Report Number : ICRR0021393

1. Project Data

Project ID	Project Name	
P127163	GZ-Second Municipal Development Project	
Country	**Practice Area(Lead)**	**Additional Financing**
West Bank and Gaza	Social, Urban, Rural and Resilience Global Practice	P152523,P154733,P154733,P155268,P155268

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
TF-14164,TF-16476,TF-A1061,TF-18184,TF-18378	28-Feb-2018	57,697,353.06
Bank Approval Date	**Closing Date (Actual)**	
23-May-2013	28-Feb-2018	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	57,700,000.00	57,700,000.00
Revised Commitment	57,700,000.00	57,700,000.00
Actual	57,697,353.06	57,697,353.06

Prepared by	Reviewed by	ICR Review Coordinator	Group
Cynthia Nunez-Ollero	Fernando Manibog	Christopher David Nelson	IEGSD (Unit 4)

Project ID	Project Name
P155268	GZ-Second Municipal Development AF (P155268)

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
		0.00
Bank Approval Date	**Closing Date (Actual)**	
22-Mar-2016		

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	0.00	0.00
Revised Commitment	0.00	0.00
Actual	0.00	0.00

2. Project Objectives and Components

a. Objectives

The original project development objective (PDO) of the Second Municipal Development Project (MDP2) was: "to improve the Recipient's municipal management practices for better municipal transparency and service delivery" (Financing Agreement (FA), March 26, 2014, Schedule 1, p. 7). The FA was between the International Bank for Reconstruction and Development/International Development Association (IDA), acting as Administrator of the Trust Fund for Gaza and West Bank, and the Palestine Liberation Organization, acting for the benefit of the Palestinian Authority.

The PDO was revised during the 2016 Additional Financing (AF) as follows: "to improve the Recipient's municipal management practices for better municipal transparency and service delivery, and to restore priority municipal services following the conflict in Gaza" (AF Agreement, October 26, 2016).

This review will assess the amended objective, which expanded the scope of the original PDO:

- to improve the Recipient's municipal management practices for better municipal transparency
- to improve the Recipient's municipal management practices for better service delivery,
- to restore priority municipal services following the conflict in Gaza.

A split evaluation will not be conducted. When the scope of the project is expanded with AF, the efficacy of the entire project is assessed using the revised outcomes and outcome targets (IEG Guidelines, July 25, 2017, page 47).

b. Were the project objectives/key associated outcome targets revised during implementation?

Yes

Did the Board approve the revised objectives/key associated outcome targets?
Yes

Date of Board Approval
30-Oct-2014

c. Will a split evaluation be undertaken?

No

d. Components

1. **Municipal Grants for Capital Investments** (US$ 7.03 million at appraisal, US$ 7.37 million actual). The Partnership for Infrastructure Development Multi Donor Trust Fund (PID MDTF with Sweden's International Development Agency or SIDA and Denmark's International Development Agency or DANIDA) co-financed this component with US$ 18.99 million initially. The second AF added US$ 6.42 million for total of US$ 25.41 million committed, with US$ 25.84 million actually disbursed. Other Donor Partners (DPs) provided parallel financing of US$ 39.35 million initially for this component. The second AF added US$ 11.16 million, for a total of US$ 50.51 million committed, with US$ 49.51 million actually disbursed. With these contributions (grants, cofinancing, and parallel funding), this component reached US$ 96.42 million committed, with US$ 94.15 million actually disbursed). This component financed performance based grants for municipalities to fund their capital investments outlined in their respective Strategic Development and Investment Plans (SDIPs). Each municipality prepared their SDIP with the participation of residents who identified and prioritized these capital investment subprojects. The transfers used the following formula: performance 50%, population 30% and need 20%. In addition, this component financed operating expenditures for Gaza municipalities.

2. Support to Municipal Innovations and Efficiency (US$ 0.77 million at appraisal, US$ 0.59 million actual. The PID MDTF co-financed this component with US$ 2.91 million, of which US$ 2.07 million was actually disbursed. Other DPs provided parallel financing of US$ 2.7 million for a total of US$ 6.38 million, with US$ 3.71 million actually disbursed. The unused portions were carried over to the follow-on project, the Third Municipal Development Project (MDP3). This component financed small scale social infrastructure and capacity building activities to strengthen newly merged municipalities and pilot innovative services to showcase their improved responsiveness. These innovations included e-governance, support for renewable energy, and local economic development (LED) initiatives.

3. Capacity Building for Municipalities and MDLF (US$ 0.60 million at appraisal, US$ 0.56 million actual). The PID MDTF co-financed this component with US$ 1.17 million, with US$ 1.58 million actually disbursed. DPs provided parallel financing of US$ 4.49 million for a total allocation for this component of US$ 6.26 million, with US$ 6.65 million actually disbursed). This component (i) rolled out the Financial Policies and Procedures Manual, Fixed Assets Registration and Valuation, and Budgeting Guidelines; (ii) promoted Municipal External Audits; (iii) set up the Integrated Financial Management Information System; (iv) rolled out the Strategic Development and Investment Plans (SDIPs) including its updating and M&E; (v) established Citizen Service Centers (CSCs), and developed and rolled out Citizen Guidelines for Service Delivery; and (vi) improved Operations and Maintenance (O&M) for roads and public buildings. This component also financed activities to strengthen the human resource and improve the capacity of the implementing agency, the Municipal Development and Lending Fund (MDLF).

4. Project Implementation Support and Management Costs (US$ million 1.6 million at appraisal, US$ 1.48 million actual). The PID MDTF co-financed this component with US$ 2.91 million, with the second AF adding US$ 0.48 million, for a total of US$ 3.21 million, which was fully disbursed. DPs provided parallel financing of US$ 4.25 million with the second AF adding US$ 0.84 million for a total of US$ US$ 5.09 million, with US$ 4.57 million actually disbursed. The unused portion was carried over to the follow-on project, MDP3. The Palestinian Authority provided counterpart financing of US$ 1.4 million, with US$ 0.78 million actually disbursed. This component reached a total of US$ 11.3 million, of which US$ 10.04 million was actually disbursed. The unused portion was carried over to the follow-on project, MDP3. This component financed goods and consultant services for Monitoring and Evaluation (M&E), outreach and communication, engineering supervision of capital investment subprojects, and the management fee for the MDLF.

5. Gaza Municipal Emergency Grants (US$ 3.0 million provided under the first AF, US$ 3.0 million actual). The PID MDTF co-financed with US$ 12.0 million during the first AF, and added another US$ 0.48 million at the second AF, for a total of US$ 12.48 million, with US$ 12.0 million actually disbursed. DPs provided parallel financing of US$ 11.99 million and added US$ 0.84 million during the second AF for a total of US$ 12.83 million, with US$ 12.52 million actually disbursed. The total allocation for this component reached US$ 26.99 million, for which US$ 27.51 million was actually disbursed. This component financed critical emergency capital and operating expenditure needs of Gaza municipalities following the July – August 2014 conflict. The subprojects were identified in the Rapid Assessment of Gaza Municipal Sector Damage Report.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

Project Cost: The total project cost was US$ 147.35 million, of which US$ 142.06 million was disbursed at project closing. All World Bank funds were fully disbursed. The unutilized funds from the DPs were carried forward to MDP3; funding sources included the French Development Agency (AFD) for US$ 1.22 million, the Netherlands' Ministry of Foreign Affairs/Ministry of Development Cooperation (VNG) for US$ 0.41 million, and from the Palestinian Authority or PA for US$ 3.66 million.

Financing: The Trust Fund for Gaza and the West Bank (TFGWB) administered by the Bank financed this project with a grant of US$ 13.0 million to the Palestine Liberation Organization, for the benefit of the Palestinian Authority (PA). This grant was fully disbursed. There was substantial cofinancing. The Partnership for Infrastructure Development Multi Donor Trust Fund (PID MDTF) co financed the project (US$ 25.80 million at appraisal, the first AF added US$ 12.0 million and the second AF added another US$ 6.9 million for a total of US$ 44.7 million, fully disbursed at project closing). Other DPs provided parallel financing including Belgium's Ministry of Foreign Affairs' Directorate General for International Cooperation (US$ 2.7 million at appraisal and actual), the European Commission (US$ 13.48 million at appraisal and actual), France's Agency for Development (US$ 8.4 million at appraisal, US$ 7.18 million actual, the balance carried over to MDP3), Germany's GTZ (US$ 0.96 million at appraisal and actual) and KFW (US$ 43.8 million at appraisal and actual), the Netherlands' Ministry of Foreign Affairs/Ministry of Development Cooperation (US$ 1.44 million at appraisal, US$ 1.03 million actual, the balance carried over to MDP3), and Switzerland's Agency for Development and Cooperation or SDC (US$ 4.0 million at appraisal and actual). The Palestinian Authority (PA) contributed counterpart financing (see below).

Borrower Contribution: The Palestinian Authority originally committed US$ 6.8 million in counterpart financing at appraisal then increased this to US$ 14.87 million by the time the financing agreements were signed. They disbursed US$ 11.21 million by project closing and rolled over the unused portion of their committed counterpart financing to the follow-on project, the MDP3.

Dates: The project was approved on May 23, 2013 and made effective on August 22, 2013. The original closing date for the project was June 30, 2017 but was amended to February 28, 2018 to synchronize with the other five grants financing the project. The Mid Term Review (MTR) was conducted on October 12, 2015. Three of the five grants had an original closing date of February 28, 2018 and closed as scheduled. The other two grants were amended to coincide with this closing date. There were three restructurings:

- a Level 1 restructuring on October 30, 2014 provided the first AF of US$ 26.99 million, which was to be used for the Gaza Municipal Emergency Grants following the conflict there. The PDO was expanded to include the Gaza municipalities in the project. This restructuring also changed the Results Framework, components, cost allocations and implementation schedule. The closing date of the original project was extended to June 13, 2017 to utilize these additional funds.
- a Level 2 restructuring on March 22, 2016 provided the second round of AF worth US$ 18.9 million from the PID MDTF (US$ 6.9 million) and Germany's KFW (US$ 12.0 million). These additional resources resulted in changes to the Results Framework (upward revisions of some end of project targets), and in the cost allocation between the components 1 and 4.
- a Level 2 restructuring on May 26, 2017 revised the closing date of the co financing PID MDTF from June 13, 2017 to February 28, 2018, an 8-month extension. This allowed the implementing agency to complete ongoing infrastructure subprojects under component 1, allow for completion of capacity building packages, and synchronize the closing date of all the grant agreements that supported this project to February 28, 2018.

3. Relevance of Objectives

Rationale

The project was and continues to be relevant to economic and political conditions in the West Bank and Gaza at project preparation and at project closing. At appraisal, the Palestinian Reform and Development Plan of 2008-10 laid out the vision for a future Palestinian state, anchored on institutional infrastructure and capacity building. The Bank's engagement immediately preceding this project, the first Municipal

Development Project (MDP1), introduced transparency and accountability measures directed at strengthening municipal management. This follow-on project focused on strengthening the municipality's management capacity to deliver services financed by transparent and predictable transfers using the metrics introduced by MDP1. As the Palestinian state had yet to become real, institutional capacity building at the municipal level remained relevant. The PDOs remained relevant to the territory's National Policy Agenda 2017-2022, which focused on investment in human capital, "Putting Citizens First." The key objective of this plan was "enabling the sector institutions to possess technical and organizational capabilities to perform their responsibilities." The PDO directly supported the third pillar to help strengthen public institutions with a sharper focus on assuring that the most vulnerable are targeted and protected, and that public institutions are strengthened through improved accountability, transparency, and performance.

The PDOs were also relevant to the World Bank Group's Assistance Strategy for FY 18-21. By providing support to strengthen institutions to deliver services (AS, paragraph 29), this project directly contributed to Pillar 3 - to address the needs of the vulnerable and strengthen institutions for improved citizen-centered service delivery (AS, paragraph 33).

Rating
High

4. Achievement of Objectives (Efficacy)

Objective 1

Objective
To improve the Recipient's municipal management practices for better municipal transparency

Rationale
This project was the second of a three part Municipal Development Program. Transparent practices in municipal management provide constituents the means to participate in how their local governments deliver improved municipal services.

OUTPUTS:

- Exceeded: 83% of municipalities applied social accountability measures (i.e., at least two public disclosures mechanisms have been utilized by project closing). (baseline 68%, original target 80%).
- Exceeded: 144 municipalities publicly disclosed participatory SDIP execution and its updates (baseline 0, original target 90, revised target 100).
- Exceeded: 125 municipalities (Appendix 1 noted this as 93) have updated their Strategic Development and Investment Plans (SDIPs) through a participatory approach (baseline 0, original target 60, revised target 90).

- Achieved: 39 municipalities established Citizen Service Centers (CSCs) that track service quality standards (baseline 8, original target 16, revised target 40). 23,194 citizens registered in these CSCs.
- Almost achieved: 76 municipalities have publicly disclosed external audit reports with minimum standards and unqualified opinion (baseline 0, original target 55, revised target 80).

OUTCOMES:

- The target was achieved of 100% of municipalities recording at least a 20% reduction in processing time for at least two of the defined set of services in its Citizen Service Centers (CSCs). Note that under the first cycle, 100% of the 14 municipalities assessed showed a 50% reduction in processing time. There were no data under Cycle 2 at project closing. There was an increase in awareness regarding CSCs and services offered from 31% from MDP1 to 45.2% by project closing. The CSCs also received a 13 point increase in satisfaction by citizens from 2012 to 2017. 61.6% of beneficiaries have visited their CSC and 87.6% expressed satisfaction with the services CSCs provided, up by 5 points from 2012 (59%) to 2017 (65%).
- 144 municipalities completed the Municipal Ranking Updates for Cycles 1 and 2. All 144 were ranked against compliance with performance requirements. The ranking system allocated capital grants to municipalities to fund capital investments and operating expenditures. The average allocation under Cycle 1 was US$ 228,353 and US$ 322,066 under Cycle 2.
- 15% of 1,247 people were involved in the SDIP, which enhanced planning capacities of participating municipalities. A citizen satisfaction assessment reported the following:
  - 98.5% of those who were involved in updating the SDIP and its evaluation were satisfied with their level of participation
  - 95.9% were satisfied with the participant selection mechanism
  - 90.3% with the level of attendance. 92.8% perceived that the mechanisms used to update and evaluate the SDIPs were satisfactory
  - 86.2% were satisfied that municipal council's interaction with the team who evaluated and updated SDIPs

While there was a broad satisfaction in preparing SDIPS, there was a decrease in satisfaction in implementing SDIPs between 2012-2017 due to the inability of municipalities (from budget and capacity constraints) to meet citizen needs listed in the SDIPs.

Rating
Substantial

Objective 2
Objective

To improve the Recipient's municipal management practices for better service delivery

Rationale
Local governments are closest to the people they serve. Constituents expect that their local governments deliver efficient and effective services. By improving their management practices, municipalities expand the quantity and quality of the municipal services they deliver.

OUTPUTS:

- Exceeded: Rehabilitated 451 km. of roads (baseline 0, original target 200 km, revised to 350 km)
- Exceeded: 25 municipalities successfully piloted at least one of the eligible innovative ideas under component 2 of the project (renewable energy, E-municipality, and local economic development (baseline 0, original target 8).
- Exceeded: 132 municipalities updated their fixed assets and valuation database (baseline 0, original target 50, revised target 100), completed fixed asset registration in 61 municipalities and delivered valuation templates in all 144 municipalities
- Achieved: O&M software was rolled out to 50 municipalities (baseline 10, original target 50)
- 767 infrastructure subprojects have been completed (no targets provided) including 406 km of pavement, 131,043 meters of sidewalks, 18,092 km of retaining walls, 12,591 m of storm water drainage, 4,098 lighting units, 67 km of water networks, 300 household water connections, 61 km of wastewater network, 2 km of electrical lines, 2,270 containers/compactors, 32,719 square meters of public buildings, 36,291 square meters of public gardens, and 1 excavator (badger).
- 13 municipalities adopted LED plans while 7 municipalities have completed LED- feasibility studies
- Completed 16 infrastructure subprojects in merged municipalities and delivered 4 capacity building packages for merged and annexed municipalities

OUTCOMES:

- Exceeded: 2,318,188 (elsewhere in the ICR 2,135,753) citizens benefited from the project (baseline 0, original target 2 million)
- Exceeded: 1,661,359 citizens benefited from roads constructed or rehabilitated at project closing (baseline 0, original target 1.2 million)
- Exceeded: 863,746 residents in urban areas now have access to all-season roads within a 500 meter range (baseline 0, original target 260,000)
- Exceeded: 113,731 residents benefited from the social infrastructure project implemented by merged municipalities (baseline 0, original target 40,000)
- Exceeded and Achieved: 77 municipalities graduated to a B ranking in its performance category (baseline 0, original target 20, revised target 50). 80 municipalities moved up a grade in its performance category at project closing (baseline 0, original target 40, revised target 80) and 2 municipalities reached an A ranking in its performance category (baseline 0, original target 5, revised target 2).

- Achieved: 90% of subproject capital investments financed under the project were operational. Technical audits confirmed an adequate state of usability(baseline, 0, original target 90)
- Achieved: 49% of the direct beneficiaries were female beneficiaries (baseline 0, original target 49%)
- Achieved: 4 pilot municipalities adopted the E-Municipality System or EMS (baseline 0, original target 4). These EMSs were viewed by 8,383 people, 1,414 people viewed their billing information, and EMS received 303 e-applications and 54 electronic complaints.
- 9 municipalities implemented solar-based photovoltaic (PV) systems, 7 in the West Bank with a capacity of 80KWh and total annual energy generated of 133,413.5 KWh; and 2 PVs in 2 municipalities in Gaza with a total estimated system capacity of 20 MW generating 15,896 KWh. These PV systems reduced the municipal building electrical load by 20-90% and reduced the operational energy expenses.

Rating
Substantial

Objective 3
Objective
To restore priority municipal services following the conflict in Gaza.

Rationale
The emergency needs identified in the Municipal Damage Assessment Report was estimated at US$ 72 million including current operating expenditures needed to restore services. The project's support was 34.5% of total estimated damages, which exceeded the original target of 30%.

OUTPUTS:

- Exceeded: 34.5% of priority damages have been repaired by Gaza municipalities (baseline 0, original target 30%).
- Achieved: 332 infrastructure subprojects were rehabilitated. These included 82 km of internal roads, 9.4 km of rehabilitated wastewater network, 13,948 street lighting, supplied 7 waste water pumps and475 solid waste containers and 60,967 square meters of public buildings. The ICR did not include targets for these outputs.
- Achieved: 10 Gaza municipalities established CSCs while 11 Gaza municipalities adopted O&M packages for their infrastructure assets.

OUTCOMES:

- Exceeded: 1,147,133 citizens in Gaza representing 79% of the 1.85 million residents have access to restored municipal services (baseline 0, original target 1 million)
- The Technical Audit reported that 90% of the 440 residents surveyed were satisfied with the functionality and usability of the infrastructure services delivered. Of those surveyed:
  - 69.1 were aware of the type of subprojects implemented in their locality
  - 89.8% responded that these were relevant to their needs
  - 76.8% were satisfied with the implementation methods used
  - 54.8% agreed that the subprojects improved the quality of their lives
  - 28.4% agreed that the subprojects improved the quality of their lives to some extent
  - 76.4% agreed that the subprojects had long-term benefits
- Overall, 82.7% of the beneficiaries surveyed were satisfied with the project, 88.6% of the sample in Gaza and 76.8% of the sample in the West Bank agreed that the project benefited them.

Rating
Substantial

Rationale
The expanded project exceeded and achieved its revised target outputs and outcome indicators. Evidence supports the overall assessment that the project substantially reached its intended beneficiaries by project closing.

Overall Efficacy Rating
Substantial

5. Efficiency

Economic and Financial Efficiency: There was no economic analysis carried out for subprojects ex ante because these were unknown at appraisal and were to be identified during implementation. At implementation, the MDLF adopted economic and financial evaluation methodologies introduced during the preceding MDP1 that ascertained efficiency and equity in the distribution of project resources. Each subproject was assessed based on cost efficiency measures using Net Present Value per beneficiary. Subprojects that generated review were assessed on their financial rates of return. All the subprojects complied with these requirements. After closing, additional tests on project efficiency were made covering subprojects under components 1 and 2, which constituted 49% of the total project cost, excluding capacity building activities because benefits were difficult to quantify and attribute. The cost of capital was set at 8%.

- For road projects: 347 sub projects worth US$ 60.1 million reported an EIRR of 26%. The Technical Audit noted that without a unified standard for design of roads, there was a large variation in quality and roads may have been completed using lower standards affecting the long term sustainability of these assets. Sensitivity analysis showed that EIRR would be reduced to 18% if there were a loss of 20% in total benefits from the completed roads.
- For public buildings, 72 projects or 8.4% of total project costs reported an EIRR of 10%. Sensitivity analysis showed a 8% EIRR when benefits were reduced by 20%.
- For investments in renewable energy, 6 projects or 2% of total project costs reported an EIRR of 16%. Sensitivity analysis showed a lower 11% EIRR when benefits were reduced by 20%.
- For investments in Gaza as part of the emergency response operation, there was no conventional cost-benefit analysis carried out but cost per beneficiary was at US$ 24 as opposed to the conventional cost per beneficiary under component 1, which stood at US$ 57.

Administrative and Operational Efficiency: This project immediately followed MDP1 and had systems and procedures in place for implementation to proceed. Following the emergency needs to restore services in Gaza in 2014, two AFs and three restructurings were utilized to take advantage of the project underway to include Gaza municipalities and amend the PDO. There were substantial cofinancing and parallel financing from other DPs, which introduced a level of complexity in managing various donor requirements. The project experienced some delays in executing some agreements with DPs, in initiating some capacity building activities as a result and in releasing of PA counterpart funds, which delayed subprojects implementation. Gaza also experienced some delays because of the ongoing blockade, which delayed entry of construction materials, equipment, and other goods for the construction and O&M of infrastructure assets. Project management costs reached 7 percent of the total project cost, lower than estimated at appraisal, originally at 16% and reduced to 10% when including all other cofinancing resources. The lower rate was attributed to gains from MDP1 and working toward the harmonization of procedures and requirements from other DPs.No funds were cancelled. All funds from the Trust Funds for Gaza and the West Bank were fully disbursed and unused portions of the cofinancing from other DPs and the PA were carried over to MDP3.

Efficiency Rating

Substantial

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐Not Applicable
ICR Estimate	✓	26.00	49.00 ☐Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The relevance of objective is high. The overall project efficacy is substantial. Efficiency is substantial although there were minor shortcomings during implementation from the complex cofinancing arrangements and the blockade in Gaza.

a. Outcome Rating

Satisfactory

7. Risk to Development Outcome

The following posed substantial risks to the development outcome:

- **Government Ownership and Institutional Risks**: There is substantial risk that the transparent and predictable performance-based grant transfer mechanism to municipalities within the national budget process may not be sustained.The development outcomes were carried forward from MDP1 to MDP2 and laid the groundwork for MDP3, but the ICR reported that the system is not yet institutionalized within the government system. (ICR, paragraph 80). At the local level, municipal capacity as well as local budgetary resources continued to be constrained. Mitigating these risks are the lessons learned from this operation that have been incorporated into the design of MDP3, including the O&M support at the local level.

- **Country and Economic Risks**: Growth and fiscal stability in Palestine remained volatile at project closing. Prices, unemployment, inflation continued to pose risks. Real Gross Domestic Produce (GDP) growth rate was anticipated to hover under 2% between 2018-2020 according to the World Bank's 2018 Macro Poverty Outlook (p. 170). This growth rate points to a decline in real per capita increase and an increase in unemployment rate by as much as 35% by 2020. Declining aid flows, cuts in wages, and persistent high trade deficits would negatively affect monetary welfare. The likelihood is high that political instability, internal institutional upheaval, an economic downturn, the withdrawal of financial support to the Palestinian Authority by donors, decreased budget allocations may occur but the severity is difficult to predict. But the West Bank and Gaza and its population and the Palestinian Authority and its institutions have managed to survive, function and achieve capacity building and the Government delivered on most outcomes of this project.

- **Political risks**: There is substantial risk that political commitment to the institutional reforms in delivering municipal infrastructure services may waver. Innovations in a transparent and predictable performance grant system to municipalities introduced under MDP1 and MDP2 (this project) were carried forward to MDP3 to mitigate these political risks. However, the ICR reported that the systems were not yet institutionalized (ICR, paragraph 80). In addition,there remained a constant security risk and the prospect of blockades. The Government of Israel may impose new restrictions on importing materials and equipment needed for O&M needs of infrastructure assets. Israeli legislation could also reduce revenue transfers to the PA beginning in 2019. These setbacks would negatively affect the municipalities' resolve to adequately maintain infrastructure assets that were completed under the project. MDP3 was initiated to mitigate these political risks.

Overall, the risk to the sustainability of the development outcome is Substantial.

8. Assessment of Bank Performance

a. Quality-at-Entry

The project benefitted from strong points at entry since it took off from MDP1 and built on the outcomes of the first project as well as on lessons learned from its implementation. These lessons included (i) adopting a programmatic long-term approach when engaging in fragile and conflict environment; (ii) using a simplified design because of a fragile context; (iii) using transparent and predictable transfer formula for grants to stimulate local government performance; (iv) promoting investments in energy efficiency; (v) strengthening donor coordination to foster optimal use of limited resources; (vi) recognizing that improvements in municipal financial management were achieved in increments and necessary to achieving fiscal decentralization.

The project also had some shortcomings at entry. MDP2 benefited from MDP1. Project management staff was in place, they were familiar with fiduciary and safeguards requirements, and operations manuals were ready. However, lessons did not capture the impact of the operation's full design such as the demand driven approach to capacity building. Local governments prioritized their capacity needs but did not include training to improve service delivery of the subprojects (e.g., subproject identification, contract management, construction supervision, safeguards implementation, M&E). Even though design was harmonized to avoid duplication of efforts by DPs and reporting was harmonized during implementation, funds were not effectively pooled and individual donors dictated the size and types of infrastructure subprojects. This factor led municipalities to offer subproject investments according to available resources rather than on needs and priorities. Municipal subproject investments were limited to small scale infrastructure and primarily roads. Another shortcoming at entry was the two cycle grant distribution mechanism, each one preceded by ill-timed municipal performance assessments. These assessments determined the municipal allocation and were completed in February of each year when municipalities were busy with property tax collections, and submitting audited financial statements. Updating fixed assets were not yet ready by that time to count toward performance assessment. The two cycle design reduced available resources thus limiting budgets for potential subproject infrastructure investments and did not foster efficient municipal budgeting.

The Bank team, MDLF as the implementing agency, and other DPs were aware that the financing gap at appraisal needed to be addressed during implementation, resulting in the AFs. The Results Framework adequately linked the inputs to the three main outcomes using 10 outcome indicators although some of these were expressed in outputs. In addition, there were methodology issues regarding the counting of project beneficiaries, which were resolved at the MTR. Risks were appraised as moderate during preparation but the conflict in Gaza reemerged. One risk that was not identified at appraisal was the unanticipated financing delays in cofinancing from DPs and the PA, which delayed subproject start up. Even with these minor shortcomings, the overall rating is Satisfactory.

Quality-at-Entry Rating

Satisfactory

b. Quality of supervision

The Bank The Quality of reporting indicated in Aide Memoires and Implementation Status and Results Reports was adequate. The Bank supervised the project closely with twice a year supervision missions over the five year implementation period. The DPs joined the Bank for annual supervision missions. The missions identified implementation issues that resulted in restructuring to expand the project scope in response to emergency reconstruction needs of municipalities affected by the reemergence of the conflict in the Gaza area. The Bank took an active role to resolve project implementation bottlenecks such as revising the PDO, scaling down of targets, revising components, simplifying procurement processes, revising implementation schedules, and extending the closing date to accommodate absorption of additional funds and synchronize closing dates of all relevant financing agreements.

There were some delays experienced in signing some of the FAs, which caused some delay in some capacity building activities. There were other minor shortcomings. There was a missed opportunity offered by the restructuring to capture the capacity building needs of the municipalities that would have further strengthened their capacity to prepare, implement, and monitor subprojects. By the October 2015 Mid Term Review since many of the targets (original and revised) were already achieved or exceeded, targets were once again increased during the second AF and 2016 restructuring. The MTR also resulted in strengthening M&E and clarified the methodology for counting beneficiaries but did not address the alignment of capacity building needs of beneficiary municipalities.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

According to the PAD, the monitoring and evaluation (M&E) of the project was assigned to the implementing agency, the MDLF, using the web-based Program Management Information System and the Financial Management Information System started under MDP1 to automate data aggregation, storage, and presentation of a results-based M&E (PAD, paragraph 37). MDLF would collect data for project reporting, prepare semi-annual, annual, and quarterly financial management reports to monitor progress and hire consultants to carry out independent assessments such as infrastructure surveys and beneficiary satisfaction surveys to measure achievement of the PDO.

The Results Framework measured project outcomes and captured the links in the results chain. The outcome indicators reflected the different aspects of the PDO. Some baselines were available from MDP1. The shortcoming in M&E design at appraisal involved the method for counting project beneficiaries, which was not established at appraisal. This resulted in high estimates at project mid term due to double counting. There were 10 outcome indicators of which 3 measured improvements in municipal management, 4 measured improvements in transparency, and 3 measured improvements in service delivery. The objective relative to the efforts in Gaza only had 1 outcome indicator. The intermediate outcome indicators were defined for project components and linked to project outcomes. The number of outcome indicators could have been streamlined to facilitate ease in data collection, processing and consolidation by MDLF.

The project established a set of M&E tools to assess progress in achieving targets, first introduced in MDP1 and continued in MDP2. These included: (i) 2012 baseline municipal ranking for 134 municipalities, (ii) municipal ranking survey for Cycle 1 (2014) and Cycle 2 (2017), (iii) technical audits, (iv) municipal infrastructure survey, (v) MDLF annual work plan, (vi) grant application forms, (vii) municipal executed budgets, and (viii) direct beneficiaries, clients, and citizen satisfaction assessments.

b. M&E Implementation

MDLF was the implementing agency and had adequate M&E capacity carried over from MDP1. The M&E staff had strong capacity and baseline knowledge of the sector and were supported by consultants. There was a Project Grant Management Information System and a Results Based M&E Manual that outlined the processing and storing of project data. MDLF was expected to continue the use of PGMIS for MDP3. Baseline data for MDP2 was generated in 2012. Performance assessments were carried out as scheduled in 2014 and 2017. These assessments measured 7 of the 11 indicators. Reporting was systematic. Consolidated project reports were prepared in a timely manner and shared with DPs regularly. Data on indicators were regularly updated in the ISRs. Counting project beneficiaries were widely discussed during the MTR and eventually updated because the counting methodology to generate data was opaque and not established at appraisal, with a high incidence of double counting. The ICR reported that its beneficiary figures followed the recommendations by the MTR. The AF (see Section 2.d and 2.e) revised the PDO, added a fifth component, revised project output indicators, made some upward revision of some end-of-project targets and revised the cost allocation for components 1 and 4.

c. M&E Utilization

Data gathered from the M&E implementation were used by the Bank and the MDLF to help improve project performance and informed discussions during joint DP implementation support missions. The MDLF used M&E data to allocate grants to 144 municipalities, monitored progress in achieving outcomes, and made project adjustments as needed. The Bank intervened to help resolve specific implementation bottlenecks such as seeking additional resources after gaps emerged during Cycle 2 of grants, reallocating costs, and scaling up targets during the MTR. M&E data was also used to provide evidence of achievements and address issues and challenges during implementation.

M&E Quality Rating
Substantial

10. Other Issues

a. Safeguards

Environmental and Social Safeguards: The project triggered Environmental Assessment under OP/BP 4.01 and was classified as an Environmental Category B (PAD, paragraphs 68-72) at appraisal and at closing (ICR, paragraph 72). The Environmental and Social Management Framework (ESMF) was disclosed in March 2013, and together with the Project Operations Manual, provided a list of ineligible interventions. In preparing the ESMF, the MDLF consulted with other DPs and agreement was reached that the Bank's safeguard policies would apply to the overall project. Subproject environmental assessments and environmental management plans would be prepared by client municipalities and were attached to construction documents. To comply with OP/BP 4.09, which was also triggered, a Pest Management Plan and specific guidelines were prepared with mitigation measures for safe handling of the pests and management for insects and rodent control. Compliance with the environmental and social safeguards was rated satisfactory during project supervision (ICR, paragraph 73). Consultants inspected construction sites weekly and confirmed satisfactory implementation of measures identified in the ESMPs. Compliance was further assured by introducing environmental notes and penalties to contractors. No further safeguards compliance issues were reported other than dust, noise, and safety issues during construction as noted by the Technical Audit.

There were no other safeguards policy triggered although the PAD reported that subprojects in the water and wastewater sectors would be screened and limited in scope to rehabilitation of existing wells and water and would not have any significant impacts to the shared groundwater aquifer in West Bank and Gaza (PAD, paragraph 72). The ICR noted that the project did not trigger the Bank's policy on Involuntary Land Acquisition and Resettlement (OP/BP 4.12). Subprojects were implemented on municipal lands and not on private lands, permanent or temporarily private land, or livelihoods. The POM guided municipal proponents on social safeguard screening and implementation processes. All projects were screened for social risks and no major social safeguard issues were reported.

b. Fiduciary Compliance

Financial Management. A Financial Capacity Management capacity assessment was carried out in May 2009 as part of appraisal of MDP1 and was updated for MDP2 (PAD, paragraph 53). Risk was rated substantial. Mitigation measures were recommended and formed part of implementation. The MDLF addressed financial management issues at appraisal. Independent audits would be conducted (PAD paragraph 57). The ICR (paragraph 76) reported that all FM activities were handled by MDLF even at the municipal level and that this was satisfactory and generally in compliance with Bank requirements. FM arrangements were the same for funds received from the Bank and from other DPs. The financial management of the implementing agency was deemed to be satisfactory during project implementation. MDLF submitted interim and annual consolidated financial reports to the Bank and the DPs in a timely manner and acceptable quality. Audited interim financial reports were submitted on time and acceptable quality. Audit reports were submitted in a timely fashion and no significant weaknesses in internal control were identified.

Procurement Management. Procurement arrangements under MDP1 were followed under MDP2 (PAD, paragraph 59). MDLF was charged with procurement responsibility while municipalities were charged with subproject procurement with MDLF supervision. Municipalities were responsible for contract management and advised MDLF on payment release to contractors/suppliers following signed contracts. An assessment made at appraisal concluded that the procurement risk was moderate because MDLF staff had adequate prior experience in implementing and supervising Bank funded projects. The ICR (paragraphs 74-75) reported that the project complied with the Bank's procurement procedures. Issues identified were delays in procurement, underestimated bids, under performance of some contractors and unavailability of materials and equipment, particularly in Gaza due to the blockades

In March - April 2018, the Bank conducted an ex post procurement review of 7 of 58 contracts for the period May 19, 2017 to February 10, 2018. MDLF confirmed that all contracts were completed by project closing on February 28, 2018. The review concluded that procurement was carried out following procedures outlined in the MDLF Procurement Manual and the approved Procurement Plan. At the first AF, when funds were added to expand the project to respond to emergency reconstruction needs of Gaza municipalities, procurement was simplified. All reviewed contracts were implemented in accordance with the terms of the signed contracts and completed prior to the closing date.

c. Unintended impacts (Positive or Negative)

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d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	---
Bank Performance	Satisfactory	Satisfactory	---
Quality of M&E	Substantial	Substantial	---
Quality of ICR		Substantial	---

12. Lessons

The 4 lessons based on the project's implementation experience include the following (from the ICR, paragraphs 81-84, with some adaptation):

- **Local government sector reform, which encompasses institution building warrants a long term engagement to realize development outcomes, particularly in a fragile environment**. When other donor partners provide a strong evidence of their commitment to the long term reform agenda, recipient authorities are better assured that the absorptive capacity of various stakeholders (e.g., central and local governments) would be considered during implementation. Opportunistic engagements could be pursued that would lead to the long term goal. In this case, the first engagement at the municipal level introduced transparency and accountability measures (MDP1) that were then adopted to inform how municipal services were delivered (MDP2). The experience and lessons learned strengthened the groundwork for adding financial sustainability factors in delivering these municipal services effectively and efficiently (MDP3). Continuing to build institutional capacities and showcasing processes that work at that government level, improves the chances that transparent and accountable practices at the municipal level could take root.

- **Strong donor coordination allows for pooling donor resources to expand the reach of an operation**. In this case, each donor benefited from pooling their resources to address municipal development collectively and expand the scope of the project to reach more municipalities than if each donor pursued individual operations. However, one drawback learned was that different financing arrangements (cofinancing, parallel financing, counterpart financing) resulted in complex fund administration that inadvertently favored certain municipalities or delayed project start up by requiring prior project approval. Future operations with other donors participating would benefit from pooling resources into a single fund that would use harmonized policies and processes. Such a simplified arrangement would lead to (i) a larger pool that could allow for a more equitable allocation of funds across local governments; (ii) reduction of transaction costs with one system applicable to all subproject selection and appraisal; (iii) development of a national system to guide implementation; and (iv) enhanced role of the MDLF as the primary source of financial and capacity building support to municipalities.

- **Design for interventions in Palestine could include a contingency component that would allow for rapid response to emergencies**. In the case of this project, AF provided for an additional component within the project framework. This required a restructuring that could be avoided if there were a contingent option with triggers agreed upon during preparation.

- The **municipal sector specific lessons** included: (i) making available feedback mechanisms to beneficiaries involving satisfaction in how projects are identified and implemented, including grievance and redress of complaints, to better inform service delivery; (ii) grants allocated to local governments need to ensure that the frequency, timing, and size of these grants do not limit local government investments programming; (iii) capacity enhancement efforts need to be customized to the needs of the recipient local government and not prescribed or limited to a reduced subset; and (iv) in Palestine in particular, after the substantial engagement in building capacity in the sector, local governments may be ready to pursue transformative capital investment planning.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provided a concise and detailed overview of the project. The theory of change covered the original PDO and provided a reasonable link to the expanded coverage of the project and its support to the PDO. All five activities were linked to achieving the PDO. The analysis of project implementation was candid. This was evident from its discussion of an opaque methodology that contributed to double counting the number of beneficiaries. The ICR reported calibrated numbers for the direct project beneficiaries following the improvements in the Results Framework introduced during the MTR in October 2015. There was a comprehensive presentation of the financing data, which clarified the support provided by the different funding sources and supported the lessons from the operation, particularly with regard to the complexity of complying with different donor operational guidelines. Overall lessons were clear, useful, and based on evidence. The supporting tables in the annexes offered the evidence for the specified results and provided a concise summary that facilitated an understanding of the outcome ratings. Overall, the ICR was written following OPCS guidelines. A minor shortcoming was in the paucity of evidence to support the substantial risks to development outcome and mitigating factors beyond the carry over of activities (and unutilized resources) to the follow on MDP3. For example, the risks to the project's contribution to mobilizing private sector financing, noted as a project impact, was not discussed under the risks to outcome.

a. Quality of ICR Rating

Substantial