

**PROJECT INFORMATION DOCUMENT (PID)  
APPRAISAL STAGE**

Report No.: PIDA64802

<b>Project Name</b>	GZ-Integrated Cities and Urban Development Project (P150991)
<b>Region</b>	MIDDLE EAST AND NORTH AFRICA
<b>Country</b>	West Bank and Gaza
<b>Sector(s)</b>	Sub-national government administration (50%), General water, sanitation and flood protection sector (10%), Urban Transport (40%)
<b>Theme(s)</b>	Urban services and housing for the poor (10%), Urban planning and housing policy (60%), Urban Economic Development (20%), City-wide Infrastructure and Service Delivery (10%)
<b>Lending Instrument</b>	Investment Project Financing
<b>Project ID</b>	P150991
<b>Borrower(s)</b>	PALESTINE LIBERATION ORGANIZATION (FOR THE BENEFIT OF THE PALESTINIAN AUTHORITY)
<b>Implementing Agency</b>	Ministry of Local Government, Municipal Development and Lending Fund (MDLF) MDP
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/Updated</b>	21-Jun-2016
<b>Date PID Approved/Disclosed</b>	21-Jun-2016
<b>Estimated Date of Appraisal Completion</b>	24-Jun-2016
<b>Estimated Date of Board Approval</b>	19-Sep-2016
<b>Appraisal Review Decision (from Decision Note)</b>	

## I. Project Context

### Country Context

The Palestinian economy began to recover from the 2014 recession which resulted from the latest war in Gaza. The Palestinian 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 GDP growth amounted to 6.8 percent in 2015, mainly driven by the construction, wholesale, and retail trade sectors. Meanwhile, real West Bank GDP growth 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 population lives below the USD 5.50 a day poverty line, according to preliminary estimates by the World Bank. 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.

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). 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, coming 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 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.

### **Sectoral and institutional Context**

Land scarcity, spatial fragmentation, 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, invest in rehabilitation and upgrading of strained infrastructure networks, or formulate comprehensive well laid out urban plans. Rapid urbanized growth has resulted in extended built-up space connecting cities, refugee camps, towns, and peri-urban areas such as villages, with indistinguishable socio-economic borders. Multiple distinct legal authorities exist within the urban areas including LGUs, MoLG District Offices, and refugee camps; and 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.

Urban planning in Palestine lacks elements of forward-thinking strategic planning. LGUs are overwhelmed from existing demands for services and lack basic data, instruments, and processes to utilize available spatial resources, forecast future estimates, and manage overall urban growth. Building often precedes planning and service delivery, while land connected to existing public services within central urban locations remains vacant and undeveloped. This results in inefficient land use and infrastructure development and sprawl. LGUs have limited knowledge of tools 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. The system of 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.

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, and trunk infrastructure do not follow efficient connectivity patterns. 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. This can become a prohibitive factor for small and medium enterprises to emerge or grow their operations, constraining revenue generation and private sector growth, ultimately limiting employment capacity and contribution to GDP. While the public sector acknowledges the need to attract private investment, weak understanding of the local economies and labor markets reduce the effectiveness of existing Local Economic Development (LED) projects formulated by individual LGUs.

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 ICUD is an integral part of the programmatic engagement in the sector consolidating the Bank's interventions and providing a structured approach for DPs to align their support. The third phase of MDP, currently under design, 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 framework in which a 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 villages councils under which DPs pool their resources under one single program.

## **II. Proposed Development Objectives**

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

## **III. Project Description**

### **Component Name**

Component 1: Planning for Sustainable Urban Growth.

### **Comments (optional)**

### **Component Name**

Component No. 2: Project Implementation Support and Management Cost

### **Comments (optional)**

## **IV. Financing (in USD Million)**

Total Project Cost:	5.00	Total Bank Financing:	0.00
Financing Gap:	0.00		
<b>For Loans/Credits/Others</b>			<b>Amount</b>
Borrower			0.00
Special Financing			5.00
Total			5.00

## V. Implementation

### A. Institutional and Implementation Arrangements

The proposed project's participating urban areas are responsible for identifying the content of the proposed financed activities to achieve the PDO, will lead the activities at the local level with technical and facilitation support from a Technical Supervisor (TS) and Local Coordinators (LCs) to be recruited under the proposed project. The TS and LCs will be located at the MoLG Planning Department and urban areas, respectively. All TA will be participatory in nature, requiring regular inputs from the LGUs throughout project implementation. LGU joint coordination mechanisms, to be modeled on the existing coordination unit of the RAB urban area, will collectively deliver results. It 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. The mechanism will be underpinned by the signing of a MoU by member LGUs' councils specifying the objective, division of labor, and focal personnel appointment. LCs per urban area will be recruited under the proposed project to facilitate project activities at the local level. The technical oversight of the proposed project will be carried out by MoLG in close consultation with the urban areas, and through the TS and LCs will provide facilitation support to the project's urban areas to identify needed TA activities, goods, and trainings. In consultation with the urban areas, the 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.

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); and compilation of results reporting and submission to the Bank. The MDLF is an independent, semi-governmental organization, governed by a Board of Directors with the Minister of Local Government as the Chairman and eleven members that are key stakeholders for Palestine's LG sector. The MDLF is staffed with all key positions required to fulfill its fiduciary and safeguard management roles for this project. MoLG will be responsible for advising the 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. The TS will assist MoLG in fulfilling these functions, fulfill relevant central level coordination, reporting, and will oversee technical activities at the local level and supervise LCs in close consultation with urban areas.

### B. Results Monitoring and Evaluation

The MDLF will be responsible for monitoring and evaluation (M&E) activities under this proposed project, including the achievement of the PDO, project outcomes, and physical, fiduciary, and

safeguard performance, and results that are not captured in the results framework. 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, achieved results per result indicators to monitor progress toward the PDO, and details of project activities. MDLF has been performing at a satisfactory level to collect, aggregate, and analyze results achieved by LGUs under the MDP-II and the MoLG under LGSIP as both programs implementing agency. The MDLF has a robust M&E 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 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

MoLG has indicated interest in developing capacity to implement metropolitan area urban planning policy, practice, and methodology in Palestine. The proposed ICUD 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. Additionally, the proposed project will inform the Local Economic Development (LED) policy formulation exercise by the PA, a priority agendas in Palestine's LG sector. This proposed project will assist the Ministry to shift 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. 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.

At the activity level, the intra-urban area collaboration mechanism will closely follow 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, ensuring that they fully own the planning process. The proposed TA offered will complement existing data and analysis, while the responsibility to meet respective planning milestones will lie with the urban areas. In parallel, the proposed project will support the urban areas to potentially carry out activities for interim improvements in public space management and services to ensure the momentum of planning process. The mechanism is envisioned to be sustained by the LGUs in a similar manner to the RAB unit that is financed and hosted on a rotation basis by member LGUs. 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.

## VI. Safeguard Policies (including public consultation)

Safeguard Policies Triggered by the Project	Yes	No
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Environmental Assessment OP/BP 4.01	x	
Natural Habitats OP/BP 4.04		x
Forests OP/BP 4.36		x
Pest Management OP 4.09		x
Physical Cultural Resources OP/BP 4.11		x
Indigenous Peoples OP/BP 4.10		x
Involuntary Resettlement OP/BP 4.12		x
Safety of Dams OP/BP 4.37		x
Projects on International Waterways OP/BP 7.50		x
Projects in Disputed Areas OP/BP 7.60		x

**Comments (optional)**

**VII. Contact point**

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