.

7. These weaknesses in intra-urban area coordination and strategic growth planning for urban areas, combined with insufficient public resources, pose real constraints to Palestine’s economic development. Particularly, there is a lack of sufficiently serviced land and sites for private investment, and inefficient and unreliable public infrastructure to facilitate economic activities. The private sector often compensates for insufficient service provision through its own resources to facilitate their activities, ultimately transferring the costs to their consumers and customers. This can become a prohibitive factor for small and medium enterprises to emerge or grow their operations. The lack of serviced land and needed infrastructure often can lead to increased operating costs for companies, and impose limitations on physical expansion. These issues constrain revenue generation and private sector growth, ultimately limiting employment generation and contribution to the GDP by the private sector. Additionally, a previous Bank supported housing sector project² found that the lack of serviced land severely constrains the private sector from providing affordable housing, further restricting low income families in urban areas from enjoying a healthy quality of life. While the public sector acknowledges the need to attract private investment, the weak understanding of the local economies and labor markets reduces the effectiveness of existing Local Economic Development (LED) projects formulated by individual LGUs.

² Housing Sector Technical Assistance Project, P128982

8. The World Bank, in partnership with other Development Partners (DPs), has been providing institutional, policy, and investment support through an integrated and programmatic approach to the Palestinian Local Government (LG) sector. The proposed Integrated Cities and Urban Development (ICUD) project is an integral part of the programmatic engagement in the Palestinian LG sector consolidating the Bank's interventions and providing a structured approach for DPs to align their support. The Municipal Development Program (MDP), at the center of the Bank's LG sector support, has been following a programmatic approach that was complemented by a number of stand-alone interventions. These include: the Village and Neighborhood Development Project (VNDP) to support marginalized communities through a Community Driven Development approach; the Palestinian NGO Project (PNGO) to provide assistance to civil society and basic social service delivery; Southern Solid Waste Management projects (SSWMP) in the West Bank and the Gaza Solid Waste Management Project (SWMP) to establish and support the operation of sanitary landfills; and the Second Land Administration Project (LAP-2) to improve land administration in a pilot area. Those projects have either already closed (VNDP); or scheduled to close in the near future (PNGO and SSWMP); or have already been cancelled because of limited results (LAP-2).

9. In line with the PA's vision to support the Palestinian LG sector in a comprehensive and territorially integrated way that addresses the diverse needs of local authorities, these interventions are now being streamlined into three highly complementary operations with the vision to converge into one single LG Sector Program in the long-term. The MDP will soon enter into its third phase currently under design. MDP-3 would put additional emphasis on financing larger scale capital investments on top of the regular performance-based grant allocations. The proposed ICUD would be expected to converge with MDP in the medium term by providing regional growth frameworks in which potential large scale investments can be identified and funded under MDP-3. Similarly, the Local Governance and Services Improvement Program (LGSIP) has been developed following the MDP model to serve village councils (VCs) under which DPs pool their resources under one single program. MDP will remain the core LG program, onboarding those LGUs that consolidate with the support of LGSIP to graduate to municipalities and meet the minimum capacity needs of an eligible MDP municipality. This will allow LGSIP to merge with MDP in the long run. Complementary to both MDP and LGSIP, the proposed ICUD will work with the LGUs of the leading urban areas at the metropolitan level, to address their specific constraints in extending basic services to their rapidly growing population and in facilitating economic development. The proposed ICUD will strengthen the capacity of these urban areas to plan for sustainable urban growth, hence enabling them to create the regional economic growth frameworks under which metropolitan level investments can be substantiated and funded by the next generation of MDP.

10. Interventions in the LG sector are complemented by World Bank Group operations targeting the private sector. The recently approved Finance-for-Jobs (FforJ) Project supports private sector stakeholders to mobilize private investment financing in high potential sectors and generate job opportunities for Palestine. IFC has helped to establish a program for affordable home loans to lower and middle income Palestinians through the Affordable Mortgage and Loan Corporation (AMAL). However, a gap and emerging need remain to

provide the leading urban areas with tailored support to improve effective urban growth management. This is a key priority for unleashing socio-economic potential of the important urban centers of Palestine.

C. Higher Level Objectives to which the Project Contributes

11. The proposed project is fully aligned with the strategic pillars defined in the Assistance Strategy for the West Bank and Gaza 2015-2016 (Report No: 89503 GZ), which was discussed at the Board on October 30, 2014. The proposed project directly addresses Pillar No. 1 to “Strengthen the institutions of a future state to ensure service delivery to citizens” and contributes to Pillar No.2, “Support private sector led growth that increases employment opportunities.” The project will enable LGUs comprising of Palestine’s major urban areas to jointly plan with support from the central authority for more efficient and substantiated service delivery and infrastructure, hence removing a major bottleneck for private-sector led economic growth in the areas. These aims also align with the building blocks of the PA’s National Development Plan (NDP) 2014-2016 to “enable LGUs across the governorates to deliver better public services” and “build sustainable, equitable Palestinian infrastructure which contributes to promoting economic development”.

12. The proposed project is aligned with the new MENA Strategy of October 2015. It addresses Pillar No. 1 “Renewing the Social Contract” by assisting the public sector to respond better to the needs of the growing urban population; and addresses the key public sector impediments for private sector-led economic growth in urban areas. The lack of serviced land for private sector activities and reliable and efficient public infrastructure are perceived as the key impediments for economic growth by private sector; and they are largely due to the lack of integrated and sustainable spatial planning by the public sector. The proposed project, therefore, will support the public sectors in leading urban areas to strengthen their spatial planning capacity to remove such impediments in the long run. Moreover by supporting the improved access to services and enhanced potential for economic growth for the leading urban areas of Palestine, which will affect over a third of the population including refugees, the proposed project contributes to the Bank’s twin goals of eliminating extreme poverty and boosting shared prosperity in a sustainable manner by 2030.

II. PROJECT DEVELOPMENT OBJECTIVES

A. PDO

13. The proposed PDO is to enhance the capacity of participating urban areas to plan for sustainable urban growth.

B. Project Beneficiaries

14. The participating project urban areas will consist of four urban agglomerations³ in the West Bank (Nablus, Hebron, Bethlehem, and Ramallah) and Gaza City⁴. These five participating urban areas have been selected because of their strategic importance in terms of population and future economic growth. The currently identified LGUs of the urban areas are: (i) Ramallah agglomeration with the municipalities of Ramallah, Al-Bireh, Bitounia, and Surda-Abu Qash, and Al Am'ari Refugee Camp; (ii) Bethlehem agglomeration with Bethlehem, Beit Jala, Beit Sahur, Ad Doha, and Al Khader municipalities, and Aida and Ad Duheisha Refugee Camps; (iii) Nablus agglomeration with Nablus Municipality, and the VCs of Askar, Azmut, Deir-al-Hatab, Salim, Rujeib, Kafr Qalill, 'Iraq Burin, Tell, Sarra, Beit Iba, Qusin, Zawata, Beit Wazan, Al Juned, and 'Ein Beit el Ma, Ballata, and Askar Refugee Camps; (iv) Hebron agglomeration with the municipalities of Hebron, Taffuh, Dura, Halhul, and Beit Kahil VC; and (v) Gaza City Municipality for Gaza City. The membership and commitment of respective urban areas for the project activities will be confirmed by the signing of a Memorandum of Understanding (MoU) by the each area's LGUs. The MoU will be modeled after an existent, functional joint coordination unit in the Ramallah area. The membership of LGUs per respective urban area can be adjusted taking into consideration the technical needs for urban areas to jointly develop urban growth scenarios and plans.

15. The population estimate of these urban areas as they currently stand is 1,340,425⁵, representing 28 percent of the total population of West Bank and Gaza and includes 15 municipalities, 13 VCs, and 6 refugee camps. In these urban areas, the MoLG District Offices represent the interests of land outside LGU administrative boundaries in the West Bank. However, the precise number of LGUs that would benefit from the proposed ICUD is difficult to determine prior to the start of the proposed project. It will be guided by their commitment to formulate intra-urban area coordination mechanisms and participate in the proposed project activities through the mechanisms, as well as spatial economic analysis to be conducted during project implementation.

C. PDO Level Results Indicators

16. Key performance indicators are: (i) number of urban areas that develop cost-analyzed scenarios for urban growth and disclose them to the public; and (ii) number of urban areas whose member LGUs' plans are aligned to the selected growth scenario at the urban area level.

³ The urban agglomerations are defined as built-up urban areas extending across existing municipal and village council boundaries with common labor and housing markets, and were identified through spatial analysis of urban extent, and in consultation with MoLG and selected LGUs.

⁴ The Gaza strip is very population dense which makes identifying a clear agglomeration difficult. After consultations with Gaza City's Head of Planning and taking into account the different constraints of working across administrative boundaries, as well as the huge and very dense population in Gaza City proper, it was agreed to focus this support only on Gaza City. This will enable the authorities to better integrate and utilize forward looking growth planning in their work, and also would support them in integrating different neighborhoods into the city's planning.

⁵ Based on Palestinian Central Bureau of Statistics predicted populations for 2016.

III. PROJECT DESCRIPTION

A. Project Components

Component 1: Planning for Sustainable Urban Growth.

17. This component strengthens the institutional and technical capacity of participating urban areas to plan for sustainable urban growth through, *inter alia*, the provision of Technical Assistance (TA), goods, and training. To ensure a robust process of collaboration between the urban areas in the participating LGUs and strong ownership and commitment, this component will first facilitate intra-urban area coordination mechanisms to be operational in all of the participating urban areas except for Gaza City that is comprised of a single LGU. Through the intra-urban area coordination mechanisms, the participating urban areas in the West Bank will be supported to conduct urban growth planning. The objective of capacity development support for urban growth planning is to enable the areas to respond more efficiently to the needs of their growing populations and private sector with more sustainably and well-planned urban spaces and infrastructure.

18. *Sub-Component 1: Structured capacity development support for urban growth planning.* This sub-component will assist in equipping the urban areas with, *inter alia*, the necessary information, tools, and analysis to achieve four milestones of urban growth planning: (i) establish and actively maintain intra-urban area coordination mechanisms; (ii) complete baseline assessment of existing urban extent; (iii) complete exercise to develop cost-analyzed urban growth scenarios, and to disclose them to the public; and (iv) modify respective member LGUs' plans based on the optimum urban growth scenario selected at the urban area level.

19. *Sub-Component 2: Demand-driven customized support for urban growth planning for the West Bank urban areas.* While the urban growth planning exercises by the participating urban areas are progressing over the course of the project life, it is likely that interim opportunities to improve urban space management and services will be identified. Accordingly, this sub-component will provide the urban areas with, *inter alia*, TA, goods, and training, to conduct activities throughout the life of the proposed project in order to continually encourage and maintain the momentum and ownership for the longer-term urban growth planning exercise. The support will be demand-driven and will be provided only if (i) the urban areas steadily meet urban growth planning milestones included under Sub-Component 1; and (ii) the support content is justified to benefit the urban area as a whole. Such support may include, for example, TA to develop mini-bus time tables and suggested routes to ease traffic congestion and enhance predictability of public transportation.

20. *Sub-Component 3: Demand-driven customized support for urban growth planning for Gaza urban area: Gaza City.* This sub-component will provide Gaza City with, *inter alia*, TA, goods, and training, to conduct interim activities to improve urban space management and services over the course of the proposed project. In the same manner as sub-component 2, the support will be demand-driven and will be provided only if Gaza City steadily meets urban growth planning milestones. Such support may include but not limited to specific TA such as conducting joint-neighborhood public space cleaning campaigns.

Component 2: Project Implementation Support and Management Cost.

21. This component will finance the training, operating costs, and goods necessary for the technical oversight and implementation support of the proposed project to be performed by, *inter alia*, a Technical Supervisor (TS), Local Coordinator (LC) for Bethlehem, Hebron, and Nablus areas, and the existing Local Coordinator for the Ramallah-Al Bireh-Bitounia (RAB) Joint Coordination Unit. This component will also finance the management fee of the Municipal Development and Lending Fund (MDLF) that will manage procurement, finance, safeguards, and reporting for the proposed project based on technical inputs from the TS.

B. Project Financing

22. The proposed grant instrument is a Special Financing Grant from the Trust Fund for Gaza and West Bank (TFGWB), in the amount of USD 5 million. A provision for retroactive financing in the amount of USD 500,000 (10% of Grant amount) will be provided to the MDLF to cover necessary financing, e.g. TS salary and initial operating costs.

Project Costs and Financing

Project Components	Project cost (USD million)	TFGW B (USD million)	% Financing
1. Planning for Sustainable Urban Growth.	4.55	4.55	100
2. Project implementation support and management cost.	0.45	0.45	100
Total Financing Required	5.0	5.0	100

C. Lessons Learned and Reflected in the Project Design

23. The proposed project builds on key lessons from the Bank's long term, programmatic LG sector support in Palestine.⁶ Building upon emergency rehabilitation projects, four consecutive Bank projects have been supporting individual LGUs to develop their basic institutional capacity.⁷ While the basic capacity of individual LGUs has been steadily enhanced, advanced and tailored capacity building needs for LGUs comprising Palestine's leading urban areas to collectively tackle challenges from rapid urbanization have never been met. As a result, the lack of regional urban growth framework and plans has been manifesting itself in the weak rationalization of investment needs by individual LGUs that are funded by existing programs. The proposed project, therefore, aims at filling this gap by providing tailored capacity development support for Palestine's leading urban areas to collectively plan for sustainable growth. The urban growth planning exercise is to contribute to the emergence of regional growth frameworks under which a pipeline of larger scale joint investments critical for economic growth can be identified and funded by the next generation of LG sector programs at a later stage.

⁶ PPP in Municipal Service Delivery TA, P143782 and Housing Sector TA, P128982.

⁷ LGSIP, MDP Phase-I, VNDP, and MDP Phase-II (ongoing).

24. Furthermore, findings from previous Bank support activities, such as TA to support Public-Private Partnership (PPP) in municipal service delivery and a Housing Sector TA and background studies prepared for the proposed project, were utilized to focus project activities on commonly identified public sector generated bottlenecks for private sector-led economic growth. One of the most prominent bottlenecks identified by the private sector is the lack of serviced land as well as inefficient and unreliable public infrastructure. These bottlenecks are one of the negative results of weak urban growth planning capacity, upon which the proposed project activities will focus. Furthermore, the proposed project will focus on the capacity development of Palestine’s leading urban areas in light of the fact that they have the largest potential to serve as the engines of economic growth in Palestine.

25. The proposed project design also reflects key lessons from Bank supported Urbanization Reviews (URs), including in the East Asia and Pacific Region⁸ and TA operations in Central America that supported urban planning in a capacity constrained environment similar to Palestine.⁹ Findings from the URs highlight that urban growth spillover from original administrative boundaries into neighboring jurisdictions, which continue to be administered separately, has emerged as a significant global challenge. While individual local governments in urban areas will continue to play an important role in public service delivery, the URs argue that it is nearly impossible to address issues related to urban transportation, land and housing markets, infrastructure deficits, or economic development without addressing the entirety of the urban area. To overcome the metropolitan administrative fragmentation, the URs recommend a flexible approach, namely establishing functional coordination mechanisms among local governments that can adapt to urban growth and evolve with the changing needs of citizens. The proposed project reflects those recommendations, but also the history of administrative re-organization in Palestine through proposed intra-urban area coordination mechanisms. Lessons from the successful Bank-financed Municipal Development Planning support for local governments in Belize demonstrate the success of joint spatial planning capacity building. Such interventions succeeded despite severely constrained initial capacity among Belizean local governments, when they maintained simplicity, built on participatory planning processes, and focused on core LG functions. The lessons informed the facilitation-based planning process and realistic milestones and timeline adopted for this proposed project.

IV. IMPLEMENTATION

A. Institutional and Implementation Arrangements

26. LGUs that comprise the proposed project’s participating urban areas and maintain intra-urban area coordination mechanisms will be the principal recipients of, *inter alia*, TA, goods, and training provided through this proposed project. The urban areas are responsible for identifying the content of the proposed project financed activities to achieve the PDO. They will also lead project activities at the local level with technical oversight and facilitation support from the Technical Supervisor (TS) and Local Coordinators (LCs) who would be recruited under the proposed project. The TS and LCs would be located at the MoLG and

⁸ East Asia’s Changing Urban Landscape – measuring a decade of spatial growth, World Bank Group, 2015.

⁹ Municipal Development Project, Belize, P111928.

urban areas, respectively. As the proposed ICUD aims to develop urban areas' capacity, all TA will be participatory in nature, requiring regular technical inputs from the LGUs throughout project implementation. Since the participating urban areas do not have a legal body beyond respective LGUs to govern their adjoined built space, the proposed project will support the areas to establish and maintain active LGU coordination mechanisms to collectively deliver results. The mechanism will be modeled in line with the intra-municipal coordination unit that the RAB urban area established to manage connectivity issues and staffed with a coordinator. The mechanism will be tailored to each urban area based on the degree of existent collaboration within each, but would not take the form of a legal administrative body. LGUs' membership per respective urban area can be adjusted taking into consideration the specific needs to jointly develop urban growth scenarios and plans.

27. The joint coordination mechanism will be underpinned by the signing of a MoU by member LGUs' councils specifying, *inter alia*, the objective, division of labor, and focal personnel appointment. The urban areas will receive facilitation support from the proposed project to finalize the MoU and activate the coordination mechanism. A LC per urban area would be recruited under the proposed project to facilitate all of project activities at the local level for the three participating urban areas (Bethlehem, Hebron, and Nablus) that currently lack intra-urban area coordination mechanisms. Gaza City would receive support from the TS at the MoLG and MDLF, since no neighboring LGUs would be involved.

28. The technical oversight of the proposed project will be carried out by MoLG, in close consultation with the urban areas. The MoLG has the legal mandate for local government affairs and is in charge of overall policy setting and coordination. Within its mandate, the MoLG will technically oversee the implementation of Component 1. The MoLG, through TS and LCs, will provide facilitation support to assist the project's participating urban areas to identify, *inter alia*, needed TA activities, goods, and trainings. The MoLG district offices will represent the land outside of LGU administrative boundaries in respective urban areas of the West Bank. In consultation with the urban areas, the MoLG will prepare the technical content of Terms of Reference (ToRs) and Expressions of Interest (EoIs), conduct technical quality control, and provide technical approval of the delivered outputs. The MoLG will also be responsible for advising the fiduciary agent of this proposed project, MDLF, for payment release in a timely manner, and for reporting technical aspects of project activity results to the MDLF for inclusion into project progress reports. To assist MoLG in fulfilling these functions, a TS will be selected by MoLG and contracted by MDLF from the project budget. The TS will be placed in the MoLG Planning Department to oversee technical activities at the local level, supervise LCs in close consultation with urban areas, and fulfill relevant central level coordination, reporting, and other activities important to support overall technical supervision by the Ministry.

29. MDLF will be responsible for managing procurement, finance, safeguard, and reporting for the proposed project based on technical inputs from the MoLG and urban areas. MDLF's role will include: project fund management; preparation of financial statements; organization of the project audit; signing and issuance of all procurement notices, advertisements, and all contracts with suppliers and consultants; environment and social safeguard management; preparation and update of the Project Operational Manual (POM) based on technical input

from the MoLG; and compilation of results reporting and submission to the Bank. The MDLF is an independent, quasi-governmental organization, governed by a Board of Directors (the Board), which is the policy and strategy-setting authority responsible for monitoring the direction and performance of the Fund. The Board is chaired by the Minister of Local Government and comprises eleven members that are key stakeholders for Palestine's LG sector. The MDLF has demonstrated its capacity to administer donor-funded projects since its establishment in 2005, including the multi-donor financed MDP-II. MDLF is staffed with all key positions required to fulfill its fiduciary and safeguard management roles for this project.

B. Results Monitoring and Evaluation

30. MDLF will be responsible for monitoring and evaluation activities under this proposed project, including the achievement of the PDO, project outcomes, and physical, fiduciary, and safeguard performance. The monitoring and evaluation activities will also include the results that are not captured in the results framework, such as semi-annual feedback collection from project participating urban areas and subsequent fine-tuning of project activities. A structured assessment of capacity developed through this project is also planned at the mid-term and end of the project. The MoLG will be responsible for providing technical input to MDLF, namely all of the technical aspects of procurement, monitoring of progress towards the PDO, and details of project activities. MDLF has been performing at a satisfactory level to collect, aggregate, and analyze results achieved by municipalities under the MDP-II and the MoLG under LGSIP as both programs' implementing agency. The MDLF has a robust monitoring and evaluation system that uses a web-based Program Management Information System (PGMIS) as well as the Financial Management Information System (FMIS) to automate data aggregation, storage, and presentation as part of a results-based Monitoring and Evaluation (M&E) system. The MDLF's Results-Based Monitoring Manual (RBMM) has aligned the individual objectives of the various MDLF-implemented projects and programs with the PA's NDP strategic objectives. As such, no additional arrangements or staff are required for the M&E of this project.

C. Sustainability

31. At present, there is a gap in metropolitan area urban planning policy, practice, and methodology in Palestine, and MoLG has indicated interest in developing capacity to administer, advise on, and implement such practice in Palestine. The Ministry conducted a study on metropolitan planning in 2007, which led to the establishment of the existing joint coordination unit for the RAB area. However, MoLG was unable to go beyond this initial study to mainstream metropolitan planning into government practice or policies. The proposed ICUD therefore would provide the initial metropolitan/urban area growth planning framework and local government driven implementation experience for MoLG to guide metropolitan planning policy development. The MoLG planning unit will technically oversee the proposed project activities and receive support to improve bottom-up metropolitan planning. The urban growth planning exercise will also inform necessary reforms in the PA's own planning system, in addition to the inputs to developing LGUs urban area plans.

32. At the activity level, the intra-urban area collaboration mechanism, which will be either established (Nablus and Hebron urban areas) or strengthened (Ramallah and Bethlehem urban areas) during the early stages of this proposed project, will closely follow the lessons and model of the RAB coordination unit in order to be sustainable. The proposed project will facilitate the urban areas to identify the objective and focus for urban growth planning that reflect the unique urban development challenges existent in each area, and hence ensure that the planning process is fully owned by urban areas. The TA offered under this proposed project will complement existing data and analysis, while the responsibility for meeting respective planning milestones will lie with the urban areas. Parallel to the growth planning process, the proposed project will support the urban areas to potentially carry out activities for interim improvements in public space management and services, should they become evident, to ensure the momentum of planning process and coordination mechanism. With sustained ownership and achievement of growth planning milestones, it is anticipated that the coordination mechanism envisioned could be sustained by the LGUs in a similar manner to the current RAB unit. This unit is financed and hosted by member LGUs on a rotating basis. Eventually, the savings and efficiency gains offered by the urban growth planning exercise would motivate urban areas and the MoLG to integrate both coordination units and planning tools supported by this proposed project into their regular planning and investment prioritization.

33. Additionally, the proposed project is expected to inform the Local Economic Development (LED) policy formulation exercise that is currently undertaken by the PA. The PA has set LED as one of the priority agendas in Palestine’s LG sector. Accordingly, the development of an LED Strategy and the implementation of LED pilot projects are underway with the MoLG leadership. This proposed project will assist the Ministry in shifting its thinking on LED away from the current income-generating municipal project-based approach, which has resulted in under-capacitated LGUs attempting to provide private goods. This has unmitigated risks of the public sector crowding out private sector activities and overburdening LGUs beyond their tasked roles of providing local services. The urban growth planning capacity development activities will instead inform the MoLG of approaches and lessons that focus public efforts on removing public sector-generated bottlenecks for private sector-led economic growth resulting from weak urban planning practice (i.e. underserviced available land for investment). The positive lessons and gain of this proposed project, therefore, are envisioned to be mainstreamed into sustainable LED policies to be developed by MoLG.

V. KEY RISKS

A. Overall Risk Rating and Explanation of Key Risks

Systematic Operations Risk Rating Tool (SORT)

Risk Category	Rating
1. Political and Governance	Substantial
2. Macroeconomic	High

3. Sector Strategies and Policies	Substantial
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Substantial
6. Fiduciary	Substantial
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	
OVERALL	Substantial

34. *Political and Governance.* The overall risk rating is “Substantial”. No progress has been made in the Israeli-Palestinian peace process, while political developments in neighboring countries increase the complexity in the regional context. The separation of Gaza continues to impact the fabric of the Palestinian society and adds to the environment of uncertainty. Israel’s physical, administrative, and regulatory restrictions in the West Bank and the blockade of Gaza with sporadic violence heavily impact the PA’s ability to implement its national plan. The Bank is under continuous dialogue with the PA, MoF, MoLG, and offers structural governance support to the PA.

35. *Macroeconomic.* The macroeconomic risk is “High”. The 2014 war in Gaza and the recent surge of violence in the West Bank have significantly increased uncertainty and negatively impacted consumer and business confidence. The multilayered system of restrictions on movement, access, and trade present an ongoing binding constraint to private sector investment and economic growth. On the fiscal side, risks relate to the persistently high fiscal deficit financed mostly through donor grants that have been relatively unpredictable and on a declining path since 2008. Also, repeated suspensions of tax revenue payments for taxes collected by the GoI on behalf of the PA, and lack of control over public finances and economic management in Gaza significantly add to the risks. The mitigations measures for the high macroeconomic risk are beyond the scope of this project to address.

36. *Sector Strategies and Policies.* In the LG sector, resources for capital investments as well as operation and maintenance for improved service delivery remain scarce. There is a need for consolidation in the sector to improve financial sustainability and improve basic service delivery. The PA’s fiscal distress may continue putting pressure to use centrally collected local resources for national-level priorities. This would deprive local authorities of much needed public financial resources and further limit fiscal space for investments. Movement and access restrictions limit the scope of local infrastructure interventions, and permit requirements from the Israeli Civil Administration are subject to protracted approval. Risk considerations for this project are addressed and embedded in the proposed project design and mitigated against as part of the capacity building activities supporting the government systems and the LGUs of the participating urban areas.

37. *Institutional Capacity for Implementation and Sustainability.* Currently no systematic legal mechanism/entity exists for intra-urban area collaboration, planning, or administration,

etc. Additionally, MDLF, an implementing partner, while possessing a strong track record of fulfilling fiduciary and safeguard responsibilities of Bank projects in the LGU sector in the past, has not previously engaged in the area of urban spatial planning. The design of the proposed project aims to mitigate these concerns by utilizing and strengthening existing capacity at the MoLG Planning Department, RAB joint coordination unit sustained by three municipalities in Ramallah urban area, and MoLG district offices in West Bank. The MoLG Planning Department has supported a joint coordination mechanism in RAB and Bethlehem urban areas, and facilitated consultative workshops in Nablus and Hebron areas for the same purpose. In light of the ministry's shortage of manpower and need to strengthen technical knowledge on urban growth planning and bottom-up process of conducting the planning, the proposed project will hire a TS to be based at MoLG Planning Department in Ramallah and three LCs to be based at three participating urban areas in West Bank to assist MoLG successfully oversee technical aspects of the proposed project. Gaza City would receive support from the TS at the MoLG and MDLF, since no neighboring LGUs would be involved.

38. *Financial Management.* The "Moderate" financial management (FM) risk after mitigating measures reflects the risk of disbursement delays due to insufficient coordination between MoLG to issue technical clearance and MDLF to transfer payment to consultants and contractors in a timely manner. The mitigating measures would include: (i) specific guidance on the World Bank FM arrangements; (ii) the submission of the interim financial reports and the Project Audit Report to the Bank, and (iii) FM supervision and implementation support.

39. *Procurement.* The "Substantial" risk rating is based on the following: (i) MoLG's capacity to handle procurement for the TA, particularly the selection of consultants, and management of consultants' contracts requires strengthening; (ii) MDLF's specific technical expertise in metropolitan growth planning is weak as it has no prior experience on such activities to be able to sufficiently control the quality of the TA themselves; and (iii) the lack of proper coordination and interaction between MoLG and MDLF may cause procurement and project implementation delays. Further deterioration of the Palestine's political context and the market situation may limit competition and discourage participation by qualified international consultants. The corresponding mitigation measures are: (i) a Technical Supervisor at MoLG and LCs in each participating urban area in West Bank except for Ramallah area will be financed under the proposed project; (ii) the project implementation structure and the detailed responsibilities and coordination mechanism of the various entities shall be clearly defined in the POM, to be approved by the Bank prior to effectiveness; and (iii) the project procurement plan shall be jointly drafted by MDLF and MoLG, ensuring an adequate and realistic sequencing and prioritization of actions. The procurement plan has been drafted and is currently under the Bank task team's review.

40. *Environment and Social.* TA packages financed by the proposed project may result in some land use changes, with accompanying environmental and social impacts. Thus the Environmental and Social Management Framework (ESMF) includes a set of screening instruments to assess these impacts. Initial individual TA screening will result in exclusion of any TA products with category "A" impacts. TA packages preparation will be supervised by

the safeguards agent, MDLF, who has good experience with implementing ESMFs and is familiar with Bank safeguards policies from previous and ongoing operations. The environmental safeguards risk rating is “Moderate” due to the unknown impacts which might result from future implementation of these TA packages.

41. The social risk is “Low”. As the proposed ICUD only finances studies, training, and goods, and there will be no land acquisition financed as part of this proposed project or added at a later stage to this proposed project, the World Bank (WB) Policy on Involuntary Resettlement, OP 4.12, will not apply to the proposed ICUD. This proposed project will not recommend, endorse, or facilitate future pipeline investments that are on private land as well as municipally owned land that has squatters/ users of the land for livelihoods. This is due to the delays that would be incurred for the implementation of investments if OP 4.12 were triggered. Additionally, because studies might lead to expropriation beyond the time of World Bank involvement, Recommended Resettlement Policy Framework (RPF) Contents were prepared and attached as an Annex to the ESMF manual to provide guidance on any potential involuntary land acquisition after the lifetime of this proposed project.

VI. APPRAISAL SUMMARY

A. Economic and Financial Analysis

42. This proposed project is a technical assistance and capacity building operation and will not finance any public investment. Given such characteristics, a quantitative economic and financial analysis is not an appropriate tool to assess the benefits of this proposed project. The expected development impact of the proposed project includes among others: (i) enhanced efficiency gains in investment planning due to improved urban growth management; (ii) accelerated creation of jobs and affordable housing units by private sector actors; (iii) enhanced living conditions for residents, for example, through improved urban planning reflecting connectivity and green space needs; (iv) prevention of hazardous living conditions (e.g. overcrowding) for citizens which would result from continued lack of urban area-level growth planning; and (v) creating an environment to better accommodate private sector investment and encourage economic growth. The proposed project would contribute to building public sector capacity for more efficient use of public resources and leveraging of private investments to maximize economic benefits. The proposed project would support, *inter alia*, strategic urban spatial planning and application of standard economic and financial analysis and Cost-Benefit-Analysis in the investment prioritization process. Accordingly, public financing to this proposed project is justified.

43. The World Bank’s added value to support this proposed project is evident based on the Bank’s integrated and comprehensive LG sector support as well as its catalytic role for DPs to come into the sector (e.g. MDP, LGSIP). The Bank also is in a position to contribute to the in-depth knowledge developed through a series of previous TA, on the topic of PPPs in municipal service and affordable housing unit provision in the West Bank. As this proposed project sets out to address new challenges for Palestine’s LG sector, such as planning for sustainable urban growth in major urban areas, the Bank is also well positioned to provide its international experience from similar non-Palestinian projects.

B. Technical

44. Targeted interventions intended to develop the institutional capacity of participating urban areas have been informed by detailed diagnostic work conducted during the preparation phase. The work includes spatial analysis to visually identify Palestine's major urban areas in which built-up areas have already spilled over respective administrative boundaries of LGUs. The analysis was conducted by utilizing knowledge sharing from the global analytical initiative by the Bank called Global Urban Footprints (produced by the German Aerospace Center with the Bank support). In collaboration with the largest municipalities in the respective urban areas, city profiles were developed to understand institutional capacity, spatial constraints, investment priorities, and local economic development initiatives in the urban areas. During pre-appraisal, the Bank in collaboration with MoLG conducted geo-spatial analytical capacity assessments of West Bank urban areas to further fill the existing information gap.

45. Additionally, findings and recommendations from previous Bank-executed TA¹⁰ were utilized to identify common public sector-produced obstacles for PPPs seen in the examples of affordable housing unit provision and municipal service delivery. While analyzing different types of public-private collaborations, the analytical work indicated that the main public-sector posed obstacles for greater private sector participation in urban development stems from the lack of LGU capacity to anchor and rationalize public investment in a coherent spatial planning framework that covers urban areas as a whole.

46. Further consultations with private sector stakeholders, namely Chambers of Commerce and the IFC, confirmed that strengthening LGUs' spatial planning capacity would be critical to facilitate private sector-led economic growth. While public sector-posed obstacles are wide-ranged, the private sector identified the shortage of land and sites connected to reliable public services as well as inefficient and unreliable connectivity infrastructure among the main obstacles to growth. Weak rationalization of public investment due to the LGUs' lack of coherent spatial planning capabilities, coupled with chronically limited public funds for investment, lead to such deficiencies. Accordingly, the proposed project would focus to develop urban spatial management capabilities in Palestine's leading urban areas.

C. Financial Management

47. A Financial Management capacity assessment for MDLF was carried out as part of the appraisal of the ongoing MDP II, and was updated for this proposed project. Taking into account the aforementioned risks and mitigation measures, the overall financial management risk is assessed as "Moderate". The implementation of the FM arrangements and the related risk mitigation measures proposed in Annex 3 would satisfy WB OP10 minimum requirements. The overall responsibility for the implementation of FM and disbursement arrangements will rest with MDLF which will act as the Bank's counterpart for all FM aspects of the proposed project. MDLF has a track record of managing the FM arrangements of WB funds. The grant funds will be deposited through a US Dollar Designated Account (DA) opened and managed by the MDLF. The proposed project's financial statements will be

¹⁰ Housing Sector TA, P128982, PPP in Municipal Service Delivery TA, P143782

annually audited by a qualified independent auditor acceptable to the Bank, in accordance with internationally accepted auditing standards, and ToR acceptable to the Bank.

D. Procurement

48. Procurement for the proposed project shall be carried out in accordance with the WB “Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits and Grants” by World Bank Borrowers published by the WB in January 2011, and revised July 2014 and the WB “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” published by the WB in January 2011, and revised July 2014, the Grant Agreement and procurement plan approved by the Bank. “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and updated January 2011, shall apply to the proposed project.

49. The overall responsibility for the implementation of the proposed project procurement will rest with MDLF, which would act as the main counterpart to the Bank for all procurement aspects of the project. In particular, all procurement notices and advertisements and all contracts with suppliers and consultants will be issued and signed by MDLF. In consultation with participating urban areas, MoLG will take the lead on all technical aspects of the procurement process and will be responsible for contract management including the review and approval of consultants’ deliverables and the receipt/inspection and acceptance of goods, and for advising MDLF on the release of funds to the consultant/supplier in accordance with the signed contract. During appraisal, a procurement plan (PP) for the first 18 months of the project implementation was prepared and agreed with the Bank. It specifies the procurement packages/consultancy assignments, estimated cost, methods and schedule. The PP will be updated at least annually or as needed to reflect actual project implementation needs.

50. The overall procurement risk rating for the proposed project is Substantial. The Bank’s prior review thresholds for this project were set based on the existing procurement capacity and the identified procurement risks. All ToRs will be subjected to the Bank’s technical review and clearance. In addition to prior review, the Bank will carry out at least two supervision missions per year during which a follow-up and quality control of procurement /contract management matters will be carried out.

E. Social (including Safeguards)

51. The proposed project is expected to have positive social benefits through improved urban growth planning, which in turn will facilitate the creation of jobs, affordable housing, the welfare of refugees, and receipt of better public services. As the proposed ICUD only finances studies, trainings, and goods, and there will be no land acquisition financed as part of this project or added at a later stage of this Project, the World Bank Policy on Involuntary Resettlement, OP 4.12, will not apply to the proposed ICUD. Studies as part of this proposed project on urban space will cover private and public land. However, this proposed project will not recommend, endorse, or facilitate future pipeline investments that are on private land, as well as the municipally owned land that has squatters/ users of the land for

livelihoods. This is due to the delays that would be incurred for the implementation of investments if OP 4.12 were triggered. To screen for these exclusions for potential pipeline investments, as part of the studies, the proposed project will rely on the POM, which will include a rigorous downstream investment screening process. Given that studies financed under this project may lead to expropriation beyond the time of World Bank involvement, RPF (Resettlement Policy Framework) Contents were prepared and attached as an Annex to the ESMF. It provides guidelines on any potential involuntary land acquisition after the lifetime of this proposed project. Additionally, the POM will include guidance on documentation of power of choice in cases of willing-seller willing-buyer and voluntary land donation (VLD). The MDLF has gained solid experience in rigorous sub-project screening and ensuring the correct documentation for VLD during its implementation of the WB financed MDP and MDP-II.

52. So as not to duplicate efforts, the proposed project will rely on the current Citizen Engagement approaches developed and implemented by MDP-II (i.e. participatory consultations, Grievance Redressal Mechanism). The proposed ICUD will apply the MDP-II Grievance Redressal Mechanism, which is designed to be accessible to communities, document complaints/ responses in a log, and provide timely responses to communities.

F. Environment (including Safeguards)

53. The proposed project would finance TA, trainings, and goods to facilitate urban growth planning in five participating urban areas. The open menu of capacity building activities is demand-driven tailored to the specific needs of individual urban areas. Discussions with the client indicated the outputs may include urban development/spatial/strategic development studies, which might propose some land use adjustments in the participating urban areas, and/or detailed studies of joint interest, such as traffic flow. The studies are expected to inform the client's pipeline investments in forthcoming operations.

54. The expected proposed project outputs, TA, studies, training, and land use maps, will have social and environmental impacts. However, these outputs will be screened so as to exclude any financing of outputs with potential category "A" impacts. Therefore, the proposed project environmental category has been confirmed as category "B" according to OP/BP 4.01. Since the TA/CB activities are demand-driven, they will be fully identified by beneficiary agglomerates during proposed project implementation. The proper instrument for OP4.01 is therefore an ESMF which was prepared, finalized, and disclosed by the client on June 14, 2016, and in the Infoshop on June 15, 2016. This ESMF screens proposed project TA activities, determines probable social and environmental impacts, and includes generic ToR and contractor clauses for environmental and social impact assessments and management plans as deemed necessary.

55. As the fiduciary and safeguards agent for the proposed project, MDLF has prepared the ESMF in consultations with the MoLG and targeted municipalities in the five participating urban areas. During the proposed project implementation, MDLF in cooperation with MoLG and LGUs that formulate intra-urban area coordination mechanisms in the participating urban areas will ensure that the proposed project activities are screened properly, and TA/CB

consultancies will include proper ToRs to address, analyze, and propose mitigation measures for potential social and environmental impacts.

G. World Bank Grievance Redress

56. Communities and individuals who believe that they are adversely affected by a WB supported project may submit complaints to existing project-level grievance redress mechanisms or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address project-related concerns. The proposed project affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

Annex 1: Results Framework and Monitoring

Country: West Bank and Gaza

Project Name: GZ-Integrated Cities and Urban Development Project (P150991)

Results Framework

Project Development Objectives

PDO Statement

The proposed project development objective is to enhance the capacity of participating urban areas to plan for sustainable urban growth.

These results are at | Project Level

Project Development Objective Indicators

Indicator Name	Baseline	Cumulative Target Values									
		YR1	YR2	YR3	YR4	YR5	YR6	YR7	YR8	YR9	End Target
Number of urban areas that develop cost-analyzed scenarios for urban growth and disclose them to the public.	0	0	0	3	5						5
Number of urban areas whose member LGUs' plans are aligned to the selected growth scenario at the urban area level.	0	0	0	1	5						5
Direct project beneficiaries (Number) – (Core)	0	TBD	TBD	TBD	TBD						TBD
Female beneficiaries (%) – (Core)	0	TBD	TBD	TBD	TBD						TBD

Intermediate Results Indicators

Indicator Name	Baseline	Cumulative Target Values									
		YR1	YR2	YR3	YR4	YR5	YR6	YR7	YR8	YR9	End Target
Number of participating urban areas that establish and actively maintain an intra-urban area coordination mechanism for the life of the project.	1	3	4	4	4						4
Urban Growth Planning roadmap prepared for all participating urban areas (Yes/No)	No	No	Yes	Yes	Yes						Yes
Number of urban areas that complete baseline assessments of existing urban extent.	0	0	3	5	5						5

Indicator Description

Project Development Objective Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Number of urban areas that develop cost-analyzed scenarios for urban growth and disclose them to the public.	Scenarios for urban growth will include population growth and associated land, services, and infrastructure needs forecasts, as well as cost-analyzed options for infrastructure and service extensions based on different growth patterns and expansion/infill locations. The scenarios will be disclosed to the public to ensure citizen feedback. The duration of disclosure	Annual	Disclosed summaries and documents themselves for public viewing (website, signboard, town hall meetings, etc.). Project progress reports on activities undertaken to develop the scenarios.	Participating Urban Areas, MoLG

	will be determined based on the national regulation related to urban plans and recorded in the POM prior to the commencement of scenario exercise.			
Number of urban areas whose member LGUs' plans are aligned to the selected growth scenario at the urban area level.	Measures the urban area-member LGUs' capacity and commitment to implement the vision and growth scenario developed through Urban Growth Planning exercise. The urban growth planning exercise will identify and decide on the space where the urban areas' population growth could be accommodated. Where the space will geographically overlap with existing LGU boundaries is not known at this stage (it may run across all member LGUs' boundaries, or be contained in only one or a few member LGU boundaries). Once the space is determined, the LGUs which include the space in its boundaries will need to adjust their plans accordingly, while other member LGUs may/may not adjust their plans based on the indirect impact of such space to be planned and developed in the same urban area. When all of the necessary adjustments for the identified space are completed, which might or might not involve all of member LGUs, this indicator will be considered as being met.	Annual	Review of, <i>inter alia</i> , land use plan ("Master Plan), Strategic Development and Investment Plan, sectoral plans, by urban area-member LGUs in reference to the urban growth scenario chosen.	Participating Urban Areas, MoLG
Direct project beneficiaries	The direct beneficiaries will be urban planners and other relevant LGU staff who will be implementing urban growth planning exercise. The target number of staff to be trained cannot be estimated at this stage, as	Annual	Project progress reports	Participating Urban Areas, MoLG

	<p>the number of LGUs to commit to this proposed project is not yet confirmed. Once the MoUs are signed in each urban area and intra-urban area coordination units are established in the West Bank during the initial stage of this project, the target value will be estimated. For both target and actual values, disaggregation based on gender (male and female) will be available.</p> <p>The proposed project is anticipated to indirectly benefit a number of Palestinian citizens residing in the urban areas after the lifetime of this project. The results from this proposed project, enhanced capacity of urban areas to plan for sustainable urban growth, are envisioned to benefit Palestinian citizens through improved infrastructure and urban space of the areas stemming from the enhanced planning capacity of LGUs.</p>			
--	---	--	--	--

Intermediate Results Indicators

Indicator Name	Description (indicator definition etc.)	Frequency	Data Source / Methodology	Responsibility for Data Collection
Number of participating urban areas that establish and actively maintain an intra-urban area coordination mechanism for the life of the project.	Measures the ownership and capacity of participating urban area-member LGUs to collaborate in achieving the project objectives.	Semi-Annual	Memorandum of Understanding to formulate the establishment of joint coordination units, minutes of coordination meetings, as part of progress reports.	Participating Urban Areas, MoLG
Urban Growth Planning roadmap	The roadmap will include following steps:	Annual	Review of Urban Growth	Participating

prepared for all participating urban areas (Yes/No)	(i) development of baseline assessment of existing urban extent per urban area; (ii) development of growth vision and scenarios cost-analysis per potential location to accommodate growth as well as their public disclosure; (iii) adjustment of plans at the individual LGU level and/or development of the expansion area plans based on the chosen growth scenario and vision at urban area level.		Planning roadmap and progress reports.	Urban Areas, MoLG
Number of urban areas that complete baseline assessments of existing urban extent.	An assessment of urban areas that formulate the basis for the urban growth planning exercises, which include baseline data and forecasts on vacant/underutilized land, population, the economic sector and labor force composition, spatial development pattern density, housing, connectivity and infrastructure, public and environment/ecological spaces, and disaster risk preparedness.	Annual	Review of Urban Growth Footprint documents and progress reports.	Urban Areas and MoLG

Annex 2: Detailed Project Description

COUNTRY: West Bank and Gaza

Project Name: GZ-Integrated Cities and Urban Development Project (P150991)

A. Project Components

Component 1: Planning for Sustainable Urban Growth.

1. This component strengthens the institutional and technical capacity of participating urban areas and analytical underpinning of current urban planning practice to plan for sustainable urban growth through provision of, *inter alia*, TA, goods, and training. To ensure strong ownership and commitment by the participating urban areas and robust processes of collaboration among the LGUs comprising the urban areas, this component will first facilitate intra-urban area coordination mechanisms to be in place and operational for all participating urban areas except for Gaza City that is comprised of a single LGU. New coordination mechanisms will be established in the Nablus urban area and the Hebron urban area. For the urban areas that already have developed intra-urban area coordination mechanisms among LGUs, namely the Ramallah urban area and recently the Bethlehem urban area, the proposed project will strengthen the existing joint planning and coordination mechanism and promote flexible membership based on technical needs to conduct urban growth planning exercise¹¹. The intra-urban area coordination mechanisms will be required to demonstrate effectiveness by signing a Memorandum of Understanding (MoU) by member LGUs and periodic submission of proof of their active operations to MoLG and MDLF. Further details on the format of MoUs as well as the definition of such proof are to be specified in the POM.

2. Through the intra-urban area coordination mechanisms, the participating urban areas will be supported to conduct urban growth planning. The objective of capacity development support for urban growth planning is to enable the urban areas to respond more efficiently to the needs of their growing population and private sector with more sustainably and well-planned urban spaces and infrastructure.

3. *Sub-Component 1: Structured capacity development support for urban growth planning.* This sub-component will assist equipping the urban areas with, *inter alia*, the necessary information, tools, and analysis to achieve four milestones of urban growth planning: (i) establish and actively maintain intra-urban area coordination mechanisms; (ii) complete baseline assessment of existing urban extent; (iii) complete exercise to develop cost-analyzed urban growth scenarios, and to disclose them to the public; and (iv) modify respective member LGUs' plans based on the optimum urban growth scenario selected at the urban area level.

4. To achieve Milestone (i), the urban areas of West Bank will receive facilitation support from LCs and the TS of the proposed project to fine-tune and sign a MoU that underpins the

¹¹ Bethlehem's joint coordination mechanism has just been newly established and is not fully functional yet, nor is it staffed. Therefore a Local Coordinator is required to support the urban area's participation in the project activities.

establishment of intra-urban area coordination mechanism. MoUs shall at minimum specify, *inter alia*, objective, division of labor, and focal personnel appointment. The MoU will be designed based on previous local and international experience and lessons learned of existing mechanisms, anticipated focus area of urban growth planning in the area, as well as technical input from the TS and LCs, such as the analysis of existent built-up areas and infrastructure network. Further, the urban areas will be supported to identify the rationale and objective of urban growth planning and draw a roadmap per area for the planning exercise through intra-urban area workshops.

5. To achieve Milestone (ii), the urban areas will be supported to establish the necessary spatial baseline information on the following: population; local and regional economic sector and labor force; intra-urban area mobility patterns; infrastructure connections (e.g. water, waste water, electricity, roads, transportation, and solid waste collection); under-utilized or vacant land; and public/environment/ecological spaces. Population and economic growth and associated spatial needs will be forecasted next. The economic growth forecast will be based upon the analysis of local and regional economic growth trends, employment composition, the productivity and location of private sector activities, and likely growth trajectory.

6. Based on the established urban growth baselines, forecasts, and available public resources (e.g. buildable land), the urban areas will be further supported in Milestone (iii) to identify the cost of needed infrastructure, service delivery investment, and maintenance, per growth pattern and location. The cost-analyzed growth scenarios will be publicized to their citizens, and in Milestone (iv) spatial, sectoral (e.g. waste water network), and investment plans at individual LGU level will be adjusted and/or the development of new expansion area plans based on the chosen growth scenario and vision.

7. As the adjustment of individual LGU level plans is completed, the relevant LGU will be supported to identify priority investments in the areas identified through the urban growth planning exercise to accommodate imminent growth. Furthermore, the relevant LGUs will be supported to improve the identified investment-specific transactions to attract funding from DPs and private sector to implement the investment. Such transaction support will include development of advanced methodologies for economic and financial analysis from basic analysis to life-cycle costing, business plan designs, and pre-feasibility study.

8. *Sub-Component 2: Demand-driven customized support for urban growth planning for the West Bank urban areas.* While the urban growth planning exercises by the participating urban areas are progressing over the course of the proposed project life, it is likely that interim opportunities to improve urban space management and services will be identified. Accordingly, this sub-component will provide the urban areas with, *inter alia*, TA, goods, and training, to conduct activities throughout the life of the proposed project in order to continually encourage and maintain the momentum and ownership for the longer-term urban growth planning exercise. The support will be demand-driven and will be provided only if (i) the urban areas steadily meet the urban growth planning milestones included under Sub-Component 1; and (ii) the support content is justified to benefit the urban area as a whole. Such support may include, for example, TA to develop mini-bus time tables and suggested routes to ease traffic congestion and enhance predictability of public transportation as well as

introduction of parking meters on main streets to facilitate better customer access to private businesses.

9. *Sub-Component 3: Demand-driven customized support for urban growth planning for Gaza urban area: Gaza City.* This sub-component will provide Gaza City with, *inter alia*, TA, goods, and training, to conduct interim activities to improve urban space management and services over the course of the proposed project. In the same manner as sub-component 2, the support will be demand-driven and will be provided only if Gaza City steadily meets urban growth planning milestones. Such support may include but not be limited to specific TA, such as conducting joint-neighborhood public space cleaning campaigns.

Component 2: Project Implementation Support and Management Cost.

10. This component will finance training, operating costs, and goods necessary for the technical oversight and implementation support of the proposed project to be performed by, *inter alia*, TS, LCs, and existing Coordinator for the RAB Joint Coordination Unit. This component will also finance the management fee of the MDLF that will manage procurement, finance, safeguards, and reporting for the proposed project based on technical inputs from the TS.

Annex 3: Implementation Arrangements

COUNTRY: West Bank and Gaza

Project Name: GZ-Integrated Cities and Urban Development Project (P150991)

A. Project Institutional and Implementation Arrangements

Project administration mechanisms

1. LGUs that comprise of the proposed project participating urban areas and commit to maintaining intra-urban area coordination mechanisms will be the principal recipient of, *inter alia*, TA, goods, and trainings provided through this proposed project. The urban areas are responsible for identifying project financed activities to achieve the PDO. They will also lead project activities at the local level with technical oversight and facilitation support from Technical Supervisor as well as Local Coordinators who are to be recruited under the proposed project and based at MoLG and urban areas respectively. As this proposed project aims at developing the urban areas' capacity, all of the TA will be participatory in their nature, requiring regular technical inputs from the LGUs (e.g. existing spatial population data) over the course of the proposed project cycle. As the participating urban areas do not have a legal body beyond respective LGUs to govern their conjoined built space, the proposed project will support the areas to establish and maintain active coordination mechanisms for the LGUs to collectively deliver results areas. The mechanism will be modeled on the intra-urban area coordination committee (Joint Coordination Unit) that the RAB urban area established to manage intra-municipal area connectivity issues with a designated coordinator position. A similar model has recently been established for the Bethlehem urban area, although it is not fully functional nor staffed yet. Neither mechanism at this time is entirely urban area-wide, however there is interest from the LGUs to revisit the composition to better cover the spatial extent of the their urban areas.

2. The remaining urban areas do not have a similar mechanism. Therefore, the intra-urban area coordination mechanism under this proposed project will be tailored to each urban area based on the degree of collaboration existent and have flexible membership, while reflecting technical considerations for effective urban growth planning. Lessons from the existing RAB joint coordination unit will be taken into consideration as well. The coordination mechanism will not take the form of a legal administrative body.

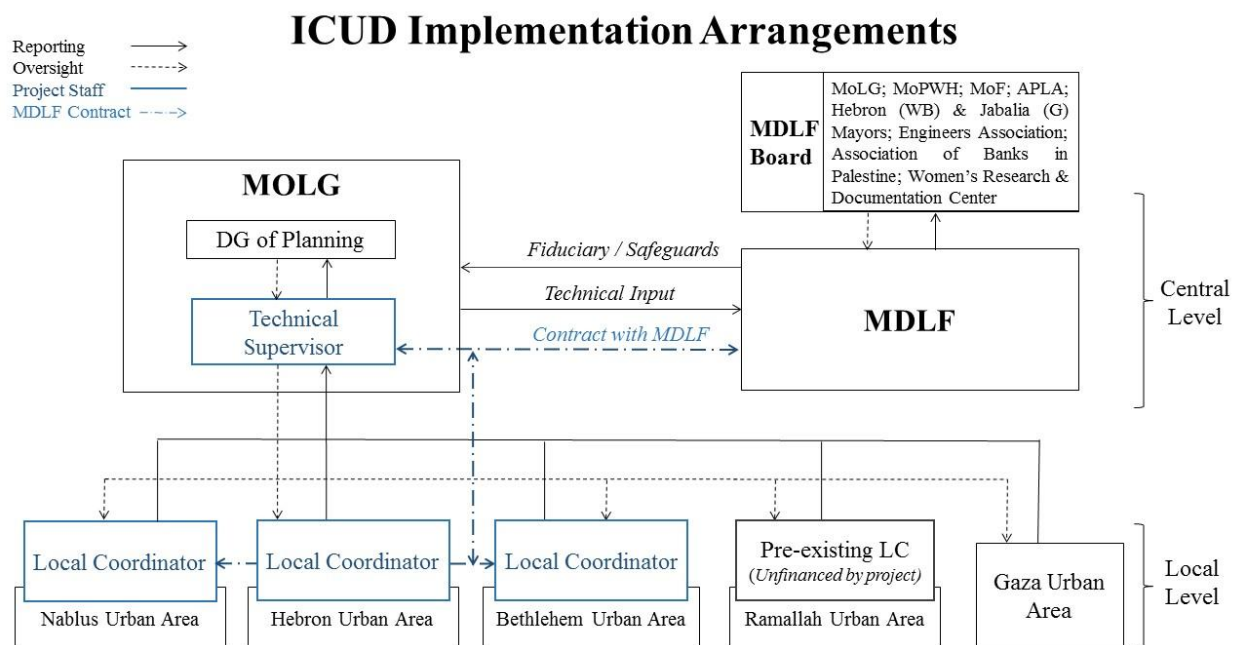
3. The joint coordination mechanism will be underpinned by the signing of Memorandum of Understanding (MoU) by member LGUs' councils that specify, *inter alia*, objective, division of labor, and focal personnel appointment. The MoU's objective is to underpin the LGU leaderships' commitment to the mechanism as well as to provide effective governance framework. The MoU content will be fine-tuned per urban area based on previous local and international experience and lessons learned of existing mechanisms, anticipated focus area of urban growth planning, as well as technical input and facilitation support from proposed project technical staff. LCs will be recruited under the proposed project to facilitate proposed project activities at local level for three participating urban areas that currently lack intra-urban area coordination mechanism, namely Nablus, Hebron, and Bethlehem. The LC will be

selected by a joint recruitment committee comprised of the urban area representatives and TS, and will be contracted by MDLF from the proposed project budget. LCs will report to both the TS and urban areas about their work plan and activities to ensure urban areas' ownership. They will be supervised by the TS, but the TS will consult with urban areas in the evaluation of LCs' performance. Gaza City would receive support from the TS at the MoLG and MDLF, since no neighboring LGUs would be involved.

4. The technical oversight of the proposed project activities will be carried out by the MoLG in close consultation with the urban areas. The MoLG has the legal mandate for local government affairs and is in charge of overall policy setting and coordination. Accordingly, the MoLG will technically oversee the implementation of Component 1. The MoLG, through TS and LCs, will provide facilitation support to assist the proposed project's participating urban areas to identify, *inter alia*, needed TA activities, goods, and trainings. The MoLG district office will represent the land outside of LGU boundaries in the respective urban area of West Bank. In consultation with the urban areas, MoLG will prepare the technical content of ToRs and Expression of Interests (EoIs), conduct technical quality control, and provide technical approval of the delivered outputs. MoLG will also be responsible for advising the fiduciary agent of this proposed project, MDLF, for payment release in a timely manner, and reporting technical aspects of proposed project activity results to the MDLF to be consolidated into proposed project progress reports. To assist MoLG to fulfill these functions, a TS will be selected by MoLG and contracted by MDLF from the proposed project budget. The TS will be placed in the MoLG Planning Department to oversee technical activities at the local level and fulfill relevant central level coordination, reporting, and other activities important to support overall technical supervision by the Ministry.

5. MDLF will be responsible for managing procurement, finance, safeguard, and reporting for the proposed project, based on technical inputs from the MoLG. MDLF's role will include the proposed project fund management; preparation of financial statements; organization of the proposed project audit; signing and issuance of all procurement notices, advertisements, and all contracts with suppliers and consultants; environment and social safeguard management; preparing and updating the POM based on technical input from the MoLG; and compiling results reporting and submission to the Bank. MDLF is an independent, semi-governmental organization, governed by a Board of Directors (the Board) which is the policy and strategy-setting authority responsible for monitoring the direction and performance of the Fund. The Board Chairman is the Minister of Local Government and its eleven members consist of representatives of Public Sector entities (Ministry of Finance, Ministry of Public Works and Housing, and Ministry of National Economy), civil society (Engineers Association, Banking Association, Association of Palestinian Local Authorities, Women's Association) and two mayors. The MDLF has demonstrated its capacity to administer donor-funded projects since its establishment in 2005, including the multi-donor financed MDP-II that is a repeater of MDP-I. MDLF is staffed with all key positions required to fulfill its fiduciary and safeguard management roles for this proposed project.

Diagram of Implementation Arrangements



Financial Management, Disbursements and Procurement

Financial Management

6. Implementation arrangements and staffing: the overall responsibility for the implementation of FM and Disbursement arrangements will rest with MDLF. The institution has a track record of effectively managing Bank funded projects. The Financial and Administration Department is staffed with a Finance and Administration Manager, a financial controller, two Senior Accountants (one in West Bank and the other in Gaza), two Accountants, and one Administrative Assistant. The FM team has adequate educational background and professional experience and has had satisfactory FM performance during the implementation of the ongoing MDP-II.

7. Flow of Funds and Management of Technical Assistance (TA) engagements: the proposed project funds will be channeled to the MDLF bank account into a US Dollar designated account. MDLF will pay for the procured TA directly to consultants, upon receiving the relevant technical no objection from MoLG on said TA.

8. Technical Supervisor and Local Coordinators: MDLF will sign contracts with one Technical Supervisor and 3 Local Coordinators, while being supervised by the MoLG in consultation with participating urban areas. Taking into account their satisfactory performance, MDLF will transfer TS salaries based on technical no objection from MoLG. LCs' salaries will be transferred based on technical no objection from technical supervisor who would consult with urban areas to evaluate LCs' performance.

9. Budgeting: In consultation with LGUs, MDLF will maintain a consolidated proposed project budget and a detailed disbursement plans. The budget will separately identify activities to be financed under the proposed project. The budget for each semester will reflect expenditure on the proposed project activities. The budget will also include detailed cash projections (based on six months cash projections).

10. A provision for retroactive financing in the amount of USD 500,000 (10% of Grant amount) will be provided to the MDLF to cover necessary financing for the technical advisor's salary and initial operating costs.

11. Accounting System and Reporting: MDLF maintains an acceptable, Oracle-based, accounting system. The accounting system is not part of the country systems since MDLF is a semi-independent government organization. The accounting system is not linked to any municipality's accounting system. However, the accounting system is computerized, and is able to capture the proposed project related transactions. The accounting system is capable to track and report on the proposed project funds separately by Component, and by each LGU. Additionally, the system is capable to generate quarterly IFRs, while the DA reconciliation will be performed manually by means of spreadsheets.

12. MDLF will be responsible for preparing the semiannual IFRs which will consist of (i) Statement of Cash Receipts and Expenditures, for each period and cumulatively from the proposed project inception. They will also include expenditures (by category, component and subcomponent) for each period and cumulatively from Project inception; (ii) Statement of DAs reconciling period-opening and end balances; and (iii) Comparison of Budget vs. Actual for the period and cumulatively from project inception, with justification of significant variance; and (iv) cash flow projections for the coming six months. The IFRs should be submitted to the Bank no later than 45 days after the end of the reporting semester.

13. Internal Control: The proposed project funds will be monitored and administered under the general context of MDLF internal control procedures. MDLF has acceptable FM policies and a procedures manual that includes detailed roles and accountability, as well as guidelines for sound financial control environments. The current internal audit function at MDLF is considered Satisfactory and follows a risk-based approach, therefore it will be relied on for this operation.

14. Incremental operating cost: MDLF will control the incremental operating cost incurred by eligible project staff to be specified in POM following MDLF's internal control policies and procedures. Consultants should submit to MDLF travel and transportation prior approval from MoLG. Also, MDLF will monitor the incremental operating expense as part of the semiannual financial reporting.

15. Annual External Audit: The Project's financial statements will be annually audited by a qualified independent auditor acceptable to the Bank, in accordance with internationally accepted auditing standards, and ToR acceptable to the Bank. The audit report and management letter will be submitted by MDLF to the Bank within six months after the end of

the audit period. MDLF will be responsible for preparing the ToRs for the auditor and submitting them to the Bank for clearance. The auditor will be requested to cover the period of the retroactive financing.

Disbursements

16. Funds will be disbursed through a separate segregated DA maintained in United States Dollars. The proceeds of the Grant will be disbursed in accordance with the Bank's disbursements guidelines as it will be outlined in the Disbursement letter and in accordance with the Bank Disbursement Guidelines for projects. The proposed project disbursements will follow "Report-based disbursements". The ceiling of the DA, including the initial advance, will be based on a six-month cash flow projection prepared by the MDLF. Subsequent disbursements into the DA will be based on the semiannual IFRs. Like MDP II disbursement arrangements, the Bank's disbursements will be transferred into the respective DA based on the audited IFRs; the audited IFRs will provide actual expenditure for the preceding quarter and cash flow projections for the next six months. The IFRs together with the withdrawal application will be reviewed and approved by the Bank before the Bank processes the request for disbursement. In addition, the direct payment method involving direct payments to contractors for services, as well as special commitments may also be used. The reimbursement method may be used for expenditures pre-financed using MDLF's resources. Reimbursements must be disbursed to an account held and used for purposes consistent with the terms of the legal agreement. The Disbursement Letter will stipulate the minimum application value for direct payment, reimbursement and special commitment procedures as well as detailed procedures to be complied with under these disbursement arrangements.

Procurement

17. Procurement for the proposed project shall be carried out in accordance with the World Bank "Guidelines: Procurement of Goods, Works and Non-Consulting Services under IBRD Loans and IDA Credits and Grants" by World Bank Borrowers published by the World Bank in January 2011, and revised July 2014 and the World Bank "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" published by the World Bank in January 2011, and revised July 2014, the Grant Agreement and procurement plan approved by the Bank. "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and updated January 2011, shall apply to the proposed project.

18. As part of the PA public procurement reform program, a new public procurement law and its implementing regulations consistent with internationally accepted practices, were enacted and will enter into effect on July 1, 2016. In the meantime, the PA is putting in place a number of pre-requisite components, including national standard bidding documents for various types of procurement, a single portal procurement website, a national procurement manual and a dispute review unit. Those components will be assessed as they become

available and will be adopted, as deemed appropriate, for procurement under the proposed project.

19. The overall responsibility for the implementation of the proposed project procurement will rest with MDLF, which would act as the main counterpart to the Bank for all procurement aspects of the proposed project. In particular, all procurement notices and advertisements and all contracts with suppliers and consultants will be issued and signed by MDLF. MoLG will take the lead on all technical aspects of the procurement process and will be responsible for contract management including the review and approval of consultants' deliverables in consultation with urban areas and the receipt/inspection and acceptance of goods, and for advising MDLF on the release of funds to the consultant/supplier in accordance with the signed contract.

20. Within this general framework, MoLG, in consultation with the proposed project participating urban areas and with technical discussion with the Bank, will be responsible for drafting detailed ToRs for the specific consultants' services and technical specifications for goods to be procured. All ToRs will be subject to the Bank's technical review and clearance. Based on these ToRs/specs, MDLF will prepare the Request for Proposals (RFP)/ bidding documents and will manage the procurement process, ensuring full involvement of the MoLG (and beneficiary LGUs when appropriate) in all steps of the procurement process: advertising, proposal/bid opening, proposal/bid evaluation, contract negotiations (if applicable) and contract award.

21. A procurement risk and capacity assessment was carried out during the proposed project preparation. The following is a summary of the identified procurement risks and mitigation measures:

22. Procurement risks: MoLG's capacity to handle procurement for the TA, particularly the selection of consultants and manage consultants' contracts requires strengthening; while MDLF does not have specific technical expertise to control the quality of the TA. The lack of proper coordination and interaction between MoLG and MDLF may cause procurement and the proposed project implementation delays. Further deterioration of the Palestine's political context and the market situation may limit competition and discourage participation by qualified international consultants.

23. Mitigation measures: To mitigate these risks, a Technical Supervisor at MoLG and Local Coordinators in participating urban areas will be financed under the proposed project, and the proposed project implementation structure and the detailed responsibilities of the various entities shall be clearly defined in the POM, to be approved by the Bank prior to effectiveness. Based on the list of preliminary TA packages, draft ToRs for key technical assistance packages to be implemented in the first year shall be prepared by MoLG with the Bank's assistance. The proposed project procurement plan shall be jointly drafted by MDLF and MoLG, ensuring an adequate and realistic sequencing and prioritization of actions. Procurement packaging will be determined to allow for wide competition, including encouraging possible association among local and international consultants.

24. The overall procurement risk rating for the proposed project is Substantial. The Bank’s prior review thresholds for this proposed project were set based on the existing procurement capacity and the identified procurement risks. All Terms of Reference will be subjected to the Bank’s technical review and clearance. In addition to prior review, the Bank will carry out at least two supervision missions per year during which a follow up and quality control of procurement /contract management matters will be carried out.

25. The proposed project will finance TA (consultants’ services, training) and goods for participating urban areas under Component 1, as well as consultant’s services and goods for MoLG to assume its oversight role under Component 2. During appraisal, a PP for the first 18 months of project implementation was prepared and agreed with the Bank. The PP, summarized below, specifies the procurement packages/consultancy assignments, estimated cost, methods and schedule. The PP will be updated at least annually or as needed to reflect actual project implementation needs.

Summarized Procurement Plan

I. General

- 1. Proposed Project Name:** Integrated Cities and Urban Development Project
- 2. Period covered by this procurement plan:** first 18 months

II. Goods and Non-consulting Services

- 1. Procurement Methods and Prior Review Thresholds:** Procurement Decisions subject to Prior Review by the Bank as stated in Appendix 1 to the Guidelines for Procurement:

Category	Method of Procurement	Threshold (USD Equivalent)	Prior Review Threshold (USD Equivalent)
Goods	ICB	No threshold	All contracts above \$1,000,000
	NCB	<500,000	None
	Shopping	<100,000	None
	Direct Contracting	No threshold	All contracts
Non-consulting services	ICB	No threshold	All contracts above \$1,000,000
	NCB	<1,000,000	None
	Shopping	<100,000	None
	Direct Contracting	No threshold	All contracts

2. **Summary of the Procurement Packages planned during the first 18 months after project effectiveness:**

Goods:

1	2	3	4	5	6	7	8	9
Ref. No.	Description	Estimated Cost US\$ (,000)	Financier	Procurement Method	No. of lots	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Estimated BDs issue date
2.1.1	Supply of Hardware	15,000	WB	Shopping	1	N/A	Post	10/01/2016
2.1.2	Supply of Office Furniture	5,000	WB	Shopping	1	N/A	Post	10/01/2016
2.1.3	Supply of Hardware for Gaza	60,000	WB	Shopping	1	N/A	Post	10/01/2016
	Total	80,000						

Non-consulting Services:

1	2	3	4	5	6	7	8	9
Ref. No.	Description	Estimated Cost US\$ (,000)	Financier	Procurement Method	No. of lots	Domestic Preference (yes/no)	Review by Bank (Prior / Post)	Estimated BDs issue date
2.2	Supply of Updated Aerial Photogrammetric or Satellite Images	50,000	WB	Shopping	1	N/A	Post	04/01/2017
	Total	50,000						

III. Selection of Consultants

1. **Selection Methods and Prior Review Thresholds:** Selection decisions subject to Prior Review by Bank as stated in Appendix 1 to the Guidelines Selection and Employment of Consultants:

2.

Category	Selection Method	Threshold (USD Equivalent)	Prior Review Threshold (USD Equivalent)
Consulting Services Firms	QCBS/QBS	No threshold	All contracts above \$500,000
	FBS/CQS/LCS	<200,000	None
	Sole Source	No threshold	All contracts

Individuals	IC	No threshold	All contracts above \$200,000
	Sole Source	No threshold	All contracts

3. **Short list comprising entirely of national consultants:** Short list of consultants for services, estimated to cost less than USD300,000 equivalent per contract, may comprise entirely of national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

4. **All Terms of Reference shall be subject to the World Bank's clearance.**

5. **Consultancy Assignments with Selection Methods and Time Schedule: TBC**

1	2	3	4	5	6	7
Ref. No.	Description of Assignment	Estimated Cost US\$ (,000)	Financier	Selection Method	Review by Bank/AFD (Prior / Post)	Estimated RFP/ Invitations issue date
1.1.1	Hiring of Technical Supervisor	33,600	WB	I.C	Post	09/01/2016
1.1.2/1	Hiring of Local Coordinator- Bethlehem Urban Area	21,600	WB	I.C	Post	12/01/2016
1.1.2/2	Hiring of Local Coordinator – Hebron Urban Area	21,600	WB	I.C	Post	12/01/2016
1.1.2/3	Hiring of Local Coordinator – Nablus Urban Area	21,600	WB	I.C	Post	12/01/2016
1.2	Capacity Development for LGUs, MDLF and MoLG	30,000	WB	CQS	Post	12/01/2016
1.3	Assessment and collection of Existing Urban Growth Data, and Development of Urban Growth Planning Roadmaps in WB & Gaza	400,000	WB	QCBS	Prior	11/01/2016
1.4/2	Assessment and Collection of Missing Data and Analysis to Develop Urban Growth Footprint in Gaza City	180,000	WB	QCBS	Post	03/01/2017
1.5	Hiring of Technical GIS Data Storage Expert	30,000	WB	I.C	Post	01/01/2017
	Total	738,400				

Environmental and Social (including safeguards)

26. MDLF will work as the fiduciary and safeguards agent for the proposed project, therefore, MDLF will prepare the ESMF in consultations with the MoLG and likely beneficiary LGUs in the five participating urban areas. During the proposed project implementation, MDLF in cooperation with MoLG and the beneficiary LGUs in participating urban areas will ensure the proposed project activities are screened properly, and the TA/CB consultancies include proper ToRs to address, analyze, and propose mitigation measures for potential social and environmental impacts. MDLF will report to the Bank on screening of activities and the follow-up instruments prepared specific to the different TA which have environmental and social impacts. MDLF will also ensure to follow safeguards instruments, e.g. ESMFs, will be consulted and disclosed properly according to applicable World Bank Policies. The responsibility to oversee the safeguards compliance of the proposed project will be given to the MDLF who has long history with the Bank implementing operations of municipal development (i.e., EMSRP, MDP1, MDP2, and LGSIP). MDLF retains competent environmental and social teams who are familiar with Bank policies and have a good track record through previous operations.

Monitoring & Evaluation

27. The MDLF will be responsible for monitoring and evaluation activities under this proposed project, including the achievement of the PDO, project outcomes, and physical, fiduciary, and safeguard performance. The MoLG will be responsible for providing technical input to the MDLF, namely all of the technical aspects of procurement, achieved results per result indicators to monitor progress toward PDO, and details of the proposed project activities. The monitoring and evaluation activities will also include the results that are not captured in the results framework, such as semi-annual feedback collection from the proposed project participating urban areas and subsequent fine-tuning of the proposed project activities. A structured assessment of capacity developed through this proposed project is also planned at the mid-term and end of the project. MDLF has been performing at a satisfactory level to collect, aggregate, and analyze results achieved by municipalities under the MDP-II and the MoLG under LGSIP as both programs' implementing agency. The MDLF has a robust monitoring and evaluation system that uses a web-based Program Management Information System (PGMIS) as well as the FMIS to automate data aggregation, storage, and presentation as part of a results-based M&E system. The MDLF's Results-Based Monitoring Manual (RBMM) has aligned the individual objectives of the MDLF-implemented various projects and programs with the PA's NDP strategic objectives. As such, no additional arrangements or staff is required for the M&E of this proposed project.

Annex 4: Implementation Support Plan

COUNTRY: West Bank & Gaza

Proposed Project Name: GZ-Integrated Cities and Urban Development Project (P150991)

A. Strategy and Approach for Implementation Support

1. This proposed project intends to use to the largest extent possible the existing Municipal Development Program Phase II (MDP-II) implementation mechanism through the MDLF to reinforce an integrated approach to the LG sector by the Bank. For technical aspects of the proposed project, however, the participating urban areas and MoLG would play a greater role than the MDP-II to identify and implement activities, while fiduciary, safeguard, and overall reporting responsibility lie with MDLF.

2. Though existing Bank projects have been supporting the LG sector consolidation and core capacity development for individual LGUs, the topics of metropolitan area coordination, spatial considerations to investment planning, integrated and effective urban planning, and strategic engagement with private sector and citizens for urban growth are new to the LG sector. Therefore, the implementation support plan for this proposed project is designed to ensure that the initial setup, analytical work and advocacy to stakeholders, and launch of the proposed project is assured, both to address knowledge gaps and capacity challenges associated with implementing entities. The Implementation Support Plan (ISP) aims to focus support in the areas where the implementing entities are less experienced and where it needs to be strengthened further.

B. Implementation Support Plan

3. The ISP is built around semiannual missions (which include visits to participating urban areas as well as joint meetings with MoLG and MDLF at the central level), monthly video conference meetings between the Bank team and government, and fiduciary compliance reviewers. Support from a country based STC or staff will also be provided throughout the proposed project cycle. An MTR will be conducted after approximately 26 months of implementation to review performance in depth, based on progress and studies commissioned for the MTR, and make any necessary adjustments to the proposed project substance and schedule.

4. The proposed project will require extensive support in the startup and early phases to fill the knowledge gap among stakeholders, make up for the lack of legal institutions on intra-urban area coordination, and advocate for the project's focus on urban areas and private sector engagement for growth that have never been systematically pursued. A phased approach will be vital for the proposed project to take off by quickly producing a few, tangible analytical outputs in the initial periods that serve as concrete examples of new urban development approaches supported by this proposed project.

5. The following skills mix and resource needs are estimated:

Main Focus in Terms of Support to Implementation

<i>Time</i>	<i>Focus</i>	<i>Skills Needed</i>	<i>Resource Estimate</i>
<i>First twelve months</i>	Facilitating of intra-agglomeration coordination mechanism, start capacity building activities at urban areas.	Institutional set-up for metropolitan area, urban planning, population growth forecasting, economic development strategy, building regulation, infrastructure planning, Fiduciary, Safeguards, M&E	170,000
<i>Until MTR</i>	Continued capacity building, review of analytical outputs	Same as above	140,000
<i>MTR</i>	MTR	Same as above	150,000
<i>Following MTR</i>	Continued capacity building, implementation of analytical outputs (e.g. utilization of vacant land inventories)	Same as above	140,000
<i>Total (4 years)</i>			600,000

Skills Mix Required

<i>Skills Needed</i>	<i>Number of Staff Weeks</i>	<i>Number of Trips</i>	<i>Comments</i>
TTL	54	10	Ongoing implementation support to the client, twice yearly implementation support missions, additional two supervision visits during the project start-up period
Spatial Analysis / Urban Planning Specialist	12	5	Two mission in FY 1, followed by yearly mission and MTR
Spatial Economic Development Specialist	12	5	Two mission in FY 1, followed by yearly mission and MTR
Connectivity Infrastructure Planning Specialist	10	4	Yearly mission and MTR
Operational Support / M&E	40	County Office Based	Ongoing implementation support to the client, twice yearly implementation support missions
Program Assistant	16	Country Office Based	Ongoing team support
Procurement	8	Country Office Based	Twice-yearly missions and MTR
Financial Management	8	Country Office Based	Twice-yearly missions and MTR
Environmental Safeguards	8	Country Office Based	Twice-yearly missions and MTR
Social Safeguards and Social Development	10	8	Twice-yearly missions
Legal	1	0	Staff weeks for any restructuring
Disbursement	1	0	Staff weeks for any restructuring
Total	180		