



1. Project Data:		Date Posted : 03/30/2004	
PROJ ID: P043339		Appraisal	Actual
Project Name: Municipal Development	Project Costs (US\$M)	45.0	40.0
Country: West Bank & Gaza	Loan/Credit (US\$M)	40.0	40.0
Sector(s): Board: UD - Roads and highways (51%), Sub-national government administration (19%), Water supply (10%), Sewerage (10%), Sanitation (10%)	Cofinancing (US\$M)		
L/C Number:			
	Board Approval (FY)		96
Partners involved :	Closing Date	12/31/2000	06/30/2003
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components

a. Objectives

The main objectives of the project, as synthesized from the diverse objectives statements in the Staff Appraisal Report (SAR), Implementation Completion Report (ICR) and Legal Agreement (LA), were:

(a) to help remove infrastructure bottlenecks; improve essential services and facilities; preserve existing infrastructure assets; create productive employment (SAR/ICR/LA) and rehabilitate basic, high priority infrastructure services in Gaza and the West Bank (LA)

(b) to strengthen the local government system, particularly to rationalize roles and responsibilities and build finance and managerial capacity (SAR/ICR)

(c) to provide widespread economic benefits to the population of Gaza and the West Bank (LA)

OED's assessment focuses upon the achievement of the objectives above (to which the ICR self-evaluation attaches 77% weight post September 2000). Since any additional objectives were supported, at most, by 7% of project investments (US\$2.0m. for Emergency Repair and US\$1.0m. for Bethlehem 2000) and all but conceived during the final months of project implementation only, their achievement carries a correspondingly small weight in the assessment. Minor changes through three amendments included : (i) support for the Bethlehem 2000 Project on a very small scale was added through an Amendment of 03/98; (ii) a second Amendment of 12/02 (just six months before closing when 94% of funding had been disbursed) added a small emergency repair component. Neither Amendment posited new project objectives; and (ii) a "Master Amendment" of 08/02 to restructure this and seven other projects, that affirmed that the achievement of the original objectives of this project would not be affected by restructuring or resource allocation.

b. Components

1. *Infrastructure Rehabilitation and Improvement, Maintenance, and Neighborhood Upgrading (final cost: US\$34.5m)* investment in roads; water supply, and wastewater and sanitation (West Bank only); a four year program of infrastructure maintenance by contract; and neighborhood upgrading in four lower -income communities in Gaza. (a small amount for the repair of damage resulting from the post 2000 crisis was incorporated into this component)

2. *Local Govt. Reform and Capacity Building (final cost US\$3.3m):* support for legal, institutional, fiscal and financial reform at national and local levels.

3. *Management & Incremental Operating Expenses (final cost US\$1.2m):* including project coordination, accounting, monitoring and reporting; training and studies; incremental operating expenses; and vehicles, equipment, materials, supplies and spares.

4. *Bethlehem 2000 (final cost US\$1.0m.)* (in support of components of the Bethlehem 2000 Project (TF22273))

c. Comments on Project Cost, Financing and Dates

Final costs were less than expected since government counterpart of US\$ 4.4m. expected at appraisal did not materialize. This meant that Trust Fund financing accounted for 100% of final project expenditures versus 89%

expected at appraisal. All but US\$5.0m. of the funding was disbursed by the original closing date of 12/2000, but this was extended an additional two-and-a-half years to enable the project to finance repairs to infrastructure damaged in the crisis following the September 2000 *intifada* and Israeli military response.

3. Achievement of Relevant Objectives:

The outbreak of the *intifada* in September 2000 and the Israeli military response to it, events beyond the control of the project, were the prime reasons for the failure of this operation to achieve its objectives. OED's evaluation is results-based. It assesses the achievement of the intended outcomes, and not simply the delivery of physical outputs, that in this case were provided but not put to adequate use that would generate benefit streams to the intended beneficiaries.

(a) *Not achieved:* Infrastructure bottlenecks became no longer relevant when border closures and the post-September 2000 crisis cut demand as people could no longer easily access road infrastructure, for instance. While the project delivered physical outputs, the assets themselves --whose useful life is expiring in disuse--do not translate into essential services and facilities if beneficiaries do not have access to them and are not able to use them, something severely constrained in the climate of insecurity prevailing since their delivery. Some sub-projects, such as gravel roads and sidewalks will soon reach the end of their useful life before improved security conditions will allow their full use. Internal ERRs--not estimated for completion--are likely to be very low in such circumstances. While rehabilitation and maintenance, on a smaller scale than foreseen, helped initially preserve existing infrastructure, an unreported quantity was damaged during the subsequent conflict, which led to 54 damage repair sub-projects completed under this project. The intended creation of long-term productive employment had to give way to the creation of temporary employment (850 person years) as the crisis took hold.

(b) *Not achieved:* While 3-4 municipalities upgraded their computer networks, prepared three year development plans and engaged in public consultation /participation, this does not constitute strengthening the local government system of Gaza/West Bank that includes central and local government overall, and the relations between them. According to the ICR, central government failed to assume this role, leaving local governments, disrupted by the crisis, further isolated from any embryonic *national* system that might have been constituted.

(c) *Not achieved:* the 212 small works sub-projects and 850 person/years of employment are not on the scale necessary to bring widespread economic benefits to the West Bank and Gaza population, as the project unrealistically promised to do.

4. Significant Outcomes/Impacts:

- Targeted physical outputs exceeded in some cases (184kms of roads at closing, against 100kms expected at appraisal, although it is unclear whether actual design standards were the same as foreseen, thereby achieving the reported savings).

5. Significant Shortcomings (including non-compliance with safeguard policies):

- Project objective statements were not consistent across project documentation. Nevertheless, they were unduly ambitious given the risk of conflict in West Bank /Gaza.
- Inadequate resource allocation to infrastructure maintenance programs at the local level, with consequent risks to sustainability of infrastructure services rendered by the project (presuming that benefit flows will resume following the cessation of hostilities).
- The shrinkage of the national economy by half, that among other things, has raised the unemployment rate from 10% before 2000 to 53% currently, tripled the number of the poor, and completely swamped any beneficial employment effects of the project.
- Economic impact of project components were significantly compromised by the post -2000 crisis. ERRs of project investments were not re-estimated at completion, but would likely be very low as a result of restrictions on people's movement (preventing efficient use of roads), declining effective demand for urban services because of unemployment and declining property values in the face of worsening security.
- The bad security situation at project closing even affected the preparation of the ICR, making it difficult to carry out the assessment of the project.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Unsatisfactory	Project did not succeed in achieving its objectives (details: section 3 above). Its potential benefits were overwhelmed by the post-2000 <i>intifada</i> and Israeli military response, that halved GDP, multiplied unemployment and undermined the economic rate of return of the project investments (by preventing their efficient use by the intended beneficiaries). Of course, events leading to this negative outcome were totally beyond the control

			of the project.
Institutional Dev .:	Substantial	Modest	The project helped lay the foundation for the local administration of infrastructure, but this cannot lead to the more efficient use of resources with the ongoing conflict of recent years.
Sustainability :	Likely	Unlikely	Resilience of project benefits is highly unlikely with on-going conflict. Even with the end of the conflict, a debilitated economy will continue to undermine financial sustainability. Additionally, maintenance capacity remains weak and under-funded.
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	Local municipalities, especially did their best in very difficult circumstances that forced the Palestinian Authority to focus on crisis management and eventually be unable to provide the US\$4.4m. counterpart funding as agreed .
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

- Even with the full delivery of the physical outputs of urban infrastructure, actual services and any net benefit flows from them can disappear altogether if war and insecurity prevents the intended beneficiaries using them on the scale for which they were designed .
- With *force majeure*, such as the September 2000 *intifada*, that points to the difficulty of achieving the original project objectives, those objectives should be revised as soon as possible and in an explicit manner so that all parties are fully cognizant and supportive of a new direction that project has to take .
- There may be a point in project implementation--say when more than 80% of funds have been disbursed--when cancellation of remaining funding and an early closure of the project is a preferred option to costly restructuring and revision of objectives near completion that will have little effect upon outcomes so late in the day . (in this case restructuring occurred when 94% of all funds had already been disbursed).
- In very difficult conditions--such as the *intifada* and Israeli response--local government and its agencies are able to demonstrate considerable initiative and resilience, although focus upon day -to-day survival may displace attention from long-term development efforts .
- Effective lateral support between and coordination among supervision missions of different Bank projects can enable the Bank to respond more effectively to demands by the client, that are evolving and volatile in such difficult conditions as West Bank/Gaza.

8. Assessment Recommended? Yes No

Why? As part of a cluster audit where there have been no OED PPARs to date .

9. Comments on Quality of ICR:

This is a very difficult case to evaluate . The ICR candidly describes the challenges to the implementation of this project under very difficult conditions . Had it been prepared in less difficult circumstances, it could have given a more detailed account of what was actually implemented especially in terms of infrastructure sub -projects that accounted for 86% of all project expenditures . Nevertheless, the ICR creatively tries to retrofit an implied set of objectives (with the changed relative weights of each one) to the post September 2000 circumstances, leading inevitably to a complex overall project objective statement . If the self assessment had reviewed the project outcomes, rather than simply the physical outputs delivered, ICR would have probably led to a similar set of ratings to OED's . In other respects, however, the ICR deals with a complex story in a satisfactory manner .