

# PROJECT INFORMATION DOCUMENT (PID) CONCEPT STAGE

Report No.: PIDC56775

<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 (35%), General water, sanitation and flood protection sector (30%), Urban Transport (20%), Ho using construction (10%), Housing finance (5%)
<b>Theme(s)</b>	Urban services and housing for the poor (40%), Urban planning and housing policy (25%), Urban Economic Development (20%), City-wide Infrastructure and Service Delivery (15%)
<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>	Municipal Development and Lending Fund (MDLF) MDP
<b>Environmental Category</b>	B-Partial Assessment
<b>Date PID Prepared/ Updated</b>	03-Feb-2016
<b>Date PID Approved/ Disclosed</b>	12-Jan-2016
<b>Estimated Date of Appraisal Completion</b>	25-Apr-2016
<b>Estimated Date of Board Approval</b>	08-Sep-2016
<b>Concept Review Decision</b>	Track II - The review did authorize the preparation to continue

## I. Introduction and Context

### Country Context

1. Local governments in West Bank and Gaza (WB&G) 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 the WB&G which was under military order 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 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 has fragmented the Palestinian territories into small enclaves. The fragmentation goes beyond a WB&G 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.

2. The Palestinian economy fell into recession in 2014 for the first time since 2006 despite seeing strong economic growth in the West Bank. The war in Gaza had a devastating impact resulting in overall negative growth with the economy contracting three percent on a per capita basis. Remarkably, the recurrent fiscal deficit before grants of the PA was reduced in 2014 due to an increase in clearance revenues (VAT and import duties) from increased imports. However an increase in expenditures presents an on-going concern. The continued economic decline has had a severe impact on the livelihoods of Palestinians, particularly in Gaza. Overall unemployment increased to 27 percent. It amounted to 44 percent in Gaza where it increased by 11 percentage points in the fourth quarter of 2014 and 17 percent in the West Bank where it dropped by 1 percentage point during the same period. Particularly alarming is youth unemployment in Gaza which soared to more than 60 percent by the end of 2014 – the highest in the region. Preliminary Bank estimates suggest that poverty in the Palestinian territories has reached 25 percent.

### **Sectoral and Institutional Context**

3. Palestinian municipalities are facing rapid urbanization fueled by high demographic growth rates and spatially concentrated development. Already today, 74 percent of WB&G is considered urban. Increasing land scarcity and spatial fragmentation within the territories have created pressure on local authorities, particularly in the traditional urban centers of Hebron, Nablus, Bethlehem, Ramallah-Al Bireh, and Gaza City. These centers have merged with their surrounding peri-urban areas with indistinguishable socio-economic borders to form major urban agglomerates in the north, central, and southern West Bank and the Gaza Strip. Local authorities, legally mandated to provide key public services and infrastructure, struggle to keep up with swelling service needs of the rapidly increasing urban populations, let alone investing in the rehabilitation and upgrading of strained infrastructure networks. Chronic lack of resources and limited fiscal space combined with weak institutional capacity at the local and national levels curb urban centers from reaching their full economic potential. Outdated or incomplete laws and regulations govern the urban sector and cities struggle to formulate and adhere to well laid out integrated urban plans. As a result, the WB&G is experiencing uneven development and random urbanization.

4. Rapid urbanization and a population growth rate of 3.0% have also led to increased demand for affordable housing and jobs, particularly in larger population centers. The Palestinian Territories have one of the highest population densities of the region, compounding urban development. At present, the land and housing development is ad hoc with little state regulation resulting in new growth often occurring as low-density urban sprawl with irregular and informal built form. This creates added pressure on already scarce land, which is further exacerbated by other restrictions on land use. Recent World Bank analysis, supported under a Housing Sector Technical Assistance (TA), has highlighted the need for higher-density development, stronger spatial plans guiding land development, and integrated planning, reflecting physical, economic, and environmental

considerations to livelihoods, infrastructure, and housing

5. The World Bank analysis further revealed that the number of people per housing unit has reached 6.0 and is increasing due to housing and construction shortages. Private developers estimate a housing deficit of around 15,000 units per annum, while the PA puts the estimates much higher at 29,400 units per year until 2019. Despite the strong demand, private investments to fill the housing gap remain limited. According to the Bank's analysis, the main reasons include land access restrictions in the West Bank, low levels of land registration, few available sites suitable for new housing development, and time consuming and overly complex permitting procedure that drive-up costs for private developers, as well as weak urban and spatial planning practices and lack of basic infrastructure.

6. While, eventually, private sector resources will be required to provide more housing and jobs, Palestinian central and local authorities will need to remove the key impediments that are under their full control. For example, urban development plans need to be formulated or updated to better guide public investments; land management and planning practices need to be improved to make better use of space and scarce resources; and regulations and permitting procedures that affect building patterns and slow down investment implementation require an overhaul. In sum, more effective public sector institutions and increasing private investments in urban areas will be necessary to make urban agglomerations more livable and sustainable. Yet, Palestinian local authorities have limited experience in collaborating with the private sector and lack the financial resources to mobilize funds for the necessary off-site infrastructure and basic service networks extension.

7. Institutional responsibilities to support integrated urban development at the central level are divided between the Ministry of Local Government (MoLG) and the Ministry of Public Works and Housing (MoPWH). The MoLG has the overall mandate for policy setting and oversight in the Local Government (LG) sector, including strategic development and investment planning, physical planning, and LG financing. The MoPWH is the responsible line ministry for building and permitting regulations and policy setting in the housing sector which has substantial economic development potential and is critical to support urban expansion and infill.

8. The World Bank, in partnership with a number of Development Partners, provides institutional, policy and investment support through an integrated and programmatic approach in the LG sector in WB&G comprising several related operations. The Municipal Development Program (MDP) provides performance-based investment grants and capacity building support to municipalities as an incentive to implement reforms and improve municipal management. The recently approved Local Governance and Services Improvement Program (LGSIP) will provide annual capital grants and institutional development support to selected villages, Joint Service Councils (JSCs) and central authorities with the objective to strengthen the LG financing system and improve local service delivery. The Second Land Administration Project (LAP-2) provides support to improve systematic land registration and institutional capacity of the Palestinian Land Authority, recognizing the need for effective land markets as an enabler for private investment and economic growth. Those interventions are complemented by World Bank Group operations targeting the private sector. The proposed Finance-for-Jobs Project has the objective to mobilize private investment financing in high potential sectors and generate job opportunities for the WB&G. IFC has provided a guarantee to help establishing a program for affordable home loans to lower and middle income segments of the Palestinian Population through the Affordable Mortgage and Loan Corporation (AMAL). IFC

also structured the first-ever Public-Private Partnership for the sanitary landfill managed by local authorities serving Hebron and Bethlehem area.

9. However, despite their importance for the Palestinian economy, no intervention to date addresses the specific constraints of urban agglomerations to extend basic services and facilitate economic development in collaboration with the private sector. Due to its scale, the urban agglomerations face unique set of urban development challenges that are not addressed through existing operations. The challenges range from rapid growth of service, jobs, and housing needs, to city service extension to peri-urban area in the agglomeration, urban traffic management, existing urban plans' retro-fitting to address disaster risks and population growth, and integration of sectoral and spatial planning into the budget cycle. The urban agglomerations are well positioned to start to address these challenges due to their relatively high institutional capacity. Nevertheless, the urban agglomerations need to create city management systems that are conducive for their collaboration with private sector to be able to fully address these challenges. The proposed project will provide tailored support to urban agglomerations to enhance the effectiveness of city management systems in the areas of urban planning, land use, and urban development procedures, so that cities in the agglomerations can effectively extend basic services, improve the regulatory environment and in general facilitate better economic development in collaboration with private sector.

#### **Relationship to CAS**

10. The proposed project is fully aligned with the new MENA Strategy approved in November 2015. Specifically, the project contributes to Pillar No. 1 "Renewing the Social Contract" by assisting the public sector to respond better to the needs of the local population and remove key impediments to generate more private sector investments, filling service delivery gaps and stimulating economic development in urban agglomerations. The project also contributes to Pillar 3 "Resilience to refugees/IDP shocks" by facilitating enhanced creation of jobs and affordable housing, and hence promoting the welfare of refugees accommodated in urban agglomerations, and Pillar 4 "Reconstruction and Recovery", through its facilitation of longer-term development in urban agglomerations. The project is also fully aligned with the strategic pillars defined in the Assistance Strategy for the West Bank and Gaza 2015-2016 (Report No: 89503 GZ). The proposed project would contribute to achieving Pillar No. 1 to "Strengthen the institutions of a future state to ensure service delivery to citizens" and Pillar No.2 "Support private sector led growth that increases employment opportunities". The project is also aligned with the building blocks of the PA's National Development Plan (NDP) 2014-2016, targeting outcome areas to "enable LGUs across the governorates to deliver better public services" and "build sustainable, equitable Palestinian infrastructure which contributes to promoting economic development".

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

### **Proposed Development Objective(s) (From PCN)**

The proposed PDO would be to strengthen institutional capacity to leverage public resources for growth in selected urban agglomerations.

### **Key Results (From PCN)**

Key result areas include improved (i) land use efficiency; (ii) urban planning; and (iii) urban development procedures, in agglomeration. Based on these results areas, key performance indicators would include:

- LGUs with an inventory of vacant, under-utilized land, and/or unregistered land recorded as

a result of this project (number).

- LGUs with prioritized investment list based on urban growth and spatial economic growth considerations (number).
- LGUs with spatial economic development strategy.
- Urban Agglomerations with prioritized intra-agglomeration connectivity investment list
- LGUs with reduced time required for building and construction approval and permit provision (number).

### III. Preliminary Description

#### Concept Description

13. Tentative areas to be supported under the proposed project would include policy and institutional strengthening support at the central and local levels for: (i) preparing for urban growth; (ii) preparing for spatial economic development; (iii) improving intra-urban agglomeration connectivity; and (iv) improving private and DP investment-oriented transactions. While not a primary objective, support to those areas would be expected to attract funding for infrastructure investments from other sources that can serve as a catalyst for economic development initiatives led by the private sector, including but not limited to affordable housing. Limited funding from the World Bank might be made available for infrastructure, although a larger share would be expected from other DPs or private investment funds. Hence, the project would be designed to focus on the following main components:

14. Component I: Technical Assistance (TA) and capacity building support to agglomerations. This component provides technical assistance to relevant Local Government Units (LGUs) that formulate greater Ramallah, Bethlehem, Hebron, Nablus, and Gaza City urban agglomerations. The technical assistance aims at strengthening their capacity to proactively use public resources as leverage for urban growth by focusing on 4 key priorities for achieving sustainable urban development: (i) preparing for urban growth; (ii) preparing for spatial economic development; (iii) improving intra-urban agglomeration connectivity; and (iv) improving private and DP investment-oriented transaction.

a. Sub-component 1.1: Preparing for urban growth. This subcomponent will support urban agglomerations to strengthen analytical underpinning of current land use management and urban planning practice to better prepare for urban growth. First, each LGU will be supported to establish spatial population baselines and forecast future population growth and its spatial needs. Next, advanced tools of spatial analysis will be provided to establish comprehensive land inventory in which vacant and/or under-utilized land as well as unregistered land are identified. Based on the established urban growth baseline, forecast, and available public resources, LGUs will be further supported to identify the cost of needed infrastructure and service delivery investment and maintenance. They will be supported to coordinate with other member LGUs of respective agglomeration to optimize opportunities existent at agglomeration level and prioritize respective public investment, its maintenance, and service delivery to meet their needs. Throughout this exercise, traditional planning tools would be complemented with more recent concepts of resilience and disaster risk planning, densification, energy efficiency, optimized urban land use and traffic

management.

b. Sub-component 1.2: Preparing for Spatial Economic Development. This subcomponent complements the Palestinian Authority's emerging Local Economic Development approach by focusing on supporting LGUs in urban agglomerations to better prioritize their local economic development initiatives based on spatial economic development needs. First, LGUs will be supported to grasp the current composition of local and regional economy, the spatial concentration of existing economic activities, and their productivity. Employment and income sources of citizens and their location will also be identified through technical assistance. Combining the findings from these two exercises, LGUs will be assisted to understand local and regional economic growth trends, forecast the trajectory, and prioritize needed public investment and service delivery.

c. Sub-component 1.3: Improving Intra-Agglomeration Connectivity. This subcomponent will provide technical assistance to the LGUs to collaborate in assessing current mobility patterns and truck infrastructure (e.g. water, waste water, electricity, roads) connectivity within agglomerations. The LGUs will then be supported to forecast future mobility trends based on spatial economic plans from sub-component 1.1 and 1.2. Based on the forecast, LGUs will be assisted to collaborate to align and rationalize traffic management plans as well as trunk infrastructure maintenance and investment plans across the agglomeration. As a result, LGUs will prioritize needed infrastructure for intra-agglomeration connectivity.

d. Sub-component 1.4: Improving the Transaction for Private Sector and Development Partner-oriented Investment. As a result of support under sub-component 1.1 to 1.3, LGUs will have prioritized spatial intervention areas through the lens of urban agglomerations. This subcomponent will support LGUs to conduct regulatory reform to reduce the cost of transactions for private sectors. Such reform areas may include re-zoning, design of land value capture instruments, shortening construction and business permitting procedures, and revision of building codes. In addition, this sub-component will provide support for LGUs to package prioritized investments from subcomponents 1.1-3 for private sector and/or Development Partners' investment. The support area may include development of more advanced methodologies for economic and financial analysis from basic analysis to life-cycle costing, feasibility study, and business plans for the prioritized investment, subject to the capacity and readiness of targeted LGUs.

15. Component II: TA and capacity building to support central ministries. This component supports relevant ministries to provide an enabling environment and incorporate lessons learned from Component I to the Palestinian Authorities' policies.

a. Sub-component 2.1: Technical Assistance to Ministry of Local Government (MoLG), Planning and Local Economic Development Units. Strengthening the institutional and technical capacity of MoLG is critical to create the enabling environment for urban agglomerations to unleash their spatial economic potential. This sub-component will provide technical support to the MoLG's planning department staffs to submit revised zoning regulations for inter-ministerial decisions to increase flexibility in optimizing urban land use. The MoLG planning as well as local economic development department staffs will be provided technical assistance to reflect lessons from Component 1. The planning department staff will be supported to update relevant urban planning manuals such as for the Strategic Development and Investment Plan, Master Plans, and Street Addressing Manual, so that urban planning practice becomes more suitable for promoting sustainable socio-economic growth in urban agglomerations. The local economic development

department staff will be supported to develop the skills required to collect existing and primary data from various economic development initiatives and analyze it to further update the Local Economic Development Strategy.

b. Sub-component 2.2: Technical Assistance to Ministry of Public Works and Housing. The cost of private sector investments in urban agglomerations is partially determined by the building codes and construction permitting process at the central level. To decrease the cost of private sector investments, the Ministry of Public Works and Housing (MoPWH) departments' staff will be supported to increase the relevance and effectiveness of building codes (e.g., mandatory stone finishing, large plot size and low floor-area ratios, and other cost drivers) based on the past housing technical assistances as well as other donors' support. The staffs will be provided with technical assistance to submit a revised building and construction permitting procedure to the inter-ministerial consideration to reduce private sectors' transaction costs with public sector in their investment.

16. Component III: Selected public infrastructure investments. This component would finance, with seed funding provided from the World Bank, selected public infrastructure investments identified and prioritized by activities supported under Component I. However, it would be expected that funding from other DPs would become available and be channeled through this component once a pipeline of viable investments has been identified. Hence, despite a small initial funding allocation from the Bank, this component would serve as a window to accommodate co- and/ or parallel financing to support larger scale capital investments identified through a rigorous selection process demonstrating sustainable economic and financial returns and the potential to leverage additional private sector resources.

17. Component IV: Project Implementation Support and Management Cost. This component would finance goods and consultancy services for project management, monitoring and evaluation, public outreach and communication occurred by the implementing agency.

#### IV. Safeguard Policies that might apply

<b>Safeguard Policies Triggered by the Project</b>	<b>Yes</b>	<b>No</b>	<b>TBD</b>
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	

#### V. Financing (in USD Million)

Total Project Cost:	5.00	Total Bank Financing:	0.00
Financing Gap:	0.00		

<b>Financing Source</b>	<b>Amount</b>
Borrower	0.00
Special Financing	5.00
<b>Total</b>	<b>5.00</b>

## **VI. Contact point**

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