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The World Bank

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Report No: PAD1098

PROGRAM APPRAISAL DOCUMENT

ON A

PROPOSED GRANT

IN THE AMOUNT OF US$5.0 MILLION

FROM THE TRUST FUND FOR GAZA AND WEST BANK (TFGWB)

WITH CO-FINANCING FROM THE PARTNERSHIP FOR INFRASTRUCTURE DEVELOPMENT MULTI-DONOR TRUST FUND (PID MDTF)

IN THE AMOUNT OF US$13.0 MILLION

TO THE

PALESTINE LIBERATION ORGANIZATION

(FOR THE BENEFIT OF THE PALESTINIAN AUTHORITY)

FOR A

LOCAL GOVERNANCE AND SERVICES IMPROVEMENT PROGRAM FOR RESULTS

OCTOBER 7, 2015

SOCIAL, URBAN, RURAL AND RESILIENCE GLOBAL PRACTICE
MIDDLE EAST AND NORTH AFRICA REGION

CURRENCY EQUIVALENTS

(Exchange Rate Effective August 31, 2015)

Currency Unit	=	Israeli New Sheqalim (NIS)
US$1	=	EUR0.76
US$1	=	NIS3.57

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

ACIP	Annual Capital Investment Plan
ACIG	Annual Capital Investment Grant
AfD	French Agency for Development *(Agence Française de Développement)*
BTC	Belgian Technical Cooperation
CDD	Community-Driven Development
CTA	Central Treasury Account
DFID	Department for International Development - UK
DLI	Disbursement Linked Indicator
DP	Development Partner
EIA	Environmental Impact Assessment
ERR	Economic Rate of Return
ESIA	Environmental and Social Impact Assessment
ESMM	Environmental and Social Management Manual
ESSA	Environmental and Social Systems Assessment
EU	European Union
F&C	Fraud and Corruption
FM	Financial Management
FMIS	Financial Management Information System
FRR	Financial Rate of Return
FSA	Fiduciary Systems Assessment
GDP	Gross Domestic Product
GG	Good Governance
GGIB	Governance and Institutional Building
GiZ	German Agency for International Cooperation *(Deutsche Gesellschaft Fur Internationale Zusammenarbeit)*
GoI	Government of Israel
GRM	Grievance Redress Mechanism
IBRD	International Bank for Reconstruction and Development
ICA	Israeli Civil Administration
ICC	International Criminal Court
IDA	International Development Association
IGFR	Inter-governmental Fiscal Relations

IPSAS	International Public Sector Accountings Standards
IQFM	Interim Quarterly Financial Management
ISM	Implementation Support Mission
ISP	Implementation Support Plan
IVA	Independent Verification Agent
JICA	Japan International Cooperation Agency
JSC	Joint Services Council
KfW	German Development Bank *(Kreditanstalt für Wiederaufbau)*
LGU	Local Government Unit
LG	Local Government
LGSIP	Local Governance and Services improvement Program
MDLF	Municipal Development and Lending Fund
MDP	Municipal Development Program
MDTF	Multi Donor Trust FundM&E Monitoring and Evaluation
MoF	Ministry of Finance
MoLG	Ministry of Local Government
MTR	Mid-Term Review
NDP	National Development Plan
NIS	New Israeli Shekel
NPV	Net Present Value
O&M	Operations and Maintenance
PA	Palestinian Authority
PACC	Palestinian Anti-Corruption Commission
PAD	Program Appraisal Document
PAP	Program Action Plan
PC	Program Committee
PDO	Program Development Objective
PID	Partnership for Infrastructure Development
PforR	Program for Results
POM	Program Operation Manual
PFM	Public Financial Management
RBM	Results-based Monitoring and Evaluation
SAACB	State Audit and Administrative Control Bureau
SBD	Standard Bidding Documents
SDC	Swiss Agency for Development and Cooperation
SDIP	Strategic Development and Investment Planning
TA	Technical Assistance
TFGWB	Trust Fund for Gaza and West Bank
ToR	Terms of References
UNDP	United Nations Development Program
VLD	Voluntary Land Donation
VC	Village Council
VNDP	Village and Neighborhood Development Project
WB&G	West Bank and Gaza
WBG	World Bank Group

Regional Vice President:	Hafez M. H. Ghanem
Country Director:	Steen Lau Jorgensen
Senior Global Practice Director:	Ede Jorge Ijjasz-Vasquez
Practice Manager:	Ayat Soliman
Task Team Leader:	Bjorn Philipp

WEST BANK AND GAZA

LOCAL GOVERNANCE AND SERVICES IMPROVEMENT PROGRAM FOR RESULTS

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PAD DATA SHEET

West Bank and Gaza

Local Governance and Services Improvement Program for Results

PROGRAM APPRAISAL DOCUMENT

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

Basic Information

Date: October 7,2015		Sectors:	Urban
Country Director:	Steen Jorgensen	Themes:	Municipal Governance and Institution Building
Practice Manager/Senior Global Practice Director:	Ayat Soliman/ Ede Jorge Ijjasz-Vasquez		Public Sector Governance, Urban Development
Program ID:	P148896		
Team Leader(s):	Bjorn Philipp		

Program Implementation Period:	Start Date:	Nov 2, 2015	End Date:	Dec 31, 2020
Expected Financing Effectiveness Date:		Dec 31, 2015		
Expected Financing Closing Date:		Dec 31, 2020		

Program Financing Data		
[ ] Loan [ ] Credit	[ ] Grant	[X] Other

For Loans/Credits/Others (US$M):

Total Program Cost:	20.00	Total Bank Financing:	5.00
Total Cofinancing/Recipient:	15.00	Financing Gap:	0.00

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Financing Source	Amount
BORROWER/RECIPIENT	2.00
Special Financing	5.00
Partnership for Infrastructure Development Multi-Donor Trust Fund (PID MDTF)	13.00
Total	20.00

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Recipient: Palestine Liberation Organization (for the benefit of the Palestinian Authority)

Responsible Agency: Ministry of Local Government (MoLG)

Contact:	Mr. Muhammad Hassan Jabbareen	Title:	Deputy Minister
Telephone No.:	972 2 240 1455	Email:	mohjabarin@yahoo.com

Responsible Agency: Municipal Development and Lending Fund (MDLF)

Contact: Mr. Hazem Kawasmi	Title: Acting General Director
Telephone No.: 970 2 2966610	Email: Hazem.Kawasmi@mdlf.org.ps

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Expected Disbursements (in US$ Million)								
Fiscal Year	FY16	FY17	FY18	FY19	FY20	FY21		
Annual	1.0	1.0	3.5	4.5	4.2	3.8		
Cumulative	1.0	2.0	5.5	10.0	14.2	18.0		
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Program Development Objective(s)								
The development objective of the proposed program is to strengthen the local government financing system and improve local service delivery in Program villages.								

Compliance		
Policy		
Does the program depart from the CAS in content or in other significant respects?	Yes [ ]	No [X]
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Does the program require any waivers of Bank policies applicable to Program-for-Results operations?	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 program meet the Regional criteria for readiness for implementation?	Yes [X]	No [ ]

Overall Risk Rating: High			
Legal Covenants			
Name	**Recurrent**	**Due Date**	**Frequency**
Additional Remedies (Article 4.01 of the Grant Agreement)			One-time
Description of Covenant			
Additional Events of Suspension referred to in Section 4.02 (k) of the Standard Conditions, consisting of the following: (a) A situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out. (b) The Program has been modified or suspended so as to affect materially and adversely the ability of the Recipient to achieve the objective of the Program. (c)(i) Subject to sub-paragraph (ii) of this paragraph: the right to withdraw the proceeds of a Co-financing has been suspended, canceled or terminated in whole or in part, pursuant to the terms of a Co-financing Agreement; and (ii) Sub-paragraph (ii) of this paragraph shall not apply if the Recipient establishes to the satisfaction of the World Bank that: (A) such suspension, cancellation, or termination was not caused by the failure of the Recipient of the Co-financing to perform any of its obligations under the Co-financing Agreement; and (B) adequate funds for the Program are available from other sources on terms and conditions consistent with the Recipient's obligations under this Agreement. (d) 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. (e) MDLF Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of MDLF to perform any of its obligations under this Agreement.			
Name	**Recurrent**	**Due Date**	**Frequency**
Effectiveness Conditions (Article 5.01 of the Grant Agreement)			One-time
Description of Covenant			
The Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the conditions specified below have been satisfied in a manner and in form and substance satisfactory to the World Bank: (a) The execution and delivery of this Agreement on behalf of the Recipient have been duly authorized or ratified by all necessary governmental and/or corporate action. (b) The Subsidiary Agreement has been executed on behalf of the Recipient and the			

Palestinian Authority. (c) The Recipient has caused MoLG and MDLF to adopt a Program Operations Manual, in form and substance, satisfactory to the World Bank.

Name	**Recurrent**	**Due Date**	**Frequency**
Effectiveness Conditions (Article 5.02 of the Grant Agreement)			One-time

Description of Covenant
As part of the evidence to be furnished pursuant to Section 5.01, there shall be furnished to the World Bank an opinion or opinions satisfactory to the World Bank of counsel acceptable to the World Bank or, if the World Bank so requests, a certificate satisfactory to the World Bank of a competent official of the Recipient, showing the following matters: (a) on behalf of the Recipient, that this Agreement has been duly authorized or ratified by, and executed and delivered on its behalf and is legally binding upon it in accordance with its terms; and (b) the Subsidiary Agreement has been duly authorized or ratified by the Recipient and the Palestinian Authority and is legally binding upon each such party in accordance with its terms.

Name	**Recurrent**	**Due Date**	**Frequency**
Program Financial Audit (Section III.B of Schedule 2 of the Grant Agreement)		June 30, each year	ANNUAL

Description of Covenant
Without limitation on the generality of Section I.A of this Schedule 2 and Section 2.07 of the Standard Conditions, the Recipient shall have the Financial Statements audited in accordance with the provisions of Section 2.07 of the Standard Conditions of the Program Grant Agreement. Each audit of the Financial Statements shall cover the period of one Fiscal Year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

Name	**Recurrent**	**Due Date**	**Frequency**
Annual Performance Assessment – Verification Protocol (Section III.C of Schedule 2 of the Grant Agreement)			One-time

Description of Covenant

The Recipient shall, no later than three (3) months after the Program Effective Date, engage an Independent Verification Agent under terms of reference acceptable to the World Bank, to prepare and provide verification reports certifying the achievement of the Disbursement Linked Results (DLRs)

Name	Recurrent	Due Date	Frequency
Annual Performance Assessment – IVA Assessment (Section III.C of Schedule 2 of the Grant Agreement)		February 15, each year (STARTING February 15, 2016)	ANNUAL

The Recipient shall, for each Fiscal Year (FY) throughout the period of implementation of the Program cause an Independent Verification Agent (IVA) to carry out, in accordance with the Program Operations Manual, an assessment covering a FY to determine: (a) whether the DLRs for said FY have been met or the extent that DLR(s) have been met; (b) the disbursement amount for said FY based on the calculation formula as stipulated in the Program Operations Manual (POM). This assessment shall be furnished to the World Bank.

Name	Recurrent	Due Date	Frequency
Disbursement Conditions (Section IV.B.1.c of Schedule 2 of the Grant Agreement)	x		

Description of Covenant

No withdrawal shall be made for any DLR, until and unless the Recipient has furnished evidence, verified according to protocols set forth in the Verification Protocol and thus satisfactory to the World Bank, that said DLR has been achieved.

Team Composition

Bank Staff

Name	Title	Specialization	Unit
Bjorn Philipp	Senior Urban Spec.	Team Lead	GSURR

Lina Abdallah	Urban Specialist	Co-Team Lead, Village Council assessment, MoLG Assessment, Institutional Building, , CDD	GSURR
Zeyad Abu-Hassanein	Senior Water & Sanitation Spec.	Environmental Safeguards Specialist	GENDR
Maha Bali	Program Assistant	Program Assistant	MNCGZ
Philip Winchell Bottern	Senior Social Development Specialist	Joint Service Councils Assessment, CDD, Institutional Building	GSURR
Basheer Ahmad Fahem Jaber	E T Consultant	Procurement Analyst	GGODR
Nadi Yosef Mashni	Financial Management Specialist	Financial Management	GGODR
Lina Fathallah Rajoub	Senior Procurement Specialist	Senior Procurement Specialist	GGODR
Noriko Oe	Urban Specialist	LGISP fiscal transfer formula design, Village Council Assessment, Entry/Graduation criteria of Local Government Units	GSURR
Rama Krishnan Venkateswaran	Lead Financial Management Specialist	Program Design, Local Governance, institutional development, Expenditure Framework	GGODR
Rafeef Abdel Razek	Consultant	Urban Planning,	GSURR

		Participatory Planning	
Hana Salah	Consultant	Social Safeguards Specialist, Social development, gender, citizen engagement	GSURR
Andrianirina Michel Eric Ranjeva	Finance Officer	Disbursement Linked Indicators	WFALA
Mei Wang	Senior Counsel	Program Lawyer	LEGAM

Non Bank Staff

Name	**Title**	**City**

I. STRATEGIC CONTEXT

A. Country Context

1. The Palestinian Authority (PA) was initially established for a five-year interim period after the Oslo Accords in 1993 with responsibility for the administration of the territory under its control. However, the Oslo accords were never fully implemented and came to 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 the Palestinian territories into small enclaves. The fragmentation goes beyond a West Bank and Gaza (WB&G) divide, with the West Bank further divided into Areas A, B and C[1], each with its concomitant administrative and security arrangements.

2. In early June 2014, the PA announced the forming of a unified government to cover the total geographic area of WB&G for the first time in seven years. However, this was not implemented, when a new conflict broke out in Gaza in July and August 2014, which resulted in serious damages on infrastructure in Gaza and a need for subsequent reconstruction. A ceasefire agreement with Israel was finally reached on August 26, 2014, which has been maintained so far but the fragility remains.

3. The Palestinian economy fell into recession in 2014 for the first time since 2006 following a sharp economic contraction of nearly 15 percent in Gaza's real Gross Domestic Product (GDP), primarily as a result of the war that extended over 52 days in Quarter 3 2014. The war had a devastating impact resulting in overall negative growth in the WB&G with the economy contracting three percent on a per capita basis. On the other hand, real growth in the West Bank exceeded five percent, mainly driven by exports and private consumption fueled by bank loans. Estimates indicate that West Bank GDP expanded by 1.8 percent in the first quarter of 2015 despite a liquidity squeeze that was caused by the Government of Israel's (GoI's) decision to suspend the transfer of taxes it collects on behalf of the PA after the latter had applied for membership in the International Criminal Court (ICC). The unemployment rate has recently been declining. In Gaza, it dropped to 42 percent in the first half of 2015 as the reconstruction process started to slowly pick up. Unemployment in the West Bank has also slightly declined from an average of 18 percent in 2014 to 16 percent in the first half of 2015. However, a quarter of the Palestinian labor force is still unemployed.

B. Sectoral and Institutional Context

4. With increasing political and geographical fragmentation over the last two decades, Local Government Units (LGUs) have gained paramount importance providing services to the local population, particularly in areas where the relatively young central government was

[1] Area 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.

politically, geographically, and fiscally constrained. Some of the existing LGUs were created as early as the second half of the 19th century and over decades LGUs have performed under the complexities of different political and legal regimes. Until the PA was established in 1993, LGUs were the only administrative institutions allowed to exist and function officially in the WB&G which was under Israeli military control. Following establishment of the PA, LGUs were strengthened as means to reinforce a national Palestinian identity at the local level, and to overcome critical institutional and service delivery gaps.

5. The Ministry of Local Government (MoLG) was established by the PA in 1994. Increasing the territorial administration under the PA's autonomous control was among MoLG's initial objectives, which resulted in creation of several new LGUs. By 1997, the number of LGUs increased from 139 to more than 350. Today, 377 LGUs exist in total, out of which 137 are classified as municipalities and 240 as Village Councils (VCs). However, the Local Government Law does not distinguish between functional assignments and assigns the same set of tasks to municipalities and VCs alike (Article No. 1 of the Local Authorities Law of 1997; see Annex 4 for a list of functions assigned to VCs). At present, population size is the main determining factor distinguishing between these two layers of administration.

6. Strengthening LGUs and enabling them to perform as fully functional local governments accountable to citizens are key priorities for the PA. This follows from the PA's public sector reform strategic plan outlined in the PA National Development Plan (NDP) 2014-2016 and in the supplemental sector strategies developed by the MoLG. The NDP 2014-2016 is the PA's strategic development program guiding government interventions and donor support in the Palestinian territories. The NDP was approved in May 2014, and structured along four key sectors: (i) Economic Development and Employment; (ii) Good Governance and Institution Building (GGIB); (iii) Social Protection and Development; and (iv) Infrastructure. The PA's strategic priorities and development objectives in the Local Government (LG) sector are included under NDP Sector (ii) "Good Governance and Institution Building".

7. For the sub-sector "Local Government", the PA has gradually realized that in order to move from financing basic services and infrastructure in an emergency mode towards state building, more focus should be given to institutionalizing interventions and assuring long-term sustainability. As such, the PA has recently formulated a comprehensive program comprising of financing infrastructure, institutional development and capacity building of LGUs. This is described further in the MoLG Strategic Framework 2015-2017, which has been elaborated following approval of the NDP 2014-2016.

8. For several years, LG sector support was provided through channeling Development Partners (DPs) and own funds into service delivery infrastructure without giving much attention to issues of Operations and Maintenance (O&M), administrative and financial management reform, and improving LGU financing and performance. The PA has now shifted towards supporting local infrastructure service delivery in an accountable and responsive manner through a combination of budget allocations, donor financed investment operations, specific LGU investment support in marginalized areas, and technical assistance and capacity building on selected thematic issues financed by DPs.

9. The World Bank and a number of DPs have been providing support to the PA through several investment operations. Although both municipalities and villages in general have been receiving capital investment support, the bulk of resources was flowing to municipalities compared to VCs, given the large investment backlog in municipal urban communities and the greater number of municipal beneficiaries. VCs received some support through investment operations such as the Village and Neighborhood Development Project (VNDP), but also from other DPs including but not limited to the European Union (EU), Belgium, Switzerland, and Sweden (through the United Nations Development Program, UNDP). However, those were often focused on small-scale capital investments with a Community-Driven Development (CDD) approach. Less attention was given to the institutional development and more systematic consolidation to enable sustainable service delivery against the backdrop of a highly fragmented LGU system with a large number of small VCs.

10. VCs, small in population size and with limited potential for own source revenue generation, face a particular challenge to reach acceptable levels of service delivery at reasonable cost. More than 85 percent of VCs have a population size below 4,000 inhabitants; and even the few relatively larger villages suffer from inefficient service provision, heavy burden of staff salaries, and insufficient technical capacity. While the majority of municipalities, around 80 percent, provide only 12 or less of the 27 assigned functions, VCs cover even fewer functions. The smallest VCs carry out only around four functions. Institutional capacity is very limited and many VCs operate without permanent staff. Between 60 and 70 percent of the own source revenues come from charges and fees in the enterprise budget, the most important one related to public utility services such as electricity and water. Although those revenues should not be retained by LGUs, VCs use the income to cross-subsidize other service functions given the lack of alternative revenue sources. Often, O&M costs of new infrastructure have been neglected and cause declining service levels. A large number of small villages makes it difficult to leverage economies of scale in service delivery and presents a major challenge to the long-term financial sustainability.

11. Financial sustainability of local service provision is a critical issue that affects LGUs ability to provide services in an accountable and efficient manner, disproportionally constraining VCs given their limited size, revenue base, and institutional capacity. Vertical and horizontal fiscal imbalances remain large. VCs and municipalities have almost the same revenue assignments comprised of local taxes, fees, and fines. The only source of shared revenues and transfers include the Property Tax, Professional Licensing Fees, and Transportation Fees.[2] However, Property Tax is not levied in VCs. As a result, VCs have on average 40 percent less per capita operating revenues compared to municipalities. For example, for 2012 per capita operating revenues were NIS63 for VCs, but NIS165 for municipalities. VCs are only entitled to receiving Transportation Fees, but the allocation and disbursement happen in an ad-hoc and opaque manner. Overall, VCs lack a stable and predictable financing source for meeting their development and capital investment requirements. While municipalities have access to funds provided by the Municipal Development and Lending Fund

[2] Transportation Fee is a shared revenue source between the LGUs and the MoF. It is collected by Ministry of Transportation and 50 percent of the total revenue collected is to be allocated to the LGUs on per capita basis–however, in reality, the majority of the 50 percent share is intercepted by the MoF to recover the arrears LGUs owe to their electricity suppliers.

(MDLF), no systematic funding mechanism exists to finance investments in VCs. This leaves a funding gap for the 240 villages and marginalized communities.

12. The MoLG acknowledges the need to better leverage economies of scale in local service delivery and has tested different models of institutional arrangements. MoLG launched a policy of amalgamation in 2010 with the objective to merge VCs or join them with adjacent municipalities. However, the attempt demonstrated only mixed results. Stakeholders report a general reluctance of VCs to give-up representative functions or their individual cultural identities and local characteristics. Another and more feasible policy for service improvement was the establishment of Joint Service Councils (JSCs), permitted by the Local Authorities Law (1997). It allows LGUs to jointly provide services, planning and development functions. In total, 91 JSCs exist, of which 82 are in the West Bank and 9 are in Gaza. Those include single-service JSCs, e.g., for solid waste management or water and sanitation; but also multi-service JSCs which manage more than one function or service on behalf of the member LGUs. In addition, a number of JSCs for 'Planning and Development' exist. Those have mixed functions, but the majority focuses on joint planning issues and tend to have been established to channel external funding to VCs and substitute for their weak administrative capacity. Overall, the degree of functionality varies greatly with only 55 JSCs operating in practice[3].

13. However, the current institutional framework and governance structure for joint service provision blur roles and responsibilities of VCs, JSCs, and public utilities. Financing, management and supervision arrangements are unclear, and weaken both vertical accountability between higher and lower levels of government; and horizontal accountability between citizens, local authorities, and service providers. JSCs have no direct or only weak accountability links to service users and tend to be accountable only to their member LGUs. Unfunded functional assignments, cross-subsidies, and accumulating arrears exaggerate the fiscal stress of local authorities. Investment prioritization and implementation depends largely on central decision making, causing poor accountability of VCs to their citizens. Generally, minimum service level and performance standards remain undefined, with little or no monitoring by VCs and/ or feedback from citizens.

14. The PA formulated a Village Support program to respond to the institutional and financial challenges that VCs face. The PA Village Support program focusses attention on VCs' service delivery responsibilities and provides technical, institutional and financial support to VCs through a combination of PA budgetary support as well as specific Technical Assistance (TA) and investment support by DPs. The Village Support program channels budgetary resources, including the Transportation Fee, and specific earmarked subsidies to the MoLG for infrastructure development in villages. The PA program also includes specific investment support for infrastructure projects in "Area C", financed by DPs.

15. Despite the support provided to date, institutional challenges related to sustainable financing and accountable service delivery remain. The PA recognizes that the current financing model is ad-hoc, too opaque and needs reforms to make it transparent and predictable. Although a clear policy directive exists for establishing JSCs[4] to address VC

[3] MoLG 2015: Joint Service Provision Assessment. (carried out as part of LGSIP Technical Assessment)
[4] Or other forms of joint service delivery by LGUs e.g. a municipality providing services on behalf of a VC.

capacity constraints, sufficient incentives need yet to be built into the system to facilitate the formulation, financing and implementation of joint projects among several small VCs. Selected VCs that have the size and capacity to evolve into viable local authorities need further institutional support through a combination of incentives and capacity building that will enable them to function as accountable and financially sustainable local governments.

16. The PA has made the strategic choice to reform key areas of its Village Support program, focusing on institutional strengthening and reforming the financing mechanism to improve service delivery in villages. The PA requested the World Bank to formulate a results-based Program to support the above results areas under the proposed reform of the PA's Village Support program. This reflects a strategic shift with which the PA intends to move away gradually from an "infrastructure delivery" approach with specific sub-projects implemented in a centralized manner towards a more decentralized mode embedded in a sector-wide programmatic approach focusing on local government performance and accountability. An integral element of this approach is the PA's intention to reform the local government financing system, including through a reform of the Transportation Fee allocation and disbursement mechanism. The proposed Local Governance and Services Improvement Program (LGSIP) responds to this intention of the PA.

C. Relationship to the Assistance Strategy and Rationale for Use of Instrument

17. The proposed Program is fully aligned with the strategic pillars defined in the Assistance Strategy for the West Bank and Gaza 2015-2016 (Report No: 89503 GZ), discussed by the Board of Executive Directors on October 30, 2014. In particular, the proposed Program would directly contribute to achieving pillar No. 1 to "Strengthen the institutions of a future state to ensure service delivery to citizens", in a manner that is aligned with institutional building blocks of the PA's NDP. It targets the outcome area "1.2 Increased transparency and accountability in service delivery", highlighting service delivery by local governments as the backbone. The Assistance Strategy acknowledges that while municipalities have been strengthened and accessed funds for service delivery, VCs have not benefited from ongoing support. Thus, the proposed Program would strengthen capacity of VCs and JSCs in upgrading both their technical capacity and efficacy for citizen engagement and gender inclusion. The Program is also in line with the World Bank's Regional Strategy for the Middle East and North Africa presented to the Board on October 1, 2015. LGSIP would directly contribute to improving quality services and citizen engagement under the Strategy Pillar One "Renewing the Social Contract".

18. LGSIP would support the World Bank Group (WBG) strategic goals of ending extreme poverty and boosting shared prosperity in a sustainable manner. The aggregate poverty rate in the WB&G amounts to 25 percent, with poverty in the West Bank estimated at around 16 percent.[5] However, living standards differ significantly across the West Bank and are lower in villages. VCs' residents have limited access to public services compared to those in municipalities. Although poverty data disaggregated by locality is not available in the WB&G, per capita public expenditure in villages can be used as a proxy to measure differences in living standards between municipalities and VCs. On average, municipalities have almost three times

[5] World Bank estimate according to Economic Monitoring Report to the Ad Hoc Liaison Committee, May 2015

larger public expenditure per capita than VCs. Eight percent of VCs don't provide basic and critical infrastructure, e.g., water supply, compared to only two percent of municipalities. Municipalities' per capita own-source revenue was more than twice of VCs' (2010 and 2011) and while budget allocations for VC development and operating expenditures continue to fluctuate, they have been declining overall. LGSIP would focus on disadvantaged areas in the West Bank that lack appropriate levels of service provision, but would also contribute to enhanced equity by increasing access to improved local services of Palestinians living in VCs, narrowing the gap to those who reside in municipalities.

19. LGSIP would use a Program for Results (PforR) financing instrument to leverage financial incentives to achieve results and mainstream reforms into the PA systems. This is in line with the Bank's long-standing involvement in the LG sector in the Palestinian territories, where the Bank is the Technical Advisor in the "Municipal Development and Local Government" Sector Working Group, chaired by the MoLG, and has been a convening force in establishing the MDLF which today is the main vehicle through which the PA and DPs channel investment funds and capacity building to municipalities. Based on its long history in the WB&G, the Bank is in a unique position to lead the process to support the PA in designing and implementing a coordinated and collaborative approach for village development.

20. Reasons for selecting the PforR financing instrument include the following: (i) The proposed Program would directly support the PA's Village Support program outlined in the NDP 2014-2016 and subsequent MoLG sector strategies for developing a systematic and transparent funding and capacity development mechanism for improved service delivery in villages. (ii) The Program would strengthen the institutional performance of national entities such as the MoLG and the MDLF in addition to VCs by moving implementation oversight from traditional Project Implementation Units' mode to the use of existing PA systems. Program stakeholders will be held accountable for achieving agreed results. This shift to promote greater ownership and sustainability builds on successful institution building experience in the fragile context of WB&G. (iii) The Program would reform the institutional framework in the LG sector by providing incentives for enhanced inter-VC cooperation to leverage economies of scale as a key element supporting the PA's policy objectives. The PforR disbursement modality, which links Program fund disbursements to the achievement of results is particularly appropriate to provide the financial incentives for delivering results. (iv) Finally, the PforR would help support system changes across the program by leveraging the actions contained in the Program Action Plan (PAP) and Disbursement Linked Indicators (DLIs) to trigger positive responses on needed reforms in the sector. This shift would achieve mainstreaming of critical reform initiatives into the formal PA systems, which has not always been possible with a traditional Investment Project Financing approach.

21. World Bank involvement also provides the opportunity for sharing global experience with inter-governmental fiscal reforms that incentivize institutional strengthening at the local level. Several ongoing PforR operations support programs similar in concept to the LGSIP, e.g., in Tanzania, Tunisia and Uganda. These operations provide grants to local governments based on annual assessments measuring several institutional performance indicators. The proposed LGSIP simplifies this model to reflect the Palestinian contextual requirements, recognizing the need for strong incentives to LG sector consolidation and significant capacity constraints of VCs.

II. PROGRAM DESCRIPTION

A. Program Scope

A 1. The PA program: Palestinian Village Support program

22. The PA Village Support program consists of delivering infrastructure at the village level through a combination of investment support in the 240 VCs with specific support to the investment requirements in "Area C", coupled with implementation arrangements to address VC capacity constraints. The Palestinian Village Support program has a five year duration from 2016-2020 and comprises the following sub-programs:

(i) Delivery of Local Services by VCs;

(ii) Infrastructure Service Delivery through Joint Projects;

(iii) Capacity Support to strengthen Local Governance Institutions; and

(iv) Investments in "Area C"

23. The PA program finances infrastructure development in villages through Transportation Fee revenue sharing and other subsidies to the MoLG. The Transportation Fees amount allocated to VCs was NIS13.5 million (US$3.8 million) in 2012 and NIS14.2 million (US$4 million) in 2013, equivalent to around 15 percent of the total Transportation Fees allocated to LGUs.[6] The MoLG intends to increase this amount under the Palestinian Village Support program to provide additional resources and reform incentives to VCs. Under the LG program in the NDP 2014-2016, the PA allocates a total budget of US$140 million for local capital expenditures, including for capital investments in VCs. These budgetary allocations are invested in specific infrastructure investment projects based on project proposals submitted by VCs and financed by DPs. To address the investment requirements of "Area C" communities, the PA provides specific investment support through DP financed projects in the total amount of around US$16 million, with additional allocations planned up to US$12 million. Both the MoLG and DPs provide TA to strengthen the capacity of VCs in specific areas, including but not limited to participatory planning, social accountability, local government administrative and financial systems, inter-village collaboration, and joint service provision. Budget allocation estimates in the following are based on projections from the PA and commitments made by DPs to the MoLG with a total estimated program financing of US$60 million.

Sub-program One: Delivery of Local Services by VCs (estimated budget allocation of US$22 million)

24. The PA provides financial support to LGUs through annual budget allocations to the MoLG, including for capital and operating costs related to delivering local services by VCs. Since funding falls short of the financing needs, most VCs rely on extra-budgetary support for capital investment funding, including from DPs. VCs meet their recurrent expenditure needs mostly through cross-subsidies from revenue-generating services and a diversion of the

[6] The "Transportation Fee distribution Committee" at the MoLG receives the full lump sum of Transportation revenue for a given year from the MoF and allocates it based on annually adjusted criteria.

Transportation Fee transfer, although Transportation Fees collected by the PA have the intention to support capital investments in VCs through an annual allocation to MoLG. However, funds are allocated and disbursed in an ad-hoc and opaque manner. Since VCs do not know in advance when and how much financial support they would eventually receive, this practice causes large variations of planned vs actual budgets and accumulating arrears. As a result, most of the capital investments receive funding in response to a call for proposals, including from the MoLG, based on which VCs submit specific project proposals. Funding availability for individual VCs differs from year to year based on the priorities defined by the MoLG. Generally, the preparation and execution of those projects are then handled directly by MoLG, either through JSCs or through contractors with little or no involvement of the VCs. Many of the JSCs have been established as a result of external support and become inactive once the support ceases as they are not viable on their own.

25. The PA wants to reform capital investment financing and execution in VCs with the intention to establish sustainable financing arrangements for service delivery in villages and to align institutional capacities and incentives with accountable service delivery. To that end, the PA plans to put in place a formula-based fiscal transfer system that will allocate and disburse Annual Capital Grants to VCs in a transparent and predictable manner. The PA will pilot the transfer system through the World Bank financed LGSIP, but eventually aims at scaling up the program to include the Transportation Fee and other budgetary allocations to VCs, reform the existing system making it more transparent and predictable and enlarging the per-capita grant allocation provided to VCs. The PA program also intends to scale-up and mainstream a model of local development planning that is inclusive and institutionalizes citizen participation in the local development process. The MoLG is currently building local capacities with the support from DPs to prepare multi-year Strategic Development and Investment Plans (SDIPs) and Annual Capital Investment Plans (ACIPs) in a participative manner to strengthen voice and accountability in the local planning and investment process. Although this model has been practiced in selected villages, it is not yet fully applied across all VCs.

Sub-program Two: Infrastructure Service Delivery through Joint Projects (estimated budget allocation of US$18 million)

26. The PA program will reinforce incentives for VCs to formulate and implement joint projects to pool scarce resources, reap the benefits of scale economies, and build sustainable local implementation capacities. In line with the PA's intention to consolidate the LG sector and strengthen the role of JSCs as a service operation and implementing entity for LGUs, this sub-program would provide financing for joint projects to be executed by JSCs. The financing provided will serve as an incentive for joint project formulation in the nature of seed capital that should be used to leverage additional financing from DPs and financial institutions. The PA also intends to improve performance of joint service provision and gradually phase out those JSCs that are not sustainable.

27. Activities under this sub-program would be in the nature of medium to large scale capital investment projects that cannot be funded through an annual fiscal transfer system. Hence, the PA intends to use a specialized agency, such as the MDLF, that has the expertise and capacity in putting together larger scale capital investments and to enable VCs to plan and formulate bankable project proposals that can attract co- and parallel financing.

Sub-program Three: Capacity Support for strengthening Local Governance Institutions (estimated budget allocation of US$4 million)

28. MoLG is currently providing institutional development and capacity building support to VCs with the assistance from several DPs. However, approaches differ and include (i) establishing clusters for amalgamation and forms of inter village-cooperation (BTC and Danida); (ii) developing systems for revenue collection (German Agency for International Cooperation (GiZ), UNDP, Danida); (iii) planning and capacity building for infrastructure development (EU, Department for International Development - UK (DFID), UN-Habitat, GiZ, Belgium Technical Cooperation (BTC)); (iv) support to local government policy development and reform (GiZ, BTC, Danida); and (v) joint service delivery for selected local services (Japan International Cooperation Agency (JICA), BTC). However, these programs have a limited geographic scope benefitting a selected number of VCs only; apply different approaches for capacity building, institutional strengthening and local planning; and use fund allocation and selection criteria that are not aligned, providing different incentives to VCs. The MoLG also has put in place a Human Resource Development Strategy for the calendar years 2015- 2017, out of which a Departmental Training Plan for MoLG staff was developed. However, the latter was not fully linked to the MoLG's strategic pillars and sector results indicators, and was not accompanied with a financing plan.

29. The PA program intends to sharpen its approach for capacity building and provide more targeted capacity support to VCs and JSCs in line with their key roles and responsibilities. Core local governance systems would be strengthened to support LG sector consolidation, taking into account required minimum capacity. These include institutional systems, including planning, financial management, monitoring; and accountability systems, such as grievance and complaints handling systems, auditing and oversight. In line with the PA's intention to enable large VCs to evolve into cluster centers and eventually become municipalities, the PA would also strengthen their project implementation capacities. For the small VCs, the PA intends shifting implementation responsibilities to JSCs, subject to their capacity and adherence to a good governance framework for joint service provision.

30. Activities under this sub-program will be implemented through existing training resources within the PA wherever feasible, and with the assistance of consultants and external experts as necessary. The MoLG will also ensure that the ongoing TA and capacity support provided by various DPs are coordinated and aligned with the program goals. A Capacity Development Plan will be developed by the MoLG and be updated on an annual basis. This Plan would build on on-going efforts by the MoLG to implement its Human Resource Development Plan (2015-2017) but will outline capacity and institutional support required at both the central and local level, i.e., the MoLG, VCs and JSCs.

Sub-program Four: Infrastructure Investments in "Area C" (estimated budget allocation of US$16 million)

31. One of the PA's main priorities is to improve service delivery and citizen participation in all 240 villages, including resilience of marginalized communities located in "Area C", which are facing serious constraints of access to services due to restrictions imposed by the Israeli Civil Administration (ICA) on permits for local service infrastructure and delivery. The

sub-programs in "Area C" are implemented mainly by the EU[7], Germany through KfW, and Austria, Italy and Sweden through the UNDP, and will run in parallel to the Program supported through this operation, presented further below.

32. The new KfW financed sub-program will provide funding for infrastructure investments in marginalized communities in VCs with a minimum population share of 60 percent residing in "Area C". This will include those VCs which, due to their location, are disconnected from other surrounding LGUs. This separation makes it impossible to consolidate with other LGUs and difficult to collaborate within joint service delivery arrangements. The allocation formula will be the same as the PA per capita allocation formula for VCs (see below in PforR Program). The VCs would also need to have a participatory investment plan to be eligible for financing under this sub-program. However, no additional eligibility criteria would apply. The sub-program will secure implementation of direct investments to cover service delivery in marginalized communities and vulnerable VCs, which cannot be reached by the PforR operation. Investments will be financed from the VCs' per capita allocations and executed by the MDLF.

A 2. The Program for Results (the "Program"): Local Governance and Services Improvement Program (LGSIP)

33. The proposed LGSIP will support the PA in implementing the Palestinian Village Support program. Through the LGSIP, the PA will pilot a fiscal transfer system for Unconditional Annual Capital Grants financing VCs along with institutional and capacity building support. In addition, the Program will also enable the PA to put in place a Conditional Capital Grant for investments in joint projects. The scope of the Program will be confined to the first three sub-programs of the PA's Village Support program and will not include Sub-program Four "Investments in Area C" (see table 1 below). Hence, LGSIP will finance activities under the following three sub-programs: (i) Delivery of Local Services by VCs; (ii) Infrastructure Service Delivery through Joint Projects; and (iii) Capacity Support for strengthening Local Governance Institutions. Program beneficiaries will be the residents of VCs, including women and marginalized groups.

34. The Program builds on the lessons learned in the sector and would be embedded in the broader LG sector reform that requires institutional, policy and investment support at both the local and central level. To date, no systematic approach exists to reach beyond municipalities supported under the Municipal Development Program (MDP). A longer term roadmap towards comprehensive LG sector reform is needed, including mainstreaming of good practices into the formal government system. While LGSIP would provide financing targeted at villages, the program would also support initiating key policy and institutional reforms at the central-level that are critical for both VCs and municipalities, including an overdue reform of the LG financing system and establishing a strong framework for joint service provision. While LGSIP and MDP are two elements of one integrated sector approach that would eventually converge

[7] The EU support finances investments in Area C which are identified from action plans developed from 9 existing statutory outline plans developed in a participatory manner during previous interventions. The statutory outlines plans are considered by the EU as approved if no major objection has been raised within 18 months following the submission of the plan by the VCs to the ICA. The action plans are developed by MDLF thereafter, which also implements the sub-program's investments.

over the medium to long term, there is no shortcut: MDP cannot address capacity and investment constraints in villages; and VCs cannot leapfrog into a performance-based conditional grant scheme. Existing institutional arrangements in the LG sector will need to evolve further to deliver optimal results for decentralized service delivery. The proposed LGSIP would support strengthening the PA systems for improved local government financing and service delivery; and allow the MDLF to further develop its mandate as the PA's preferred instrument to mobilize and channel investment funds to local authorities.

35. In particular, LGSIP will assist the PA in establishing a systematic approach for strengthening the institutional systems for viable local authorities that have the capacity to provide services to their citizens in an accountable manner and can be financially sustainable in the future. The Program will introduce a minimum threshold for VCs to receive direct financing to ensure sufficient institutional capacity is in place to maintain service provision. At the same time, LGSIP will provide strong financial incentives for joint service provision as a means to LG sector consolidation, but apply a selective approach that requires joint arrangements to comply with robust standards of good governance and undergo regular performance assessments. This approach recognizes that a large number of VCs will not be in a position to sustain local service delivery individually, but requires a gradual and sequenced transition that needs to unfold in parallel with critical reforms to the LG financing system.

Table 1: The PA Palestinian Village Support program and LGSIP (highlighted), 2016-2020

Sub-program One: Delivery of Local Services by VCs	**Sub-program Two: Infrastructure Service Delivery through Joint Projects**	**Sub-program Three: Capacity Support to strengthen Local Governance**	**Sub-program Four: Investments in "Area C"**
Annual Capital Grants to VCs (Formula based fiscal transfers to VCs subject to meeting the eligibility criteria on an annual basis)	Conditional Capital Grants to VCs for investing in joint projects	Capacity Support provided to VCs and JSCs to strengthen their institutional and management systems	Donor financed specific infrastructure investments in "Area C"
Own Source Revenues of VCs	Donor supported specific investment projects in JSCs	Donor financed TA and capacity support in specific technical areas	
Donor supported specific investment projects in VCs			

36. **Geographical Scope.** The Program would finance capital investment grants for a potential pool of 206 VCs. This includes all but 34 out of 240 VCs with a population share of more than 60 percent residing in "Area C". Although those VCs may still benefit from capacity building support to strengthen their institutional systems to become viable LGUs, LGSIP will

not finance any investment activities in "Area C" since this would be covered by the PA program with parallel financing from other DPs. The actual number of VCs to benefit from annual capital investment grants will be determined every twelve months by the annual eligibility assessment and is subject to the number of VCs meeting the Program eligibility criteria. A minimum of 30 percent, equivalent to around 72 VCs, are expected to meet the eligibility criteria in the first year of annual investment grant allocation. The scope of the Program will not include the Gaza Strip, as there are no VCs but only municipalities in Gaza.

37. **Duration.** The Program will be implemented for five years, until December 2020.

B. Program Development Objective (PDO)

38. The development objective of the proposed Program would be to strengthen the local government financing system and improve local service delivery in Program villages.

C. Program Activities

39. In line with the key priorities of the PA's Village Support program, LGSIP would focus on the two results areas to strengthen the (i) local government financing system; and (ii) institutional systems for improved service delivery in villages. LGSIP would aim at a sub-set of results under these two results areas, making Program financing contingent on the achievement of specific DLIs. The Program encompasses three primary activities based on the needs identified by the PA to achieve the main objectives reforming the Palestinian Village Support program: (a) Annual Capital Grants to VCs for delivering local services reflecting citizens' priorities; (b) Conditional Capital Grants for incentivizing joint investments in larger scale infrastructure; and (c) Capacity Support for strengthening local governance institutions.

40. Strengthening citizen engagement in VCs and ensuring stakeholder participation in the local development process are at the core of the intended reform supported by the Program. The Program builds upon the PA program's objective of enhancing local accountability through improving stakeholder participation and strengthening institutional systems and processes for citizen engagement. The Program intends to further strengthen transparency and accountability of VCs and JSCs through better information sharing, enhanced reporting to citizens, bolstering the annual audit process, and strengthening grievance and complaints mechanisms to be responsive in an efficient and timely manner.

41. The Program introduces the allocation of transparent and predictable fiscal transfers to VCs to finance implementation of participatory investment plans. The Program also intends to provide further incentives for local accountability by allocating fiscal transfers directly to large VCs, making JSCs responsible to plan for service cost recovery in the medium-to-long term, and supporting LG sector consolidation. Hence, the Program would strengthen institutional systems and capacities of larger VCs so that they can be categorized as municipalities in the near future or evolve to become the center of a village cluster. For the small and low capacity VCs, the Program would support strengthening the role of JSCs as an execution and service delivery entity to generate economies of scale and ensure long-term financial sustainability. At the same time, strong governance arrangements would ensure clear accountability between the

JSC, member VCs and citizens. Hence, LGSIP would be selective and will apply minimum criteria that VCs and JSCs would need to meet to become eligible.

(I) Annual Capital Grants for delivery of local services

42. VCs would qualify for fiscal transfers from the Ministry of Finance (MoF) in the form of Annual Capital Grants to support the implementation of ACIPs upon meeting LGSIP eligibility criteria (see below). The participatory ACIP would be based on five year plans which have been developed or are currently under preparation in VCs applying the "SDIP light" methodology. Investments financed under the ACIPs would use an open-menu approach by including small-scale local infrastructure identified based on community priorities, such as upgrading existing roads, solid waste management equipment, bus and truck stands, markets, drains, recreational parks, and water and wastewater network rehabilitation[8]. Capital grants would be allocated to the VCs on a simple per-capita basis with a minimum of US$9 per capita to exceed the current Transportation Fee allocation of around NIS25.00, equivalent to US$6.5 per capita. This would provide a meaningful source of timely and predictable revenues and serve as an incentive for reform.

43. The Program adopts an asymmetric approach towards implementation among VCs depending on their size and capacity in line with the PA's objective to support consolidation of the LG sector. This approach will (i) strengthen larger VCs with a minimum capacity to further enhance their institutional and implementation systems so that they can transition to become municipalities; and (ii) enable JSCs to function as implementing entity for small VCs who face critical capacity shortages.

(i) *Large VCs* with a population exceeding 4,000 that meet the eligibility criteria will receive the Annual Capital Grant allocation directly from the MoLG transferred to their bank accounts for individual execution.

(ii) *Small VCs* with a population below 4,000 that meet the eligibility criteria will also be allocated capital grants. However, since they do not have the financial and project management capacity, grant funds would not be transferred directly to their accounts. Instead, MoLG would manage the grant funds on their behalf and their ACIPs would be executed through a qualified JSC. A qualified JSC must score more than 40 points in the bi-annual JSC assessment; and have a signed agreement in place between the members that would need to comply with the format adopted by the MoLG (see Annex 1). The VC needs to be a member of the JSC.

44. *Eligibility criteria.* VCs will be assessed on their eligibility at the start of each annual Program cycle, described in detail in Annex 1. Only those VCs that successfully comply with

[8] The Program would adopt an open-menu approach for financing of ACIPs, but will establish criteria for exclusion based on a list of ineligible expenditures, such as political or religious activities, investments detrimental to the environment, works involving relocation of people or impacting livelihoods, new landfills or waste water treatment plants, activities that would significantly convert natural habitats or significantly alter potentially important biodiversity and/or cultural resource areas, rehabilitation structures of archeological or cultural value, travel, salaries or "top up" payments to civil servants and LGU staff, and other ineligible expenditures. The Program Operations Manual (POM) will have a more detailed description.

the eligibility criteria will be admitted to the Program. VCs would need to meet the following eligibility criteria to receive Annual Capital Grants under the Program:

(i) annual budget statement for the current fiscal year approved by the VC council and submitted electronically to the MoLG;
(ii) ACIP for the subsequent year prepared in a participatory manner; and
(iii) subsequent year's ACIP and current year's VC budget publicly disclosed.

45. In addition to the basic eligibility criteria listed above, *large VCs* must demonstrate minimum staff capacity for individual execution by having access to an administrator (full-time), accountant (full or part-time), and an engineer (full or part-time).

46. VCs and JSCs who are not eligible will receive targeted capacity building support to enable them to meet eligibility criteria and gain admission into the Program. Grant funds accruing to VCs that are not eligible in a certain year will be carried forward to the subsequent year only. MoLG will provide administrative and technical oversight over the implementation of ACIPs by VCs and JSCs.

(II) Conditional Capital Grants for Investment in Joint Projects

47. The Program would provide strong financial incentives for consolidation through a voluntary bottom-up approach. In line with the PA's intention to encourage investments at the village level that are planned and implemented jointly among VCs, the Program would provide Conditional Capital Grants for investment sub-projects that cut across several VCs and are identified in a joint or consolidated ACIP. Participating VCs would receive additional funding through a 'top-up' for joint projects executed by a qualifying JSC or other joint service provision arrangement.[9] Funding would be up to ten times larger compared to individually executed investments. Unlike the Annual Capital Grants that are fiscal transfers to VCs, and hence allocated and disbursed every year on a timely basis, the Conditional Capital Grants will be one-time allocations for eligible VCs.

48. The Conditional Capital Grant will be determined by the 'base allocation' multiplied with an incentive factor of at least ten. The base allocation equals the sum of the per capita allocation of VCs participating in the joint project. Hence, the available funding for a joint project would be calculated by (i) the total population of VCs contributing to the joint project; (ii) multiplied by the per-capita allocation of a minimum US$9; and (iii) multiplied by ten.[10]

49. *Eligibility criteria.* A qualifying JSC would need to meet the same Program eligibility criteria outlined above, i.e., demonstrating sufficient institutional capacity and adhering to a Good Governance Structure in line with six internationally accepted good governance criteria. Hence, JSCs would need to meet the following criteria to qualify for the Program:

[9] Joint projects would be implemented by JSCs, but may also be implemented through other forms of joint service provision which conforms to the good governance standard established by the MoLG, e.g., a service delegation agreement between VCs and a municipality. However, the same eligibility criteria would apply.
[10] Total Conditional Grant = [Total population of contributing VCs] x [minimum per capita allocation] x [10]

(i) A threshold score of above 40 in the bi-annual JSC assessment;[11] and
(ii) A signed agreement between the JSC members following the Good Governance Framework approved by MoLG.

50. The Conditional Capital Grant would finance the identification, formulation, preparation and implementation of larger scale infrastructure investments with the potential for mobilizing additional financing from DPs and other funding sources. The screening process in the POM will have criteria to exclude certain categories of projects to ensure that no large scale joint projects with potential negative or social impacts would be financed. JSCs, as implementing entity for VCs, will prepare consolidated ACIPs comprising of joint projects among two or more VCs. This is consistent with the PA's intention to support LGU consolidation through JSCs. Joint projects are expected to include larger scale investments beyond the capacity of individual VCs, including but not limited to water and wastewater network extensions, connecting roads, and solid waste management. The Program will rely on MDLF's experience in planning, appraising and support managing infrastructure investment projects. Therefore, MDLF will be responsible for the coordination and management of joint projects financed through the Conditional Capital Grant.

(III) Capacity Support for strengthening Local Governance Institutions

51. MoLG will coordinate capacity support provided through the Program, including for VCs, JSCs and central level agencies. MoLG would organize orientation, training and 'hands-on' technical assistance to participating VCs and JSCs. These activities would focus on the key support required to assist VCs and JSCs to achieve DLIs, thus contribute to achieving the PDO.

52. Capacity support would be provided based on a five year Capacity Development Plan that would address the needs identified during the capacity needs assessment carried out during Program preparation. Four broad areas were identified in the capacity building needs assessment, including (i) participative planning for infrastructure investment prioritization; (ii) management of infrastructure sub-projects; (iii) VC and JSC institutional systems for procurement, financial, environmental and social management; and (iv) sector oversight and management capabilities of central agencies such as the MoLG. The Plan will include specific programs for strengthening citizen engagement through participative planning, access to information, citizen feedback through Participatory M&E and independent citizen satisfaction surveys, and through establishing Program-level grievance redress mechanisms. The Program would also provide MoLG institutional strengthening and policy support to enable it to meet the Program objectives.

D. Program Financing

53. Overall Program resources in the amount of US$20.0 million would be available for LGSIP. US$5.0 million will be financed from the Trust Fund for Gaza and West Bank (TFGWB) with US$13.0 million co-financing to be provided from the Partnership for Infrastructure Development (PID) Multi-Donor Trust Fund (MDTF). The PA would contribute

[11] A baseline JSC assessment was carried out during program preparation indicated that 14 JSCs have met the minimum condition of a score greater than 40 points, with a maximum score of 58 points. The assessment will be repeated in the Program's year 1 and 3 to allow for more qualifying JSCs and other joint arrangements.

the equivalent of US$2.0 million to the Program, provided as share from the Transportation Fee allocation.

54. The PID MDTF has eight active donors and is currently being replenished with contributions expected to be formally committed by December 2015. DPs have expressed their interest to provide additional contributions to the PID MDTF, including for co-financing of the proposed LGSIP. Sweden has communicated to the Bank in a formal letter its intention to provide supplemental funding to the PID in the amount of US$20-30 million by December 2015. On September 23, 2015, the Bank received a confirmation from Sweden that their pre-appraisal completed on September 21, 2015 has not raised any objections to the PID MDTF replenishment and Sweden expects to sign the Supplemental Contribution by December 2015. Switzerland is considering joining the PID MDTF as a Co-Financing Partner in alternative to providing parallel financing. Denmark will complete their Country Program Appraisal, including for PID replenishment around February 2016. The TFGWB Grant Agreement Preamble includes a provision according to which the World Bank expects to receive, not later than June 30, 2016, contributions from donors to replenish the Co-financing and to be used for financing the Program. In the event of a financing gap, i.e., the contribution is not received by the expected date, the Program may be considered for suspension and/ or cancellation in accordance with Section 4.02 (e) of the Standard Conditions and Section 4.01 (a) of the Grant Agreement.

Table 2: Program Financing (US$ Million)

Source	**Amount**	**% of Total**
PA	2.0	10
World Bank (Special Financing)	5.0	25
PID MDTF	13.0	65
Total Program Financing	**20.0**	**100**

55. Total parallel financing would be estimated at approximately US$44 million. An overview of parallel financing contributions is included in Annex 4.

E. Program Key Results and Disbursement Linked Indicators

56. The Program would address results areas that are critical to improve local government financing and service delivery. These include improving the transparency and predictability of Annual Capital Grant transfers, strengthening local governance institutions, and financing investments in local infrastructure and services. Progress towards the PDO will be measured through a set of simple and measurable indicators, the majority of which will be linked to disbursements. The two result areas in the Results Framework are closely inter-related and linked to DLIs, Program Actions and planned capacity support. The results will be subject to monitoring, evaluation, and verification activities under the Program. The Results Framework and monitoring arrangements are described in Annex 2, while the DLIs are provided in Annex 3. The results areas and associated PDO indicators are summarized as follows:

Table 3: Program Results Areas

Program Result Area	PDO Indicator
Strengthening Local Government financing system	VCs receiving transparent and predictable Annual Capital Grants (number)
	Timely communication to VCs of the formula-based Annual Capital Investment Grant (ACIG) allocations and timely transfer of ACIGs to eligible VCs. (Y/N)
Strengthening institutional systems for improved service delivery	People benefitting from improved service delivery in Program villages (number)
	Beneficiaries that feel Program investments reflected their needs (percentage)

57. The result areas are linked logically to the PDO and are reachable within the timeframe of the Program. Intermediate outcomes for the key results areas would be measured with intermediate outcome indicators. In addition to the results indicators, the DLIs have been designed to measure critical intermediate results for a successful program implementation following the PforR approach.

58. **Disbursement Linked Indicators.** The DLIs have been selected according to the Program's incremental result chain. Hence, critical results can be achieved during the early stage to build incremental results to reach the PDO. The following DLIs were agreed:

(1) Enabling steps to strengthen local governance adopted by MoLG
(2) Timely communication to VCs of the formula-based Annual Capital Investment Grant (ACIG) allocations and timely transfer of ACIGs to eligible VCs
(3) Percentage of VCs meeting the Program eligibility criteria annually
(4) Cumulative number of Joint Projects approved
(5) Aggregated expenditure percentage of approved Joint Projects
(6) Steps to improve transparency and predictability in the allocation of Transportation Fee adopted by MoLG
(7) Capacity Building Activities delivered by MoLG based on their Annual Capacity Development Plan.

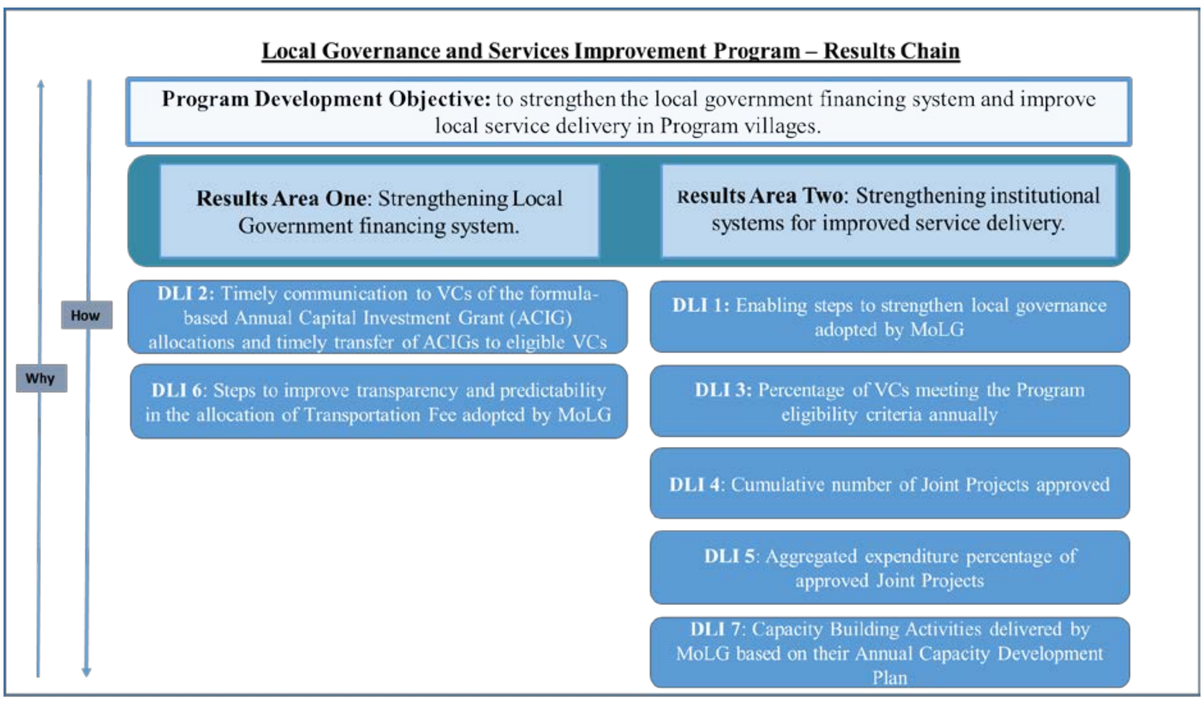
59. **Results Chain.** The Program Results Chain is depicted in Figure 1. A detailed description follows.

60. **Results Area One: Strengthening Local Government financing system**. The outcome targeted in this area would be setting up of a sustainable financing system for local governments. The Program intends to reform the existing financing model and make it transparent and predictable. The Annual Capital Grants transfer piloted by LGSIP would provide a model aiming to be extended to other existing transfers such as the Transportation Fee.

i. *DLI 2: Timely communication to VCs of the formula-based Annual Capital Investment Grant (ACIG) allocations and timely transfer of ACIGs to eligible VCs.* Annual Capital Grants allocated based on a simple and clearly defined formula and disbursed within a specific time period will result in making the resource allocation system from the PA to VCs more transparent, timely and predictable. This will enable VCs to plan and budget realistically and enhance their accountability to citizens.

ii. *DLI 6: Steps to improve transparency and predictability in the allocation of Transportation Fee adopted by MoLG.* The current Transportation Fee allocation mechanism, including criteria, final amounts, timeframe and disbursement to LGUs lack clarity and predictability. Reforming the current Transportation Fee allocation mechanism along the lines of the Annual Capital Grants would result in establishing a sustainable financing source for VCs. Intermediate results include formulating a directive to allocate the Transportation Fee based on a formula following the Program Annual Capital Grants disbursement pattern.

Figure 1: Program Results Chain



61. **Results Area Two: Strengthening institutional systems for improved service delivery.** The targeted outcome in this results area is to strengthen the capacity of VCs to plan and implement their ACIPs in an efficient and accountable manner. Given the selective approach which would admit only those VCs and JSCs that have the capacity to sustain local services, the Program would achieve measurable service delivery improvements for beneficiaries in Program villages. The following key intermediate outcomes contribute to this result and form the basis of DLIs 1,3,4,5, and 7:

i. *DLI 1: Enabling steps to strengthen local governance adopted by MoLG.* Central level actions that are required to provide an institutional framework with the basic conditions necessary as the foundation for efficient and accountable performance of VCs and JSCs. Critical results include enabling steps to strengthen local governance that MoLG would need to adopt for the LGSIP to be implemented, including issuing the instructions for implementing the new Procurement Law in the LG Sector, approving the standardized Good Governance framework for joint service provision, and adopting the formula for Annual Capital Grant allocation.

ii. *DLI 3: Percentage of VCs meeting the Program eligibility criteria annually*. The ability of VCs to meet the Program eligibility criteria indicates the extent to which VCs' institutional systems have been strengthened. This is also an indication of VCs' ability to carry out their mandated institutional responsibilities such as preparing annual plans in a participatory manner and formulating annual budgets. It also reflects that VCs have put in place CE mechanisms required for preparing participatory ACIPs and establishing effective feedback loops with citizens.

iii. *DLI 4 and DLI 5: Cumulative number of Joint Projects approved, and aggregated expenditure percentage of approved Joint Projects*. The number of joint projects approved demonstrates the ability of VCs to join in and collaborate effectively under institutionalized arrangements and prepare investment proposals reaping economies of scale. It also reflects that JSCs have put in place strong governance arrangements and achieved the minimum score of the bi-annual JSC assessment to become eligible for implementing joint projects. The MDLF would support JSCs in formulating joint project proposals and preparing credible financing plans. Aggregated expenditure is a proxy for measuring the implementation progress of joint projects and is also an indicator of JSCs efficiency and capacity to deliver large-scale local services.

iv. *DLI 7: Capacity building activities delivered by MoLG based on their Annual Capacity Development Plan.* Capacity support provided under the Program will assist achieving above described intermediate results, including through providing guidance on infrastructure prioritization and preparation of ACIPs, improved procurement and financial management processes and grievance handling, citizen engagement for improved social accountability, and public disclosure and other transparency measures. Capacity support would focus on strengthening the institutional systems of VCs and JSCs so that they can fulfill their mandated responsibilities and achieve Program results, and strengthening MoLG at the central and district levels to provide LGUs with the necessary oversight and to improve its sectorial approaches based on lessons learned. Additional measures required to support these outcomes are included in the Program Action Plan.

F. Key Capacity Building and Systems Strengthening Activities

62. TA and institutional development support is required to ensure successful Program activities implementation, meeting the Program results, and address existing weaknesses in the PA system. The MoLG will be responsible for coordinating and delivering capacity building support and TA to LGUs based on its institutional mandate. MoLG will provide capacity building and TA to VCs and JSCs either through existing in-house capacity, with support from ongoing parallel financing or through procuring external assistance.

63. LGSIP acknowledges MoLG’s key role in the LG sector, particularly for policy development, establishing and developing a strong institutional framework, and providing oversight and supervision to LGUs. Fulfilling those critical tasks as an enabling but not implementing entity requires strengthening of MoLG’s role providing assistance to VCs and JSCs. The MoLG will develop an indicative Institutional Support and Capacity Development Plan for the duration of the five year Program based on a rapid needs assessment of MoLG’s central and district level functions. The Plan will build on MoLG’s Human Resource Strategic Development Plan (2015-2016) and would establish the baseline and capacity development yearly targets. Based on this indicative Plan, the MoLG will develop an annual detailed Capacity Development Plan for the first year of Program implementation, and will update this plan onward on an annual basis. Capacity building activities would be classified in accordance with the following: (i) capacity needs required to meet the Program results and DLIs under the responsibility of the MoLG; (ii) target audience for training at the central and local level; (iii) delivery mode, including in-house training where MoLG has the mandate, expertise and staffing, or other modes requiring external support; and (iv) funding source, including from the PA budget, on-going or planned parallel financing, or the Program. The comprehensive plan will consider all on-going and planned TA supporting MoLG’s departments and functions.

64. TA would also be provided to strengthen MoLG’s policy development and oversight function. Specific support would include (i) developing standard requirements for participatory planning; (ii) support to LGU debt restructuring and arrears reduction plans; (iii) developing tariff structures, pricing methodologies and guidance on own source revenue enhancement; (iv) community mobilization and support to developing ACIPs by VCs; (v) reviewing LGU revenue and expenditure assignments to establish a sustainable inter-governmental fiscal framework; and (vi) developing and applying standard requirements for O&M in VCs.

III. PROGRAM IMPLEMENTATION

A. Institutional and Implementation Arrangements

65. The Program will use existing PA systems. Hence, implementation will be carried out by VCs, JSCs or similar joint service provision arrangements, the MoLG, and the MDLF. MoLG has the legal mandate for local government affairs and is in charge of overall policy setting and supervision. Within its mandate, the MoLG will have the lead responsibility for overall coordination and oversight in the sector and lead implementation of the Annual Capital Grants for delivery of local services and Capacity Support for strengthening Local Governance Institutions. MoLG will manage capacity building and TA activities to prepare VCs and JSCs, which are not yet eligible for Program investment funding. MoLG will also be responsible to support establishing joint service provision arrangements between VCs with a good governance structure to qualify for Program investment funding. Large VCs who meet the eligibility criteria will receive Annual Capital Grants directly into their accounts and would be responsible for the implementation of their ACIPs. Small VCs eligible under the Program will be allotted capital grants, but funds will not be transferred and execution of their ACIPs would be delegated to JSCs. JSCs would execute ACIPs for small VCs.

66. The MDLF will be responsible for managing Conditional Capital Grants for Investments in Joint Projects, coordinate and supervise implementation, including Financial

Management and Procurement, and providing any TA required to support JSCs implementing the joint projects. The MDLF will also function as the Program Secretariat providing implementation support across the Program, including performing the Program management functions required under LGSIP. MDLF's responsibilities to provide Program implementation support will include preparing the Program financial statements, organizing the Program audit, preparing and updating the Program Operational Manual (POM), and compiling reporting on results and DLIs. The Program Secretariat will report to the Program Committee, chaired by the Minister of Local Government and headed by the Deputy Minister. The MoF will be responsible for ensuring that disbursements under LGSIP are carried out in line with the agreed timeframe. A detailed matrix of roles and responsibilities is included in Annex 1.

67. Investments and activities identified in the ACIP would be implemented in accordance with the Public Procurement procedures applicable for LGUs. VCs will be responsible for the custody and management of financial resources transferred to them and to utilize them in accordance to the provisions of the Local Government Financial Manual. VCs annual financial statements will reflect expenditures relating to the Annual Capital Grants as a separate line item. Large VCs may choose to implement sub-projects included in their ACIPs either by themselves or through JSCs. MoLG District Directorates will provide regular technical and financial oversight through their existing supervision structures and processes.

68. A Program Committee (PC) would be established as the overall Program coordinating body and for critical decision making. Members will include the Minister of Local Government (Chair), Deputy Minister of Local Government (Head), MDLF General Director, and MoF Accountant General. The PC will be supported by the MDLF in its role as Program Secretariat responsible for performing implementation support and Program management functions. A qualified staff member in the MoLG has been appointed to support coordination within the Ministry, liaise with the MDLF, and provide direct support to the MoLG Deputy Minister in his role as focal point and Head of the PC. The PC shall be established prior to Program implementation start and will have the main function to coordinate among the Program main stakeholders and DPs towards meeting the Program results, to ensure effective inter-ministerial coordination and to monitor and follow up on Program progress. The PC will also discuss and approve the POM, Program work plans, progress and financial reports and approve eligible VCs and JSCs, including funding allocation. Terms of Reference (ToR) for the PC are included in Annex 1.

B. Results Monitoring and Evaluation

69. The MDLF will be responsible for monitoring the achievements of the Program objective and result areas, reporting on the achievement of all DLIs, and providing consolidated reports on progress in the implementation of Program activities and the financial statements of the Program. The Result Framework in Annex 2 provides detailed information about program monitoring. MDLF already applies a Results-Based M&E (RBM) system and will use its RBM Manual to monitor results under the Program which are aligned with the PA's NDP strategic objectives. MDLF will continue to use 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. Where needed, existing systems in MDLF would be modified or extended to provide

for comprehensive monitoring of the proposed program. MDLF will also prepare the Annual Program Financial Statements and make arrangements for the audit of the Program Financial Statements. The audited Program Financial Statements will be submitted to the Bank. Interim reports on the achievement of the DLIs, will all be compiled based on data from MDLF and MoLG on their responsible results areas, and will be submitted to the PC and DPs.

70. In addition to data collection exercises carried out directly by the MDLF as the Program Secretariat, periodic independent evaluations and assessments will also be outsourced in order to measure achievement of the PDO. Those would include technical quality audits to be carried out on a bi-annual basis. Citizen feedback on service delivery improvements and systems' transparency will also be sought and published periodically based on the results of independent Beneficiary Satisfaction Surveys focusing on direct beneficiaries with a gender-sensitive approach to target groups. Such feedback will be used to trigger management decisions on adjustments and to distill lessons learned, to enable the PA to formulate and redesign its policies and procedures. To the extent possible, quantitative output indicators will be disaggregated based on gender, including direct and indirect benefits. The MDLF will produce Semi-Annual and Annual Progress Reports to report on progress towards the PDO and program implementation activities.

C. Disbursement Arrangements and Verification Protocols

71. **Funds Flow.** The design of the Program relies on the existing institutions and Palestinian Public Financial Management systems. Amounts corresponding to the estimated allocations for the Annual Capital Grant, the Conditional Capital Grant and Capacity Support in a year would be included in the PA budget. Program funds will be disbursed to MoF based on verified achievement of agreed DLIs. MoF would request disbursements from the World Bank based on supporting information provided by the Program Secretariat. The Bank would disburse the requested funds to the PA's Central Treasury Account (CTA) and funds will be channeled from MoF to MoLG and MDLF in accordance with budget provisions and current mechanisms. Annual Capital Grant disbursements will be transferred as part of the budget execution process to the MoLG. The MoLG will transfer directly to large VCs their allocations and will retain the allocations for small VCs. MoLG will transfer the funds for Conditional Capital Grant disbursements to MDLF. Annual allocations for Capacity Support will also be disbursed directly to MoLG. Program Management expenditures would be disbursed to MDLF as the Program Secretariat following established government expenditure processes.

72. Allocations for Program activities will be budgeted for under the MoLG budget allocation. The development budget expenditure cycle for VCs will be subject to the same controls applicable for the expenditure of line ministries. However, VCs' development budget expenditure would be paid to contractors directly by MoLG on behalf of VCs. The MoF Financial Controller function is decentralized to line ministries and has to approve ex-ante, at the payment stage, every single expense through the BISAN unified accounting system. Two types of fund flow arrangements would be applied for the program, as follows:

(i) *Funds channeled from MoF to MoLG.* The Annual Capital Grant allocation for VCs will be disbursed by MoF to MoLG using the PA public disbursement mechanism. In accordance with the general budget and its detailed provisions, MoF informs line ministries about their available budget ceiling on a quarterly basis, and the cash is deposited in a designated account linked to the Single Treasury System managed by the line ministry upon achievement of DLIs relevant to MoLG. No special designated account will be opened at MoLG. MoLG will transfer allocations for large VCs directly to the VC's bank account within five business days after receiving the transfer from the MoF. The MoLG will retain the portion of the Annual Capital Grants relating to small VCs as well as the annual allocations for the Capacity Support activities under the Program.

(ii) *Funds channeled from MoLG to MDLF*. MDLF will have the sole responsibility to disburse for joint projects implemented through JSCs on their behalf to suppliers and contractors. A waiver to transfer the funds from the CTA to MDLF via the MoLG will be obtained. This would be a one-time waiver at program effectiveness and would be valid until Program closure. Those terms were confirmed during Program Negotiations and are included in the Grant Agreement in which MoF commits for timely payments for Program activities.

73. **Budgeting.** The MoF will allocate the Program funds in the PA budget under the 'Support to LGUs' budget line item transferred to MoLG. The MoLG will include the allocations for the three main Program activities under their budget classification as follows:

(i) Annual Capital Grants for the Delivery of local services by VCs.

(ii) Conditional Capital Grants for Infrastructure Service Delivery through "Joint" Projects", including MDLF annual management fees.

(iii) Capacity Development for Strengthening Local Governance Institutions at the Central and Local level.

74. **External Audit.** As part of the Program design, it has been agreed that a private external audit firm, acceptable to the Bank, will carry out the audit of the Program financial statements within a reasonable time period after the end of the financial year.

75. **Verification Protocols.** Funds will be released from each entity's account based on attainment of each DLI confirmed in the verification report. The MDLF, in its capacity as the Program Secretariat, performing Program management functions, will present to the Bank through the PC the evidence of DLI achievement. The results will be presented annually not later than by February 28, covering the period of January 1 to December 31 of the previous year. The Bank will review, no later than by May 31 each year, the Results Verification Report submitted by the PA and verified by the Independent Verification Agent (IVA).Contracting the IVA will be the PA's responsibility. Hence, the Program will procure the services of a private accounting/ consulting firm to be the IVA. It was decided that by Program mid-term, the performance of the IVA will be reviewed and suitable alternate arrangements made, if necessary. In order to validate the disbursement request submitted by the MoF, the IVA will verify all DLI target indicators through both a desk review and physical inspection of a sample of infrastructure sub-projects under the Program. When satisfied with the review of this report, the Bank will issue a notification to the PA, confirming fulfillment of the Disbursement Conditions against the specific DLIs. Upon receipt of such notification, the PA will then submit

a withdrawal application to the Bank expected around July of every year. Since prior results need to be achieved prior to Grant Signing, by which the IVA will not yet be in place, it has been agreed that the prior results will be verified by the Secretariat of the Cabinet of Ministers on a one time basis. Details of the DLI verification protocol are described in Annex 2.

IV. ASSESSMENT SUMMARY

A. Technical (including program economic evaluation)

76. *Strategic Relevance.* The Program has been designed within the context of the NDP 2014-2016 and the MoLG Strategy outlined in the (i) Joint Services Councils Strategy 2014 to 2016; (ii) Local Government Cross Sectoral Plan 2014-2016; and (iii) the Strategic Framework for the Ministry of Local Government 2015-2017. LGSIP is part of the PA Strategic Framework to support the Palestine Village Support program. LGSIP supports the two LG sector objectives in the NDP 2014-2016, namely that LGUs throughout governorates are more capable of better public service delivery and more effective delivery of and equitable access to public services. The Program would support service delivery improvements and capacity building in large VCs, institutional strengthening of MoLG and JSCs, and improving the transparency and predictability of local government financing.

77. The Program follows the PA's approach to incentivize consolidation in the LG sector, applying a mix of strategies, including amalgamation, jointly provided services, clustering for joint planning and service delivery and upgrading of a limited number of VCs to municipal status. All these approaches aim to improve the capacity and financial sustainability of service provision in LGUs, especially VCs.

78. *Technical Soundness.* The program is technically sound based on extensive elaboration of lessons learned from PA's previous programs in the LG sector supported by the World Bank and other DPs. One of the key lesson is that a consolidated and systematic single approach to sector consolidation is needed as hitherto many initiatives have been fragmented and less programmatic in addressing the issue of smaller LGUs, i.e., VCs. In contrast, larger LGUs, i.e., municipalities, have been integrated gradually and systematically into a joint approach and since 2010 supported under MDP, a single program achieving satisfactory results.

79. The PA's approach to consolidation of the LG sector had mixed results. Lessons learned confirm that top down approaches to amalgamations and mechanic clustering of LGUs for joint service provision have largely resulted in resistance from LGUs and cemented fragmentation instead of supporting consolidation. Hence, the proposed program would focus on voluntary cooperation with strong incentives to consolidate critical service delivery functions while allowing more time for consolidation in political representation and investment prioritization. The proposed approach aims at reaching sustainable results, acknowledging that joint arrangements will be crucial to improve service delivery outcomes and financial sustainability in the long term.

80. During program preparation, several assessments were undertaken to assure that the Program has the adequate design to address critical sector challenges. Assessments include a (i) Village Council capacity assessment; (ii) Joint Service Provision assessment; (iii)

Expenditure assessment; and (iv) MoLG Capacity assessment. The Technical Assessment also reviewed the PA's strategic framework and development objectives in the LG Sector and was informed by an analysis of the Inter-Governmental Fiscal Relations (IGFR) conducted by the team as part of the programmatic Public Expenditure Review 2014.

81. The JSC Assessment provided, for the first time, a comprehensive understanding of the functioning and performance of JSCs in the WB&G, including establishing an adequate good governance framework which all JSCs could be assessed against; developing clear models for bylaws/ legal agreements for JSCs' within the framework; and suggesting appropriate JSCs to be supported by the program. The assessment confirms that revised JSC regulation would be required and advises to establish clear rules for the functioning of JSCs, including a standard by-law as the foundation for a clear agreement between the members.

82. The VC capacity assessment provided key information to define the Program target group and define Program investment grant eligibility criteria, including basic data on the total number of VCs, population size, poverty level, access and quality of services, population living in "Area C", and share of marginalized communities; but also information on the institutional capacity, staffing levels, and financial capacity, including existing DP support. The assessment confirmed that over 85 percent of VCs have a population size below 4,000 inhabitants, and that 76 percent of VCs fulfilled one of eligibility requirements, namely submission of their budget to the MoLG. Findings of the VC assessment provided guidance on the distinction of large vs small VCs under the Program.

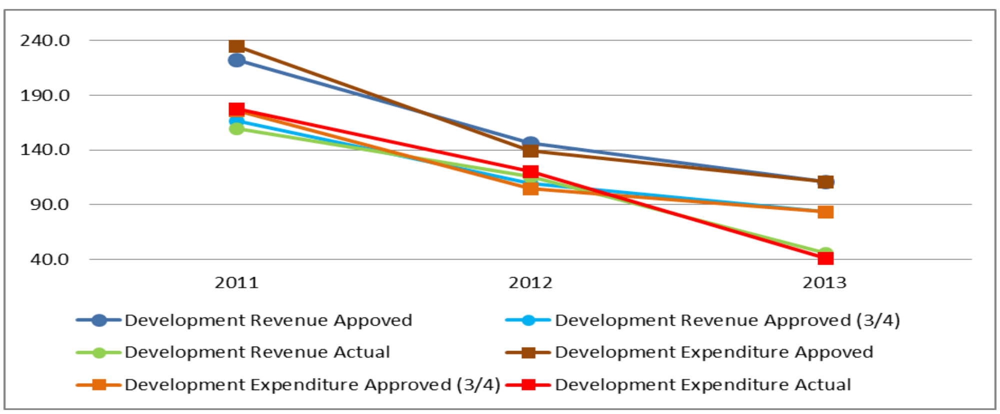
83. Program design related to improving and reforming fiscal transfer arrangements, including the Annual Capital Grant transfer mechanism was based substantially in finding from the IGFR analysis. The study reviewed the existing inter-governmental fiscal arrangements between the PA and LGUs to identify the main issues and to provide recommendations for the PA to adopt policies and practices to improve the financial health of LGUs. The analysis revealed that VCs rely largely on local fees and user charges, due to severely limited tax revenue assignments and that VCs' per capita own-source revenues were only half of those of municipalities in 2010 and 2011. VCs also do not have any predictable grants and transfers available from the PA to supplement such grave shortage of own-source revenues. Only two types of transfers are currently allocated from the PA to VCs, (i) sharing of the Transportation Fee, intercepted by the MoF to account for arrears; and (ii) emergency allocations. However, these transfers are neither predictable nor significant enough to finance VCs' service delivery functions. The analysis also highlighted VCs' low budget planning and execution capability suggested by large disparities between planned and executed budgets.

84. The MoLG capacity assessment had the objective to assess the ministry's capacity to perform its mandated tasks, in particular supporting VCs to deliver local services. Findings of the assessment will guide developing capacity building and technical assistance activities to support the MoLG in carrying out its regular sector oversight and supervision function. The assessment was carried out to ensure that the MoLG has the capacity to provide overall support and guidance to LGUs targeted under the Program to help them provide sustainable services to citizens, based on a predictable financing mechanism and in line with good governance principles.

85. *Expenditure Framework.* The Program Expenditure Framework relies on the country systems and is expected to strengthen the transparency and predictability of financing of VCs along with strengthening their accountability and institutional performance. Analysis of existing VC financing sources have shown that there is a clear gap between their resource requirements and available resources. The lack of predictability of resources is also affecting VC's ability to plan realistically and implement local service delivery and infrastructure programs efficiently. To address these issues, the Program is setting up an inter-governmental fiscal transfer system that will provide resources to VCs on a predictable and transparent manner.

86. Capital expenditure requirements of VCs are financed mainly through budget allocations from the PA as well as through shared taxes. Recurring expenditures are financed through a combination of subsidies from the central level from own revenues, mostly from user fees for revenue generating services. An analysis of the budgets of the previous years (see figure below) shows that budget allocations for development and operating expenditures by VC have been declining and are fluctuating over the years, indicating that there is a significant paucity of resources available to VCs for infrastructure development, and O&M. The ability to finance large operational expenditures has not improved much in recent years. Operational average expenditures per capita for VCs barely moved from around NIS54 in 2011 to NIS64.6 in 2013. Similarly, capital expenditures have also decreased over the years and currently stand at approximately NIS41 per capita. Enterprise budget expenditures per capita have remained fairly stable for the past three years.

Figure 2: VC Development Budget per capita averages: Approved 2011-2013 (in NIS)[12]



87. On average, VCs show deficits in their operating and development budgets. This leads to the conclusion that the operating tax and non-tax revenues of LGUs are insufficient to cover the capital and necessary operating costs.

88. The largest share of VC budgets, between 35 and 45 percent, originates of "revenues from the PA", including revenue sharing and transfers from the Transportation Fee, government donations as grants in aid, and contingency budget allocations. Up to 30 percent comes from "service revenues", e.g., user charges for garbage collection, parking, and car

[12] Three-fourths of Approved 2011-2013; and Actual 2011-2013 (first 9 months)

inspection. The lowest share in the budget is “revenues by the Village Council” which includes the taxes collected by the VC, i.e., personal tax, ceiling tax and education tax, and other fees such as agriculture products and cattle inspection fees, building license fees, and signboard fees. The analyses of operating and development revenues and expenditures suggest a substantial gap. However, at present there are no regular grants or transfers available from the PA to supplement the shortage of LGUs’ own-source revenues. Transfers from the central level to LGUs include (i) the Transportation Fee; (ii) property tax; (iii) professional license fee; (iv); emergency allocations; and (v) capital transfers through the MDLF. However, only the Transportation Fee and emergency allocations are available to VC, whereas municipalities also benefit from the other sources.

89. Transfer for the Transportation Fee resemble a form of revenue sharing with a distribution formula to allocate revenues for unconditional use. So in that sense this type of funding can be regarded as a means to reduce vertical imbalances. This formula is changed yearly by the MoLG. Of the many factors entering the formula, population, has typically been the most important one, with 55 to 75 percent distributed according to it. The specific criteria and decision making process to arrive at the formula remain quite opaque and the MoLG only releases the formula ex-post after it has been applied. Besides population, other factors that have been used include: Financial and Administrative reform;[13] support of VCs, support of the merging of VCs and JSCs, marginalized areas and Bedouins, support of Jerusalem. This approach leaves VCs with no means to anticipate and plan accordingly for the revenues they may expect from this transfer. In summary, the current system of transfers in the Palestinian territories fails to perform in terms of the three objectives typically pursued by transfer systems: vertical balance, horizontal balance and attainment of sectoral objectives. The existing transfers, for the most part, lack predictability and are too small in size to close the existing vertical gaps. They also fail to incorporate explicit objective equalization criteria and the instrument of conditionality remains in its infancy.

90. Analysis of the local government fiscal data and public financial management systems has shown that, while VCs have a rudimentary fiscal and financial management framework in place, there are several gaps and weaknesses that need to be addressed. There is a consistent gap in the resources available to VCs to address their capital and operating expenditure requirements. Even where such funds are available, e.g., through the Transportation Fee, their allocation and distribution are neither transparent nor predictable. The absence of a stable and predictable intergovernmental fiscal transfer system to VCs has resulted in a consistent gap between the planned and actual budgets of VCs, which in turn has affected their capability to address local service delivery and infrastructure development priorities. The recent initiatives by the MoLG to improve the performance and accountability of local government Public Financial Management (PFM) systems by insisting on electronic submission of annual budgets as well as the annual financial audit of LGUs need to be followed up and implemented rigorously. The Program design for the proposed LGSIP has taken into account these issues and the Program design includes several features to address these key issues.

[13] This item is intended to support LGU’s that adopt Financial and Administrative reforms. Examples are LGU’s that lay off unproductive employees and need to pay compensation or LGUs that intend to install prepaid meters for electricity.

91. The Program will provide Annual Capital Grants to eligible VCs which will enable them to finance their ACIPs. Since the timely allocation and disbursement of the capital grants to VCs is critical for the achievement of the Program results, and previous experience has shown that there are delays in the allocation and disbursement of budget funds, the Program has agreed with the MoF and the MoLG that the Annual Capital Grant allocations would be disbursed within a prescribed time period after the approval of the annual budget. In addition, the Program will be incentivizing timely allocation and disbursement of the Annual Capital Grants through a DLI.

92. The Program will enable the PA to put in place a stable and predictable channel of financing VCs. Reform of the Transportation Fee planned to be undertaken as part of the Program will put in place the foundations for a sustainable source of financing for VCs to undertake their capital and operating investments.

93. *Results framework and M&E capacity.* The MDLF will be responsible for monitoring the achievements of the PDO and result areas as provided in Annex 2. MDLF has long-standing experience and strong capacity applying results-based monitoring and evaluation and has a RBM system in place which attempts to measure the relevance, effectiveness, efficiency, impact, and sustainability of initiatives implemented by the institution. MDLF has demonstrated its strong M&E capacity through implementing MDP and other development programs since 2008.

94. *Economic Justification.* Measuring economic rates of return (ERRs) for LG strengthening programs is not straightforward for several reasons. Reform of the LG financing system is designed to empower LGs and their citizens. Hence, specific investment projects that will be financed through the grants this Program supports are unknown at this stage. Rate of return analysis is even more difficult to do in a rigorous and credible manner for capacity development and institutional strengthening activities. However, the expected development impacts of the Program include improvement in the local infrastructure and services provided by VCs; increased capability of VCs and JSCs to plan, finance and deliver local infrastructure and services; and an improved relationship between Palestinian citizens and local authorities. Communities living in VCs have limited access to public services and will be the main beneficiaries from the outcomes expected under the Program.

95. Since identification and prioritization of investments funded under the Program for eligible VCs will be made on a demand-driven basis based on participatory planning processes, the economic and financial benefits of the investments cannot be measured ex-ante. MDLF will use a simplified methodology established under the MDP to assess cost effectiveness of larger, joint investments. Once prioritized in ACIPs, investments will be evaluated based on MDLF guidelines developed for MDP ("guidelines for the economic and financial analysis of sub-projects"), including smaller investments for public parks, playgrounds, rehabilitation of sanitary units and larger investments within solid waste management equipment (vehicles, containers); water supply (meters, network extension and rehabilitation); and local and inter-village roads (extensions, rehabilitation). The Financial Rate of Return (FRR) will be calculated for revenue generating sub-projects. Cost efficiency measured by net present value (NPV) per beneficiary will be calculated for the remaining sub-projects.

96. Evidence from similar Local Government support projects that have been supported by the World Bank in other countries suggests positive returns. In Uganda, an assessment of the first Local Government Development Program (LGDP1) found that the ERR of small infrastructure projects provided through LGs was above 12 percent. A similar project in the Philippines – the Local Government Finance and Development Project – yielded an ERR of 35 percent. In the WB&G, the MDP reached ERRs ranging from 29.7 percent for roads to 15.7 percent for public facilities. Although the context and the exact bundle of investment projects vary, these findings indicate that if well-designed and implemented, this Program could generate positive economic returns. It is proposed that feasibility studies for any investments estimated to cost more than US$0.5 million undertaken as joint investments supported under the Program will require to include full cost-benefit analysis. It is also proposed that a program for undertaking social and economic impact analyses of selected LGs, designed to provide indicative data on qualitative outcomes, would be undertaken during the course of Program implementation.

B. Fiduciary

97. The Fiduciary Systems Assessment (FSA) identified specific weaknesses that need to be strengthened through this Program, including the limited Financial Management arrangements at the VC level and MoLG, and in particular for small VCs. Due to the large number of VCs and the limited capacity at MoLG, control measures and oversight need to be strengthened. Also, since the program funds will be transferred to the MoF Central Treasury Account (CTA), there is a potential risk of disbursement delay to MDLF, MoLG, and VCs. Annex 5 provides more details on financial management arrangements. A new public procurement law, which applies to all public procurement activities, including those carried out by LGUs irrespective of size and classification, has recently been enacted. While the new law is in compliance with internationally accepted procurement practices and introduces comprehensive provisions on transparency and accountability, the FSA concluded that substantial capacity building of VCs, JSCs and MoLG on the new procurement system and procedures would be required in order to avoid program implementation delays. Supported by the Bank and other DPs, the PA has started to put in place the components which are necessary for effective implementation of the new law (National Bidding Documents, Single Portal Procurement Website, National Procurement Manual, Complaint Handling Mechanism, Dispute Review Unit, etc.). Some of these are still work-in-progress while others are planned. The FSA has included an assessment of the degree of readiness of these components, as well as an evaluation of the country systems to deal with Fraud and Corruption risks relating to the Program which concluded the risk assessment and mitigating measures, and contributed to the Program Action Plan.

C. Environmental and Social Effects

98. An Environmental and Social System Assessment (ESSA) has been conducted to examine the country environmental and social management systems for local government infrastructure projects and to ensure their consistency with the core principles outlined in OP/BP 9.00 for PforR Financing. The ESSA analyzes those systems as written and how they are applied in practice to assess the gaps between those systems and OP/BP 9.00 principles and identify measures to mitigate for those gaps.

99. The system for environmental and social management of the Program will rely on the existing Palestinian legal, regulatory and institutional systems for environmental and social assessment and management, and draw on the accumulated experience of MDLF and MoLG on similar municipal programs in the West Bank and Gaza. The ESSA has found that the Palestinian system for environmental and social impact assessment is well established, relatively comprehensive, and reflecting international practices. This system is in general sufficient to ensure that potential impacts will be identified and managed, however, some gaps and limitations have been addressed for compliance with the requirements of the OP 9.00 and described briefly below and in more details in Annex 6 and the ESSA. In addition, the system is constrained by human resource gaps at various levels, and its implementation is at times inadequate as personnel frequently lack the required qualifications to make site inspection visits, or to adequately carry out consultations.

100. The likely Program portfolio of sub-projects was analyzed to identify typical environmental and social effects for the types of sub-projects that are eligible for financing under the Program. These activities include roads works (construction, paving, rehabilitation, upgrading, retaining walls, street lighting), water and sewerage networks extensions, storm water drainage, solid waste collection, parks and recreational facilities, markets, and other service delivery improvements. Negative effects from Program activities are likely to have low to moderate environmental and social impacts. Based on the type, scope and scale of works allowable under the program, adverse effects are expected to be typical construction impacts that are site-specific and generally limited to the construction phase. Any projects of significant negative environmental and/ or social impacts would not be eligible for funding and would be part of the exclusionary criteria in the POM.

101. The application of OP 9.00 mainly can support limited involuntary land use issues for clients with experience with these issues. Given the client's limited experience in this area as confirmed during consultations with LGUs and the MDLF/ MoLG, sub-projects involving involuntary resettlement and land acquisition will be excluded from the Program.[14] Therefore, any land requirements (temporary or permanent) for investments to be financed under the Program will be met through lands that are under the ownership of VCs or JSCs. The exclusion will cover sub-projects involving relocation of households, temporary or permanent land take, and impacts on livelihoods, including those that may occur through restriction of access to resources. To screen out for these exclusions, the Program would rely on capacity building of LGUs and guidelines in the technical manual, which will include a rigorous sub-project screening process that will be performed by LGUs and approved by the Program manager during the first phase of program implementation. In cases where the LGUs may purchase land through a willing-seller willing-buyer or in cases of voluntary land donation (VLD), LGUs will be required to document willing consent of the transactions, i.e., landowners were advised they could refuse donating land or they were not pressured into it.

102. From a social perspective, weaknesses have been identified in the Palestinian Social Management System. As detailed above, sub-projects will be met through the lands under the ownership of LGUs and exclude sub-projects involving involuntary resettlement and land acquisition. In terms of squatters/ users of public or state lands, Palestinian legislation on

[14] See Annex 6 for more details on consultations.

expropriation, Law No. 24 of year 1943 modified by Law No. 2 of year 1953 on Land Expropriation for Public Projects, does not make reference to the rights of this category of people. To meet OP/BP 9.0 requirements, capacity building and guidance in the technical manual will be necessary for the sub-project screening process, including on excluding sub-projects involving the use of land with squatters/ users of public or state lands. In addition, the Palestinian Environment and Social Impact Assessment policy does not provide information on voluntary land donation, monitoring for social risk issues during sub-project implementation and participation of communities in the selection, implementation and monitoring of sub-projects. Training and guidance in the technical manual need to be provided in these areas. As mandated for all ministries by the Palestinian Council Resolution No. 60 in 2005, a complaints system exists at the MoLG, including key aspects of a complaints system, i.e., documentation of complaints and responses, timely responses, a log of all complaints received. However, local communities are not aware of this system. In fact, complaints are overwhelmingly dealt with informally at the LGU level and not documented. Training and guidelines in the technical manual need to be provided to LGUs participating in the Program in order to adopt the grievance and redress mechanism as detailed in Annex 7.

103. The ESSA did not identify indigenous peoples in the West Bank or specific groups of vulnerable persons that might be negatively affected by the Program. Moreover, the nature of the proposed activities at the LGU level does not suggest that specific vulnerable groups could be harmed by the Program. The design of the Program aims to foster integration of vulnerable groups such as women, youth, disabled and elderly through the Program design, including the development of the appropriate social accountability mechanisms. Vulnerable groups will be involved in all aspects of Program, including consultations related to sub-project selection and monitoring of implementation. Minimum quotas are in place for the participation of women and youth in consultations as part of the Annual Investment Planning. The LGUs will receive training in participatory consultations and participatory M&E with a focus on women and youth. In addition, the training will focus on the importance of ensuring equitable access to vulnerable groups of benefits of sub-projects, including access to elderly and disabled for minor civil works. Periodic satisfaction surveys and citizen scorecard reports would help monitor the inclusion of vulnerable groups and propose corrective measures if needed. Details on social accountability measures supported under the Program will be elaborated in the POM.

104. A stakeholder consultation workshop on the draft Environmental and Social Systems Assessment was organized by the World Bank in partnership with the MoLG and held in Ramallah on May 13, 2015. Invitations and translated copies of the draft ESSA were distributed to around forty stakeholder representatives. The draft ESSA was disclosed publically, prior to the consultations. Twenty-four participants attended the stakeholder consultations, including representatives from VCs, JSCs, the MoLG, including the Director of Gender issues, the MDLF, the Environmental Quality Authority (EQA), academics, and other civil society organizations. All participants welcomed the Program and emphasized the importance of investing in VCs. Participants provided feedback and questions on sub-project eligibility, the complaints mechanism, participatory planning including vulnerable groups, and recommended sub-projects which are reflected in the ESSA. The ESSA was finalized with inputs and comments received during the consultations and re-disclosed to the public thereafter in June 2015.

D. Integrated Risk Assessment Summary

105. **Integrated Risk Assessment Summary**

Risk	**Rating**
Technical	Substantial
Fiduciary	High
Environmental and Social	Substantial
Disbursement Linked Indicator	Substantial
Overall Risk	High

106. **Risk Rating Explanation.** Significant risk considerations for the proposed Program are addressed and embedded in the Program design and mitigated against as part of the capacity building activities supporting the government systems and the VCs and detailed in the Program Action Plan. However, in light of the political and fiscal fragility of the PA, the relatively weak capacity at MoLG for control and oversight, coupled with the limited Financial Management arrangements and technical capacity at the VCs level and in particular for small VCs, the large number of VCs, and the weak institutional framework and governance structure for joint service provision, the overall Program risk is rated High.

107. **Program Action Plan**. A Program Action Plan (PAP) has been developed and will be implemented with support from the Bank. The PAP includes critical actions for the Program to achieve its intended results, including actions identified in the technical, fiduciary, environmental and social system assessments. The PAP is attached in Annex 8.

Annex 1: Detailed Program Description

The PA program: Palestinian Village Support program

1. The PA program consists of delivering infrastructure at the village level through a combination of investment support in villages with specific support to the investment requirements of "Area C", coupled with implementation arrangements to address capacity constraints of VCs. The PA program finances infrastructure development in villages through Transportation Fee revenue sharing and other subsidies to the MoLG. The Transportation Fees amount allocated to VCs was NIS13.5 million (US$3.8 million) in 2012 and NIS14.2 million (US$4 million) in 2013, equivalent to around 15 percent of the total Transportation Fees allocated to LGUs. The MoLG intends to increase this amount under the Palestinian Village Support program to provide additional resources and reform incentives to VCs. Under the LG program in the NDP 2014-2016, the PA allocates a total budget of US$140 million for local capital expenditures, including for capital investments in VCs. These budgetary allocations are invested in specific infrastructure investment projects based on project proposals submitted by VCs and financed by DPs. To address the investment requirements of "Area C" communities, the PA provides specific investment support through DP financed projects in the total amount of around US$16 million, with additional allocations planned up to US$12 million. Both the MoLG and DPs provide TA to strengthen the capacity of VCs in specific areas, including but not limited to participatory planning, social accountability, local government administrative and financial systems, inter-village collaboration, and joint service provision. Budget allocation estimates in the following are based on projections from the PA and commitments made by DPs to the MoLG with a total estimated program financing of US$60 million.

2. Specifically, the PA program has the following sub-programs:

(i) Delivery of Local Services by VCs;

(ii) Infrastructure Service Delivery through Joint Projects;

(iii) Capacity Support to strengthen Local Governance Institutions; and

(iv) Investments in "Area C"

Sub-program One: Delivery of Local Services by VCs (estimated budget allocation of US$22 million)

3. The PA provides financial support to LGUs through annual budget allocations to the MoLG, including for capital and operating costs related to delivering local services by VCs. However, funding falls short of the financing needs and most VCs rely on extra-budgetary support for capital investment funding, including from donors. VCs meet their recurrent expenditure needs mostly through cross-subsidies from revenue-generating services and a diversion of the Transportation Fee transfer, although Transportation Fees collected by the PA are intended to support capital investments in VCs through an annual allocation to MoLG. However, funds are allocated and disbursed in an ad-hoc and opaque manner. Since VCs do not know in advance when and how much financial support they would eventually receive, this

practice causes large variations of planned vs actual budgets and accumulating arrears. As a result, most of the capital investments receive funding in response to a call for proposals, including from the MoLG, based on which VCs submit specific project proposals. Funding availability for individual VCs differs from year to year based on the priorities defined by the MoLG. Generally, the preparation and execution of those sub-projects is then handled directly by MoLG, either through JSCs or through contractors with little or no involvement of the VCs. Many of the JSCs have been established as a result of external support and become inactive once the support ceases as they are not viable on their own.

4. The PA wants to reform capital investment financing and execution in VCs with the intention to establish sustainable financing arrangements for service delivery in villages and to align institutional capacities and incentives with accountable service delivery. To that end, the PA plans to put in place a formula-based fiscal transfer system that will allocate and disburse Annual Capital Grants to VCs in a transparent and predictable manner. Piloting the transfer system through the World Bank financed LGSIP, eventually the PA aims at scaling up the program to include the Transportation Fee and other budgetary allocations to VCs, reform the existing system making it more transparent and predictable and enlarge the per-capita grant allocation provided to VCs. The PA program also intends to scale-up and mainstream a model of local development planning that is inclusive and institutionalizes participation by citizens in the local development process. With the support of DPs, the MoLG is building LGU's capacities to prepare multi-year strategic development plans such as SDIPs, and ACIPs in a participative manner to strengthen voice and accountability in the local planning and investment process. Although this model has been practiced in selected villages, it is not yet fully applied across the West Bank.

Sub-program Two: Infrastructure Service Delivery through Joint Projects (estimated budget allocation of US$18 million)

5. The PA program will reinforce the need for VCs to formulate and implement joint projects to pool scarce resources, reap the benefits of scale economies, and build sustainable local implementation capacities. In line with the PA's intention to consolidate the LG sector and strengthen the role of JSCs as a service operation and implementing entity for LGUs, this sub-program would provide financing for joint projects to be executed by JSCs. The financing provided will serve as an incentive for joint project formulation in the nature of seed capital that should be used to leverage additional financing from DPs and financial institutions. The PA also intends to improve performance of joint service provision and gradually phase out those JSCs that are not sustainable.

6. Activities under this sub-program would be in the nature of medium to large scale capital investment projects that cannot be funded through an annual fiscal transfer system. Hence, the PA intends to use a specialized agency, such as the MDLF, that has the expertise and capacity in putting together larger scale capital investments and to enable VCs to plan and formulate bankable project proposals that can attract co- and parallel financing.

Sub-program Three: Capacity Support for strengthening Local Governance Institutions (estimated budget allocation of US$4 million)

7. MoLG is currently providing institutional development and capacity building support to VCs with the assistance from several DPs. However, approaches differ and include (i) establishing clusters for amalgamation and forms of inter village-cooperation (BTC and Danida); (ii) developing systems for revenue collection (GiZ, UNDP, Danida); (iii) planning and capacity building for infrastructure development (EU, DFID, UN-Habitat, GiZ, BTC); (iv) support to local government policy development and reform (GiZ, BTC, Danida); and (v) joint service delivery for selected local services (JICA, BTC). However, these programs have a limited geographic scope benefitting a selected number of VCs only; apply different approaches for capacity building, institutional strengthening and local planning; and use fund allocation and selection criteria that are not aligned, providing different incentives to VCs.

8. The MoLG also has put in place a Human Resource Development Strategy for the calendar years 2015- 2017, out of which a Departmental Training Plan for MoLG staff was developed. However, the latter was rather not tied to the MoLG’s strategic pillars and sector results indicators, and was not accompanied with a financing plan. Hence, the PA program intends to sharpen its approach for capacity building and provide more targeted capacity support to VCs and JSCs in line with their key roles and responsibilities. Core local governance systems would be strengthened to support LG sector consolidation, taking into account required minimum capacity. These include institutional systems, including planning, financial management, monitoring; and accountability systems, such as grievance and complaints handling systems, auditing and oversight. In line with the PA’s intention to enable large VCs to evolve into cluster centers and eventually become municipalities, the PA would also strengthen their project implementation capacities. For the small VCs, the PA intends shifting implementation responsibilities to JSCs, subject to their capacity and adherence to a good governance framework for joint service provision.

9. Activities under this sub-program will be implemented through existing training resources within the PA wherever feasible, and with the assistance of consultants and external experts as necessary. The MoLG will also ensure that the ongoing TA and capacity support provided by various DPs are coordinated and aligned with the program goals. A Capacity Development Plan will be developed by the MoLG and be updated on an annual basis. This Plan would build on on-going efforts by the MoLG to implement its Human Resource Development Plan (2015-2017) but will outline capacity and institutional support required at both the central and local level, i.e., the MoLG, VCs and JSCs.

Sub-program Four: Infrastructure Investments in “Area C” (estimated budget allocation of US$16 million)

10. One of the PA’s main priorities is to improve service delivery and citizen participation in all 240 villages, including resilience of marginalized communities located in “Area C”, which are facing serious constraints of access to services due to restrictions imposed by the Israeli Civil Administration (ICA) on permits for local service infrastructure and delivery. The

sub-programs in “Area C” are implemented mainly by the EU[15], Germany through KfW, and Austria, Italy and Sweden through the UNDP, and will run in parallel to the PforR presented further below.

11. The new KfW financed sub-program will provide funding for infrastructure investments in marginalized communities in VCs with a minimum population share of 60 percent residing in “Area C”. This will include those VCs which, due to their location, are disconnected from other surrounding LGUs. This separation makes it impossible to consolidate with other LGUs and difficult to collaborate within joint service delivery arrangements. The allocation formula will be the same as the PA per capita allocation formula for VCs (see below in PforR Program). The VCs would also need to have a participatory investment plan to be eligible for financing under this sub-program. However, no additional eligibility criteria would apply. The sub-program will secure implementation of direct investments to cover service delivery in marginalized communities and vulnerable VCs, which cannot be reached by the PforR operation. Investments will be financed from the VCs’ per capita allocations and executed by the MDLF. Based on the Baseline VCs assessment exercise conducted during the project preparation, about 34 VCs whose “Area C” residing population exceeds 60 percent of their respective total population may become eligible. Simple consultancy contracts (<US$200 k) are expected under this sub-program. The exact number of eligible VCs as well as contract size and type of activities will depend on the annual LGSIP eligibility assessment and completion of ACIPs in VCs.

The Program for Results (the “Program”): Local Governance and Services Improvement Program (LGSIP)

12. The proposed LGSIP will support the PA in implementing the Palestinian Village Support program. Through the LGSIP, the PA will pilot a fiscal transfer system for Unconditional Annual Capital Grants financing VCs along with institutional and capacity building support. In addition, the Program will also enable the PA to put in place a Conditional Capital Grant for investments in joint projects. The scope of the Program will be confined to the first three sub-programs of the PA’s Village Support program and will not include financing infrastructure investments under Sub-program Four “Investments in Area C” (see table 1 below). Hence, LGSIP will finance activities under the following three sub-programs of the Palestinian Village Support Program: (i) Delivery of Local Services by VCs; (ii) Infrastructure Service Delivery through Joint Projects; and (iii) Capacity Support for strengthening Local Governance Institutions.

13. In particular, LGSIP will assist the PA in establishing a systematic approach for strengthening the institutional systems for viable local authorities that have the capacity to provide services to their citizens in an accountable manner and can be financially sustainable in the future. The Program will introduce a minimum threshold for VCs to receive direct financing to ensure sufficient institutional capacity is in place to maintain service provision.

[15] The EU support finances investments in Area C which are identified from action plans developed from nine existing statutory outline plans developed in a participatory manner during previous interventions. The statutory outlines plans are considered by the EU as approved if no major objection has been raised within 18 months following the submission of the plan by the VCs to the ICA. The action plans are developed by MDLF thereafter, which also implement the sub-program’s investments.

At the same time, LGSIP will provide strong financial incentives for joint service provision as a means to LG sector consolidation, but apply a selective approach that requires joint arrangements to comply with robust standards of good governance and undergo regular performance assessments. This approach recognizes that a large number of VCs will not be in a position to sustain local service delivery individually, but requires a gradual and sequenced transition that needs to unfold in parallel with critical reforms to the LG financing system.

Table 1: The PA Palestinian Village Support program and LGSIP PforR (highlighted)			
Sub-program One: Delivery of Local Services by VCs	**Sub-program Two: Infrastructure Service Delivery through Joint Projects**	**Sub-program Three: Capacity Support to strengthen Local Governance**	**Sub-program Four: Investments in “Area C”**
Annual Capital Grants to VCs (Formula based fiscal transfers to VCs subject to meeting the eligibility criteria on an annual basis)	Conditional Capital Grants to VCs for investing in joint projects	Capacity Support provided to VCs and JSCs to strengthen their institutional and management systems	Donor financed specific infrastructure investments in “Area C”
Own Source Revenues of VCs	Donor supported specific investment projects in JSCs	Donor financed TA and capacity support in specific technical areas	
Donor supported specific investment projects in VCs			

14. **Geographical Scope.** The Program will include all 240 VCs, except the 34 VCs with a population share of more than 60 percent residing in “Area C”. Although those VCs may still benefit from capacity building support to strengthen their institutional systems to become viable LGUs, LGSIP will not finance any investment activities in “Area C” since this would be covered by the PA program with parallel financing from other DPs. Hence, the Program would finance capital investment grants for a potential pool of 206 VCs. However, the actual number of VCs to benefit from annual capital investment grants will be determined every twelve months by the annual eligibility assessment and is subject to the number of VCs meeting the Program eligibility criteria. A minimum of 30 percent, equivalent to around 72 VCs, are expected to meet the eligibility criteria in the first year of annual investment grant allocation. The scope of the Program will not include the Gaza Strip, as there are no VCs but only municipalities in Gaza.

15. **Duration.** The Program will be implemented for five years, until December 2020.

B. Program Development Objective (PDO)

17. The development objective of the Program is to strengthen the local government financing system and improve local service delivery in Program villages.

C. Program Activities

18. In line with the key priorities of the PA's Village Support program, LGSIP would focus on the following two results areas: (i) Delivery of Infrastructure Services; and (ii) Local Government Financing Mechanism. LGSIP would aim at a sub-set of results under these two results areas, making Program financing contingent on the achievement of specific Disbursement Linked Indicators (DLIs). The Program encompasses three primary activities based on the needs identified by the PA to achieve the main objectives reforming the Palestinian Village Support program: (a) Annual Capital Grants to VCs for delivering local services reflecting citizens' priorities; (b) Conditional Capital Grants for incentivizing joint investments in larger scale infrastructure; and (c) capacity support for strengthening local governance institutions.

19. The Program builds upon the PA program's objective of enhancing local accountability through improving stakeholder participation and strengthening institutional systems and processes for citizen engagement. The Program introduces the allocation of transparent and predictable fiscal transfers to VCs to finance implementation of participatory investment plans. The Program will also strengthen local accountability through enhanced reporting to citizens and strengthened grievance process.

20. Strengthening citizen engagement in VCs and ensuring stakeholder participation in the local development process are at the core of the intended reform supported by the Program. The Program intends to further strengthen transparency and accountability of VCs and JSCs through better information sharing, bolstering the annual audit process, and strengthening grievance and complaints mechanisms to be responsive in an efficient and timely manner.

21. The Program also intends to incentivize local accountability by allocating fiscal transfers directly to VCs, make JSCs responsible to plan for service cost recovery in the medium-to-long term, and support LG sector consolidation. Hence, the Program would strengthen institutional systems and capacities of larger VCs so that they can be categorized as municipalities in the near future or evolve to become the center of a village cluster. For the small and low capacity VCs, the Program would support strengthening the role of JSCs as an execution and service delivery entity to generate economies of scale and ensure long-term financial sustainability. At the same time, strong governance arrangements would ensure clear accountability between the JSC, member VCs and citizens. Hence, LGSIP would be selective and will apply minimum criteria that VCs and JSCs would need to meet to become eligible.

(I) Annual Capital Grants for delivery of local services

22. VCs would qualify for fiscal transfers from the MoF in the form of Annual Capital Grants to support the implementation of Annual Capital Investment Plans (ACIPs) upon meeting LGSIP eligibility criteria. The participatory ACIP would be based on the five year

plans which have been developed, or are currently under preparation in VCs applying the "SDIP light" methodology. Investments financed under the ACIPs would include small-scale local infrastructure identified based on an open-menu of community priorities, such as upgrading of existing roads, solid waste management, transportation infrastructure such as bus and truck stands, markets, drains, and recreational parks, and rehabilitation and expansion of water and wastewater facilities. An exclusionary list for the eligibility screening criteria would be detailed in the POM and would include a detailed list of exceptions for Program financing, including political or religious activities, investments detrimental to the environment, works involving relocation of people or impacting livelihoods, new landfills or waste water treatment plants, activities that would significantly convert natural habitats or significantly alter potentially important biodiversity and/or cultural resource areas, rehabilitation structures of archeological or cultural value, travel, salaries or "top up" payments to civil servants and LGU staff, and other ineligible expenditures. The POM will have a more detailed description of the open menu and ineligible expenditures.

23. Capital grants would be allocated to the VCs on a simple per-capita basis with a minimum of US$9 per capita to exceed the current Transportation Fee allocation of around NIS25.00, equivalent to US$6.5 per capita. This would provide a meaningful source of timely and predictable revenues and serve as an incentive for reform.

24. The Program adopts an asymmetric approach towards Program implementation among VCs depending on their size and capacity in line with the PA's objective to support consolidation of the LG sector. This approach will (i) strengthen larger VCs with a minimum capacity to further enhance their institutional and implementation systems so that they can transition to become municipalities; and (ii) enable JSCs to function as implementing entity for small VCs who face critical capacity shortages.

(i) *Large VCs* with a population exceeding 4,000 that meet the eligibility criteria will receive the Annual Capital Grant allocation directly from the MoLG transferred to their bank accounts for individual execution. Based on the baseline VCs eligibility assessment conducted during the Program preparation, about 20 of the 39 large VCs are estimated to become eligible for the transfer system through the World Bank financed LGSIP in the first year. Simple work contracts (<US$200 k) are expected under this sub-program. The exact number of eligible VCs as well as contract size and type of activities will know annually upon completion of the LGSIP eligibility assessment and completion of ACIPs.

(ii) *Small VCs* with a population below 4,000 that meet the eligibility criteria will also be allocated capital grants. However, since they do not have the financial and project management capacity, grant funds will not be transferred directly to their accounts. Instead, MoLG will manage the grant funds on their behalf and their ACIPs will be executed through a qualified JSC. A qualified JSC must score more than 40 points in the bi-annual JSC assessment; and have a signed agreement in place between the members that would need to comply with the format adopted by the MoLG (see Annex 1). Small VCs must have a signed agreement with a qualified JSC to execute individual projects. Based on the baseline VCs eligibility assessment conducted during the Program preparation, about 52 out of the 201 small VCs are estimated to become eligible for this Sub-Activity in the first year. Small work contracts (<US$300 k) are expected under this Sub-Activity. The exact number of eligible VCs as well as contract size and type of activities will be known annually upon completion of the annual LGSIP eligibility assessment, and completion of ACIPs.

25. *Eligibility criteria.* VCs will be assessed on their eligibility at the start of the annual Program cycle, described in detail in Table 2. Only those VCs that successfully comply with the eligibility criteria will be admitted to the Program. VCs would need to meet the following eligibility criteria to receive Annual Capital Grants under the Program:

(i) annual budget statement for the current fiscal year approved by the VC council and submitted electronically to the MoLG;
(ii) ACIP for the subsequent year prepared in a participatory manner; and
(iii) subsequent year's ACIP and current year's VC budget publicly disclosed.

26. In addition to the basic eligibility criteria listed above, large VCs must demonstrate minimum staff capacity for individual execution by having access to an administrator (full-time), accountant (full or part-time), and an engineer (full or part-time).

27. VCs and JSCs who are not eligible will receive targeted capacity building support to enable them to meet eligibility criteria and gain admission into the Program. Grant funds accruing to VCs that are not eligible in a certain year will be carried forward to the subsequent year only. MoLG will provide administrative and technical oversight over the implementation of ACIPs by VCs and JSCs.

(II) Conditional Capital Grants for Investment in Joint Projects

28. The Program would provide strong financial incentives for consolidation through a voluntary bottom-up approach. In line with the PA's intention to encourage investments at the village level that are planned and implemented jointly among VCs, the Program would provide Conditional Capital Grants for investment projects that cut across several VCs and are identified in a joint or consolidated ACIP. Participating VCs would receive additional funding through a 'top-up' for joint projects executed by a qualifying JSC or other joint service provision arrangement.[16] Funding would be up to ten times larger compared to individually executed investments. However, unlike the Annual Capital Grants that are fiscal transfers to VCs, and hence allocated and disbursed every year on a timely basis, the Conditional Capital Grants will be one-time allocations for eligible VCs.

29. The Conditional Capital Grant will be determined by the 'base allocation' multiplied with an incentive factor of at least ten. The base allocation equals the sum of the pooled per

[16] Joint projects would be implemented by JSCs, but may also be implemented through other forms of joint service provision which conforms to the good governance standard established by the MoLG, e.g., a service delegation agreement between VCs and a municipality. However, the same eligibility criteria would apply, namely (i) signed agreement in line with the MoLG adopted framework; and (ii) a minimum score of more than 40 in the bi-annual assessment.

capita allocation of VCs participating in the joint project. Hence, the available funding for a joint project would be calculated by (i) the total population of VCs contributing to the joint project; (ii) multiplied by the per-capita allocation of minimum US$9; and (iii) multiplied by ten.[17]

30. *Eligibility criteria.* A qualifying JSC would need to meet the same Program eligibility criteria outlined above, i.e., demonstrating sufficient institutional capacity and adhering to a Good Governance Structure in line with six internationally accepted good governance criteria. Hence, JSCs would need to meet the following criteria to qualify for the Program:

(i) A threshold score of above 40 in the bi-annual JSC assessment;[18] and
(ii) A signed agreement between the JSC members following the Good Governance Framework approved by MoLG.

31. The Conditional Capital Grant would finance the identification, formulation, preparation and implementation of larger scale infrastructure investments with the potential for mobilizing additional financing from DPs and other funding sources. JSCs, as implementing entity for VCs, will prepare consolidated ACIPs comprising of joint projects among two or more VCs. This is consistent with the PA's intention to support LGU consolidation through JSCs. Joint projects are expected to include larger scale investments beyond the capacity of individual VCs, including but not limited to water and wastewater network extensions, connecting roads, solid waste management.

32. To ensure that no large scale projects with potential negative or social impacts are financed, the screening process in the POM will have criteria to exclude certain categories of projects as well as projects of a scale that would include significant negative impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people. In addition to screening for significant impacts, the following exclusionary criteria apply to works financed under the LGSIP, which will be detailed in the POM's screening criteria:

- Wastewater treatment plants,
- Landfills and waste transfer stations,
- Power plants,
- Large-scale transport infrastructure such as highways, expressways, urban metro-systems, railways, and ports,
- Investments in extractive industries; commercial logging,
- Water (surface and groundwater) resource infrastructure, including dams, or projects involving allocation or conveyance of water, including inter-basin water transfers or activities resulting in significant changes to water quality or availability,
- Manufacturing or industrial processing facilities and slaughterhouses,

[17] Total Conditional Grant = [Total population of contributing VCs] x [minimum per capita allocation] x [10]
18 A baseline JSC assessment was carried out during program preparation indicated that 14 JSCs have met the minimum condition of a score more than 40 points, with a maximum score of 58 points. The assessment will be repeated in program's year 1 and 3 to allow for more qualifying JSCs and other joint arrangements.

- Activities that would significantly convert natural habitats or significantly alter potentially important biodiversity and/or cultural resource areas, and
- Activities that would require the relocation of residential households or commercial activities and/or significant involuntary land acquisition,
- Vehicles, other than service vehicles,
- Salaries, per diem, top ups for Civil Servants and LGU staff (excluding remuneration for short term consultants)

33. The Program will rely on MDLF's experience in planning, appraising and support managing infrastructure investment projects. Therefore, MDLF will be responsible for the coordination and management of joint projects financed through the Conditional Capital Grant.

(III) Capacity Support for strengthening Local Governance Institutions

34. Higher levels of government have a critical role to play in creating an enabling environment for LGUs, through providing sound regulatory frameworks, capacity support, and regular and effective oversight. Hence, MoLG will coordinate capacity support provided through the Program, including for VCs, JSCs and central level agencies. MoLG would organize orientation, training and 'hands-on' technical assistance to participating VCs and JSCs. These activities would focus on the key support required to assist VCs and JSCs to achieve DLIs, and thus contribute to achieving the PDO. Progress in the performance of these activities would be measured in DLI7.

35. Capacity support would be provided based on a five year Capacity Development Plan that would address the needs identified during the capacity needs assessment carried out during Program preparation. The Five year Capacity Development Plan would specify the type capacity support activities, modes of delivery, intended outcomes and baselines. The MoLG will develop an indicative Institutional Support and Capacity Development Plan for the duration of the five years of the Program based on a rapid needs assessment covering the MoLG functions at the central and district levels. The Plan would build on the MoLG's Human Resource Strategic Development Plan (2015-2016) and the PDO. This indicative Plan would establish the baselines and yearly targets for capacity development. Based on this indicative Plan, the MoLG will develop a detailed annual capacity development plan for the first year of Program implementation and update it on an annual basis.

36. Four broad areas were identified in the capacity building needs assessment, including (i) participative planning for infrastructure investment prioritization; (ii) management of infrastructure individual sub-projects and joint projects; (iii) VC and JSC institutional systems for procurement, financial, environmental and social management; and (iv) sector oversight and management capabilities of central agencies such as the MoLG. The Program would also provide MoLG institutional strengthening and policy support to enable it meet the PA program objectives, including LGSIP.

37. Strengthening VC capabilities to engage effectively with their citizens has also been identified as a priority capacity building area. Hence, the Capacity Building plans will include specific programs for strengthening citizen engagement through participative planning and

grievance resolution mechanisms. Citizen feedback would be assessed through annual independent beneficiary impact assessments and community score cards implemented on a sampling basis.

Program Cost

38. The exact cost for the Program will depend on the number of VCs and JSCs qualifying during the course of the Program and their ability to present investments for Program financing. With the proposed allocation of US$9.0 per capita for VCs and an expected participation of 50 percent of eligible VCs in 2017, 60 percent 2018, and 70 percent in 2019 and in 2020, as agreed with the PA and specified under DLI 3, the cost for capital investment grants would be approximately US$12 million for the grants to VCs.

39. Capacity Building activities in the Program are budgeted with estimated US$1.5 million. Joint investments would be expected at a cost of around US$4.5 million, thus bringing up the total budget of US$18.0 million for the PforR. The PA has also committed to contributing to the Program the equivalent of US$2.0 million from the Transportation Fees allocation. The PA expects a minimum of 18 joint investments in the Program as specified in DLI 4. Financing for joint projects would be provided under the PforR with parallel financing from other DPs.

Grant allocation mechanism

40. Upon meeting the LGSIP eligibility criteria, capital investment grants would be allocated based on a simple per capita formula. The eligibility assessment will be done by MoLG on an annual basis, verified by the IVA. Grant allocations per VCs will then be calculated by the MDLF, as the Program Secretariat performing the Program management function. Grants would be allocated annually based on recurrent annual cycle. The cycle includes critical steps described in detail in the Annual Investment Grant Flow table included at the end of this annex (table 2). The Grant Flow table also includes clarification on the roles and responsibilities of the involved stakeholders. For joint projects financed by Conditional Capital Grants, additional funding would be provided as a 'top-up' capital grant, determined by the sum of pooled individual allocations of participating VCs multiplied with an incentive factor of ten.

41. Individual allocations would be small but provide a predictable annual grant allocation to VCs. Per capita allocations under the Annual Capital Grant are designed to match at minimum the current Transportation Fee allocation of around NIS25.00 (US$6.5 equivalent)[19] to provide a meaningful source of timely and predictable revenues, and to serve as an incentive for reform. At appraisal, the amount was agreed to be US$9.0 per capita. The majority of VCs, i.e., more than 80 percent has a population below 4,000 inhabitants. The average population of all 240 VCs between 2011 and 2014 was 2,500, ranging between 82 inhabitants in the smallest VC (Al-Ramadeen Al-Shamali) and 8,396 in the largest VC (Nahhalin) that would be eligible[20]

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[19] Inter-Governmental Fiscal Relation Policy Note, 2015, Appendix IV.I

[20] Some VCs have larger populations than Nahhalin. However, the fact that more than 60% of their populations reside in Area C make them ineligible for financing under the Program.

for annual capital investment grants under the Program. Hence, the average annual allocation per VC would be around US$22,500, but would not exceed US$75,564.

42. While the individual allocations may not be large enough to realistically address shortages in community infrastructure, they are meant to be seen as seed money for additional funding that VCs could obtain in the form of Conditional Capital Grants provided by the PA or DPs parallel financing through promoting their ACIPs. The Conditional Capital Grants for joint investments by a group of VCs would be based on the basic allocation per VC, multiplied with a "joint investment factor" of ten to substantially increase the allocation. Currently, 14 JSCs would be eligible under the Program providing a signed agreement exists between the members, which fulfills the Program's good governance criteria.

43. Consistent with the PA's intention to reform the Transportation Fee and to make it a sustainable source of finance for VCs, the Program intends to use the Capital Grant allocation and disbursement process as a model for the allocation and disbursement of the Transportation Fee and to make it more transparent and predictable. Even though initially the Capital Grants will be allocated and disbursed as a separate grant to VCs, the Program intends to merge both of these grant flows eventually so that reforms initiated through the LGSIP can also be mainstreamed and there is a single allocation and disbursement of funds to VCs for investment/service delivery purposes. Through DLI 6, the Program will support the MoLG to distribute the annual Transportation Fee allocation for VCs, annually, and on a formula basis, in a regular and timely manner.

Local Government Consolidation

44. The PA has decided to introduce a strong incentive for local government consolidation that is voluntary but would ensure financial sustainability of larger investments benefitting several VCs. Hence, under the Program, VCs would receive additional funding for investments implemented and operated in joint service provision arrangements financed by Conditional Capital Grants. This additional 'top-up' would be determined by the sum of pooled individual allocations of participating VCs multiplied with an incentive factor of ten. The aim of this is to reach a critical population and capacity level to sustain larger investments.

45. Typically, joint projects would be implemented by a JSC as the PA's preferred entity for inter-village cooperation. To address the severe capacity constraints faced by VCs in project formulation and project management, the PA has created institutional structures called JSCs[21] who are mandated to provide local services to citizens on behalf of VCs (and municipalities). At the same time, VCs remain accountable to their citizens for fulfilling their mandated responsibilities and therefore use the JSCs as an implementing entity for their ACIPs. However, joint projects may also be implemented through other robust arrangements if they meet the Good Governance (GG) criteria outlined under the Program.

46. The Program aims at improving joint service delivery arrangements following the PA's JSC Strategy 2014 to 2016. A standard agreement for joint service delivery would be developed by the MoLG with a clear governance and management structure and financing

[21] Local Authorities Law, 1997, art. 15C.

arrangements to improve accountability and financial sustainability of joint service arrangements. This would serve to ensure sustainability and a significant impact and service delivery improvements for beneficiary citizens for investments executed jointly with other VCs or municipalities. JSCs would receive capacity building support to improve implementation, management, procurement, financial management and accounting, service provision, development of service strategies, maintenance, operation and cost recovery.

47. The first Program JSC assessment took place in 2014 and 14 JSCs qualified (see Annex 4). The assessment will be carried out again in the first and third year of the Program to allow more JSCs access to the Program. The VCs and JSCs that are not eligible will receive targeted capacity building support to enable them to gain admission into the Program at a later stage.

48. The Program will rely on the MDLF's experience of planning, appraising and management of infrastructure investment projects and therefore MDLF will be responsible for the disbursement of the Conditional Capital Grants and will be supervising the implementation of the joint projects financed by the Conditional Capital Grant and implemented through JSCs. In addition to formulation and management of joint projects, MDLF will also coordinate and manage the following: (i) support to develop and apply standard methodology for consolidating ACIPs at the JSCs levels, including providing community mobilizers; (ii) support to implement joint projects prepared in accordance with the standard minimum requirements for participatory investment planning prepared by the MoLG; and (iii) will carry out independent technical audits and other assessments, such as citizen satisfaction surveys.

Citizen engagement

49. With citizen engagement being a primary focus of the Program, participatory planning will be an eligibility criterion for the Program. As such, the Program will support the implementation of participatory planning in all the VCs as part of the preparation of their ACIPs and consolidated ACIPs. The Participatory Planning approach will strengthen citizens' engagement with their local government over the choice of investments and enhance local accountability and transparency. Due to the different existing and valid approaches to participatory planning at the local government level in the West Bank, that are all vetted by the MoLG, the Program will adopt a set of minimum requirements for confirming the adequacy of the participatory process used in a given ACIP instead of adopting one single approach or the other. In the annual village capacity assessment, the MoLG will screen the adequacy of the ACIPs based on which VCs with non-qualified ACIPs would become candidates for capacity support in participatory planning, and would receive support to prepare ACIPs in a participatory manner. JSCs that would be required to execute ACIPs on behalf of their member villages would receive capacity support from the MoLG to help them in the process. Lessons learned from the review of different participatory planning exercises would give room to the MoLG to revise and adopt formally one single unified approach for participatory planning at the VCs levels in a manner similar to SDIPs for municipalities.

50. The approach to participatory planning introduces a number of requirements, including (i) that VCs present their ACIPs and associated budgets that are linked with their proposed

five-year development plans[22] in public Town Halls for discussion with and input from residents; and (ii) voluntary community project support groups will be activated or created at VCs levels, with the support of community mobilizers, to ensure that the different demographic, social, and economic sub-sets of those VCs are voiced throughout the process. The voluntary community project support groups will include quotas for the minimum number of participants from marginalized groups, such as women, youth, and also grassroots organizations representatives. The POM will detail the minimum requirements, formulation, and functions of those voluntary support groups. VCs are required to obtain resident validation of the proposed Plan either provided through the confirmation of the community project support group, or on a modified form of the plan in the town hall meeting. To enable maximum level of public access to information, the validated form of the plan will then be publicly disseminated in a variety of media and non-media outlets, including on public notice boards, and in social media[23]. Capacity building and just-in-time support will be provided to VCs in preparing for and implementing the participatory planning process, including, importantly, on participatory planning, communications strategies, organization of public Town Hall meetings, and mediation. The MoLG and MDLF will receive support under the Program to appoint community mobilizers as needed, to facilitate participatory planning.

51. The Program will also strengthen the grievance handling process in the VCs. As a minimum requirement, a Program level grievance redress mechanism (GRM) will be established to ensure that citizens can voice concerns and complaints and that those are also addressed adequately, through adopting simplified logs for the collection and logging of complaints as well as for tracking their resolution. The details of the minimum requirements and implementation of a Program-level GRM will be detailed in the Environmental and Social Management Manual (ESMM) as part of the POM. In its capacity as the Program Secretariat performing Program management functions, the MDLF will also commission independent citizen satisfaction surveys (BIA) that would assess the satisfaction of beneficiaries with the application and adequacy of the participative planning and prioritization process for projects, and will employ community mobilizers for carrying out of periodic participatory M&E exercises.

Result Areas

52. The Program would address results areas that are critical to improve local government financing and access to local services. These include improving the transparency and predictability of Annual Capital Grant transfers, strengthening local governance institutions for service delivery, and financing investments in local infrastructure and services. Progress towards the PDO will be measured through a set of simple and measurable indicators, the majority of which will be linked to disbursements. The Results Framework for the Program has two key results areas that are closely inter-related. Each result area is linked to DLIs, Program Actions and planned capacity support, and will be subject to monitoring, evaluation,

[22] There are a number of existing 5-year planning methodologies at the local government level, with the SDIPs being the most used by municipalities and other LGU clusters, including some VCs.
[23] The MoLG maintains a web-accessible database for Palestinian Villages and municipalities (www.baladiyat.ps). SDIPs for all municipalities are maintained and updated on this web portal. The same can be done for VCs as they receive technical support from the MoLG to upload their ACIPs for official viewing and use.

and verification activities under the Program. This provides a coordinated incentive for VCs and JSCs to improve their capacity to plan, deliver, and sustain local infrastructure and services. The Results Framework and monitoring arrangements are provided in Annex 2, while the DLIs are provided in Annex 3. The results areas and associated PDO indicators are summarized as follows:

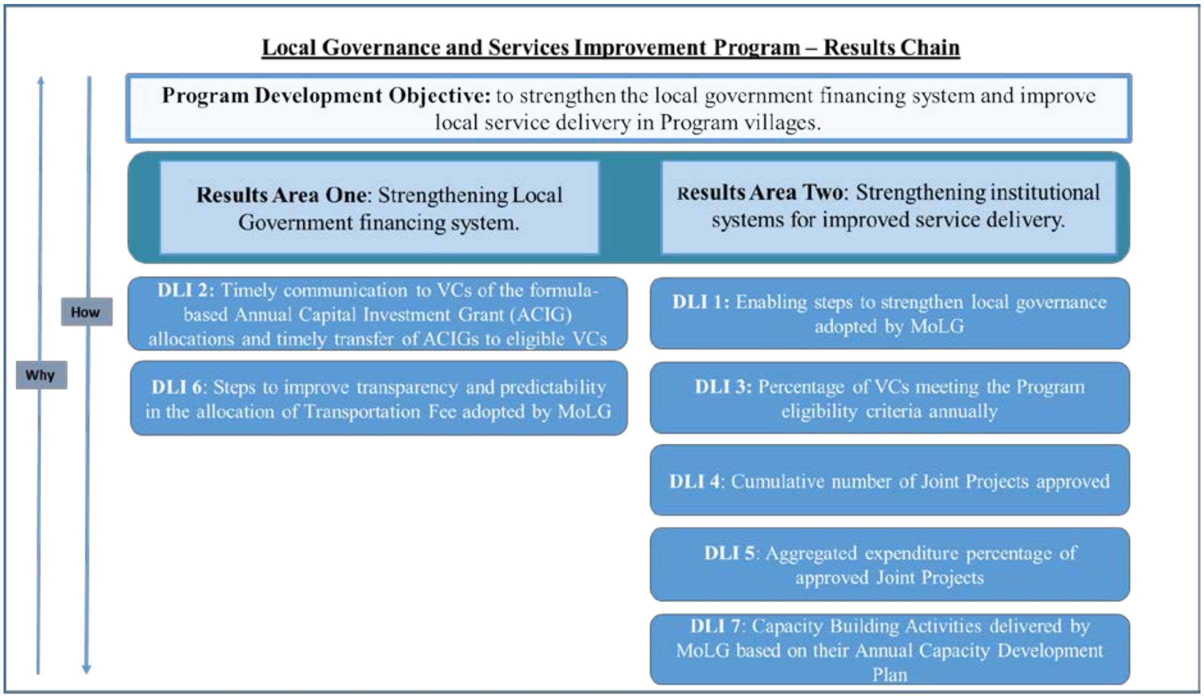
Program Result Area	PDO Indicator
Strengthening Local Government financing system	VCs receiving transparent and predictable Annual Capital Grants (number)
	Timely communication to VCs of the formula-based Annual Capital Investment Grant (ACIG) allocations and timely transfer of ACIGs to eligible VCs (Y/N)
Strengthening institutional systems for improved service delivery	People benefitting from improved services delivery in Program villages (number)
	Beneficiaries that feel Program investments reflected their needs (percentage)

Disbursement Linked Indicators

53. The DLIs have been selected according to the Program's incremental result chain so critical results can be achieved during the early stage of the Program for building incremental results to reach the PDO. The DLIs are:

(1) Enabling steps to strengthen local governance adopted by MoLG
(2) Timely communication to VCs of the formula-based Annual Capital Investment Grant (ACIG) allocations and timely transfer of ACIGs to eligible VCs
(3) Percentage of VCs meeting the Program eligibility criteria annually
(4) Cumulative number of Joint Projects approved
(5) Aggregated expenditure percentage of approved Joint Projects
(6) Steps to improve transparency and predictability in the allocation of Transportation Fee adopted by MoLG
(7) Capacity Building Activities delivered by MoLG based on their Annual capacity Development Plan.

54. The results chain linking Program results areas with the specific DLIs is depicted as follows:



Program Implementation

55. The Program will use existing government systems. Hence, implementation will be carried out by VCs, JSCs or similar joint service provision arrangements, the MoLG, and the MDLF. MoLG has the legal mandate for local government affairs and is in charge of overall policy setting and supervision. The MoLG will have the lead responsibility for overall coordination and oversight in the sector. Within its mandate, the MoLG will also lead implementation of the Annual Capital Grants for delivery of local services and Capacity Support for strengthening Local Governance Institutions, and will manage capacity building and TA activities to prepare VCs and JSCs, which are not yet eligible for Program investment funding. MoLG will also be responsible to support establishing joint service provision arrangements between VCs with a good governance structure to qualify for Program investment funding.

56. The MDLF will be responsible for managing Conditional Capital Grants for Investment in Joint Projects and function as the Program Secretariat providing implementation support across the Program, including performing the Program management functions required under LGSIP. MDLF's responsibilities to provide Program implementation support will include preparing the Program financial statements, organizing the Program audits, preparing and updating the POM, and compiling reporting on results and DLIs. The Program Secretariat will report to the PC which would be chaired by the Minister of Local Government and headed by the Deputy Minister. The MoF will be responsible for ensuring that disbursements under LGSIP are carried out in line with the agreed timeframe and conditions. A detailed matrix of roles and responsibilities is included in this Annex.

57. Large VCs that meet the eligibility criteria will receive Annual Capital Grants directly into their accounts and would be responsible for the implementation of their ACIPs. Small VCs

eligible under the Program will be allotted capital grants, but funds will not be transferred to those VCs, and execution of their ACIPs would be delegated to JSCs.

Funds Flow

58. The Program will be implemented through the PA's budget system. Amounts corresponding to the estimated allocations for the Annual Capital Grant, the Conditional Capital Grant and capacity support in each corresponding Program implementation year would be included in the PA budget. The World Bank will provide funds in advance of the achievement of results up to a ceiling of 25 percent of the total World Bank financing, if needed. The advance would be on a rolling basis and will be adjusted against the achievement of DLIs.

59. All Program payments will be made through the Central Treasury System. The Program would follow the established fund flow procedure for the PA under which the MoF requests disbursements from the World Bank, based on the supporting information provided by the Program Secretariat and the IVA. The Bank would disburse the requested funds to the PA's CTA. Hence, the LGSIP will be accounted for in the PA's budget, and the annual investment grant flow will appear under MoLG's 'Support to LGUs – Capital Grants' budget line item. Accordingly, funds will be channeled from MoF to MoLG in accordance with budget provisions and current mechanisms. Program disbursements include the following: (i) Annual Capital Grant disbursements will be transferred as part of the budget execution process, on a timely basis, to the MoLG. The MoLG will transfer directly to large VCs their allocations and will retain the allocations for small VCs. (ii) Disbursements for the Conditional Capital Grant will be made to the MDLF who will be responsible for coordinating and managing the implementation of joint projects. (iii) Annual allocations for capacity support will be disbursed directly to MoLG who will manage the execution of capacity support activities. (iv) Program Management expenditures would be disbursed to MDLF as the Program Secretariat following established government expenditure processes. Participating VCs and JSCs will be responsible for implementation of projects, identified through ACIPs. All flow of funds arrangements will be detailed in the Program Grant Agreements. Disbursements from the Bank to the PA, i.e., the Program funds, will be disbursed to MoF based on verified achievement of the agreed DLIs in amounts corresponding to the DLIs achieved in a year adjusted for the advance payment.

60. Participating large VCs receiving the Annual Capital Grant would be responsible for implementing investments and activities identified in the ACIPs in accordance with the public procurement procedures applicable for LGUs. VCs will be responsible for the custody and management of financial resources transferred to them and to utilize them in accordance with the provisions of the Local Government Financial Manual. VCs annual financial statements will reflect expenditures relating to the Annual Capital Grants as a separate line item. To strengthen VCs' accountability to their stakeholders, the PAP includes actions encouraging annual independent external audits. The annual audit will provide assurance to all stakeholders on the VC's capacity to manage its affairs in accordance with the established rules and regulations and in accordance with accepted standards and rules for financial propriety. This "learning by doing" approach for capacity building of large VCs in planning, implementation, and financial management will enable VCs to strengthen their capacities as they gain experience through the course of the Program. VCs will use the capital grants to implement

their ACIPs in accordance with the predictable and transparent transfer formula. Large VCs may choose to implement sub-projects included in their ACIPs either by themselves or through JSCs.

61. Small VCs who gain eligibility to the Program would be allocated Annual Capital Grants based on the predictable and transparent allocation formula. However, unlike large VCs, the Annual Capital Grants allocated to small VCs will be disbursed by the MoLG as per the government systems. Sub-projects identified in the ACIPs of small VCs will be executed by JSCs. MoLG District Directorates will provide regular technical and financial oversight through their existing supervision structures and processes.

62. MoLG will manage capacity building and TA activities to prepare VCs and JSCs, which are not yet eligible for funding for Program investments. MoLG will also be responsible for all arrangements with supporting establishing jointly service provision arrangements between VCs with a good governance structure for qualification to the Program's investment funding. MoLG, through its General Departments and District Directorates, will also provide regular oversight and supervision of VCs as per the government systems. MDLF will function as the Program Secretariat, performing Program management functions including the organization and management of Program activities and preparation of Program Financial Statements. For joint projects financed by Conditional Capital Grants, MDLF will also coordinate and supervise implementation, including Financial Management and Procurement.

63. MoLG and MDLF would use the Program funds exclusively for the implementation of agreed Program activities using the PA financial and procurement procedures. The technical, fiduciary, environmental and social systems assessments have confirmed the appropriateness of the proposed implementation arrangements and capacity of the PA for carrying out the proposed activities with the aim of meeting the expected Program results.

64. A PC would be established as the overall Program coordinating body and for critical decision making. Members will include the Minister of Local Government (Chair), Deputy Minister of Local Government (Head), MDLF General Director, and MoF Accountant General. The PC will be supported by the MDLF in its role as Program Secretariat responsible for performing implementation support and Program management functions under LGSIP. A qualified staff member in the MoLG would be appointed to support coordination within the Ministry, liaise with the MDLF, and provide direct support to the MoLG Deputy Minister in his role as focal point and Head of the PC. The PC shall be established prior to Program implementation start and will have the main function to coordinate among the Program main stakeholders and DPs towards meeting the Program results, to ensure effective inter-ministerial coordination and to monitor and follow up on Program progress. The PC will also discuss and approve the POM, Program work plans, progress and financial reports and approve eligible VCs and JSCs, including funding allocation. An overview matrix of roles and responsibilities is included in Table 3. Main tasks of the PC are included in Table 4.

Key Risks and Issues

65. In light of the prevailing political and institutional context, changes in the government may lead to changes in its priorities and affect strategic choices. The continued fiscal distress

of the PA may also continue to put pressure from within to use centrally collected resources for certain national level priorities. This would deprive VCs from much needed financial resources, including Transportation Fee allocations. VCs may also continue to receive bilateral funding from donors that are either not willing to adopt a coordinated approach to village development, or whose development assistance to the PA is governed by agreements that prevent them from adopting a coordinated approach through a World Bank-administered Trust Fund. All these factors would jeopardize the sustainability of the financial allocation and transfer formula for VCs. For instance, assistance received by VCs bi-laterally outside of the proposed Program would not be subject to eligibility criteria.

66. It is a risk for the Program that some VCs will not be willing to transfer service delivery to JSCs. This has been the case in the past, where VCs preferred to provide their own services and implement their own investments. It is however crucial for the financial sustainability of the Program's investments that these are implemented by joint VCs arrangements with a larger population basis. The risk will be mitigated as the Program will give strong incentives for joint projects financed by Conditional Capital Grants, as additional funding would be provided as a 'top-up' capital. For small VCs funding will only be provided for investment implemented in joint arrangements (JSCs).

Value added of Bank's support

67. The proposed Program will be embedded in the PA's programmatic sector approach, complementing the performance-based funding and incentive mechanism applied under the MDP with a systematic and transparent mechanism to allocate investment funding for all VCs. The proposed Program would pool funds from different sources, including the PA and other DPs, to harmonize allocation mechanisms and eligibility criteria for LGU funding. As one of the lead donors and with its convening power, the Bank is in a unique position to lead a programmatic approach in the local government sector.

68. The Bank has a long-standing involvement in the local government sector in the Palestinian territories and has been a convening force in establishing the MDLF which today is the main vehicle through which the PA and donors channel investment funds and capacity building to municipalities. The Bank also is the Technical Advisor in the Local Government Sector Working Group and lead donor in the MDP, pooling funds from 10 different DPs. With the completion of the VNDP[24], the Bank has successfully rolled-out an effective approach of CDD and established a model for community development in villages and marginalized neighborhoods. Based on its long history in the WB&G, the Bank has earned credibility with the PA and donors to lead the process to support the PA in designing and implementing a coordinated and collaborative approach for village support and development.

[24] Village and Neighborhood Development Project (US$10 million from the Trust Fund for Gaza and the West Bank, FY09-14).

Table 2: Annual Investment Grant Flow

Year	Date/Timing	Action	Responsible Party
Year 0 (July 2015 – December 2015)	February 2015	JSCs Baseline assessment completed, qualified JSCs identified (GG score greater than 40)	MoLG (and WB in year 0)
	November 2015	LGSIP approved	World Bank
	November/ December 2015	Capacity Building activities start	MoLG
Year 1 (January – December 2016)	January through September	VCs and JSCs prepare their participatory ACIPs and Consolidated ACIPS	VCs, JSCs with support from MoLG and MDLF
	Aug 31, 2016	JSC assessment completed, qualified and eligible JSCs identified (GG score greater than 40) and announced.	MoLG
	September 1, 2016	MoF providing the indicative financial envelope to the VCs for their ACIP formulation.	MoF
	By Oct 31, 2016	ACIPs prepared as an input to the budget.	VCs
	Nov 1-15, 2016	VCs Eligibility assessment carried out.	MoLG
	Nov 30, 2016	VCs Eligibility assessment completed.	MoLG
	Nov 30, 2016	VCs create and submit their FY 2017 budget to the MoLG.	VCs
	Dec 10, 2016	Grant Allocation -completed, based on eligibility assessments. Grant Allocation done.	Program Manager (MDLF)
	Dec 15, 2016	List of eligible VCs and JSCs approved by Program Committee.	Program Committee (MOLG, MOF, MDLF)
	Jan 15, 2017	Actual grant allocation per eligible VC is announced by the MoF.	MoF
	Jan 31, 2017	The actual allocation disbursed to eligible VCs by the MoF through the MoLG.	MoF
Year 2 (January –	Jan 31, 2017	ACIPs (both VC and JSC) finalized and disclosed.	VCs
	September 1, 2017	MoF providing the indicative financial envelope to the VCs for their ACIP formulation.	MoF

December 2017)	By Oct 31, 2017	ACIPs prepared as an input to the budget.	VCs
	Nov 1-15, 2017	VCs Eligibility assessment carried out.	MoLG
	Nov 30, 2017	VCs Eligibility assessment completed.	MoLG
	Nov 30, 2017	VCs create and submit their FY 2018 budget to the MoLG.	VCs
	Dec 10, 2017	Grant Allocation done.	Program Manager (MDLF)
	Dec 15, 2017	List of eligible VCs approved by Program Committee.	Program Committee (MoLG, MoF, MDLF)
	Jan 15, 2018	Actual grant allocation per eligible VC is announced by the MoF.	MoF
	Jan 31, 2018	The actual allocation disbursed to eligible VCs by the MoF through the MoLG.	MoF
Year 3 (January – December 2018)	Jan 31, 2018	ACIPs (both VC and JSC) finalized and disclosed.	VCs
	Aug 31, 2018	Bi-Annual JSC assessment completed, qualified JSCs identified (GG score more than 40) and announced.	MoLG
	September 1, 2018	MoF providing the indicative financial envelope to the VCs for their ACIP formulation.	MoF
	By Oct 31, 2018	ACIPs prepared/updated as an input to the budget.	VCs
	Nov 1-15, 2018	VCs Eligibility assessment carried out.	MoLG
	Nov 30, 2018	VCs Eligibility assessment completed.	MoLG
	Nov 30, 2018	VCs create and submit their FY 2019 budget to the MoLG.	VCs
	Dec 10, 2018	Grant Allocation done.	Program Manager (MDLF)
	Dec 15, 2018	List of eligible VCs approved by Program Committee.	Program Committee (MoLG, MoF, MDLF)
	Jan 15, 2019	Actual grant allocation per eligible VC is announced by the MoF.	MoF

	Jan 31, 2019	The actual allocation disbursed to eligible VCs by the MoF.	MoF
Year 4 (January – December 2019)	Jan 31, 2019	ACIPs (both VC and JSC) finalized and disclosed.	VCs
	September 1, 2019	MoF providing the indicative financial envelope to the VCs for their ACIP formulation.	MoF
	By Oct 31, 2019	ACIPs prepared as an input to the budget.	VCs
	Nov 1-15, 2019	VCs Eligibility assessment carried out.	MoLG
	Nov 30, 2019	VCs Eligibility assessment completed.	MoLG
	Nov 30, 2019	VCs create and submit their FY 2020 budget to the MoLG.	VCs
	Dec 10, 2019	Grant Allocation done.	Program Manager (MDLF)
	Dec 15, 2019	List of eligible VCs approved by Program Committee.	Program Committee (MoLG, MoF, MDLF)
	Jan 15, 2020	Actual grant allocation per eligible VC is announced by the MoF.	MoF
	Jan 31, 2020	The actual allocation disbursed to eligible VCs by the MoF through the MoLG.	MoF
Year 5 (January – December 2020)	Jan 31, 2020	ACIPs finalized and disclosed.	VCs

Table 3: Program Roles and Responsibilities

	Program Secretariat (performed by MDLF to provide Program implementation support)	MDLF	MoLG
Overall	**Program Management** - Preparation of Program financial statements. - Organizing Program audit. - Performing secretariat function for the Program Committee. - Preparation and update of Program Operations Manual (POM) and an Environmental and Social management Manual (ESMM) - Compiling a comprehensive report on the DLI achievement and sending it to World Bank and IVA through the Program Committee. - Prescribing the result collection methodology in the POM and Updating the Results Framework matrix based on submitted data collected on Sub-Activities I, II, and III - Compiling the internal reporting (details in the POM) for the Program Committee, which is to be shared with the World Bank. - Work with MoF to send the disbursement request on a timely manner for entire Program to the Bank; Ensuring timely funds flow.	- Data collection of Sub-Activity II related results indicators for reporting to Program Manager - Conducting **technical audits** for Sub-Activity II.	**Results Management** - Reporting the achievement of DLI 1, 3, 6, 7 in accordance with the verification protocol to the Program Manager. - Reporting the achievement of Sub-Activity 1 and 3 related indicators in the program's results framework to the Program Manager. - Conducting **technical audits** for Sub-Activity I **Sector Coordination** - Chairing Program Committee - Coordinating with line ministries - Ensuring regular communication with the MoF - Leading donor coordination - Developing policy directives and by-laws based on lessons learned from, and informed by LGSIP towards the PA Village Support Program.

	- Communication and outreach of the Program. - Organizing environmental and social systems consultations; running Program outreach and communication on available GRM and complaints handling - Periodical cross-checking with the Bank's debarred list of contractors and ensuring that no contractor involved in the Program is included in the Bank's debarred list. - Conveying complaints or allegations of corruption related to the Program, if any, to the Anti-Corruption Commission. Informing the Bank of the result of the investigation by the Commission. - Coordinating implementation of the Program Action Plan. - Compiling technical audits into an Annual Report - Conducting citizen satisfaction surveys		
Sub-Activity one	**Grant Allocation based on Annual Eligibility Assessment Results** - Filling out the grant allocation template based on consolidated eligibility report received from the MOLG. - Placing the annual allocation results as well as the consolidated eligibility assessment report to the Program Committee.		**Eligibility Assessments (both VCs and JSCs)** - Preparing the by-laws for joint service provision based on principles of Good Governance. - Preparing by-laws and standard agreement template for JSCs and other forms of joint service provision. - Supporting and approving joint services agreements based on the standard agreement

	- Conveying the approved list of eligible VCs and their allocated grant amount to the MoF on time (deadline TBD in POM).		- Collecting data from VCs/JSCs to determine compliance with eligibility criteria. - Assessing eligibility of VCs/JSCs, and making recommendations to the Program Committee. - Preparing a consolidated report and recommendations on the annual VCs eligibility assessment results and the bi-annual JSCs eligibility assessment, and sending those to the Program Manager on time (the deadline TBD in POM). - Communicating the results of the eligibility assessments and the allocated grant amount to the VCs through the MoLG website and beyond. **Support to preparation of multi-year strategic plans (such as SDIPs), ACIPs and sub-project preparation (through MoLG District Offices)** - Technical support and oversight of participatory planning, including community mobilization - Review and guidance on technical, procurement, social, environmental issues and bidding documents. **Technical and financial supervision of sub-project implementation by VCs and JSCs in accordance with the current national procedures.** - Checking the VCs' compliance to the national procurement procedures and FM procedures.

			- Compliance with environmental and social regulations - Handling of Grievances and complaints **For small VCs, being the custodian of the project fund and responsible for releasing the funds to the JSCs.** **Collecting the sub-project results (e.g. # of beneficiaries) information from the VCs/JSCs, verify them, and compiling and submitting the result report to the MDLF.**
Sub-Activity Two		**Program Implementation for Sub-Activity II** - Call for proposals. - Technical support in joint project identification and preparation - Screening and appraisal of bankable joint projects from the proposals based on the ACIPs. - Disbursement of joint project funds to eligible JSCs for implementation. - Technical and financial supervision of Sub-Activity II joint projects implementation. - Preparation of results and financial reports.	**Identical to Sub-Activity I:** - Preparing the by-laws for joint service provision based on principles of Good Governance. - Preparing by-laws and standard agreement template for JSCs and other forms of joint service provision. - Supporting and approving joint services agreements based on the standard agreement
Sub-Activity Three		**Implementation oversight and technical backstopping for Sub-Activity II joint projects implementation:**	**Capacity Building Activities for qualifying JSCs and VCs under Sub-Activities I and II, and for supporting local governance institutions.**

		- Planning, Technical, FM, procurement, social and environment capacity building support to implement Sub-Activity II of joint projects to the eligible JSCs.	- Planning, Technical, FM, procurement, and social and environment capacity building support to implement sub-projects and joint projects to the eligible JSCs as well as Large VCs. - Capacity building for non-qualified VCs and JSCs - Capacity Support to various departments within MoLG (including Directorate Offices) - Supporting VCs and JSCs to prepare ACIPs - Strengthening the Grievance Redressal mechanism at the LGUs and MoLG District offices - Preparing Annual Capacity Support Plans and supporting their implementation - Policy Level support for strengthening local governance.

Ministry of Finance Roles and Responsibilities

- Provide indicative financial envelope to the VCs for their ACIP formulations
- Announce and disburse actual grant allocation to eligible VCs and JSCs
- Request disbursements from the World Bank, based on the supporting information provided by the Program Manager.
- Appoint a MOF representative to the Program Committee
- Assign staff member to review documents submitted by the Program manager.

Table 4: Program Committee main tasks

Overall objective of the Program Committee
Coordination among the Program main stakeholders and Development Partners towards meeting the Program results, to ensure effective inter-ministerial coordination and to monitor and follow up on Program progress.
Members
Minister of Local Government (Chair), Deputy Minister of Local Government (Head), MDLF General Director, and MoF Accountant General. The MoLG Deputy Minister will coordinate meetings with the Program Secretariat at MDLF.
Meeting frequency
The Program Committee will meet quarterly. Any member can request additional meetings in coordination with MoLG and the Program Committee's secretariat.
Functions
Monitor and discuss Program progress
Monitor Program budget, fund transfers to VCs and JSCs, status and progress of DLIs
Take appropriate actions if Program preparation, activities or results are not achieved on time
Provide overall direction for the Program following the PAD and Program Operational Manual
Discuss, monitor and inform Program management on any critical issues revealed and if necessary appropriate actions to implement

Consult with Program Support Missions and financing partners upon requests and needs
Take any critical decisions requiring the three key stakeholders MoLG, MoF, and MDLF
Discuss and approve The Program's Semi-Annual and Annual Progress Reports Quarterly Interim Financial Management Reports The Program Operation Manual The Program's work plans The Program's Results Verification Reports (annually prior to February 1) The proposed selection of VCs and JSCs that would qualify for the annual investment grant cycle as assessed by MoLG (annually) The annual capacity development plan for VCs, JSCs, and other local governance institutions provided by MoLG Annual funding for (i) Program budgets including overall annual capital allocation, overall funding for VCs and JSCs; (ii) Eligible VCs; and (iii) eligible JSCs.
Program Secretariat
The MDLF will provide implementation support across the Program, including as Secretariat to the Program Committee. The secretariat will prepare and organize all meetings in coordination with MoLG Deputy Minister including agenda and all reporting and prepare minutes and other follow up after the meetings.

Annex 2: Results Framework Matrix

Program Development Objective: to strengthen the local government financing system and improve local service delivery in Program villages.														
PDO Level Results Indicators	**Core**	**Unit of Measure**	**DLI**	**Baseline**	**Target Values**					**Frequency**	**Data Source/Methodology**	**Responsibility for Data Collection**	**Definitions**
					FY16	**FY17**	**FY18**	**FY19**	**FY20**				
PDO Indicator 1: VCs receiving transparent and predictable Annual Capital Grants	**N**	%	N	0	--	40	50	60	70	Annual	Program Reports Annual eligibility assessment	MDLF, MoLG	The percentage of VCs receiving transparent and predictable Annual Capital Grants is calculated by dividing the number of VCs receiving predictable Annual Capital Grants over the total number of VCs targeted by the Program. This indicator will track Annual Capital Grants allocations to eligible VCs under Sub-Activities I and II The transparency and predictability of Annual Capital Investment Grants will be confirmed as follows: (i) On transparency, the MoF must announce the amounts allocated to eligible VCs on January 15 of each year, with such allocations based on the transparent Capital Grant Allocation Formula adopted by the MoLG: (ii) On Predictability, transfer of Grants must be completed by January 31 of each year, as per the Annual Investment Grant Flow Table. VCs will also be required to make public information about their approved ACIPs, but this requirement will be tracked by the MoLG to supplement achievements under this indicator.
PDO Indicator 2: Timely communication to VCs of the formula-based Annual Capital Investment Grant (ACIG) allocations	**N**	Y/N	Y	N	Y	Y	Y	Y	Y	Annual	Program Reports Formal MoF Grants allocation per eligible VC, for verification	MDLF IVA	This is a DLI. The Yes/No would be verified, as follows: The timely communication and disbursement are confirmed by meeting the deadlines specified in the Annual Investment Grant Flow Table, which are; January

and timely transfer of ACIGs to eligible VCs.											IVA Verification Report		15, and January 31, of each FY, respectively. This indicator covers all eligible VCs under Sub-Activities I and II, including those who will not be executing their capital Grant Allocations.
PDO Indicator 3: People benefiting from improved service delivery in Program villages	**N**	Numbe r	N	0	--	--	230,000	--	350,000	FY18 and FY20	Baseline Data in ACIPs Program Reports Beneficiary Impact Assessment (BIA) at FY18 and FY 20 (For verification) MDLF M&E System Independent Technical Assessment	MDLF	People in Program villages are expected to benefit from a range of improved local services, by directly benefiting from services provided by the VCs. Targets for FY18 and FY 20 are estimates. Actual targets will be updated based on ACIPs. Estimates are conservative because they do not factor for double counting which is likely as people benefiting under Program Sub-Activity II are added. This indicator will be supplemented through measuring the physical outputs related to investments/services using the Annual Capital Investment Grants. The MDLF will report (through the MoLG on Sub-Activity I) on these outputs by the end of each Program Fiscal Year based on the targets identified in the approved Investment Grant proposals for both Sub-Activities I and II. The following indicates the expected typology of the investments expected to be tracked in the MDLF M&E System: - Kilometers of roads built, rehabilitated - Kilometers of water/wastewater networks built/rehabilitated - Meters^2 of public space (gardens, playgrounds, community centers, health facilities, education facilities, etc...)

													- Solid waste management equipment (bins, vehicles, - Solid waste equipment (vehicles, containers, etc…); water supply meters; - Other service vehicles and equipment. The MDLF as Program Secretariat will commission an independent BIA, with baselines determined in FY18 to verify beneficiaries' impressions on services improvements. MDLF will also commission, by FY 18, and FY 20 independent technical assessments to verify the technical quality of investments
PDO Indicator 4: Beneficiaries that feel Program investments reflected their needs	**Y**	%	N	0	--	--	65	--	75	FY18 and FY20	Beneficiary Impact Assessment (BIA) at FY18 and FY20 in the program	MDLF	This will measure the extent to which decisions about the Program reflected community preferences in a consistent manner. Survey techniques will be used to document male and female beneficiary priorities at Program outset. Surveys during and at the close of the Program may identify respondents' satisfaction with Program investments, including a specific question about the degree to which respondents felt Program activities reflected their preferences (ex post).
Intermediate Indicators - Results Area 1: Strengthening Local Government financing system													
Intermediate Results Indicator 1: Annual Capital Grant Allocation Formula approved by MoLG	**N**	Y/N	Y	N	Y	Y	Y	Y	Y	Annual	Program Reports Minister of Local Government adoption of formula for annual grant allocations IVA Verification Report	MDLF IVA	Based on official adoption of the MoLG Minister or Designee of the Formula, MDLF will notify IVA of the achievement of this prior result, and will submit the documentation related to the disbursements to the Bank. Prior Results shall be met before Grant Signing. MDLF will report on achievement of all DLIs to the IVA;

													verification report will be submitted to the Bank. This is a prior result and will be verified by the designated IVA for prior results
Intermediate Result Indicator 2: Steps to improve transparency and predictability of Transportation Fee adopted by MoLG	**N**	Text	Y	--	--	Transportation Fee reform directive submitted for approval to Cabinet of Ministers	At least 25% of Annual Capital Grants allocation to VCs is disbursed annually per capita and on time in line with LGSIP Annual Capital Grant Flow Chart	--	--	FY17 and FY18	Program Reports IVA Verification Report	MDLF, MoF, MoLG IVA	MDLF will assist MoF in drafting of proposal. MoF would submit the proposal to the Cabinet. MoLG will report disbursement of transportation fee to MDLF, annually MDLF will report on achievement of all DLIs to the IVA; verification report will be submitted to the Bank. The transparency and predictability of Annual Capital Investment Grants will be confirmed as follows: (i) On transparency, the MoF must announce the amounts allocated to eligible VCs on January 15 of each year, with such allocations based on the transparent Capital Grant Allocation Formula adopted by the MoLG: (ii) On Predictability, transfer of Grants must be completed by January 31 of each year, as per the Annual Investment Grant Flow Table. VCs will also be required to make public information about their approved ACIPs, but this requirement will be tracked by the MoLG to supplement achievements under this indicator
Intermediate Result Indicator 3: Percentage of VCs submitting their annual budget to MoLG electronically on time and have disclosed budgets publicly	N	%	N	10	--	30	40	50	60	FY18 and FY20	Program Reports	MDLF	Timely submittal of budgets electronically is confirmed by the MoLG after meeting the deadlines specified in the Annual Investment Grant Flow Table, i.e. by November 15, 2015. MoLG will also prepare documentation showing the actual

													allocation and disbursement to each VC, and will report this to MDLF. MDLF will report on achievement of all DLIs to the IVA; verification report will be submitted to the Bank. Baseline percentage is based on those VCs that submitted their VC-Approved budgets to MoLG by the end of Program Appraisal. Information on public disclosure of VCs budgets was not available.
Intermediate Indicators - Result Area 2: Strengthening institutional systems for improved service delivery													
Intermediate Results Indicator 4: Percentage of VCs that have implemented at least 60% of their ACIPs (in terms of expenditure) by the end of each FY.	N	%	N	0	--	55	60	65	70	Annual	Program Reports Baseline Data in ACIPs MDLF M&E System	MDLF, MoLG IVA	The percentage share of executed ACIPs for VCs that already received annual capital grants for executing their ACIPs, and is expressed in monetary value of expenditures divided by the estimated cost of the aggregate ACIP. MDLF will acquire independent technical verifications for verifying the technical quality of implemented ACIPs investments under Sub-Activities I and II.
Intermediate Results Indicator 5: Cumulative number of joint projects approved	N	%	Y	0	--	6	10	14	18	Annual starting from FY17	Program Reports MDLF M&E System	MDLF	Targets are cumulative. MDLF will prepare financial reports showing the number of joint projects approved MDLF will report on achievement of all DLIs to the IVA; verification report will be submitted to the Bank.
Intermediate Results Indicator 6: Number of JSCs qualifying for financing under the Program	N	Numbe r	N	14	--	18	--	22	--	Bi-annual	Program Reports JSCs Bi-annual Eligibility Assessment MDLF M&E System	MDLF, MoLG	Targets are cumulative. MoLG will report to MDLF based on the JSCs bi-annual eligibility assessment, and JSCs reporting annually on their eligibility.

Intermediate Results Indicator 7: Share of vulnerable groups who participated in ACIP consultations.	N	%	N	0	30	--	30	--	30	FY17, 18 and 20	VCs Participatory consultations records MoLG verification Program Reports Beneficiary Impact Assessment (BIA) in FY 18 and FY20 (for verification) MDLF M&E System	MDLF, MoLG	The MoLG would be expected to report to MDLF on the share of marginalized and vulnerable groups in ACIPs consultations based on the total number of participants in the consultations. The actual share will be reported by MoLG in the first year and 3rd year of the Program based on actual data from the preparation/updating and consultation of the ACIPs. In FY18 AND FY20, the BIA would be used to verify the results provided by the MoLG based on samples. The POM will include a clear definition of the vulnerable groups corresponding with this indicator.
Intermediate Results Indicator 8: Direct beneficiaries (number), of which female (percentage)	**Y**	Number (%)	N	0 0	--	--	230,000 50	--	350,000 50	FY18 and FY20	Baseline Data in ACIPs Program Reports Beneficiary Impact Assessment (BIA) in FY18 and FY20 MDLF M&E System	MDLF	Direct Program beneficiaries are people or groups who directly derive benefits from an intervention. Targets for FY 18 and FY 20 are estimates. Actual targets will be updated based on ACIPs. Estimates are conservative because they do not factor for double counting. The MDLF as Program Manager will be responsible for commissioning an independent BIA, with baselines determined in FY18

Annex 3: Disbursement Linked Indicators, Disbursement Arrangements and Verification Protocols

Table 1: Disbursement-Linked Indicator Matrix

	Total Financing Allocated to DLI	***% of Total Financing***	***DLI Baseline***	***Indicative timeline for DLI achievement***					
				Prior Result	***Year or Period 1***	***Year or Period 2***	***Year or Period 3***	***Year or Period 4***	***Year or Period 5***
DLI 1: Enabling steps to strengthen local governance adopted by MoLG			no	(i) Standardized Governance framework for joint service provision adopted; (ii) adoption of Formula for Annual Capital Grant allocation for VCs/JSCs	MoLG issued Procurement Instructions for LGUs to follow in procuring local services	N/A	N/A	N/A	N/A
Allocated amount ($m):	1.8	10%		1.0	0.8	-	-	-	-
DLI 2: Timely communication to VCs of the formula-based Annual Capital Investment Grant (ACIG) allocations and timely transfer of ACIGs to eligible VCs			no		N/A	Communication of the ACIG allocation to VCs by January 15 and	Communication of the ACIG allocation to VCs by January 15 and	Communication of the ACIG allocation to VCs by January 15 and	Communication of the ACIG allocation to VCs by January 15 and

						transfer of AGICs to eligible VCs by January 31	timely transfer of ACIGs to eligible VCs by January 31	transfer of ACIGs to eligible VCs by January 31,	transfer of ACIGs to eligible VCs by January 31
Allocated amount ($m):	3.2	18%				0.8	0.8	0.8	0.8
DLI 3: Percentage of VCs meeting the Program eligibility criteria annually			no		N/A	50%	60%	70%	70%
Allocated amount ($m):	5.0	28%		-		1.0	1.0	1.5	1.5
DLI 4:Cumulative number of Joint Projects approved			0		N/A	6	10	14	18
Allocated amount	4.0	22%				1.0	1.0	1.0	1.0
DLI5: Aggregated expenditure percentage of approved Joint Projects			0		N/A	N/A	30%	40%	50%
Amount allocated	1.5	8%					0.5	0.5	0.5
DLI 6: Steps to improve transparency and predictability in the			no		N/A-	Transportation Fee reform directive	At least 25% of annual	N/A	N/A

allocation of Transportation Fee adopted by MoLG						submitted for approval to Cabinet of Ministers	allocation of TF to VCs is disbursed using the criteria set out in the Program Operations Manual		
Allocated amount:	1.0	6%				0.3	0.7		
DLI 7: Capacity Building Activities delivered by MoLG based on their Annual Capacity Development Plan			n/a		Five Year Capacity Development Plan prepared	Annual Capacity Development Plan executed	Annual Capacity Developm ent Plan executed	Annual Capacity Developme nt Plan executed	N/A
Allocated amount:	1.5	8%			0.2	0.4	0.5	0.4	-
Total Financing Allocated(in $m):	18.00	**100%**		1.0	1.0	3.5	4.5	4.2	3.8

Table 2: DLI Verification Protocol Table[25]

#	*DLI*	*Definition/ Description of achievement*	*Scalability of Disbursements (Yes/No)*	*Protocol to evaluate achievement of the DLI and data/result verification*		
				Data source/agency	*Verification Entity*	*Procedure*
DLI #1	Enabling steps to strengthen local governance adopted by MoLG	By Grant Signing, "prior results" achieved, other result to be achieved in FY16	No	MoLG	Secretariat of the Cabinet of Ministers	Based on a formal letter from Minister of MoLG or Designee, MDLF will notify the Bank of the achievement of the "prior results" and will submit related documentation required for disbursements. Each of DLRs, including the "prior result" is a stand-alone result, and their achievement will be proportionately rewarded out of the allocated amount for "prior results". Achievement of the prior results will be verified by the Secretariat of the Cabinet of Ministers.
2	Timely communication to VCs of the	From Program FY 17 onwards,	No	MoF	IVA	From Program year 2, the MDLF will notify the Bank of the date and means of

[25] The Fiscal Year (FY) cycle of the PA corresponds with the Calendar Year cycle, and ends on December 31 of each calendar year. FY in the Table refers to the PA FY.

	formula-based Annual Capital Investment Grant (ACIG) allocations and timely transfer of ACIGs to eligible VCs	Annual allocation of Capital Grants published no later than Jan 15 of the current FY and disbursed no later than Jan 31				publication of the annual allocation and will submit the documentation relative to the disbursements. Verification by the IVA that the indicative annual allocation of capital grants has been communicated to VCs within the agreed upon time period and that the disbursements have been completed by the agreed upon date to eligible VCs
3	Percentage of VCs meeting the Program eligibility criteria annually	Annual targets are defined in terms of percentage of VCs meeting the eligibility conditions prescribed in the Program. The Annual targets are: FY 2017: at least 30% of VCs, maximum of 50%	Yes	MoLG	IVA	Each year VCs will communicate to MoLG on their compliance with the eligibility conditions; MoLG will consolidate the verified list in the annual VC eligibility assessment MDLF will compile the data from MoLG and communicate to the IVA with copy to the Bank. IVA will verify the result reported and will convey their findings to the Bank.

		FY 2018: at least 40 % of VCs, maximum of 60% FY 2019: at least 50% of VCs, maximum of 70% FY 2020: at least 60% of VCs, maximum of 70%				
4	Cumulative number of Joint Projects approved	Joint projects will be approved by the MDLF in accordance with the consolidated ACIPs of eligible JSCs Target values for the approval of joint projects starting from FY17 of the Program are as follows (cumulative) FY 17: 6 FY 18: 10 FY 19: 14	No	MDLF	IVA	The reporting from MDLF will show the date of approval and other details of the joint projects. The MDLF will prepare consolidated reports on the number of joint projects approved annually and submit to the IVA with copy to the Bank. The IVA will verify the result and convey the verification report to the Bank

		FY 20: 18				
5	Aggregated expenditure percentage of approved Joint Projects	The expenditure efficiency of joint projects will be measured through the following ratio: Cumulate Actual Expenditures for Joint Projects/ Cumulative Total budget outlay for Joint Projects The targets for this indicator starting from FY18 provide for the minimum, expenditure performance required and are as follows: FY 18: 30% FY 19: 40% FY 20: 50%	No	MDLF	IVA	MDLF will prepare financial reports showing the actual expenditures for all joint project approved under the Program and their budgeted outlay. These will be consolidated into aggregate figures for a year and the ratio computed. MDLF will communicate these expenditure percentages to the IVA, including the records for verification. IVA will report to the Bank on the result.
6	Steps to improve transparency	By the second year of the Program, MoLG	No	MoLG	IVA	In addition to the copy of the new decree/directive reforming the allocation of

	and predictability in the allocation of the Transportation Fee adopted by MoLG	will finalize and submit to the Cabinet for approval a directive for transparent and predictable allocation of the Transportation Fee to all VCs and will implement the decree in Program FY 18, 19, and 20.				the Transportation Fee, MoLG will also prepare documentation showing the actual allocation and disbursement to each VC. MDLF will collect the necessary documentation showing the achievement of the DLI and convey to the IVA. The reported result will be verified by the IVA and the results of the verification will be conveyed to the Bank
7	Capacity Building Activities delivered by MoLG based on their Annual Capacity Development Plan	MoLG will coordinate the capacity support required for VCs and JSCs by recognizing the current capacity support provided by DPs and identifying gaps. These will be consolidated through a 5-year MoLG Capacity Development Plan, prepared and adopted by the MoLG, based	No	MoLG	IVA	MoLG will prepare a five year Capacity Development Plan in FY 16, including baseline and targets. In addition, MoLG will prepare an Annual Capacity Development Plan before the start of each FY. The five-year Capacity Development plan will identify the various capacity support provided by the DPs and those that need to be undertaken by MoLG itself. The report will describe the capacity support provided in the

		on which an annual Capacity Building Plan would be developed and executed on an annual basis throughout the Program life.. The quality of these capacity building plans and their ability to address key elements of the institutional performance of VCs will be evaluated based on the baseline and targets agreed in the MoLG Capacity Development Plan				previous year, including outputs against targets; and those activities intended to be provided in the subsequent year. The first such report will be prepared before FY 16 and will continue throughout the Program. MoLG will implement the various capacity building activities described in the Annual Capacity Development Plan. Depending on the nature of the activity identified, the execution would be either implemented in-house by the MoLG or outsourced, and with funding from the Program or through existing parallel financing. MDLF will convey these reports to the IVA for verification, copy to the Bank.

Table 3: Bank Disbursement Table

#	*DLI*	*Bank financing allocated to the DLI*	*Of which Financing available for*		*Deadline for DLI Achievement*	*Minimum DLI value to be achieved to trigger disbursements of Bank Financing*	*Maximum DLI value(s) expected to be achieved for Bank disbursements purposes*	*Determination of Financing Amount to be disbursed against achieved and verified DLI value(s)*
			Prior results	*Advances*				
1	Enabling steps to strengthen local governance adopted by the MoLG	**1.8**	**1.0**		Prior result for DLR # 1.1 FY 16 for DLR # 1.2	N/A	N/A	Not scalable
2	Timely communication to VCs of the formula-based Annual Capital Investment Grant (ACIG) allocations and timely transfer of ACIGs to eligible VCs	**3.2**			Closing Date	NA	NA	Not scalable If the target is not met for a given year, the undisbursed amount will be redistributed equally in the projected disbursement of the following years.

3	Percentage of VCs meeting the Program eligibility criteria annually DLR # 3.1 DLR # 3.2 DLR # 3.3 DLR # 3.4	**5.0**			Closing Date	 30% 40% 50% 60%	 50% 60% 70% 70%	For each year, a determined minimal amount for the minimal DLI value, plus an additional amount for each 1% increase until it reaches the maximal DLI value If the target is not met for a given year, the undisbursed amount will be redistributed equally in the projected disbursement of the following years.
4	Cumulative number of Joint Projects approved DLR # 4.1 DLR # 4.2 DLR # 4.3	**4.0**			Closing Date	 6 10 14	 NA NA NA	Not scalable If the target is not met for a given year, the undisbursed amount will be redistributed equally in the projected

	DLR # 4.4					18	NA	disbursement of the following years.
5	Aggregated expenditure percentage of approved Joint Projects DLR # 5.1 DLR # 5.2 DLR # 5.3	**1.5**			Closing Date	 30% 40% 50%	 NA NA NA	Not scalable If the target is not met for a given year, the undisbursed amount will be redistributed equally in the projected disbursement of the following years.
6	Steps to improve transparency and predictability in the allocation of Transportation Fee adopted by MoLG	**1.0**			Closing Date	N/A	N/A	Not scalable
7	Capacity Building Activities delivered by MoLG based on their Annual	**1.5**			Closing Date	N/A	N/A	Not scalable If the target is not met for a given year, the undisbursed amount will be

	Capacity Development Plan							redistributed equally in the projected disbursement of the following years.

Table 4: DLI allocation per co-financier

Category (including Disbursement Linked Indicator as applicable)	Disbursement Linked Result (as applicable)	Amount Allocated to MDTF (expressed in US$)	Amount allocated to TFGWB	Disbursement Calculation Formula
(1) **DLI #1:** Enabling steps to strengthen local governance adopted by MoLG	***DLR #1.1:*** MoLG adopted standardized Governance Framework for joint local service provision by more than one VC and adopted formula for annual Capital Investment Grant allocation for VCs/JSCs. ***DLR #1.2:*** The MoLG issued Procurement Instructions for LGUs to follow in procuring local services	0	1,000,000 800,000	NA
(2) **DLI #2:** Timely communication to VCs of the formula-based Annual Capital Investment Grant (ACIG) allocations and timely transfer of ACIGs to eligible VCs.	***DLR #2.1:*** Communication of the ACIG allocation to VCs by January 15 and transfer of ACIGs to eligible VCs by January 31, in FY 17 ***DLR #2.2:*** Communication of the ACIG allocation to VCs by January 15 and transfer of ACIGs to eligible VCs by January 31, in FY 18 ***DLR #2.3:*** Communication of the ACIG allocation to VCs by January 15 and transfer of ACIGs to eligible VCs by January 31, in FY 19 ***DLR #2.4:*** Communication of the ACIG allocation to VCs by January 15 and transfer of ACIGs to eligible VCs by January 31, in FY 20	800,000 (DLR #2.3) 800,000 (DLR #2.4)	800,000 (DLR #2.1) 800,000 (DLR #2.2)	NA
(3) **DLI #3:** Percentage of VCs	***DLR #3.1:*** 50% in FY 17		1,000,000	<30%: 0 30%: 700,000

meeting the Program eligibility criteria annually				Each 1% increase over 30% is additional 15,000 >50%: 1,000,000
	DLR #3.2: 60% in FY 18	1,000,000		<40%: 0 40%: 750,000 Each 1% increase over 40% is additional 12,500 >60%: 1,000,000
	DLR #3.3: 70% in FY 19	1,500,000		<50%: 0 50%: 1,300,000 Each 1% increase over 50% is additional 20,000 >70%: 1,500,000
	DLR #3.4: 70% in FY 20	1,500,000		<60%: 0 60%: 1,300,000 Each 1% increase over 60% is additional 20,000 ≥70%: 1,500,000
(4) **DLI #4:** Cumulative number of Joint Projects approved	***DLR #4.1:*** 6 joint projects approved in FY 17 ***DLR # 4.2:*** 10 joint projects approved in FY 18 ***DLR #4.3:*** 14 joint projects approved in FY 19 ***DLR #4.4:*** 18 joint projects approved in FY 20	1,000,000 1,000,000 1,000,000 1,000,000		NA
(5) **DLI #5:** Aggregated expenditure percentage of approved Joint Projects[26]	***DLR #5.1:*** 30% in FY 18 ***DLR #5.2:*** 40% in FY 19 ***DLR #5.3:*** 50% in FY 20	500,000 500,000 500,000		NA
(6) **DLI #6:** Steps to improve transparency and predictability in the allocation of the Transportation	***DLR #6.1:*** Not later than FY17, the Recipient submitted its Transportation Fee reform directive to its Cabinet of Ministers for approval	300,000		NA

[26] Share of actual expenditures incurred for approved Joint Projects.

Fee adopted by MoLG	***DLR #6.2:*** No later than FY 18, at least 25% of annual allocation of the Transportation Fee is disbursed using the criteria set out in the Program Operations Manual	700,000		
(7) **DLI #7:** Capacity building activities delivered by MoLG based on their Annual Capacity Development Plan	***DLR #7.1:*** Five Year Capacity Development Plan prepared in FY 16 ***DLR #7.2:*** Annual Capacity Development Plan executed in FY 17 ***DLR #7.3:*** Annual Capacity Development Plan executed in FY 18 ***DLR #7.4:*** Annual Capacity Development Plan executed in FY 19	 500,000 400,000	200,000 400,000	NA
TOTAL AMOUNT		**13,000,000**	**5,000,000**	

Annex 4: Technical Assessment

1. As part of the LGSIP Program preparation, the Bank team conducted a Technical Assessment comprising of a (i) Village Council capacity assessment; (ii) joint service provision assessment; (iii) expenditure assessment; and (iv) MoLG capacity assessment. The Technical Assessment also reviewed the PA's strategic framework and development objectives in the Local Government Sector, and was informed by an analysis of the Inter-Governmental Fiscal Relations (IGFR) conducted by the Bank as part of the programmatic Public Expenditure Review 2014. Findings of the Technical Assessment have informed the Program design and are summarized below.

1. Strategic framework for LG Sector development

2. The PA strategic framework for the Local Government Sector in the WB&G is found in the following documents:

- PA's National Development Plan 2014-2016 (NDP 2014-2016); and
- MoLG Strategic documents:
  - Joint Services Councils Strategy 2014 to 2016
  - Local Government Cross Sectoral Plan 2014 to 2016
  - The Strategic Framework for the Ministry of Local Government 2015 to 2017.

3. The NDP 2014 is the overall strategic document providing PA's vision for local government development. It identifies LGUs as a critical foundation of the Palestinian society given their functions of local representation and for service delivery. The NDP builds on previous development plans, including the Palestinian Reform and Development Plan 2008-2010, and the NDP 2011-2013. The NDP 2014-2016 includes operational and development expenditures divided into four main sectors, and subsequent subsectors, with total expenditures of around US$12 billion over three years (Table 1).

Table 1. Sectors in the NDP 2014 to 2016 and expenditure frameworks, US$ million

Sectors	Operating	Development	Total
1. Economic Development and Employment	229	287	516
2. Good Governance and Institutional Building	3,905	392	4,297
3. Social Protection and Development	5,995	410	6,405
4. Infrastructure	258	417	675
Total	**10,388**	**1,506**	**11,894**

4. The PA's strategic priorities and development objectives in the local government sector are included under NDP Sector (2) "Good Governance and Institution Building (GGIB)". It aims to support building "[…] effective and efficient sub-national governments that are capable of high quality and proficient public service delivery". Further strategic objectives under this sector include ensuring public participation, decentralized decision making, and public accountability.

The objective to develop more equitable and sustainable service infrastructure for water supply, waste water and solid waste management are included in the NDP Sector (3) "Social Protection and Development". Although the NDP does not make specific reference to LGUs in this context, it is important that LGUs have the legal mandate to provide those critical basic services.

5. The PA's Local Government program is further specified as one of the five sub-sectors under the NDP Sector "Good Governance and Institution Building (GGIB)". A total budget of respectively US$138 million and US$140 million is allocated for operating and capital expenditures to the Local Government program (see Table 2 below).

Table 2: Sub sectors of the NDP's Good Governance and Institutional Building Sector with sub objectives

Sub-Sector	Budget 2014-2016 million US$		Sub-Sector Objectives
	Operating	Development	
Administrative Development and Public Financial Management	270	67	More effective, efficient and transparent management and allocation of public finances
Local Government	138	140	LGUs throughout governorates are more capable of a better public service delivery
Security	3,151	93	More effective delivery of and equitable access to public services
Justice	127	84.5	Enhanced ability to provide security and access to justice
International Relations	218	7.5	More effective Palestinian presence in Arab and international forums as well as within Palestinian communities in the Diaspora
Total GGIB	**3,905**	**392**	

Source: NDP, 2014-16, p 50.

6. The NDP lacks details on how these figures are allocated further although yearly figures are provided. For the local government sector the yearly figures follow below.

Table 3: Budget for operations (Ope) and developing (Dev) in the NDP for subsector Local Government. US$ mill.

	2014		2015		2016		2014-2016	
Operation/Development	Ope	Dev	Ope	Dev	Ope	Dev	Ope	Dev
Local Government sub-sector	44.8	42.0	46.1	43.0	47.5	55.0	138.4	140.0

7. A critical issue is the PA's approach to service delivery. In particular, LGU's role for service delivery hasn't been defined specifically in the NDP. However, some elements of a service

delivery strategy can be found in other strategy documents relating to local governments developed by MoLG, in particular the recent Strategic Framework for MoLG 2015-2017, which includes five strategic directions:

(i) Establishment of infrastructure and institutional structures able to provide services and strengthen the citizens' resilience in Area "C".

(ii) Developing local authorities' financial, administrative, and planning capacity in order to be able to fulfill their duties and obligations within the overall orientation towards increasing decentralization.

(iii) Continuous improvement of the ministry's technical, human, and legal structure to be able to respond to new challenges in, and lead, the local governance sector.

(iv) Establishment of an effective and flexible legal environment that enables enhancing partnerships in the provision of services and investments between local authorities and the private sector.

(v) Building the financial and administrative capacity of local authorities to be able to contribute in reconstructing and providing basic services in Gaza.

2. Strategic relevance and alignment of the proposed Program

8. The PforR Program has been designed within this context as a part of the PA Strategic Framework to cater for a program for service delivery in villages, which fits into the MoLG's Strategic Framework 2015-2017. The Program would support service delivery improvements and capacity building in VCs, and institutional strengthening of MoLG's and JSCs. Joint service provision, through JSCs, has been outlined as a PA priority in the recent Joint Services Councils Strategy.

9. The Program follows the PA's approach to consolidation in the LGU sector, applying a mix of strategies, including amalgamation, jointly provided services, clustering for joint planning and service delivery and upgrading of a limited number of VCs to municipal status. All these approaches aim to improve the capacity and financial sustainability of service provision in LGUs, especially VCs.

10. A critical element of local governments in the West Bank is the existence of numerous marginalized communities, which cannot be reached by standard approaches, i.e., individual or joint service delivery. Those include communities located in "Area C", surrounded by "Area C", or cut-off by the separation barrier. Given the particular challenge of those communities, the PA would continue to focus its attention on marginalized communities within the Palestinian Village Support program, financed by the PA and other DPs, but outside of the PforR.

11. Since no villages exist in the Gaza Strip, the Program will not target Gaza. Gaza is comprised of 25 municipalities which receive support through the MDP-II, including a recent Additional Financing to respond to the Gaza emergency following the armed conflict during July-August 2014.

12. The proposed LGSIP is highly relevant to WB&G local government sector and supports the two sector objectives in the NDP 2014-2016: LGUs throughout governorates are more capable

of a better public service delivery and more effective delivery of and equitable access to public services. The Program also complements the weaker areas in the PA strategy with a comprehensive approach to service delivery improvement in villages. The program will support MoLG to further define a coherent sector strategy for improved local service delivery and for enhancing MoLG's ability to support the development and planning of service provision using joint service delivery arrangements.

13. The technical soundness of the Program is assured by an extensive elaboration of lessons learned from the PA's previous programs in the local government sector supported by the World Bank and DPs. A key lesson is that a consolidated and systematic single approach is needed when dealing with the smaller LGUs, as hitherto many initiatives have been fragmented and less programmatic,. In contrast to this support, the larger LGUs, i.e., municipalities, have been integrated gradually and systematically into a sector-wide approach and since 2010, within a single program, MDP, achieving good results.

14. The PA's approach to consolidation of the local government sector had mixed results. Lessons learned confirm that top down approaches to amalgamation and mechanic clustering of LGUs for joint service provision have had mixed results, but largely resulted in resistance from LGUs and cemented fragmentation instead of supporting consolidation. Hence, the proposed Program would focus on voluntary cooperation with strong incentives to consolidate critical service delivery functions while allowing more time for consolidation in political representation and investment prioritization. The proposed approach aims at reaching sustainable results, acknowledging that joint arrangements will be crucial to improve service delivery outcomes and financial sustainability in the long term.

15. The Program builds on previous successful experience with community based planning. A CDD approach has been tested effectively in the recently completed VNDP and other similar initiatives supported by DPs. Experience from these programs demonstrate that increased accountability and incentives for collaboration can create the demand for LGUs' consolidation in an organic, demand-driven manner. Experience also shows that VCs cannot implement critical investments on an individual basis to improve basic service delivery. Therefore, strong incentives are required for joint service delivery and infrastructure improvements beyond the reach of individual VCs. The Program would therefore replicate this experience at a larger scale by putting strong emphasis on incentives for joint service provision, especially for small LGUs, and a clear minimum benchmark for viable local authorities. The Program also recognizes the need for strong incentives reflected in Program Sub-activity II providing significant additional funding through a 'top-up' for joint investments.

16. VNDP also promoted a gender-integrated approach to community planning and prioritization, such as minimum requirements for representation of women in community project support groups and a requirement that 70 percent of the implemented projects would benefit women and other marginalized groups, such as youth. Also the MDP has built in specific requirements for gender-integration in investment planning and citizen engagement to be drawn from. LGSIP would build on previously tested citizen engagement tools by introducing community consultation as a requirement for ACIPs eligibility, and would track the share of women and other marginalized groups in the related community consultations. A BIA to be commissioned

independently through the Program Manager would assess the degree of how much beneficiaries felt the financed investments reflected community priorities.

17. A critical issue in the Program is the approach to capacity building. Experience demonstrates that capacity building can only be effective if provided in conjunction with investment funding, and vice-versa, to allow learning-by-doing. Therefore, the Program would follow PA's procedures and delegate to large VCs (VCs with population above 4,000 inhabitants and that meet the eligibility criteria) and eligible JSCs critical responsibilities for the selection of investments, project preparation, procurement, financial management, and contract management. However, to ensure minimum capacity of LGUs to perform those critical functions, including as independent viable entities in the future, VCs will have to meet a set of eligibility criteria as mandatory conditions considered to be a proxy for minimum capacity. During program preparation, several assessments have been implemented to assure that the program has the adequate design to deal with the challenges revealed.

3. Results Areas under LGSIP supporting the PA Program

18. The Program would address results areas that are critical to improve local government financing and access to local services. These include improving the transparency and predictability of Annual Capital Grant transfers, strengthening local governance institutions for service delivery, and financing investments in local infrastructure and services. The Results Framework for the Program has two key results areas that are closely inter-related. Each result area is linked to DLIs, Program Actions and planned capacity support, and will be subject to monitoring, evaluation, and verification activities under the Program. This provides a coordinated incentive for VCs and JSCs to improve their capacity to plan, deliver, and sustain local infrastructure and services and for the MoLG to realign its policy direction and capacities to support capacitated and financially viable LGUs.

19. **Results Area One: Strengthening Local Government financing system**. The outcome targeted in this area would be setting up of a sustainable financing system for local governments. The Program intends to reform the existing financing model and make it transparent and predictable. The Annual Capital Grants transfer piloted by LGSIP would provide a model aiming to be extended to other existing transfers such as the Transportation Fee.

i. *DLI 2: Timely communication to VCs of the formula-based Annual Capital Investment Grant (ACIG) allocations and timely transfer of ACIGs to eligible VCs.* Annual Capital Grants allocated based on a simple and clearly defined formula and disbursed within a specific time period will result in making the resource allocation system from the PA to VCs more transparent, timely and predictable. This will enable VCs to plan and budget realistically and enhance their accountability to citizens.

ii. *DLI 6: Steps to improve transparency and predictability in the allocation of Transportation Fee adopted by MoLG.* The current Transportation Fee allocation mechanism, including criteria, final amounts, timeframe and disbursement to LGUs lack clarity and predictability. Reforming the current Transportation Fee allocation mechanism along the lines of the Annual Capital Grants would result in establishing a sustainable financing source for VCs.

Intermediate results include formulating a directive to allocate the Transportation Fee based on a formula following the Program Annual Capital Grants disbursement pattern.

20. **Results Area Two: Strengthening institutional systems for improved service delivery.** The targeted outcome in this results area is to strengthen the capacity of VCs to plan and implement their ACIPs in an efficient and accountable manner. Given the selective approach which would admit only those VCs and JSCs that have the capacity to sustain local services, the Program would achieve measurable service delivery improvements for beneficiaries in Program villages. The following key intermediate outcomes contribute to this result and form the basis of DLIs 1,3,4,5, and 7:

i. *DLI 1: Enabling steps to strengthen local governance adopted by MoLG.* Central level actions that are required to provide an institutional framework with the basic conditions necessary as the foundation for efficient and accountable performance of VCs and JSCs. Critical results include enabling steps to strengthen local governance that MoLG would need to adopt for the LGSIP to be implemented, including issuing the instructions for implementing the new Procurement Law in the LG Sector, approving the standardized Good Governance framework for joint service provision, and adopting the formula for Annual Capital Grant allocation.

ii. *DLI 3: Percentage of VCs meeting the Program eligibility criteria annually.* The ability of VCs to meet the Program eligibility criteria indicates the extent to which VCs' institutional systems have been strengthened. This is also an indication of VCs' ability to carry out their mandated institutional responsibilities such as preparing annual plans in a participatory manner and formulating annual budgets. It also reflects that VCs have put in place CE mechanisms required for preparing participatory ACIPs and establishing effective feedback loops with citizens.

iii. *DLI 4 and DLI 5: Cumulative number of Joint Projects approved, and aggregated expenditure of approved Joint Projects.* The number of joint projects approved demonstrates the ability of VCs to join in and collaborate effectively under institutionalized arrangements and prepare investment proposals reaping scale economies. It also reflects that JSCs have put in place strong governance arrangements and achieved the minimum score of the bi-annual JSC assessment to become eligible for implementing joint projects. The MDLF would support JSCs in formulating joint project proposals and preparing credible financing plans. Aggregated expenditure is a proxy for measuring the implementation progress of joint projects and is also an indicator of JSCs efficiency and capacity to deliver large-scale local services.

iv. *DLI 7: Capacity building activities delivered by MoLG based on their Annual Capacity Development Plan.* Capacity support provided under the Program will assist achieving above described intermediate results, including through providing guidance on infrastructure prioritization and preparation of ACIPs, improved procurement and financial management processes and grievance handling, citizen engagement for improved social accountability, and public disclosure and other transparency measures. Capacity support would focus on strengthening the institutional systems of VCs and JSCs so that they can fulfill their mandated responsibilities and achieve Program results, and strengthening

MoLG at the central and district levels to provide LGUs with the necessary oversight and to better its sectorial approaches based on lessons learned. Additional measures required to support these outcomes are included in the Program Action Plan.

4. Joint Service Provision as a key pillar for consolidation and financial sustainability

21. Establishing and developing JSCs has been crucial to improving service delivery in WB&G since the adoption of the Local Government Act (1997), and an important element of PA's consolidation effort in recent years to leverage economies of scale and sustain many existing VCs. Joint service provision for basic infrastructure and services is therefore at the core of the proposed Program. However, the current institutional framework and governance structure for JSCs' service provision faces several limitations. Generally, the management and decision making structures, accountability frameworks, financing arrangements, public participation systems, social accountability, and communication are inadequate or unclear. Furthermore, prior to Program preparation, no comprehensive data was available at MoLG on the number of JSCs, membership, services provided and whether those JSCs were active or not.

22. Therefore a Joint Services Provision Assessment was carried out as part of the Program preparation to get a full understanding of the framework for JSCs in the WB&G. This included establishing an adequate GG framework, which all JSCs could be assessed against; development of clear models for by-laws/ legal agreements for JSCs' within the GG framework and suggesting JSCs that could be supported by the Program. The Assessment was completed in March 2015. A brief summary of the assessment and main findings follows below:

23. As the MoLG's existing information was incomplete and partly outdated, the first step of the assessment was to identify all 92 existing JSCs – 82 in the West Bank and 10 in Gaza. Basic membership, types of services, population covered by the services, staffing, financial capacity, revenue sources, and other administrative, financial, and demographic data was collected through a questionnaire for all 92 JSCs. A summary is presented below:

Table 4. Number of JSCs in WB&G with current status (December 2014)

Location	Active	Temporary	Inactive	Total
West Bank	50	13	19	82
Gaza	5		5	10
Total WB&G	55	13	24	92

Note: According to MoLG, temporary JSCs will be merged with other JSCs within Solid Waste.

Table 5. List of active JSCs in WB&G per activity (December 2014)

Location	Solid Waste	Water, Waste Water	Planning and Development	Total
West Bank	14	6	30	50
Gaza	2	1	2	5
Total WB&G	16 (11)	7	32 (2)	55 (13)

Note: Temporary JSCs are in parenthesis.

24. Further, a more detailed survey was carried out to assess the current performance of JSCs and to rank the 55 active and 13 temporary JSCs. The assessment was done based on a GG Framework for Joint Service Provision with 19 indicators in six thematic areas: i) rule of law, ii) effective and efficient service delivery, iii) transparency, iv) accountability, v) responsiveness and vi) participation.

25. 42 JSCs in the West Bank and 5 JSCs in Gaza responded to the second questionnaire. The assessment confirmed the anticipated challenges, including large performance variations within a scoring range from 18 points to a maximum score of 58 points. The average score in the West Bank was 34 points and in Gaza 32 points. Of the ranked JSCs in the West Bank, 16 JSCs achieved more than 40 points, i.e.38 percent and 15 JSCs scored below 30 points = 36 percent. The best sector scoring for JSCs was found in the water sector, with 41 points on average. Solid Waste Management (SWM) and JSCs for "Planning and Development (P/D)" scored on average 32 points. A score of more than 40 was assessed as the minimum for a JSC to be considered eligible for the proposed Program. A list of JSCs that scored more than 40 points and which have qualified for the proposed program is included in the following table:

Table 6: Qualified JSCs for the Program (first Annual Investment Grant Cycle)

No.	Governorate	Type	JSC Name	Score Ranking 2014
2	Bethlehem	Planning & Development	Joint Service Council for planning and development, West Rural areas, B1	42
9	Hebron	Planning & Development	Joint Service Council for Development and Planning of Al Karmel Cluster	48
10	Hebron	Solid Waste	Joint Service Council for Solid Waste Management , Hebron Governorate	42
11	Hebron	Solid Waste	High Joint Service Council for Solid Waste Management, Hebron Bethlehem Governorate	48
14	Jenin	Solid Waste	Joint Local Council for Solid Waste of Zahret El Finjan	52
15	Jenin	Water & Waste Water	Joint Service Council for Water and Wastewater Management	46
16	Jenin	Water & Waste Water	West Joint Service Council for Water and Wastewater	54
29	Jericho & Jordan Valley	Solid Waste	Joint Local Council for Solid Waste Management- Jericho and Al Aghwar (Jordan Valley)	54
42	Nablus	Planning & Development	Joint Service Council for Planning and Development/ North West of Nablus	46
50	Qalqilia	Planning & Development	Middle Joint Service Council for Planning and Development	58

Table 6: Qualified JSCs for the Program (first Annual Investment Grant Cycle)				
No.	**Governorate**	**Type**	**JSC Name**	**Score Ranking 2014**
55	Ramallah & Al Bireh	Solid Waste	Joint Service Council for Planning and development for Beit Liqya cluster	41
73	Salfeet	Solid Waste	Joint Service Council for Solid Waste Management	52
75	Tubas	Planning & Development	Joint Service Council for Planning and Development of Tubas Area	44
78	Tubas	Water & Waste Water	Joint Service Council for Water and Wastewater Management for Tubas Area	44

26. Following the ranking assessment, eight of the better performing JSCs were selected for a subsequent detailed field assessment. This was done to verify the information provided in questionnaires and to review the governance structures and existing service agreements governing the performance and operation of the selected JSCs.

27. The assessment concluded that basic elements for joint service cooperation exist and receive a good understanding by JSCs and MoLG, in general. . On the other hand, large areas of improvement in establishing GG structures for joint service provision are necessary, especially to ensure better and clearer agreements between the members and better cost recovery for sustainability of services. Accountability systems are often weak, caused by the indirect accountability between the end users and the JSC management.

28. The assessment confirmed that a revised JSC Regulation would be needed to establish clear rules for the functioning of JSCs, including a standard by-law as the foundation for a clear agreement between the JSC members. MoLG is currently reviewing the Basic Regulations for JSCs from 2006 and the assessment provided information to the ongoing review by suggesting a structure of a new standard by-law for JSCs. Due to the importance attached to the MoLG's adoption of the revised JSC Regulation into a standard by-law and Agreement template for joint service provision which members of JSCs would use to be eligible for Program financing is a Program DLI.

29. The JSC assessment provided the critical information needed to select JSCs meeting Program eligibility criteria. The assessment also provided crucial information about capacity building requirements for strengthening JSCs. The assessment also provided MoLG with a highly needed database with information about all JSCs in WB&G, which can be used for effective support to active JSCs, for consolidation, and for dissolving those that are not active. Such a database is also candidate for public disclosure and periodic updates under the MoLG's portal www.baladiyat.ps. Building on this 'baseline' assessment, MoLG will carry out on a bi-annual basis, a JSCs assessment to determine the JSCs eligible for funding and support under the Program.

5. VC capacity assessment

30. The West Bank has a scattered structure with many small VCs of which most lack capacity and basic staff. Experience from previous programs in WB&G and in other countries with similar structures show that LGUs without basic core staff, e.g., technician/planner/engineer, accountant and an administrator/director will not be able to sustain services. Global experience demonstrates that a certain minimum population size of 3,000-5,000 is crucial for having the necessary foundation for service delivery and a local revenue base.

31. The Local Government Law does not distinguish between functional assignments and assigns the same set of tasks to municipalities and VCs alike (see Table 7 for tasks assigned). Although there are no clear criteria established by the MoLG, population size is the main determining factor distinguishing between the two layers of administration. However, while even the majority of municipalities, around 80 percent, provide only 12 or less of the 27 assigned functions, VCs with far smaller population cover even fewer. The smallest VCs carry out only around 4 functions.

Table 7: Local Government Functions
(ref. Article 15, 1997 Local Government Law)

Functions
1. Town and streets planning (master plan and/or investment plan)
2. Building and construction permits
3. Water supply
4. Electricity distribution
5. Sewage (public toilets)
6. Public markets
7. Commerce & business licensing
8. Public hygiene (street cleanings, waste collection)
9. Public health & supervision (solid waste management)
10. Public stores (supervision of commercial, entertainment entities)
11. Public parks
12. Precautions for natural disasters
13. Cultural, sports facilities
14. Public transportation
15. Control and monitoring of street vending activities
16. Control of weights and measurement
17. Advertisements/signboards
18. Demolition of Buildings
19. Sales of land and parcels
20. Beggars control
21. Cemeteries
22. Hotels and guesthouse controls
23. Animal livestock control
24. Control of Stray Dogs
25. Budgeting, staff
26. Management of LGU assets
27. Fire fighting
28. Others

32. To prepare the Program, key information on VCs was therefore required to (i) define the Program VC target group; and (ii) set Program's investment grant eligibility criteria, including basic data on the total number of VCs, population size, poverty level, access and quality of services, population living in "Area C", and share of marginalized communities; but also information on the institutional capacity, staffing levels, and financial capacity, including existing DP support. To collect the basic information, the MoLG conducted an in-house data collection exercise through its directorate offices. The World Bank, jointly with KfW provided the MoLG with technical assistance to support carrying out a VCs Assessment for: (i) compiling, reviewing and analyzing existing data; and (ii) identifying critical data gaps that would need to be addressed further during Program preparation. The exercise confirmed that over 80 percent of VCs have a population size below 4,000 inhabitants, and that 76 percent of the VCs fulfilled one of the VCs' requirements by the MoLG, namely submission of its budget to the MoLG. Only 39 percent of the VCs, however, recorded lower or equal amounts of arrears from the previous year. No reliable data was available in terms of availability of access to core staff (accountant/engineer/administrator). Other critical information such as the existence of a simplified development and investment plan was not provided by VCs, either.

33. The exercise enabled identifying two separate groups of VCs to be considered for the program's Sub-Activity I: Large VCs (population above 4,000) that meet the other eligibility criteria would receive a grant allocation transferred directly from the MoLG to their accounts for execution by the individual VC. Small eligible VCs (population below 4,000) would be allocated grants but the funds would not be transferred directly from the MoLG to the VC and the individual sub-projects in small VCs would need to be executed through a qualified JSC. Both groups of VCs will be assessed for their eligibility to respective grant allocation based on the eligibility criteria described in Annex 1. The official baseline VCs eligibility assessment has been carried out by the MoLG as a part of Program preparation and was completed by Program Negotiations.

6. Inter-Governmental Fiscal Relations

34. The technical assessment also relied on the Inter-Governmental Fiscal Relations IGFR policy note to design the fiscal arrangement in the Program and the transfer mechanism to VCs and JSCs. The study reviewed the existing inter-governmental fiscal arrangements between the PA and LGUs to identify the main issues and to provide recommendations for the PA to adopt policies and practices to improve the financial health of LGUs. The initial findings from this exercise indicated that a vast majority of VCs can barely provide solid waste management service – only one of the 27 expenditure assignments for LGUs – due to the shortage of own-source revenues as well as central transfers. VCs rely largely on local fees and user charges, due to severely limited tax revenue assignments (personal tax and ceiling tax only). VCs' per capita own-source revenues were only half of those for municipalities in 2010 and 2011. VCs also do not have any predictable grants and transfers available from the PA to supplement such grave shortage of own-source revenues. Only two types of transfers are currently implemented from the PA to VCs: namely (i) sharing of the Transportation Fee (which is however intercepted by the MoF to account for arrears); and (ii) emergency allocations. However, these transfers are neither predictable nor significant enough to finance VCs' service delivery functions. The study also highlighted VCs' low budget planning and execution capability through revealing the large disparity between planned and executed budgets. Given the importance of strengthening the resource base and

predictability of VCs financing for service delivery, transparency and predictability of the Transportation Fee allocation to VCs is therefore agreed with the PA as a Program DLI.

7. MoLG Capacity Assessment

35. The technical assessment also included a review of MoLG's capacity. The assessment had the objective to assess MoLG's capacity to perform its mandated tasks, in particular supporting VCs to deliver local services. Findings of the assessment would guide developing capacity building and technical assistance activities under the proposed LGSIP to support the MoLG in carrying out its regular sector oversight and supervision function, and to also build the capacity of VCs and JSCs to deliver services in a sustainable manner. The assessment was carried out with the objective of confirming the MoLG's capacity to provide overall support and guidance to LGUs targeted under the Program and to help them provide sustainable services to citizens, based on a predictable financing mechanism and in line with GG principles. The assessment would then identify areas of improvement and risks to be mitigated through Program support, in the Program Action Plan and in the MoLG Capacity Development Plan.

36. MoLG's mandate has been confirmed in its Mission Statement, which aims at "working on building the capacities of LGUs and enhancing their resources to enable them to achieve the welfare of their citizens/constituencies within the framework of good local governance".[27] Overall, the assessment reviewed the degree to which MoLG is implementing its mandate, but focused particularly on those directorates and units that are expected to play a critical role under the proposed LGSIP.

37. For the proposed LGSIP, the following functions of MoLG are particularly critical:

(i) Perform a sound and transparent selection[28] of VCs and JSCs that would qualify for the annual investment grant cycle, and submitting the selection to the LGSIP Program Committee for approval through the Program Manager (MDLF).[29]

(ii) Following the Program Committee's approval, announcing to eligible VCs and JSCs the selection, eligibility criteria, financial allocations, and initial capacity building activities;

(iii) Oversight; in terms of receiving and approving Annual Budgets from VCs and JSCs, in accordance with the Annual Budget Cycle, starting on November 1 every year;

(iv) MoLG screening of minimum participatory annual capital investment planning requirements for VCs, and provision of capacity building to VCs in participatory annual capital investment planning, and participatory M&E;

(v) MoLG support to the VCs that are eligible for implementing investments under Sub-Activity I in all aspects of investment program cycle, including the review and approval of

[27] Ministry of Local Government Public Relations and Media Unit, 2013.

[28] According to the VC Annual Eligibility Assessments to be carried out on an annual basis, and the JSCs eligibility assessment to be carried out in 2016 and in 2018 following the one already carried out in 2014 - 2015 during Program preparation.

[29] Based on the assessment of the MoLG the MDLF confirms the final financial allocations to eligible LGUs and submits the lists for the endorsement of the LGSIP Program Committee.

bidding documents, review of O&M plans, providing periodic sight supervision, reviewing site reports, reviewing and approving contractors invoices (for the case of small VCs plans executed via JSCs), while making sure investment planning, execution, and operation are carried out in accordance with technical requirements/ specifications (including procurement and financial management), in accordance with the ACIPs, and in accordance with sound environmental and social considerations.

(vi) Identification of indicative capacity building needs for VCs and JSCs not yet eligible under the Program, and execution of capacity building activities to support VCs and JSCs to meet minimum eligibility criteria for investment funding under the LGSIP;

(vii) Supporting physical planning activities in VCs, as needed;

(viii) Supporting the improvement of VCs service delivery financial and technical capacity, through (i) the development and implementation of strategies, legal reform, and guidelines, including, but not limited to, a transparent system for the allocation of Transportation Fee to VCs, guidelines for developing VCs own source revenue, review of VCs' and JSCs' revenues and expenditure assignments to establish a sustainable Inter-governmental fiscal framework, guidelines for service tariff structures, the application of GG Framework for joint service provision, and developing a revised policy directive for the consolidation of small, non-viable LGUs; and (ii) consequently, providing needed training to VCs and JSCs by the different MoLG directorates.

38. Overall, the assessment confirmed that MoLG has sufficient technical capacity and the PA's formal mandate[30] to provide guidance to and support VCs meeting LGSIP results. MoLG's strengths include its capacity to branch out with 201 MoLG staff in 11 West Bank Governorate Directorates, equivalent to about 56 percent of total MoLG staff with an average of 18 staff per directorate.[31] The capacity assessment confirmed that, in principle, MoLG does not need to hire additional civil servants to support Program implementation, but may need to relocate staff from MoLG headquarters in Ramallah to selected directorates offices to optimize use of the more than 130 MoLG planners and civil engineers. The MoLG may also need to acquire the services of short-term and long-term consultants to support LGSIP oversight activities and policy formulation to avoid any gaps. Capacity building and training would also be required, focusing on areas with limited MoLG capacity, e.g., in management of consultancy and training contracts under Sub-Activity III. The assessment also noted sub-optimal coordination and knowledge sharing between MoLG Directorates. There is a need to ensure sufficient level of technical coordination between the number of MoLG Directorates and involved technical units to ensure LGSIP results are met.

39. The capacity assessment noted clear shortcomings that would require provision of technical assistance to the MoLG as part of the Program, including some that could be provided under Sub-Activity III and would be detailed in the MoLG Capacity Development Plan. For instance, field visits to sampled directorates confirmed that key central-level GDs are mirrored in terms of staff and functions. This, in theory, would help decentralize and streamline the MoLG oversight and facilitate interaction with LGUs. In practice, however, the assessment confirmed redundancy in

[30] Basic Law of the Palestinian Authority and Local Authorities Law No. 1 of 1997
[31] MoLG Human Resource Development Strategy, 2014.

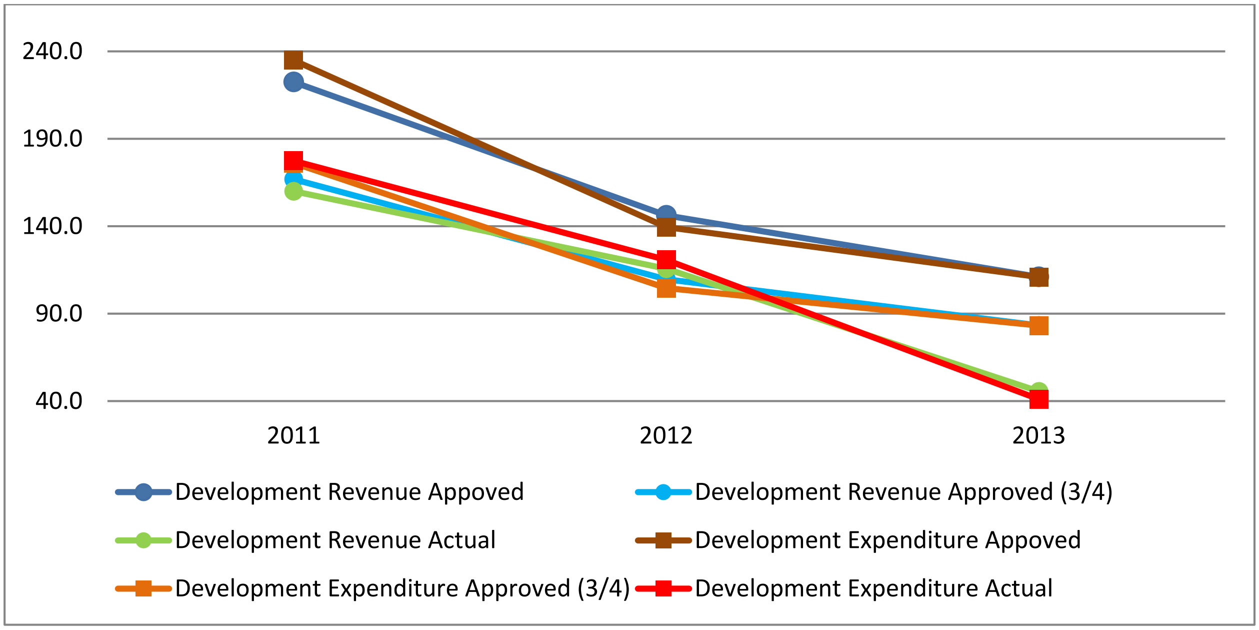
the application of oversight mandated practices at the MoLG directorate and central level. Redundancies should be reduced under the proposed Program MoLG. Specific guidance to relevant MoLG staff would be detailed in the Program Operations Manual.

40. Findings of the assessment also confirmed that those MoLG General Directorates which traditionally received systematic and focused donor funded technical assistance and capacity building are more advanced in terms of preparing their own strategies, as well as technical knowhow and staffing capacities compared to other MoLG directorates and units. Therefore, during Program preparation, an exercise was carried out to map on-going and future capacity building and technical assistance provided to the MoLG with the MoLG Human Resource Development Strategy and Departmental Training Plan for the years 2014 – 2017. Based on this exercise, it has been agreed that the MoLG would prepare a consolidated capacity development plan for the five years of LGSIP implementation, focusing on MoLG's mandated program oversight tasks, including specifying the sources of funding under the PA Program, and funding gaps which need to be covered under LGSIP. As such, a more detailed capacity development plan will be prepared and executed on an annual basis, and would optimally attempt to cover on a gradual, prioritized manner, a range of strategies, guidelines, and training (for MoLG and for LGUs) in support of the MoLG's Strategic Framework for MoLG 2015 to 2017. The execution of the Annual capacity development plan will be tracked through a DLI.

8. Expenditure Framework Assessment

41. *Review of the existing system of financing infrastructure service delivery in village councils*: Capital expenditure requirements of Village Councils are financed mainly through Budget allocations from the central government as well as through shared taxes. The recurring expenditures are financed through a combination of subsidies from the central government as well as through own revenues, mostly from user fees for revenue generating services. Analysis of the budgets of the previous years (see figure below) shows that budget allocations for development and operating expenditures by VC have been declining and is fluctuating over the years, indicating that there is a significant paucity of resources available to VCs for infrastructure development, operation and maintenance. The ability to finance large operational expenditures has not improved much in recent years. Operational average expenditures per capita (in NIS) for VCs barely moved from 2011 to 2012 –with around 54 NIS and increased some to 64.6 NIS in 2013 Compared to this, operational average expenditures per capita for municipalities steadily decreased from 195 NIS in 2010 to 166 NIS in 2012. Similarly, analysis of development budget expenditures shows that capital expenditures per capita has also reduced over the years and currently stand at approximately 41 NIS. Enterprise budget expenditures per capita have remained fairly stable for the past three years.

Figure 2: Village Councils Development Budget Per Capita Averages: Approved 2011-2013; Three-fourths of Approved 2011-2013; and Actual 2011-2013 (first 9 months) in NIS



42. Analysis of VC budgets has shown that VCs quite consistently show on average deficits in the operating and development budgets. This leads to the conclusion that the operating tax and non-tax revenues of LGUs are insufficient to cover the capital and necessary operating costs. Also analysis of the enterprise budgets have shown that the source of the surpluses in the enterprise budget fund is quite fictitious given that many LGUs in charge of electricity and water distribution do not fully pay their providers and have been incurring in large accumulated payment arrears.

43. *Resourcing of VC budgets*: Analysis of the relative shares of the different types of revenues in the VC budget have shown that the largest share –between 35 and 45 percent – is for "revenues from the PA" which includes revenue sharing and transfers: the Transportation Fees, government donations as grants in aid, and contingency budget allocations. The second relatively larger—up to 30 percent depending on the year-- is "services revenues" from user charges such as garbage collection fees—by far the most important item here--, parking lot fees, car inspection fees, etc. The third category is "revenues by the Village Council" which includes the taxes collected by the Village Council (the personal tax, the ceiling tax and the education tax) and other fees collected by the Village Council (such as agriculture products and cattle inspection fees, building license fees, and signboard fees). Surprisingly the VCs also report loans (from the PA and other institutions) as operating revenues; supposedly these are short-term cash bridging loans but they are wrongly reported as revenues since they will have to be repaid. Last, the not insignificant "miscellaneous revenues" category varies considerably across VCs and covers any kind of revenues that do not fit in the previous categories, such as interest from bank deposits or the sale of property. The analyses of the operating and development revenues and expenditures show that there is a clear gap. However, at present there are no regular grants or transfers available from the PA to supplement the shortage of LGUs' own-source revenues. Transfers from the central level to LGUs include (i) the Transportation Fee; (ii) property tax; (iii) professional license fee; (iv); emergency allocations; and (v) capital transfers through the MDLF. However, only the

Transportation Fee and emergency allocations are available to VC, whereas municipalities also benefit from the other sources.

Table 8: Revenue shares: by type of budgets and its share in overall revenue, Approved and Actual 2011-2013 for Village Councils

	Village Councils					
	Actual 2011	Actual 2012	Actual 2013	Approved 2011	Approved 2012	Approved 2013
Operating Budget Revenue	16.6%	24.1%	21.4%	15.9%	20.5%	22.6%
Enterprise Fund Revenue	60.0%	62.5%	71.0%	63.0%	62.6%	63.3%
Development Budget Revenue	23.4%	13.4%	7.7%	21.1%	16.9%	14.1%

44. The transfer for the Transportation Fee resembles a form of revenue sharing with a distribution formula to allocate the revenues, which are unconditional in their use. So in that sense this type of funding can be regarded as a means to reduce vertical imbalances. This formula is changed yearly by the MoLG. Of the many factors entering the formula, population, has typically been the most important one, with 55 to 75 percent distributed according to it. The specific criteria and decision making process to arrive at the formula remain quite opaque and the MoLG only releases the formula ex-post after it has been applied. Besides population, other factors that have been used include: Financial and Administrative reform;[32] support of VCs, support of the merging of VCs and JSCs, marginalized areas and Bedouins, support of Jerusalem, etc. This approach leaves LGUs with no means to anticipate and plan accordingly for the revenues they may expect from this transfer. The operation of this transfer gets complicated by the fact that revenues are first collected by the Ministry of Transportation, deposited in the Treasury, with MoF letting MoLG the existing pool of funds for allocations, MoLG deciding on the formula, and finally the MoF typically intercepting the funds to be appropriated to the different LGUs because of the LGUs' arrears for water and electricity.[33] Emergency transfers to LGUs are allocated ad-hoc by the Cabinet of Ministers and no information on the allocation criteria and decision making process are made available on a routine basis.

45. In summary, the current system of transfers in the WB&G fails to perform in terms of the three objectives typically pursued by transfer systems —vertical balance, horizontal balance and attainment of sectoral objectives. The existing transfers, for the most part, lack predictability and are too small in size to close the existing vertical gaps. They also lack in incorporating explicit objective equalization criteria and the instrument of conditionality is in its infancy.

[32] This item is intended to support LGU's that adopt Financial and Administrative reforms. Examples are LGU's who lay off unproductive employees and need to pay compensation or LGUs that intend to install prepaid meters for electricity.

[33] The property tax interception process only started to get published in quarterly reports at MoF's website in 2013. However, the published reports do not include the intercepted amounts but rather the arrears to be paid to MoF.This information can be obtained at the link:
http://www.pmof.ps/documents/10180/363023/property.tax.Q1.2014.arb.pdf/d541fa4e-e3cb-4219-9a99-05d602ae4409

46. *Budget formulation and Execution*: Though Palestine has a functioning budget process, the continuing liquidity crisis as well as instability often results in the delayed approval of the PA's annual budget. Review of the past few years have shown that the annual budget is usually approved by the PA council approximately three months after the start of the fiscal year[34]. The delayed approval of the budget also results in delayed disbursement of budgetary resources. This could be a critical risk for the Program as the timely programming of the Annual Capital Grants in the annual budget and their timely disbursement are necessary to make sure that the VCs and JSCs obtain resources in time to implement their ACIPs efficiently. The Program design needs to make suitable agreements with the MoF to include the activities under the Program in the annual budget as well as put in place robust measures to ensure the timely transfer of budgetary resources necessary for the Program. To this end, the MoF has confirmed Program budget allocations that were re-confirmed during Program negotiations.

47. Recent reform efforts in improving budget execution including the development of a unified chart of accounts and standard budget guidelines will be beneficial for the efficient execution of the Program. All VCs are now required to report electronically their annual budgets to the MoLG. Analysis of VC budgets show that there is a consistent variance between planned and actual budgets resulting in a significant financing gap for delivery of local services. The systematic mismatch of planned budget and executed budget tends to nullify the usefulness of budget planning and the prioritization of expenditures. Budget execution on a sequestering basis – depending on cash availability—may negatively affect the efficiency and fairness of actual expenditure allocations. The mismatch problem is more acute with VCs. However weak capacities and skills continue to be a risk in budget execution and the Program should include sufficient capacity support to strengthen the financial management and procurement systems and capacities of VCs and JSCs.

48. One last aspect of budgetary performance is the ex-post audit and evaluation. Even though there is some financial audit performed -- the General Control Office (State Audit Office) reviews annually a sample of VCs —there has been little or no performance evaluation of LGUs' budgets to understand to what extent local programs are achieving their intended goals and at what cost. The MoLG has recently issued instructions for all VCs to get themselves audited annually using the services of independent external auditors. This is an excellent step to strengthen local government accountability.

49. Analysis of local government fiscal data and public financial management systems has shown that, while VCs have a rudimentary fiscal and financial management framework in place, there are several gaps and weaknesses that need to be addressed. There is a consistent gap in the resources available to VCs to address their capital and operating expenditure requirements. Even where such funds are available (such as the Transportation Fee), their allocation and distribution are not transparent nor predictable. The absence of a stable and predictable inter-governmental fiscal transfer system to VCs has resulted in a consistent gap between the planned and actual budgets of VCs, which in turn has affected their capability to address local service delivery and infrastructure development priorities. The recent initiatives by the MoLG to improve the performance and accountability of local government PFM systems by insisting on electronic submission of annual budgets as well as the annual financial audit of LGUs need to be followed

[34] The fiscal year of the PA match the calendar year. This also applies to treatment of the LGUs budget cycle.

up and implemented rigorously. The proposed LGSIP design has taken into account these issues and includes several features to address these key issues.

50. The Program Expenditure Framework relies on the country systems and is expected to strengthen the transparency and predictability of financing of VCs along with strengthening accountability and institutional performance of VCs. Recognizing the need for enabling VCs to meet their development requirements in accordance with locally driven priorities, the Program is setting up an inter-governmental fiscal transfer system that will provide resources to VCs on a predictable and transparent manner. As such, the Program will allocate Annual Capital Grants to eligible VCs which will enable them to finance their ACIPs. Consistent with the intention of the PA to strengthen the capacities of large VCs and help them make the transition to become municipalities in the medium term future, the Program will provide capital grants directly to large VCs who will be responsible for the custody, utilization and reporting of the funds.

51. The Annual Capital Grants for VCs will be programmed into the PA budget under the budget head for the MoLG. Within the Budget Head, the budgetary allocations for the three elements of the Program (via capital grant allocations to VCs, allocations for joint projects to the MDLF and the allocation for capacity building to the MoLG) will be shown under specific budget line items for each. Since the timely allocation and disbursement of the Capital Grants to VCs is critical for the achievement of the Program Results, and previous experience has shown that there are delays in the allocation and disbursement of budget funds, the Program has agreed with the MoF and the MoLG that the Annual Capital Grant allocations will be disbursed within a prescribed time period after the approval of the annual budget. In addition, the Program will be incentivizing the timely allocation and disbursement of the Annual Capital Grants through a DLI.

52. Complementing the Program design of setting up of a system of Annual Capital Grants to VCs, the Program will also be supporting the PA to reform the existing system for the allocation and disbursement of the Transportation Fee. The Program will support the PA’s intention to make the MoLG’s inter se allocation of the Transportation Fee among the VCs to be more transparent and formula based. Considering the potential of the transportation fee to be a stable and predictable source of revenue for VCs, the Program will incentivize the MoLG to move forward quickly on the reform of the transportation fee through a specific DLI.

53. The Program will enable the PA to put in place a stable and predictable channel of financing VCs. The technical assessment undertaken as part of the Program shows that the Program will supplement the existing per capita capital investment allocation of 25 NIS with an additional 25 NIS thereby providing additional resources to the VCs to finance their ACIPs. In addition to the co-financing brought in by DPs into the Program, the parallel financing provided by DPs such as KfW will also flow to VCs that will supplement the resources available for undertaking infrastructure development and service provision. The reform of the Transportation Fee planned to be undertaken as part of the Program is anticipated to put in place the foundations for a sustainable source of financing for VCs to undertake their capital and operating investments.

54. The Program will rely on the existing Public Financial Management Systems of the PA for the disbursement, reporting and oversight of the Program funds. The Program funds will be part of the National Budget and will be disbursed following the budgetary allocation and disbursement procedures. The eligibility conditions that VCs are required to comply with for obtaining the

capital grants incentivizes VCs to comply with standard good governance practices. The Program will strengthen the MoLG's initiatives for the timely and electronic submission of annual budgets and for the annual external audit of VCs by incorporating them into the Program design and Program Action Plans. The Program DLIs will put in place the necessary steps for enabling efficient budget execution by VCs through the finalization of the Procurement Instructions by the MoLG.

55. *Financial sustainability and funding predictability*: As discussed earlier, the existing system of collected tax transfers from MoF to VCs is opaque, lacks predictability, and VCs operating and development budgets are on deficits and fall short to achieve their targets. However, the Program design has taken into account these weaknesses and included several features to strengthen local government financing mechanism. To this end, the Program will develop the current LG governance structure to enhance financial sustainability of service provision in VCs, and will develop the current inter-governmental fiscal transfer system. -It is envisaged to put in place a formula-based fiscal transfer system to allocate and disburse Annual Capital Grants to VCs in a timely and predictable manner. The PA will pilot the transfer system through this program, but eventually aims at reforming the existing system and enlarging the per-capita grant allocation provided to VCs.

9. Results framework and monitoring and evaluation (M&E) capacity

56. The MDLF will be responsible for monitoring the PDO results and intermediate results' areas as provided in Annex 2. MDLF already uses a Results-Based M&E (RBM) system, which attempts to measure the relevance, effectiveness, efficiency, impact, and sustainability of initiatives implemented by the institution. MDLF has demonstrated its strong M&E capacity through its implementation of MDP and other programs. MDLF will continue to use 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. In addition to data collection exercises carried out directly by MDLF for project reports, periodic independent evaluations and assessments will also be outsourced in order to measure achievement of the PDO. The MDLF will disaggregate and report on results by sector and by gender. The MDLF will also outsource an independent BIA which would measure the extent of how much the prioritized and implemented ACIPs reflected the needs of the community, and would confirm application of social accountability and citizen engagement measures, such as public hall meetings, and Program Community support groups. The MDLF will collect from the MoLG data from the VCs and JSCs eligibility assessments, baseline data collected through ACIPs, and MoLG reporting on its responsible DLIs. The MoLG will then aggregate outcome information and share with the World Bank and DPs Semi-annual and Annual Progress Reports.

10. Proposed Program's economic justification

57. *Development Impact.* The expected development impacts of the Program include improvement in the local infrastructure and services provided by VCs; increased capability of VCs and JSCs to plan, finance and deliver local infrastructure and services; and an improved relationship between Palestinian citizens and local authorities. Communities living in VCs have limited access to public services and will be the main beneficiaries from the outcomes expected

under the Program. Measured by per capita public expenditure as a proxy to for differences in living standards, the Program would target areas and communities with the highest development impact. On average, municipalities have almost three times larger public expenditure per capita than VCs. Eight percent of VCs don't provide basic and critical infrastructure, e.g., water supply, compared to only two percent of municipalities.

58. The proposed reform of the LG financing system, including the Transportation Fee, and the institutional strengthening activities supported under the Program are expected to increase the allocative efficiency of LGs in general, but VCs in particular. Greater discretion over the use of their resources is expected to improve the allocative efficiency of local infrastructure and service provision in Program villages. International experience demonstrates that LGUs are better capable to allocate resources according to citizen preferences compared to central authorities when they have adequate discretion over the use of resources, when citizens can monitor performance and local authorities are held accountable.

59. *Economic Return.* Measuring economic rates of return (ERRs) for LG strengthening programs is not straightforward for several reasons. Reform of the LG financing system is designed to empower LGUs and their citizens. Hence, specific investment projects that will be financed through the grants this Program supports are unknown at this stage. Furthermore, the capital investments that would likely be selected and implemented by VCs under this Program, particularly local roads, drainage networks, water and sewage network rehabilitation, small social infrastructure, are generally small-scale with many of the benefits non-rigorously quantifiable. The PA has not mandated economic analyses for these types of projects in the past, hence no data exists that could be used to quantify the benefits of similar projects, except for the larger joint investments to be supported under the Conditional Capital Grants.

60. MDLF will use a simplified methodology established under the MDP to assess cost effectiveness of those larger investments. Rate of return analysis is even more difficult to do in a rigorous and credible manner for capacity development and institutional strengthening activities. Since identification and prioritization of investments funded under the Program for eligible VCs will be made on a demand-driven basis based on participatory planning processes, the economic and financial benefits of the investments cannot be measured ex-ante. Once prioritized in ACIPs, investments will be evaluated based on MDLF guidelines developed for MDP II ("guidelines for the economic and financial analysis of sub-projects"), including smaller investments for public parks, playgrounds, rehabilitation of sanitary units and larger investments within solid waste management equipment (vehicles, containers); water supply (meters, network extension and rehabilitation); and local and inter-village roads (extensions, rehabilitation). The Financial Rate of Return (FRR) will be calculated for revenue generating sub-projects. Cost efficiency measured by net present value (NPV) per beneficiary will be calculated for the remaining sub-projects.

61. However, evidence for similar Local Government support projects that have been supported by the World Bank in other countries suggests positive returns. In Uganda, an assessment of the first Local Government Development Program (LGDP1) found that the ERR of small infrastructure projects provided through LGUs was above 12 percent. A similar project in the Philippines – the Local Government Finance and Development Project – yielded an ERR of 35 percent. In the WB&G, the MDP reached ERRs ranging from 29.7 percent for roads to 15.7 percent for public facilities. Although the context and the exact bundle of investment projects vary,

these findings indicate that if well-designed and implemented, this Program could generate positive economic returns. It is proposed that feasibility studies for any investments estimated to cost more than US$1.0 million undertaken as joint investments supported under the Program will require ERRs to be included. It is also proposed that a program for undertaking social and economic impact analyses of selected LGUs, designed to provide indicative data on qualitative outcomes, would be undertaken during the course of Program implementation.

11. Parallel financing to support the PA program

62. Total parallel financing of the Program would be estimated at around US$82 million. For a breakdown, please see table below.

Table 9: Parallel Financing to Support the PA program

Source	Modality	Amount	Comment
Germany via KfW	Parallel financing	EUR8-12 million	Joint investments implemented by JSCs and support to marginalized communities in “Area C”
Germany via GIZ	TA	NA	LGU capacity building and institutional strengthening of MoLG
Belgium via BTC	TA and Parallel financing	EUR12 million	Capacity building support to VCs and JSCs in four clusters; central level institutional strengthening to improve LGU collaboration
EU	Parallel financing	EUR2 million	Support to investments and capacity building activities in “Area C”
France via AfD	TA and Parallel financing	EUR5 million	Community planning to marginalized communities in the Jordan Valley
Austria, Italy and Sweden through UNDP	TA and Parallel Financing	US$13 million	Access to social and public services in “Area C”
Switzerland via SDC	TA and/ or parallel Financing	US$2 million	Capacity building and investments targeting marginalized communities in VCs and “Area C”
Total other Financing		**US$44 million equivalent**	

Annex 5: Fiduciary Systems Assessment

1. As part of the preparation of the LGSIP, the Bank task team carried out a Fiduciary Systems Assessment (FSA) of the Program in accordance with OP/BP 9.0. Based on the findings of the FSA, it is concluded that the Program Fiduciary Systems provide reasonable assurance that the financing proceeds will be used for intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability. At the same time there are several gaps and weaknesses in the existing system that could affect the ability of the Program to achieve its intended results. Considering these existing weaknesses in Program Fiduciary systems, the residual fiduciary risk rating for the Program is *Substantial*.

2. The Program will support the PA in strengthening the governance and financing structure of all VCs to provide better coverage and improved quality of local services in a fiscally stable manner. The PforR intends to strengthen the local government financing mechanism and improve local service delivery in villages. The design of the PforR relies on the existing institutions and systems of Palestinian local Governance and PFM. The Program will be implemented through the MDLF and the MoLG, and will use the PFM system of the PA. Program funds will be deposited into the Single Treasury Account and will be budgeted for under the MoLG allocation. Funds will flow from the Single Treasury Account to MoLG, MDLF, and to large VCs.

3. **Assessment of Program Financial Management Systems:** Financial Management of the Program is proposed to be carried out using the PA's existing systems and processes for PFM. The Program will be part of the country's budgetary framework that will rely on existing institutional systems for implementation. While the PA achieved significant progress during the past years such as increased transparency and scrutiny, and improved accounting, significant weaknesses in other areas such as budget preparation and execution were also revealed. The PFM system is deemed to be adequate to achieve the agreed results for the PforR operations. However, more improvements need to be adopted to further consolidate progress and address the challenges facing the PFM systems.

4. Significant improvements are needed in expenditure planning and control in budget execution. Reducing generation of new arrears requires a Cash Plan and a commitment control system to limit incurrence of additional expenses to the forecasted cash available. An annual Cash Plan on a monthly basis is in place since early 2014 with non-discretionary and optional expenses. This was seen as a positive achievement.

5. Strengthening accounting and reporting by fully adopting International Public Sector Accountings Standards (IPSAS), and by increasing budget transparency. Financial statement for the year ended 2010 have been audited by the State Audit and Administrative Control Bureau (SAACB) in 2013 with a number of qualifications against IPSAS (especially on financing gap). Financial statements for 2011 have recently been issued with a delay of around three years with correction of error balance of more than US$100 million. This correction of errors related to the reconciliation between 2010 ending balances and 2011 beginning balance and banking statements. The World Bank has provided substantial TA on IPSAS and how to issue financial statements.

6. Assuming the current political context, additional risks may be associated with situations of conflict and fragility such as liquidity constraints, potential diversion of funding, weakening of

payroll and other expenditure controls, and limited capacity of financial management to perform relevant tasks, among others.

7. The FSA concluded that the overall Financial Management (FM) risk rating for the Program is *High* after mitigating measures, mainly due to:

- VCs at large and many JSCs do not have adequate capacity and staffing for procurement and financial management,
- Risk of disbursement delays as a result of community planning and implementation, and/or lack of proper coordination between LGUs and the oversight agency,
- Risk of overestimating cash flow projections or replenishments,
- MoLG supervision is not robust and is not satisfactory, and constitutes a major risk of not achieving Program desired results, mainly due to weaknesses in implementation and monitoring capacity. The internal control process at the MoLG are protracted and inefficient.

8. The following measures are designed into the proposed Program to mitigate FM-related risks:

- VCs would be assessed at Program start. Large VCs (>4,000 inhabitants) must demonstrate minimum staff capacity for individual execution of capital investment grants by having access to an administrator (full-time), accountant (full or part-time), and an engineer (full or part-time). Those that cannot provide these staffing requirements would need to delegate the implementation of their investment grant allocations to JSCs that have scored >40 in the JSCs assessment. Engineers and Accountants for VCs and for JSCs will receive capacity building training by the MoLG in procurement and financial management.

- Separate general accounts and ledger accounts will be opened at the oversight agency level to account for FM arrangements at the sub-project levels. Both, the MoLG and the MDLF already have an automated financial management information system recognized by the World Bank and DPs, which enables display of funds and expenditures incurred by sub-program, financing partner, and LGU.

- As the Program Manager, the MDLF has extensive and satisfactory experience with cash flow planning and management.

- Small VCs will delegate the implementation of their investments to JSCs. Larger VCs will be required to have their accounts audited, on an annual basis, by independent financial auditors in accordance with TOR satisfactory to the Bank.

- The capacity-building element of the Program will provide the necessary support to the MoLG and VCs accordingly. The Program Action Plan will include capacity building support (to also be included in the MoLG Capacity Development Plan) to improve the financial management capacity of the MoLG to improve budgetary and accounting standards as well as the quality of financial information for VCs.

- At the oversight agency levels, implementation arrangements and fiduciary controls will be put in place to ensure risks to fraud and corruption are mitigated. Both the MoLG and MDLF have experience with the Bank's procurement and FM guidelines. Independent qualified private external auditors acceptable to the World Bank would audit the Program accounts. International standards on fraud and corruption will be included in the external financial audit TORs. Other independent assessments and evaluations will assess institutional and implementation performance, as needed, in accordance with TOR acceptable to the Bank and DPs.

9. **MoLG** is taking the lead on policy formulation and oversight of the local government sector. The MoLG is mandated with a monitoring and supervision role as well as a policy and advisory role towards VCs. The MoLG approves VCs budgets and monitors their execution, and in particular, in relation with grants transferred to VCs by DPs. The MoLG's General Directorate of Monitoring and Direction is in charge of managing the implementation of VCs' budget and transfers to VCs from the central government. To date, there is no mechanism in place to ensure that VCs receive equitable and transparent transfers for current spending.

10. The FSA concluded that MoLG suffers from serious capacity limitations in overseeing VCs' financial management arrangements. Furthermore, monitoring and oversight over VCs is weak with respect to outputs, costs, quality, etc., and data are scattered and not aggregated at the central level. MoLG supervision seems to be irregular and inefficient. The expenditure cycle for VCs is not subject to the same controls as for central government expenses. There is control review of payments at the commitment stage. The lack of the ex-ante control increases fiduciary risk. During Program Preparation, this assessment was confirmed with the Supreme Audit Institution (SAI) team responsible for auditing the local government sector. Targeted capacity building activities for the MoLG, and LGUs would aim at strengthening the ex-ante budgetary oversight. .

11. **MDLF** has the legal mandate to provide direct development assistance to municipalities through transparent, rules-based and efficient financing. MDLF is also the PA's preferred mechanism for channeling reform and development assistance to local governments. MDLF has extensive experience in managing projects including the management of the ongoing MDP. The financial management systems and practices of MDLF have been assessed and found to be acceptable for Program Management functions and also for oversight of the Program Sub-activity II.

12. **Program funds flow and disbursement arrangements:** The budget allocations for Program elements will be transferred from the Treasury Current Account at the MoF. The Program will be included in the annual budget of the PA under the budget head for MoLG. The allocation for the three Sub-Programs will be identified through three specific line items. The annual budget allocations need to be disbursed from the MoF to the MoLG within a specified time period so that the downstream implementation of Program activities are carried out smoothly. Based on the FSA findings that there could possibly be delays in the transfer of funds from the MoF to MoLG and to VCs, the Program has agreed with MoF that these disbursements will be made on a timely basis. Considering the critical importance of ensuring that these transfers are made on time, the timely communication and disbursement of formula based annual capital grant allocations will be incentivized using a DLI.

13. The MoLG will then transfer Program Funds to large VCs and the MDLF. Large VCs that satisfy program eligibility criteria will receive funding for executing their ACIPs. Fund flow for results would be transferred to such VCs following established government processes similar to the processes for transferring the PA contribution of Transportation Fees to VCs. Participating large VCs receiving the Annual Capital Grant would be responsible for implementing investments and activities identified in the ACIP in accordance with the public procurement procedures applicable for LGUs. VCs will be responsible for the custody and management of financial resources transferred to them and to utilize them in accordance to the provisions of the Local Government Financial Manual. VCs annual financial statements will reflect expenditures relating to the Annual Capital Grants as a separate line item. To strengthen VCs' accountability to their stakeholders, the Program Action Plan includes actions encouraging annual independent external audits, and the VCs would receive training on external audits, as part of the MoLG Capacity Development Plan. The annual audit will provide assurance to all stakeholders on the VC's capacity to manage its affairs in accordance with the established rules and regulations and in accordance with accepted standards and rules for financial propriety. This "learning by doing" approach for capacity building of large VCs in planning, implementation, and financial management will enable VCs to strengthen their capacities as they gain experience through the course of the Program. VCs will use the capital grants to implement their ACIPs in accordance with the predictable and transparent transfer formula. Large VCs may choose to implement sub-projects included in their ACIPs either by themselves or through JSCs.

14. However, funds will not be channeled to small VCs. Small VCs who gain eligibility to the Program would be allocated Annual Capital Grants based on the predictable and transparent allocation formula. Annual Capital Grants allocated to those will be disbursed by the MoLG as per government systems, including for payments to suppliers and contractors. Sub-projects identified in the ACIPs of small VCs will be executed by JSCs. MoLG District Directorates will provide regular technical and financial oversight through their existing supervision structures and processes.

15. These arrangements were finalized by Program appraisal. In case the Annual Capital Grant allocations are not fully spent within a fiscal year, they will be carried forward to the following year, and the carry forward will follow main budget classification. The MoLG budget department controls all carry forward transactions to ensure correctness, accuracy and completeness.

16. **Program Accounting and Reporting:** The unified government accounting system (BISAN) will be used by MoF to record program funds. BISAN is a computerized accounting system and is capable of recording project transactions by implementing entity and by Donor. Although not linked to MDLF or VCs accounting systems, BISAN is linked to MoLG (decentralized to all line Ministries). BISAN accounting system is capable to track and report on Project funds separately by Sub-Activity and by DP. A separate cost center on BISAN will be authorized and opened by MoF to account for program transaction, MoLG will use this cost center to record financial transactions pertinent to Sub-Activities I and III.

17. MDLF maintains an acceptable, Oracle based, accounting system. The accounting system is capable to capture Sub-Activity II related transactions. The accounting system is capable to track and report on Project's funds separately by Sub-Activity, Financing Partner, and by each

beneficiary VC, JSC. In close coordination with MoF, and MolG, MDLF will maintain the consolidated accounting records by combining/ compiling (MoF and MoLG) accounting records.

18. VCs follow the financial management manual approved by the MoLG in 1999. This manual details the chart of accounts for the formulation of the Budget as well as for accounting. This is a cash-based double entry accounting. Eligible VCs will use their accounting system to record capital grants and to report on the receipts and uses of funds. On the other hand, small VCs will not manage any funds, and MDLF will record relevant financial transaction in its Oracle accounting system.

19. **Program Financial Reporting:** MDLF, in its capacity as the Program Secretariat performing Program management functions, will be responsible for preparing the Program's consolidated financial statements on a timely basis. The consolidated financial statements will comprise of (i) Consolidated Statement of Cash Receipts and Expenditures, showing funds received from the World Bank and from all financing partners separately, for each period and cumulatively from program inception. They will also include expenditures (by category, Activity, and Sub-Activity for each financing partner) for each period and cumulatively from Program start; (ii) Comparison of Budget vs. Actual for the period and cumulatively from Program inception, with justification of significant variance. In addition, the Audited Program Financial Statements should be submitted to the World Bank no later than 6 months after the end of the PA fiscal year. Supporting documents will be kept in MDLF and MoLG respectively for three years from the closing date, after the last audit of the Program.

20. **Program Audits:** The Program Financial Statement audit will be carried out by an audit firm procured by the MoLG in accordance with the existing country system. In addition, the central Internal Audit Department (IAD) at MoF will carry out the internal audit of the Program in accordance with their mandate. The internal audit will include both technical and financial aspects of Program implementation. In addition, the participating VCs will be subject to external audits. In Palestine, the SAI has the mandate to carry out the external audit of VCs. However, due to the wide mandate to complete the audit of the central government and its agencies, the SAI is not able to carry out the audit of the VCs on a regular and timely manner. Currently, the SAI audits a sample of VCs, but with an average regularity between three to five years. Therefore, MoLG has issued directives to all VCs to get themselves audited annually by procuring the services of a private sector auditor. The Program will encourage the implementation of this directive.

21. **Assessment of Program Procurement Systems:** Procurement for the Program will be carried out in accordance with the new Public Procurement Law (Law No. 8 of year 2014), which will come into effect in December 2015. The new Law, which applies to all public procurement activities, including those carried out by LGUs, represents a good balance between the current means of the country and internationally accepted practices. It lays down an acceptable institutional and organizational set-up for public procurement; provides comprehensive provisions on procedural matters; sets out provisions on transparency and accountability; establishes a complaint/dispute review mechanism; and provides for routine dissemination of information on public procurement through a single portal procurement website.

22. The PA, through the newly established High Council for Public Procurement Policies (HCPPP), is putting in place the components which are pre-requisites for effective implementation

of the Law. Those include, inter alia: development and issuance of National Standard Bidding Documents and National Procurement Manual, establishment of a single portal procurement website, establishing the Dispute Review Unit and training of the procurement workforce. Some of these components will need to be completed by Program effectiveness, whereas others (e.g. capacity building and training of VCs/JSCs and MOLG on the new procurement rules and procedures) will be supported by the Program or through parallel technical assistance. Since it is critical that VCs should receive the updated Procurement instructions from MoLG in accordance with the new Law, that the adoption of the new Procurement instructions is incentivized under the Program through a DLI for the first year of Program implementation.

23. Procurement arrangements under the new Law are a mixture of centralized and decentralized procurement. The implementing regulation to the new Law set thresholds for procurement to be carried out by the various categories of procuring entities (ministries, municipalities and VCs). Procurement for contracts estimated to exceed the set thresholds are to be issued centrally through the Central Tenders Department of Ministry of Public Works and Housing, in the case of works and consulting services; or by the General Supplies Department within Ministry of Finance, in the case of Goods and Non-Consulting Services. The new Law also includes provisions for entering into framework agreements for commonly used goods and services.

24. Qualifying VCs and JSCs meeting the Program eligibility criteria will be responsible for implementing individual sub-projects and joint capital investment projects, including project design and preparation, procurement and contract management, under MoLG and MDLF supervision, respectively. MoLG will be responsible for carrying out procurement under Sub-Activity III. The FSA has concluded that the procurement processes and procedures introduced by the new Law and the existing capacities within the various entities are adequate for the efficient implementation of the Program, provided that a set of pre-requisites and improvements detailed in this assessment are introduced. The new law indicates that procurement decisions by LGUs will be subject to prior approval by MoLG, based on a specific instruction to be issued by HCPPP for this purpose, in consultation with MOLG. Moreover, the Law assigns the responsibility for ex-post review of procurement decisions to the SAACB.

25. **Procurement Responsibilities:** Under Sub-Activity I- Annual Capital Grants for delivery of local services, eligible VCs will utilize per-capita investment grants to implement various investment projects either directly (provided that they meet the eligibility criteria for implementation) or through a qualified JSC. Qualified VCs and JSCs will be responsible for the entire procurement process, under MoLG supervision and oversight. This will include planning, preparation of bidding documents, receipt and evaluation of bids, award of contract, to contract supervision and management, and processing of payments to contractors/ suppliers. Under Sub-Activity II: Conditional Capital Grants for investment in joint projects, eligible JSCs (or alternative equally strong entity) will implement joint investment projects for the benefit of eligible VCs, under MDLF supervision. The JSC will handle the entire procurement process and will advise MDLF on the release of funds to the respective contractor/ supplier. Under Sub-Activity III: Capacity support for strengthening local governance institutions, MoLG will be responsible for handling procurement and selection of consultants for the delivery of the MoLG Annual Capacity Development Plan, which covers the needs of MoLG departments and district offices as well as VCs and JSCs.

26. Due to their demand-driven nature, it is not possible to anticipate the specific profile of contracts to be financed as part of the infrastructure- service delivery projects under Sub-Activities I & II. However, based on the per-capita allocation, Sub-Activity I will likely comprise simple works contracts (e.g. rehabilitation of roads, water and wastewater networks, construction of community facilities, etc.), while Sub-Activity II will comprise small works contracts which cannot be funded through the annual fiscal transfer system. Sub-Activity III, on the other hand, would comprise small technical assistance and consultancy services contracts which are necessary for the implementation of MoLG annual capacity building plan[35].

27. **Capacity assessment of entities involved in procurement:** As part of the FSA, the World Bank team assessed the capacity of the various entities involved in the Program for handling procurement; either through implementation or supervision/ oversight. In general, the various entities were found to possess the capacity to implement procurement for the Program, provided that they receive support in terms of staffing and training.

28. **VCs/ JSCs:** a sample of VCs and JSCs were assessed. Large VCs and JSCs were found to have experience implementing procurement for investment projects and possess adequate capacity, whereas small VCs tend to lack such capacity. To be eligible for Program financing, VCs and JSCs would be required to have access to a qualified engineer with procurement experience. The Program will finance capacity building of eligible VCs and JSCs on procurement and contract management and would support those LGUs that are not eligible to build their capacities to meet eligibility requirements.

29. **MOLG** will be responsible for providing procurement oversight and supervision for individual VC sub-projects, as well as for implementing procurement under Sub-Activity III. Two sample MoLG District Offices were assessed and found to possess the capacity to provide procurement oversight for VCs and JSCs. The detailed responsibilities for such oversight (between MoLG Projects Department and District Offices), prior review thresholds and business standards for the provision of approvals will be defined in the Local Government Procurement Instruction, which has to be issued by the HCPP prior to Program start. Staff of MoLG Projects Department and MoLG District Engineers, as well as MDLF engineers will receive training under the Program on the new procurement rules and procedures. On the other hand, MoLG capacity to handle procurement for Sub-Activity III, which would mainly consist of consulting services, is limited. MoLG relevant departments will receive training on the selection and management of consultants contracts.

30. **MDLF** will provide procurement oversight for joint projects under Sub-Activity II. MDLF has long experience implementing procurement under Bank-financed projects and possesses good capacity (both in terms of knowledge and staffing) to assume this responsibility. The procurement audit and control structure currently in place for MDP will be used for joint projects under LGSIP.

31. **Handling of Procurement-Related Complaints:** The new Law establishes a robust complaint handling mechanism and sets standard times for responses to be provided by the procuring entities to the complainants. Furthermore, the new Law sets up a dispute review unit

[35] Annex 1 includes a more detailed description of the open-menu approach for financing ACIPs, and the potential list of excluded investments that would not be eligible for financing under the Program. The POM will also have more details on this.

(DRU), within HCPPP, to look into appeals filed by bidders who do not receive an acceptable response to their complaints from the respective procuring entity. The implementing regulation to the Law specifies the grievances of the DRU, the procedures of filing, the procedures of dealing with the compliant, the decision of the DRU and mechanism of issuing the DRU's decisions. Complaints which prove to involve fraud and corruption practices will be forwarded by the DRU to the Palestinian Anti-Corruption Commission (PACC) for further investigation and prosecution. Complaints related to contracts and procurement issues that may be channeled via the MoLG Program-level GRM, would be forwarded to the DRU.

32. **Overall,** the procurement processes and procedures introduced by the new Law and the existing capacities within the various entities were found to be adequate for the efficient implementation of the Program, provided that a set of pre-requisites and improvements are introduced to address the weaknesses and mitigate the associated risks. The adoption of the instruction, to be issued by HCPPP, on the prior review of LGU procurement decisions by MoLG (or MDLF), was agreed as a DLI. In addition, the following components of the system will have to be completed:

- National Standard Bidding Documents for Goods, Works and Consulting Services issued by HCPPP for use by all procuring entities, including LGUs, and National Procurement Manual prepared. The issuance and mandatory use of the Standard Bidding Documents (SBDs) and manual presents a number of advantages for the procurement system including: helping to standardize and harmonize implementation of procurement proceedings; promoting transparency and predictability in public procurement proceedings, helping to mitigate the effects of low levels of procurement capacity in the public sector; facilitating participation by small businesses; facilitating oversight, regularity control, and audit of procurement proceedings;

- Introductory training of all VCs and JSCs, and MDLF and MoLG concerned staff on the new public procurement system. The training will familiarize participants with the key aspects and innovations in the new legal, institutional and procedural framework and to provide participants with a basic introduction to the key steps and procedures in the procurement process, from planning through acquisition (bidding and contract award), until the completion of contract implementation and administration;

- Setting up the DRU (complaint handling mechanism for procurement related matters); and

- Developing the single portal procurement website, where all procurement notices, procurement plans and contract award notices will be published.

33. Moreover, the Program will support the following capacity building activities during the first year of Program implementation:

- Training of large VCs and qualifying JSCs on National SBDs and Contract Management; and

- Training of MOLG respective departments on the selection of consultants and the management of consultants contracts.

34. The main procurement risk to the Program arises from possible delays in putting in place the above-mentioned necessary components for effective functioning of the new public procurement system, and delays in the issuance of the Procurement instructions. Other possible risks include delays in the processing of procurement by the two central departments within MoF and Ministry of Public Works and Housing of contracts above the applicable thresholds. Moreover, the local government procurement instruction could be prepared to include low prior review thresholds and excessive prior review requirements, which could result in substantial delays. Based on the assessment the procurement risk is rated *Substantial*.

35. **Assessment of Fraud and Corruption Risks:** The Program will rely on the existing systems for the mitigating fraud and corruption risks in the Program. PACC is responsible for the investigation of complaints relating to corruption. In accordance with the World Bank's *Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing*, dated February 1, 2012 and revised July 10, 2015 (Anticorruption Guidelines), the World Bank will rely on the PACC for the investigation of any complaints/ allegations involving Fraud & Corruption (F&C) and will accept the findings of such investigation. The World Bank will retain the right to do any additional investigation only on a case to case basis and after discussion and agreement with the PA counterparts. The MDLF will maintain an updated list of contractors in the Program and make sure that no contractor from the World Bank's debarred list of contractors is involved with any aspects of the Program.

36. The PACC has the main responsibility in both policy and implementation aspects of addressing fraud and corruption in the PA legal system. In the absence of a functional Palestinian Legislative Council, the PACC was formed under presidential decree No. (7) in 2010. Pertaining to the Amendment of the Law of Illegal Gain No. (1) 2005, the law gives them the right to question everyone in government including the president, members of legislature and the judiciary, among others. They can and have prosecuted ministers in the past. The PACC is tasked with collecting, investigating, and prosecuting allegations of public corruption. The PACC is also responsible for public information on corruption. It is also in charge of holding declarations of financial status and request any additional information or clarification, reviewing the financial status of those subject to the provisions of this law and investigating reports of illicit gain.

37. This law also established the Corruption Crimes Court, which is a specialized court where fraud and corruption cases are tried. The PA has acceded to the United Nations Convention against Corruption (UNCAC) and has also signed an Administrative Cooperation Agreement with OLAF, the European Anti-Fraud Office.

38. The PACC has a well-functioning complaint mechanism where anyone can make a complaint. They take complaints over the phone, fax, email, facebook, or their website.[36] The complaints can be anonymous and they have a legal mandate to ensure the protection of the informant. They also have their own committees who track media reports and hold discussions with civil society organizations and non-governmental organizations and can follow up if there are suspicions of fraud or corruption. After a process of documenting and verifying the complaint, they have an in-house legal team which decides whether to refer the complaint to other units of

[36] http://www.pacc.pna.ps/ar/index.php?p=complain

government such as the police or the state audit or whether they will investigate and prosecute if necessary.

39. The PACC has an in-house legal team which prosecutes the cases in the specialized court. All trials are open to the public. There are some delays in the judicial system but the law specifies timelines that they try to abide by. The PACC system for handling complaints is adequate as described above and will be relied on for the Program. If complaints are received regarding the Program, the PACC will use the existing complaints handling mechanisms and will use their process to investigate and prosecute as necessary. The PACC will relay any results to the World Bank. For the VCs receiving individual funds, the PACC can optionally provide training to the VCs to set up GRMs. The Program Manager and the MoLG will also report to the PACC any irregularities found in annual audited financial reports provided to them by the VCs or JSCs. The POM will describe the procedures of the complaints handling mechanisms and the procedures of sharing the results of the investigation. The assessment of the country level institutions for handling complaints and for the investigation of instances of Fraud and Corruption Risks have been found to be satisfactory and acceptable to the Program.

40. In addition to the official agencies for combating fraud and corruption, there are some NGOs who focus specifically on governance and corruption issues. The most active of these is as the AMAN Coalition for Integrity and Accountability, the Palestinian chapter of Transparency International (US Department of State, 2011). According to both AMAN and Global Integrity, NGOs do not experience harassment as a result of their corruption related activities and operate in a relatively positive and supportive environment. There have been no known attempts by the government to hinder the establishment and operations of anti-corruption organizations. The lack of access to information is perceived as the major constraints to operate effectively as a watch dog holding government accountable for its actions and decisions. The Program will make efforts to reach out to the NGOs as part of the Program communication strategy.

41. **Debarment of Contractors:** In accordance with the World Bank's Anti-Corruption Guidelines for PforR operations "Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing" dated 2012, the Program must take steps to ensure that debarred individuals or entities are not awarded contracts. MDLF will maintain a database of all contractors awarded contracts under their respective Sub-Activity, which will be updated on a monthly basis for all projects. MDLF will periodically check all names in the database against the World Bank's list of debarred contractors to ensure that no such contractor is awarded a contract under the Program.

42. **Implementation Support:** The Program will require consistent implementation support by Fiduciary specialists. The task team includes experienced FM and Procurement Specialists who are based in the field and who, along with the TTL and Co-TTL (who are also field-based) can provide adequate implementation support. Detailed implementation support plans will be made by the task team on an annual basis.

Annex 6: Summary Environmental and Social Systems Assessment

Introduction

Context and Objectives

1. An ESSA has been prepared for the LGSIP to be funded by a PforR financing instrument. The ESSA examines environmental and social management systems that are applicable to the Program in order to assess their compliance with the Bank's Operational Policy OP/9.00 that applies to PforR financing. It aims to ensure that the Program's environmental and social risks will be managed adequately and that it complies with the basic principles of sustainable development. Paragraph 8 of OP 9.00 describes the core principles of environmental and social management that must be met in the ESSA. These core principles are as follows:

Environmental Management Systems:

- Promote environmental and social sustainability in the Program design; avoid, minimize, or mitigate adverse impacts, and promote informed decision-making relating to the Program's environmental and social impacts,
- Avoid, minimize, or mitigate adverse impacts on natural habitats and physical cultural resources resulting from the Program,
- Protect public and worker safety against the potential risks associated with: (i) construction and/or operations of facilities or other operational practices under the Program; (ii) exposure to toxic chemicals, hazardous wastes, and other dangerous materials under the Program; and (iii) reconstruction or rehabilitation of infrastructure located in areas prone to natural hazards.

Social Management Systems:

- Manage land acquisition and loss of access to natural resources in a way that avoids or minimizes displacement, and assist the affected people in improving, or at the minimum restoring, their livelihoods and living standards,
- Give due consideration to the cultural appropriateness of, and equitable access to, Program benefits, giving special attention to the rights and interests of the Indigenous Peoples and to the needs or concerns of vulnerable groups,
- Avoid exacerbating social conflict, especially in fragile states, post-conflict areas, or areas subject to territorial disputes.

2. The ESSA evaluates the compatibility of the Program's systems with the core principles on two basic levels: (i) the systems as defined by laws, regulations, procedures, etc. (the "system as defined"); and (ii) the institutional capacity of the oversight entities under the Program to effectively implement the system (the "system as it is applied in practice"). It identifies and analyzes the differences between the national systems and the core principles that apply to the Program on the two levels indicated above.

The ESSA Approach

3. In order to assess the existing systems as well as analyze how these systems are implemented, the following activities have been conducted:

- ***Baseline Data Collection****:* The baseline data presents a comprehensive outline of systems for environmental and social management in the WB&G that are applicable to LGSIP, and management of impacts typical to small- to medium-scale urban infrastructure projects. This includes the legal and regulatory frameworks, institutional roles and responsibilities, and gap analyses between these and OP/BP 9.00.

- ***Systems Analysis and Action Plan***: The ESSA Analysis builds on the baseline data collected and presents an analysis of these systems vis-à-vis the core principles of OP/BP 9.00. The Analysis employs an approach of Strengths-Weaknesses-Opportunities-Threats in order to examine the policy and performance gaps and formulate actions. The Action Plan outlines measures agreed between the PA and Bank to strengthen environmental and social management systems and fill the gaps. These actions were then embedded in the overall Program Action Plan found in the PAD.

4. The ESSA process has benefitted from a broad range of inputs, including:

A ***desk review*** including:

- A ***legal and regulatory analysis*** of policies, laws, regulations, and sector-specific guidelines related to environmental and social impact assessment, participatory planning, decentralization, resettlement and compensation, and social inclusion.
- Aide Memoires (AMs), Implementation Status Reports (ISRs), and Implementation Completion and Results Reports (ICRs) and technical documents, including Environmental and Social Management Frameworks, Environmental and Social Impact Assessments, Customer Satisfaction Surveys, Operations Manuals, MDP Program documents (MDP-I, MDP-II, MDP-II AF), VNDP, and Emergency Municipal Service Rehabilitation Projects (EMSRP-I and EMSRP-II), all projects that include municipal infrastructure works implemented by LGUs.
- Field visits to a representative sample of LGUs including VCs, JSCs, and the MoLG district offices, which included collection of baseline information on existing conditions of the natural and built environments, and consultations with LGU technical staff as an input to the capacity and performance assessment. A representative sample of LGUs to visit was selected to take into account population, geographic variation (different governorates in the West Bank). Survey data was collected from all LGUs by a consultant to complete information on human and financial resources and management practices.
- Meetings, interviews, and workshop sessions were conducted with government agencies, the MoLG, District Offices, the MDLF, VCs, JSCs, and DPs.

5. The ESSA process includes comprehensive stakeholder consultations and disclosure of the ESSA Report following the guidelines of the World Bank's Access to Information Policy. The

ESSA consultation process is embedded in the Program consultation process and includes the following activities:

- **Document Dissemination and Public Comment Period:** The final draft of the ESSA report were disclosed publicly through the World Bank's Infoshop and public comments were solicited during a period defined and reserved for comments.
- **Consultation Event:** A public consultation event was held on May 13, 2015, where the ESSA was presented and stakeholders, including NGOs, LGUs and implementing agencies were invited to offer inputs on the findings and recommended actions in an interactive format. The ESSA was disclosed and distributed in advance of the event.
- **Technical Workshop:** A workshop for technical staff with MoLG and other staff tasked with environmental and social management was held on May 14, 2015 to gain inputs on the Environmental and Social Management Manual (ESMM). Environmental and social management (including system enhancements built into the Program and the criteria used to assess LGUs performance) were discussed in the workshop.
- **LGSIP Workshop:** A workshop was held for MDLF on May 14, 2015 to gain inputs on the ESMM. Environmental and social management (including system enhancements built into the Program and the criteria used to assess LGUs performance) were discussed in this workshop.

6. Feedback from stakeholders has been instrumental in designing and revising the Program Action Plan, indicators, and technical manual.

Institutions, roles, responsibilities and coordination

7. The Program will use existing government systems. Hence, implementation will be carried out by VCs, JSCs or similar joint service provision arrangements, the MoLG, and the MDLF. MoLG has the legal mandate for local government affairs and is in charge of overall policy setting and supervision. The MoLG will have the lead responsibility for overall coordination and oversight in the sector. Within its mandate, the MoLG will also lead implementation of Sub-Activities I and III. The MDLF will be responsible for managing Sub-Activity II and function as the Program Secretariat providing implementation support across the Program, including performing the Program management functions required under LGSIP. MDLF's responsibilities to provide Program implementation support will include preparing the Program financial statements, organizing the Program audit, preparing and updating the Program POM, and compiling reporting on results and DLIs. The Program Secretariat will report to the Program Committee which is chaired by the Minister of Local Government and headed by the Deputy Minister. The MoF will be responsible for ensuring that disbursements under LGSIP are carried out in line with the agreed timeframe.

Program Environmental and Social Risks

Main environmental risks

8. The investments under LGSIP are intended to have substantial sustainability outcomes through improved LGU service delivery. The benefits will vary by LGU depending on the context and investment choices, but community benefits are likely to include reduced environmental degradation and sanitary conditions through improved waste management systems; lower vehicle operating costs, reduced transportation costs, fewer road accidents and reduced traffic congestion as a result of improved road conditions and improved access to public transport services; and reduced risk of flooding and soil erosion as a consequence of drainage improvements.

9. While the investments of LGUs are discretionary based on community priorities, LGUs can choose from an open menu of small- to medium-scale civil works includes upgrading of existing roads, solid waste management, transportation infrastructure such as bus and truck stands, markets, drains, and recreational parks, and rehabilitation and expansion of water and wastewater facilities[37].

10. Based on the scope and scale of projects to be financed under LGSIP, environmental and social impacts are expected to be minimal to moderate in scale, with most adverse impacts limited to the construction phase and being site-specific and temporary. All investments will undergo an environmental and social impact assessment process per environmental systems. These procedures are outlined in the ESMM being prepared by the Program Manager (MDLF) as part of the POM, with technical guidance from the World Bank, and consultations with technical staff at the national and LGU levels.

11. Potential adverse environmental effects include air pollution from dust and exhaust; nuisances such as noise, traffic interruptions, and blocking access paths; water and soil pollution from the accidental spillage of fuels or other materials associated with construction works, as well as solid and liquid wastes from construction sites and worker campsites; traffic interruptions and accidents; and accidental damage to infrastructure such as electric, wastewater, and water facilities. These types of impacts, however, are generally site-specific and temporary. Experience from implementation of similar types of activities in the WB&G indicates that short-term construction impacts for the most part can be prevented or mitigated with standard operational procedures and good construction management practices. These procedures will be included in the ESMM, and be a standard part of environmental management plans included in the bidding documents for contractors.

12. While no large-scale or high-risk projects are expected, the screening process in the ESMM will include criteria to exclude certain categories of projects as well as projects of a scale that

[37] An exclusionary list for the eligibility screening criteria would be detailed in the POM and would include a detailed list of exceptions for Program financing, including political or religious activities, investments detrimental to the environment, works involving relocation of people or impacting livelihoods, new landfills or waste water treatment plants, activities that would significantly convert natural habitats or significantly alter potentially important biodiversity and/or cultural resource areas, rehabilitation structures of archeological or cultural value, travel, salaries or “top up” payments to civil servants and LGU staff, and other ineligible expenditures. The POM will have a more detailed description of the open menu and ineligible expenditures.

would include significant negative impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people. Such types of investments are excluded from the Program (per OP/BP 9.00), and added to an exclusionary list of ineligible expenditures which the POM would also detail. In addition to screening for significant impacts, the following exclusionary criteria apply to works financed with under the LGSIP:

- Works involving relocation of people or impacting livelihoods,
- New landfills or waste water treatment plants,
- Activities that would significantly convert natural habitats or significantly alter potentially important biodiversity and/or cultural resource areas,
- Vehicles, other than service vehicles,
- Salaries, per diem, top ups for Civil Servants and LGU staff (excluding remuneration for short term consultants)

Main social risks

13. Activities to be supported by the Program are expected to generate socio-economic gains and have an overall positive effect. Adverse social impacts are anticipated to be low. Any land requirements (temporary or permanent) for investments to be financed under the Program will be met through lands that are under the ownership of VCs or JSCs. The exclusion will cover individual sub-projects and joint projects involving relocation of households, temporary or permanent land take, and impacts on livelihoods, including those that may occur through restriction of access to resources. To screen out for these exclusions, the Program will rely on guidelines in the ESMM and POM, which will include a rigorous sub-project screening process to be done by LGUs. In cases where the LGUs may purchase land through a willing-seller willing-buyer approach or in cases of voluntary land donation (VLD), the LGUs will need to document for power of choice. During consultations, LGUs expressed the need for clear guidelines and training related to the sub-project screening process and VLD.

14. The ESSA did not identify indigenous peoples in the West Bank or specific groups of vulnerable persons that might be negatively affected by the Program. Moreover, the nature of the proposed activities at the LGU level does not suggest that specific vulnerable groups could be harmed by the Program. To the contrary, the design of the Program aims to foster integration of vulnerable groups such as women, youth, disabled and elderly through the Program design, including the development of the appropriate social accountability mechanisms, and with the requirement to track the participation of such groups in public consultations as a Key Performance Indicator in the Program Results Framework. Vulnerable groups will be involved in all aspects of Program, including consultations related to sub-project selection and monitoring of implementation through the MoLG's application of Participatory M&E. Minimum quotas are in place for the participation of women and youth in consultations as part of the ACIPs preparation.. The LGUs will receive training in participatory consultations and participatory M&E with a focus on women and youth. In addition, the training will focus on the importance of ensuring equitable access to vulnerable groups of benefits of sub-projects, including access to elderly and disabled for minor civil works. Periodic BIAs and citizen scorecard reports would help monitor the inclusion of vulnerable groups and propose corrective

measures if needed. Details on social accountability measures supported under the Program will be elaborated in the POM.

15. While the WB&G is considered a conflict and fragile state, there is little risk that the Program itself will be the source of social conflict. However, some cases of conflict and some grievances may occur during Program implementation. Where grievances and disputes arise, vulnerable groups are often unable to access legal systems due to costs and other factors, such as fear of retaliation, illiteracy, etc…. The design of the Program aims to minimize social conflict through the development of appropriate consultations and a GRM. LGUs will be required to have a functioning GRM for Program level complaints with the following key features: accessibility to communities, recording of complaints in a log (date received, date responded to, complaint, how resolved, when resolved) and responding in writing in a timely manner. Complaints can also be received by the MoLG, which will have the same features as that of the LGUs, and which already has a functioning complaints handling unit. For urgent issues that LGUs cannot handle, they will immediately inform the staff within the MoLG (for Sub-Activities I & III) /MDLF (for Sub-Activity II) to assist with responding to the complaint. In terms of monitoring the GRM, LGUs will be required to submit the log of complaints on a monthly basis to the MoLG (for Sub-Activities I & III) /MDLF (for Sub-Activity II). MDLF will share the monthly logs it receives with MoLG. The process and related forms will be detailed in the ESMM part of the POM.

Assessment of Environmental and Social Systems

<u>Environmental management system</u>

16. Projects currently implemented by LGUs primarily employ Palestinian systems for environmental and social management, which were assessed through the ESSA. The ESSA conducted an analysis of existing systems for environmental and social management for consistency with the core principles of OP/BP 9.00. The main gaps in the Environmental Management System are summarized below.

17. ***Gaps in the system as written***: The principles pertaining to environmental systems under OP/BP 9.00 are considered in terms of environmental and social management for urban municipal infrastructure projects that are implemented at the LGU level. Because there is no specific system already in place as there would be for a phased World Bank project (e.g. an Environmental and Social Management Framework), the assessment focuses on the national systems and how they relate and function at the LGU level.

18. A gap analysis was undertaken, which found that the Palestinian Environmental Law and the Palestinian Environmental Impact Assessment Policy as written, which are the overarching framework for environmental and social impact management, are largely consistent with OP/BP 9.00 – processes are designed to promote sustainability, address environmental and social impacts, and serve as a decision-making tool. However, there are gaps in the system, outlined below, which were identified in the ESSA and will be included in the ESMM:

- ***Gaps in Environmental and Social Impact Assessment*** (***ESIA) Content:*** While the content of the screening and analysis for the Environmental Impact Assessments (EIAs) under the Palestinian EIA Policy are comprehensive and cover most of the elements of

OP/BP 9.00, there are gaps present in the content of ESIA requirements in three areas: (i) The screening process requires additional clear criteria and explanation of criteria related to (i.e. potential resettlement and livelihood impacts, requirements related to voluntary land donation, including documentation of consent, and other environmental and social impacts and hazards), (ii) the analysis of alternatives requires the "without project" alternative, and (iii) the EIA process needs to explicitly analyze induced impacts.

19. Impact Categorization: PforR excludes programs or activities that pose a risk of potentially significant and irreversible adverse impacts on the environment and/or affected people. Excluded from PforR financing would be investments in new, or major expansion of, large-scale infrastructure or other investment activities that would normally be considered Category A-type investments under investment lending policies. Examples include, but are not limited to, the following: power plants; large-scale transport infrastructure such as highways, expressways, urban metro-systems, railways, and ports; investments in extractive industries; commercial logging; Water (surface and groundwater) resource infrastructure, including dams, or projects involving allocation or conveyance of water, including inter-basin water transfers or activities resulting in significant changes to water quality or availability; and construction of manufacturing or industrial processing facilities, wastewater treatment plants, landfills, and slaughterhouses. The Palestinian EIA policy requires a full-fledged EIA for investments of similar nature to the exclusions described above.

- ***Oversight of Non-full EIA Projects:*** For those projects requiring a full ESIA per the criteria in the Palestinian EIA Policy, there are requirements for environmental management plans (including mitigation measures), environmental audits, public participation and disclosure. Those projects not requiring a full ESIA are subject to fewer requirements and less oversight – there are no requirements that these projects are audited, that the public is involved nor that documents are disclosed.
- ***Public Participation and Accountability:*** Public participation and disclosure requirements for ESIA in Palestine are fairly weak. For those projects requiring a full ESIA, public availability of the documents is required. However, the actual process of public review and comment could be onerous and result in EIAs being relatively inaccessible. While consultations are required during the preparation of the full ESIA between communities and the project proponent, public hearings are at the government's discretion during the ESIA review and approval process.

20. ***Gaps in the system as applied in practice:*** With a large number of LGUs of varied size included under LGSIP (VCs and JSCs), capacity varies widely between them – some have well-functioning technical engineering departments that are usually tasked for environmental and social management and coordinate with MoLG district offices on these issues, as well as promote overall sustainability in their communities. Others have low levels of staff that may be missing expertise and coordination systems to manage impacts and contribute to development planning in their village councils.

21. The overarching finding is that, while impacts are generally managed and there have been few major issues, most LGUs do not have systems in place for the ESIA process, collecting and managing environmental and social data, nor a clear mandate for environmental and social

management. Many donor projects have attempted to bridge this gap with Environmental and Social Management Frameworks, and the shortcomings underpin the main challenges that have been found in implementing in other projects implemented at the local level: screening checklists are not commonly used at the local and central levels, LGUs do not systematically monitor environment and social impacts, and environmental and social management often remains outside of the planning and decision-making process. The reasons are largely structural difficulties – despite these, impacts from projects have been managed fairly well, and that in the LGU there is recognition of environmental sustainability and the desire for projects to contribute to better sanitation, reduced pollution and a better quality of life, as well as strengthened institutions. Findings during field studies and consultations with national counterparts suggest that on both levels there is a strong willingness to work through the issues described below, and recognition of the opportunities of the Program to address issues that are compromising environmental and social management in local governments.

22. The main issues are summarized below, which are addressed in the Program through measures included in the Program design and Program Action Plan:

- ***Centralized management:*** Once a project is identified, environmental and social management is largely in the LGU's hands, however many of the decisions are handled by central authorities, e.g. contracting ESIA consultants, the ESIA review process, consultations and auditing implementation is overseen by program manager (MDLF and MoLG). The day-to-day implementation of the environmental and social management plans (ESMPs) will be the duty of the LGUs staff with capacity building sought from the MoLG and MDLF. This break in delegation from the beginning sets projects on a trajectory where, though the direct impacts and risks are modest, implementation is not systematically monitored as the central agency does not have the capacity to monitor all projects and the LGUs have no existing capacity to do so either.
- Another finding from the fieldwork and interviews is that highly centralized natures of ESIA process can slow the project cycle as even projects with minimal impacts require an environmental screening by the central authorities in order to obtain an environmental certificate required of all projects, there can be long delays in obtaining certificates. It was observed that in light of delays, projects have gone forward without the required certificate. Because LGUs do not have clear role, this leaves some projects with little oversight.
- ***Human Resource Capacity:*** Most LGUs have different staff who are involved in ESM: Community Development Officer, planners, engineers and other sector staff who exist within the LGUs. Rarely, LGUs have an Environmental or Social Management Officer. Overall capacity for ESM and ESIA is generally quite low (though it varies across LGUs). Field visits showed that most LGUs staff are not trained to handle a technical task such as the ESIA process. Additionally, LGUs are not able to hire their own specialized staff for this purpose. This is where the lack of a well-defined system at the local level and a clear methodology for coordination on the governorate and central levels are needed.
- ***Budget Resources and Tools:*** Budget has been a common constraint to optimal ESM. There has been pressure from the donor community to include a line item from budgets of projects for environmental and social management and ESM monitoring on the central level, funds rarely flow or that they are inadequate for staff to actually carry out ESM

requirements, where technical staff had limited resources to conduct their field tasks, lacking vehicles and environmental monitoring equipment as well.

- ***Performance Incentives*:** Many of the issues identified and the lack of effective action to date on all of the aforementioned issues reflect the incentive structure of how development funds are transferred to LGUs. As mentioned earlier, , the LGU's performance-based grant system links LGU performance in key areas of local governance with compliance with national policies, legal and regulatory frameworks.

23. Despite the key role local governments play in environmental and social management and compliance with relevant laws, these elements are neither included in LGU's minimum conditions to access the grant nor in indicators that incentivize good performance. Environment and Social is included as a cross-cutting issue along with poverty, gender, governance issues, but the performance indicator is an aggregate of all of these issues together, and only requires that LGUs undertake an analysis of these issues to be included in their development planning process.

24. The minimum conditions and performance indicators have important implications for where LGUs direct budget resources and staff priorities. Without any performance measurements or sanctions for low performance (that is, if there are no consequences for poor performance), budgetary resources are in most cases not directed in these areas).

25. ***System Strengths***: Despite the gaps in the system, there are many positive practices in LGUs and at the national level that are important to consider, as these can be both capitalized upon as well as strengthened through the performance incentives under LGSIP as well as support for capacity building. First, despite clear roles and responsibilities, environmental and social impacts implemented by LGUs have been managed fairly well on the MDLF and MoLG levels. Supervision reports and field visits have noted no major impacts that have gone unmitigated, both in small-scale and large-scale supported infrastructure. Second, the field visits noted that some LGUs have made very effective use of laws related to ESM, for example, improved solid waste management by sanitation-specialized (both wastewater and solid waste) Joint Service Councils.

26. Both MoLG, MDLF, and JSCs are supportive of measures to strengthen systems, and are familiar with programs that have attempted to do so in the past. While these systems have had some lasting impact, they have not managed to fully mainstream a system of environmental and social management in LGUs, which would be strengthened under the Program.

Assessment of social management systems

27. As detailed above, individual sub-projects and joint projects will be excluded that involve the relocation of households, temporary or permanent land take and impacts on livelihoods, including those that may occur through the restriction of access to resources. Land requirements will be met through those under the ownership of LGUs and, in some instances, through VLD or through the purchase of private land through a willing-seller willing-buyer approach. The Palestinian ESIA Policy does not provide any guidance on VLD, including documentation of consent. Also, the ESIA policy does not include any information on social risk monitoring during sub-project implementation. Guidelines for LGUs will be provided on VLD and on social risk monitoring in the ESSM. Capacity building for LGUs is also planned in these areas.

28. The process of identifying sub-projects and Program activities should be participatory, interactive and consider the needs and priorities of local populations. LGUs report that sub-project selection is mostly done informally, not recorded and not representative. The design of the Program supports a participatory process that allows people to be involved in identifying needs in the development, implementation and monitoring of Program activities. Capacity building will be provided to LGUs on consultations of beneficiaries at various stages of selection and implementation of sub-projects.

29. Based on the Palestinian Council Resolution No. 60 in 2005 mandating the development of a complaints mechanism in all ministries, a complaints unit exists within the MoLG including a manager and two staff. Despite the existence of this unit including key aspects of a formal complaints system (documentation of complaints and responses, timely responses, a log of all complaints received, date responded to, type of response, etc.), consultations confirmed that local communities are not aware of this system. In addition, complaints are overwhelming dealt with informally at the LGU level and not documented. The Program provides capacity building to LGUs on how to process, receive and address grievances.

Summary of Grievance Redress Mechanism

30. LGUs will be required to have a functioning GRM for complaints. While the WB&G is considered a conflict and fragile state, there is little risk that the Program itself will be the source of social conflict. However, some cases of conflict and some grievances may occur during project implementation. Where grievances and disputes arise in projects, vulnerable groups are often unable to access legal systems due to costs and other considerations. The design of the program aims to minimize social conflict through the development of appropriate consultations and a Program-level GRM. LGUs will be required to have a functioning GRM for Program level complaints with the following key features:

(i) accessibility to communities,

(ii) recording of complaints in a log (date received, date responded to, complaint, how resolved, when resolved), and

(iii) responding in writing in a timely manner.

31. Complaints can also be received by the MoLG, which will have the same features as that of the LGUs. For urgent issues that LGUs cannot handle, they will immediately inform the staff within the MoLG on issues related to Sub-Activities I and III, or MDLF for issues related to Sub-Activity II to assist with responding to the complaint.

32. In terms of monitoring the GRM, LGUs will be required to submit the log of complaints on a monthly basis to the MoLG for activities for Sub-Activities I and III, or MDLF for Sub-Activity II MDLF will share the monthly logs it receives with MoLG complaints department.

33. Communities and individuals who believe that they are adversely affected as a result of a Bank supported PforR operation, as defined by the applicable policy and procedures, may submit complaints to the existing Program GRM or the World Bank's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent

concerns. Affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel, which determines whether harm occurred, or could occur, as a result of World Bank 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 World Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate 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 7: Integrated Risk Assessment

West Bank and Gaza: Local Governance and Services Improvement Program for Results

1. Program Risks		
1.1. Technical Risk	**Rating**	**Substantial**
Description: PA system may not possess the adequate capacity to achieve the Program results and to achieve timely disbursements to LGUs. MDLF: MDLF has significant experience in managing performance-based transfer formula and providing capacity building support to municipalities in the WB&G. The MDLF is staffed with all key positions and has fully functioning fiduciary and technical departments in place. However, MDLF has limited experience and institutional capacity to provide support to small LGUs and marginalized communities with very low capacity.	**Risk Management:** MDLF will be the Program Secretariat responsible for Program Management tasks, including the organization and management of the Program activities including the preparation of Program Financial Statements. MDLF has highly experienced staff in FM, Procurement, and other technical aspects, a results-based M&E system for monitoring outcomes of interventions, and is currently implementing the MDP with satisfactory performance. During Program preparation, the MoLG was assessed to check whether or not it would be able to support villages in becoming eligible for entry into the program and also to implement service delivery investments. The MoLG, through its Projects Directorate and District Offices also has developed adequate procurement, FM, and other technical capacity throughout the supervision of PAand bi-lateral donor funding to village councils, and also the recently closed VNDP which supported 93 Palestinian villages. The MoLG will support Capital Grants implementation in VCs, while MDLF will focus on supporting large service joint projects implemented by JSCs on behalf of village councils. A draft Capacity Development Plan for the MoLG and LGUs has been prepared before Program negotiations and will be finalized prior to Program implementation start, proposing training and other technical assistance activities needed to strengthen the existing systems at the MoLG, and for LGUs. For example, the MoLG has a system in place for reviewing contractor invoices, which will be strengthened under the Program. A Program Committee (PC) would be established as the overall Program coordinating body and for critical decision making. Members will include the Minister of Local Government (Chair), Deputy Minister of Local Government (Head), MDLF General Director, and MoF Accountant General. The PC will be supported by the MDLF in its role as Program Secretariat responsible for performing	

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<tr>
<td rowspan="3">MoLG: MoLG has the legal mandate to oversee all LGUs, and has accumulated valuable experience in establishing and rolling-out an approach for community development in the WB&G. However, MoLG is less experienced in managing multi-donor support programs with more complex implementation arrangements and larger-scale infrastructure investments.

VILLAGES: Villages have varying degrees of administrative, financial and technical capacities, and the majority are weak, and experiencing staffing shortages.

JOINT SERVICES COUNCILS: JSCs have varying implementation capacities, and some are not sustainable.</td>
<td colspan="5">implementation support and Program management functions. A qualified staff member in the MoLG has been appointed to support coordination within the Ministry, liaise with the MDLF, and provide direct support to the MoLG Deputy Minister in his role as focal point and Head of the PC. The PC shall be established prior to Program implementation start and will have the main function to coordinate among the Program main stakeholders and DPs towards meeting the Program results, to ensure effective inter-ministerial coordination and to monitor and follow up on Program progress A detailed description of the PC roles is included in Annex 1.

The MDLF, as the Program Secretariat will have Program Management functions, and will be responsible for relaying to the World Bank, DPs and IVAs the results achieved under its responsibilities and those of the MoLG and will manage progress and financial management reporting under the Program. The MDLF will prepare a POM which will lay out the details of carrying out the necessary oversight and implementation of activities required for the achievement of the Program results and timely disbursements. The MDLF has demonstrated its capacity to administer donor-funded projects since its establishment in 2005.</td>
</tr>
<tr>
<td>Resp:

Client</td>
<td>Stage:

Both</td>
<td>Recurrent:

X</td>
<td>Due Date:

January 31, 2016</td>
<td>Status:

In Progress</td>
</tr>
<tr>
<td colspan="5">Risk Management:

During program preparation, several assessments were undertaken to assure that the Program has the adequate design to address critical sector challenges. Assessments include a (i) Village Council capacity assessment; (ii) Joint Service Provision assessment; (iii) Expenditure assessment; and (iv) MoLG Capacity assessment. Those assessments have identified the key strengths, weaknesses, and areas requiring strengthening at the central government levels, as well as at the VCs and JSCs levels, in order to successfully achieve program results. Areas for system strengthening will be supported in: (i) The MoLG Capacity Development Plan, which was prepared before Program negotiations and will be updated on an annual basis by the MoLG; (ii) the Program Action Plan.

The Joint Service Provision assessment provided substantial information on the current capacity of all JSCs in the West Bank, based on which the JSCs have been assigned ranking on a scale of nine good</td>
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<tr><td rowspan="7"></td><td colspan="5">governance indicators (including minimum requirements for technical and fiduciary service delivery management. Those JSCs that are not eligible for the first Program Grant Cycle will receive capacity building support to prepare them for eligibility in the next round. Capacity building activities would be designed building on the lessons learned from MDP and VNDP and as best fits the Program approaches.

DLI1 of the Program will link to MoLG actions to put in place enabling steps for good local governance, including the necessary steps for enabling efficient budget execution by VCs through the finalization of the Procurement Instructions of the new Public Procurement Law.</td></tr>
<tr><td>Resp:</td><td>Stage:</td><td>Recurrent:</td><td>Due Date:</td><td>Status:</td></tr>
<tr><td>Client</td><td>Preparation</td><td>☐</td><td>November 15, 2015</td><td>In Progress</td></tr>
<tr><td colspan="5">Risk Management:
In addition to Conditional Capital Grants incentivizing joint implementation for large scale service interventions through JSCs, the Program will provide incentives for small-scale sub-project planning and implementation of basic services, building on VC’s ACIPs and implementation capacity in an incremental manner.</td></tr>
<tr><td>Resp:</td><td>Stage:</td><td>Recurrent:</td><td>Due Date:</td><td>Status:</td></tr>
<tr><td>Both</td><td>Implementation</td><td>X</td><td></td><td>In Progress</td></tr>
<tr><td colspan="5"></td></tr>
<tr><td>1.2. Fiduciary Risk</td><td>Rating</td><td colspan="4">High</td></tr>
<tr><td>FM & PROCUREMENT:

VCs at large and many JSCs do not have adequate capacity and staffing for procurement and financial management.</td><td colspan="5">Risk Management:

VCs would be assessed at Program start. Large VCs (>4,000 inhabitants) must demonstrate minimum staff capacity for individual execution of Capital Grants by having access to an administrator (full-time), accountant (full or part-time), and an engineer (full or part-time). Those that cannot provide these staffing requirements would need to delegate the implementation of their investment grant allocations to JSCs that have scored >40 in the Joint Services Provision assessment. Engineers and</td></tr>
</table>

Risk of disbursement delays as a result of community planning and implementation, and/or lack of proper coordination between LGUs and the implementing agency. Risk of overestimating Program cash flow projections or replenishments: In general, small VCs do not maintain satisfactory financial management arrangements. The expenditure cycle in such VCs is not subject to independent review procedures, and capacity constrains exists in the fiduciary function. MoLG supervision needs strengthening, mainly due to weaknesses in implementation and monitoring capacity. The internal control process at the MoLG is protracted and inefficient.	Accountants for VCs and for JSCs will receive capacity building training by the MoLG in procurement and financial management. Separate general accounts and ledger accounts will be opened at the oversight agency level to account for FM arrangements at the sub-project levels. Both MDLF and MoLG already have an automated financial management information system recognized by the World Bank and DPs, which enables display of funds and expenditures incurred by sub-program, financing partner, and LGU. As the Program Manager, the MDLF has extensive and satisfactory experience with cash flow planning and management. MDLF is a semi-independent institution and its setup has proved resilient within fragility and conflict of the Palestinian context during times when other PA agencies were unable to provide services and manage funds. The Program distinguishes large, more capacitated VCs, from small weaker ones. Small VCs will delegate the implementation of their investments to JSCs. Larger VCs will be required to have their accounts audited, on an annual basis, by independent financial auditors in accordance with TOR satisfactory to the Bank, and will receive capacity building and support from the MoLG to ensure allocations are managed properly. The capacity-building element of the Program will provide the necessary support to the MoLG and VCs accordingly. The Program Action Plan will include capacity building support (to also be included in the MoLG Capacity Development Plan) to improve the financial management capacity of the MoLG to improve budgetary and accounting standards as well as the quality of financial information for VCs. The FSA also identified risk areas associated with VCs modest experience with procurement planning and management. Training on the instructions and bidding documents for the newly approved Public Procurement Law will be given to the MoLG and MDLF and to LGUs (including Villages), at program start. MoLG Capacity Building Plan will include also on-going capacity building for VCs and JSCs in procurement. Prior to training for VCs, the MoLG will prepare the Procurement instructions in accordance with the new Public Procurement Law as a program prior result to ensure these important instructions are available to VCs.

GOVERNANCE: No clear governance structure and financing framework for local service delivery in a decentralized framework exists.	At the implementing agency levels, The Bank and DPs will continue to put in place implementation arrangements and fiduciary controls to ensure risks to fraud and corruption are mitigated. Both implementing agencies under consideration have experience with the Bank's procurement and FM guidelines. Independent qualified private external auditors acceptable to Bank will be engaged to audit the project's accounts. International standards on fraud and corruption will be included in the external financial audit ToRs. Other independent assessments and evaluations will assess institutional and implementation performance, as needed, in accordance with ToR acceptable to the Bank and DPs. Bottom up approaches to planning and implementation of Investment Funds through participatory Annual Capital Investment Plans preparation will ensure greater accountability at the local levels. Local elections also serve as a governance measure to hold elected officials accountable for local service delivery improvements. The last local elections were held in 2012 – 2013. Participatory M&E, periodic citizen satisfaction surveys and community score cards would monitor periodically the level of citizen satisfaction and ensure that the voices of the community members are heard in the prioritization of investments. GRM at the MoLG and community levels would also protect investments against potential fraud and corruption. The Program would put particular emphasis on supporting the PA to design and adopt a framework for GG for joint service delivery, of a policy proposal for the reform of Transportation Fee allocation, a review of VCs' and JSCs' revenues and expenditure assignments to establish sustainable intergovernmental fiscal framework, guidelines for developing VCs own source revenue, and a revised policy directive for the consolidation of small LGUs. In the meantime, the transfer mechanism under MDP has been proven to be resilient and widely accepted by the PA in the absence of this policy framework. The same would be expected for a Formula for Annual Capital Grant allocations for small LGUs. MDLF's rich experience in managing the MDP fiscal transfer formula and providing capacity building support to municipalities would reflected in the design and implementation of a financing framework for service delivery for small LGUs.				
	Resp:	**Stage:**	**Recurrent:**	**Due Date:**	**Status:**
	Client	Both	X		In Progress

<table>
<tr><td>1.3. Environmental and Social Risk</td><td colspan="2">Rating</td><td colspan="3">Substantial</td></tr>
<tr><td rowspan="3">Description:
There is a risk that the effective management of social and environmental risks are overlooked due to lack of capacity or staffing

There is a risk that villages and JSCs do not select sub-projects or joint projects based on public participation.</td><td colspan="5">Risk Management:
An ESSA was carried out, and has confirmed that the legal framework for social and environmental monitoring in the PA system is adequate for proper monitoring. The ESSA highlighted that there is very weak, and almost none existent Grievance Redress Mechanism in Villages. The Program Action Plan includes measures to be applied centrally and also at the LGUs level to strengthen the environmental and social systems capacity for program implementation, to strengthen existing complaints handling systems, and to establish a Program-level GRM.

Minimum requirements for participatory investment planning have been put in place for the MoLG to screen sub-projects for to ensure that investments are prioritized by the members of the VC community. Those requirements will include minimum quotas for the participation of women and youth in community project support groups, accompanied by oversight support from the MoLG and consultants, and will require documentation of public meetings and hearings as evidence to the participatory process in ACIPs preparation and update. The MoLG and VCs will also receive training in Participatory M&E. The MDLF will also commission a BIA which would assess the satisfaction of communities with the Program results, namely that the investments financed reflected their priorities expressed in the ACIPs. Two indicators in the Program Results Framework will measure citizen engagement in the program, one being at the PDO level. Those are: (i) Share of citizens (from women/vulnerable/marginalized groups) who participated in consultations (%); (ii) Beneficiaries that feel project investments reflected their needs (%) (CORE indicator)

The Bank will ensure that VCs and LGUs have the genuine capacity to screen for, and exclude, sub-projects for financing that would have adverse impacts on affected people per impacts described above. Should any gap in capacity be evident, these will be met through LGU training, and/or a combination of ensuring staff with the appropriate skills are in place.</td></tr>
<tr><td>Resp:</td><td>Stage:</td><td>Recurrent:</td><td>Due Date:</td><td>Status:</td></tr>
<tr><td>Client</td><td>Both</td><td>X</td><td></td><td>In Progress</td></tr>
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<table>
<tr><td rowspan="4">1.4. Disbursement linked indicator risks

Description:

Disbursement may be stalled due to lack of progress in meeting DLIs</td><td>Rating</td><td colspan="4">Substantial</td></tr>
<tr><td colspan="5">Risk Management:
The DLIs have been selected according to the Program’s incremental result chain so critical results can be achieved during the early stage of the Program for building incremental results to reach the PDO. A number of the DLIs would be prior results in order to provide sufficient funds disbursements to support the Program startup activities.</td></tr>
<tr><td>Resp:</td><td>Stage:</td><td>Recurrent:</td><td>Due Date:</td><td>Status:</td></tr>
<tr><td>Both</td><td>Both</td><td>X</td><td></td><td>Not yet due</td></tr>
<tr><td colspan="6">2. Overall Risk Rating: High</td></tr>
<tr><td colspan="6">In light of the political and fiscal fragility of the PA, the relatively weak capacity at MoLG for control and oversight, coupled with the limited Financial Management arrangements and technical capacity at the VCs level and in particular for small VCs, the large number of VCs, and the weak institutional framework and governance structure for joint service provision, the overall Program risk is rated High.</td></tr>
</table>

Legend: L – Low; M – Moderate; S – Substantial; H – High

Annex 8: Program Action Plan

Action Description	DLI*	Covenant*	Due Date	Responsible Party	Completion Measurement**
Decree for disbursement of grant to larger VCs bank account issued	☐	☐	November 2015	MOLG/MOF	Decree issued immediately after program approval
Development of Program Environmental and Social Management Manual (ESSM)	☐	☒	November 2015	Program Manager	ESSM prepared
Development of the Program Operation Manual	☐	☒	October 2015	Program Manager	POM prepared
ACIPs prepared according to prescribed format	☐	☐	Annually by October 1, from 2016 onwards	MoLG and VCs	Program report
Draft proposal prepared for revised LGU functional assignments	☐	☐	July 2017	MoLG	Proposal prepared
Establish Program Committee to ensure effective inter-ministerial coordination	☐	☐	October 2015	MoLG/ MDLF/ MOF	First meeting of Program Committee
Allocation of the Transportation fee to VCs reformed	☒	☐	June 2018	MoF/MoLG	Directive prepared and submitted to Cabinet
Design and implement a comprehensive VC/JSC monitoring system	☐	☐	December 2016	MoLG	Instrument refined
Assessment and Ranking of JSCs carried out in accordance with Program schedule	☐	☐	October 2016 and October 2018	MOLG	Scoring of all JSC completed
Regular Training to be provided on FM, procurement, social	☐	☐	October 2015 and onwards	MDLF and MoLG	Program developed as

and environment systems, and Participatory Monitoring and Evaluation focusing on women and youth, at the village council, directorate, and central levels (MDLF and MoLG)					part of Capacity Building Plan
All VCs to submit their budgets, annual plans, annual financial statements and audit reports to the MoLG on a regular and timely basis	☐	☐	June 30 every year from 2016	VCs and MoLG	Program Reports
VCs to prepare annual action plan to address audit findings within a period of six months after the receipt of the audit report	☐	☐	Action Plan to be implemented by December 31 of the subsequent year	VCs	Program Reports
Qualified VCs, JSCs, MDLF and MOLG post their procurement and contract award notices on single procurement portal	☐	☐	Starting from the first year of the Program	HCPPP, MOLG, MDLF, VCs and JSCs	Program Reports
Procurement complaint handling mechanism and Dispute Review Unit operational	☐	☐	Starting from the first year of the Program	HCPPP	Complaints Database

Annex 9: Implementation Support Plan

1. The Implementation Support Plan (ISP) is intended to outline the approach the Bank will take to support the PA's efforts to implement the Program activities and manage the key risks to achieving results and PDO. The ISP is based on the implementation support guidelines for PforR operations, adapted to the design and risk profile of the LGSIP. As the Program Secretariat performing Program management tasks, the MDLF is responsible for the Program's overall implementation, including its technical aspects. The Program Manager will also convey to the Bank, DPs, and IVA the MoLG's attainment of the results and DLIs under its responsibility. The basic mandate for Bank implementation support under Program-for-Results is to:

(i) Review implementation progress and achievement of Program results and DLIs;

(ii) Provide support for resolving emerging Program implementation issues;

(iii) Provide technical support to the client for implementation of the PAP, the achievement of DLIs and other results, and for institutional development and capacity building;

(iv) Monitor systems' performance to ensure their continuing adequacy through Program monitoring reports, audit reports and field visits;

(v) Monitor changes in risks to PforR, compliance with OP 9.00 and compliance with legal agreements and, as needed, the Program's action plan.

2. The program would undergo Implementation Support Missions (ISM) at least twice a year by the World Bank and participating co- and parallel Financing Partners (FPs). Recommendations of ISMs would be presented to the PA and recorded in an Aide Memoire. In addition, the FPs would continue to hold co-ordination meetings with the MDLF and MoLG to ensure project progress. All FPs would be represented at the supervision missions by the responsible principal agent (or designee) for the Program. The World Bank would be represented by a Task Team Leader or his/her Designee. The role of such principals would be to: (i) ensure co-ordination amongst FPs; and (ii) undertake required Policy Dialogue with the PA as related to the program and the sector. ISMs would focus on the following areas, in accordance with OP 9.00:

(i) Due diligence for DLIs: The Bank will verify, for all 7 DLIs, their achievements through the IVA reporting;

(ii) Monitoring and Evaluation: Review MDLF Semi-Annual and Annual progress reports, verification protocol and provide technical input;

(iii) Environmental and social: Provide the necessary support on the development and implementation of the Program Operational Manual currently being drafted by the MDLF;

(iv) Fraud and corruption: Supervise the implementation of agreed fraud and anti-corruption measures under the program and provide guidance in resolving any issues identified;

(v) Procurement: (i) review of procurement performance on the basis of annual performance assessments; and (ii) provide guidance to capacity building for procurement;

(vi) Financial Management: Review the Interim Quarterly Financial Management Reports (IQFM) and the assessment results reports as the basis for disbursements, audit reports, and agreement on measures to address any audit observation and monitoring their implementation. The IQFM is the requirement for both the Bank and the borrower.

3. Further to the above, due to the relatively complex nature of the Program, introduction of a predictable Grants Allocation formula for small LGUs oversight of MoLG and Program Management by MDLF, and the limited experience with the PforR financing instrument, and other risk factors identified in the program preparation assessments, the following areas have been identified as most critical to concentrate the Bank's implementation support efforts, especially during the first 12 months:

(i) Introduction of the per capita grant allocation system: The PA would adopt a transparent and predictable grants allocation formula for VCs, which would require institutionalization of the capacity to manage this formula, and more broadly, the capacity to encourage LGUs to improve and diversify their revenue basis and reduce arrears on one hand, and the capacity at the PA level to reduce cross subsidies and reform unfunded expenditure assignments.

(ii) Limited Financial Management arrangements at the VC level and MoLG, and in particular for small VCs: Due to the large number of VCs and the limited capacity at MoLG, control measures and oversight need to be strengthened at both the VCs and the MoLG levels.

(iii) Risk of Disbursement Delays, and new public procurement law require substantial capacity building: Since the program funds will be transferred to the MoF CTA, there is a potential risk of disbursement delay to MDLF, MoLG, and VCs. In addition, a new public procurement law, which would apply to LGUs, irrespective of size and classification, has recently been enacted. Substantial capacity building of VCs, JSCs and MoLG on the new procurement system and procedures would be required in order to avoid program implementation delays.

(iv) Limited capacity at the MoLG to manage capacity building activities in a programmatic approach: Several capacity building plans exist at the MoLG, mostly centric to certain directorates, partially funded, and lacking the link to the MoLG vision and strategic objectives for the LG sector. At program start, the MoLG would require the support of a consultant to harmonize the various capacity building plans of the MoLG Directorates into one consolidated Capacity Development Plan that the MoLG would then update on a yearly basis. The first Capacity Development Plan would attempt to make capacity building and training activities fully consistent with the formulation and implementation of government policies required for the LGSIP to succeed, and also technical program oversight and implementation aspects, including assessing the LGUs performance and eligibility, and assisting the eligible VCs in implementing sustainable investments.

4. During the first year of implementation, the Bank's support will focus on strengthening the Program systems, especially the MoLG's ability to meet the DLIs under its responsibilities through supporting a good governance framework for joint service provision and a predictable funds

transfer mechanism that would improve VCs' capacity to manage revenues and expenditures in a sustainable manner while providing services to citizens.

5. The Bank's implementation support will leverage support being provided under other ongoing Bank-funded projects. The Bank Task Team Leader (TTL), Co-TTL, and other core Bank task team members (fiduciary, environmental, and fraud and anti-corruption) are located in the West Bank and Gaza Country Office, so that emerging issues can be identified and resolved in a timely manner. This will ensure timely, efficient and effective oversight support. In addition to providing daily support from the Bank's headquarters in Washington DC, other team members, including social, can travel to West Bank and Gaza in a regular and timely manner as they provide cross support to similar programs that they work on.

6. Formal implementation support missions and field visits will be carried out semiannually, or as deemed necessary, and with active participation of Co-Financing, and Parallel financing DPs. The task team will make use of reports from the Program and evidence from implementation support visits to the field to prioritize areas for additional task team support. The task team will continue to involve core PforR technical and fiduciary experts as members of the extended task team.

7. A multi-disciplinary Bank team will be deployed during the Program's Mid-Term Review (MTR), which would take place at the mid-term life of the 5-year Program. They will be joined by other FPs. The Program's progress will be reviewed, with a particular focus on the grants allocation formula and associated disbursement, eligibility, DLIs, program management, as well as the capacity building activities. Necessary adjustments will be made to the Program structure, for shortcomings identified in the MTR.

Table 1: Main focus of Implementation Support

Time	Focus	Skills Needed	Resource Estimate	Partner Role
First twelve months	Targeted hand-holding and oversight	All skills, in general	36 weeks	
	Capacity plans for MoLG, qualifying and non-qualifying VCs, LGUs	Capacity building, FM	2 weeks	BTC, GIZ, Funding activities, and experience with on-going capacity building activities
	Municipal Finance, revenue collection of VCs	FM, revenue enhancement	2 weeks	Expertise provided by GIZ, BTC

Time	Focus	Skills Needed	Resource Estimate	Partner Role
	Program Implementation Plan, results verification	Capacity building, PforR	3 weeks	Technical audits, funded by KFW, and technical experience contributed by KFW
	Strengthening of Program environmental, social, and fiduciary systems	Environmental and Social, fiduciary	6 weeks	
	Establishing JSC GG Structure	Understanding of governance for jointly delivered services	2 weeks	BTC, funding of capacity building activities and provision of technical oversight support
12-48 months	Entry (exit) of JSCs and CVs	Understanding criteria on governance and capacity	2 weeks	Technical oversight support of BTC, KFW, DANINA, and GIZ. BTC funding of JSCs bi-annual assessment.
Other	DLIs, Verification Protocols	Knowledge in DLIs, verification protocols	6 weeks	

Table 2: Task Team Skills Mix Requirements for Implementation Support

Skills Needed	Number of Staff Weeks	Number of Trips	Comments
Overall TTL Support	36	0	Based in Country office
Capacity development plan	6	0	Based in Country office
Financial management, F&C	20	0	Based in Country office
Procurement management	20	0	Based in Headquarters
Overall PforR	4	3	Based in Headquarters
Revenue collection, Grants Allocation Formula	6	6	Based in Headquarters
Social Safeguards	10	6	Based in Headquarters
Environmental Safeguards, and Engineering	12	0	Based in Country office
M&E, PM&E	4	0	Based in Country office
Inter-LGU cooperation	6	6	Based in Headquarters

Table 3: Role of Task Team Members in Program implementation

Title	Location	Role
Task Team Leader	Country Office	Overall Oversight – Urban Specialist
Co-Team Leader	Country Office	Deputy – Capacity Building, M&E
Procurement Specialist	Country Office	Procurement Oversight
Financial Management Specialist	Country Office	Financial Management and Disbursement Oversight
Financial Management Specialist	Country Office	Fraud and Corruption
PforR Expert	Headquarters	PforR Guidelines, PforR Requirements, PIP
Environment, and Engineering	Country Office	Environmental Oversight
Social Safeguards	Headquarters	Social Safeguards, Social Development
Social Development	Headquarters	Social Accountability, Citizen Engagement
Municipal Finance Specialist	Headquarters	Grants Allocation Formula, Revenue Collection
Urban Specialist	Headquarters	VCs, JSCs Eligibility and Assessments, Inter-LGU Cooperation