IMPLEMENTATION COMPLETION AND RESULTS REPORT
(TF054521)

ON A

GRANT

IN THE AMOUNT OF DKK 60 MILLION
(US$10 MILLION EQUIVALENT)

TO THE

PALESTINE LIBERATION ORGANIZATION
(FOR THE BENEFIT OF THE PALESTINIAN AUTHORITY)

FOR A

LOCAL GOVERNMENT CAPACITY BUILDING PROJECT

December 26, 2012

Sustainable Development Department
Middle East and North Africa Region
CURRENCY EQUIVALENTS
(Exchange Rate Effective June 30, 2012)
Currency Unit = New Israeli Shequalim (NIS)
1.00 NIS = US$0.25455
US$1.00 = NIS 3.9285
US$1.00 = DKK 5.9091

FISCAL YEAR
January to December

ABBREVIATIONS AND ACRONYMS

COTS  Customized Off-The Shelf
DANIDA Danish International Development Assistance
DKK  Danish Kroner
EMSRP  Emergency Municipal Services Rehabilitation Project (I and II)
FMIS  Financial Management Information System
FY  Fiscal Year
GDP  Gross Domestic Product
ICR  Implementation Completion and Results Report
IEG  Independent Evaluation Group
IFC  International Finance Corporation
IFMIS  Integrated Financial Management Information System
ISR  Implementation Status and Results Report
JSC  Joint Service Council
LDP  Local Development Program (Danish funding)
LDSW  Locally Developed Software
LG  Local Government
LGRDP  Local Government Reform and Development Program (Belgian funding)
LGU  Local Government Unit
MDLF  Municipal Development and Lending Fund
MDP  Municipal Development Program (I and II)
MMSDP  Municipal Management and Service Delivery Project
MOF  Ministry of Finance
MOLG  Ministry of Local Government
MTR  Mid-Term Review
NDP  National Development Plan
NGO  Non-Governmental Organization
PA  Palestinian Authority
PAD  Project Appraisal Document
PCU  Project Coordination Unit
PGMIS  Project Grant Management Information System
PPM  Physical Planning Manual
PPR  Post-Procurement Review
PRDP  Palestinian Reform and Development Plan
PSESP  Palestinian Socio-Economic Stabilization Plan
RMIS  Revenue Management Information System
TFGA  Trust Fund Grant Agreement
WBG  West Bank and Gaza

Vice President:  Inger Andersen
Country Director:  Mariam Sherman
Sector Manager:  Franck Bousquet
Project Team Leader:  Soraya Goga
ICR Team Leader:  Christianna Johnnides
West Bank and Gaza

Local Government Capacity Building Project (LGCBP)

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MAP IBRD 33512R1
## A. Basic Information

<table>
<thead>
<tr>
<th>Country:</th>
<th>West Bank and Gaza</th>
<th>Project Name:</th>
<th>Local Government Capacity Building Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>Project ID:</td>
<td>P116860</td>
<td>L/C/TF Number(s):</td>
<td>TF-54521</td>
</tr>
<tr>
<td>ICR Date:</td>
<td>12/26/2012</td>
<td>ICR Type:</td>
<td>Core ICR</td>
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<tr>
<td>Lending Instrument:</td>
<td>SIL</td>
<td>Grantee:</td>
<td>PLO FOR THE BENEFIT OF THE PA</td>
</tr>
<tr>
<td>Original Total Commitment:</td>
<td>USD 2.47M</td>
<td>Disbursed Amount:</td>
<td>USD 10.00M</td>
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<tr>
<td>Revised Amount:</td>
<td>USD 10.00M</td>
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</table>

**Environmental Category: C**

**Implementing Agencies:**
- Municipal Development and Lending Fund

**Cofinanciers and Other External Partners:**
- DENMARK

## B. Key Dates

<table>
<thead>
<tr>
<th>Process</th>
<th>Date</th>
<th>Process</th>
<th>Original Date</th>
<th>Revised / Actual Date(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approval:</td>
<td>03/22/2005</td>
<td>Mid-term Review:</td>
<td></td>
<td>12/31/2008 06/30/2012</td>
</tr>
<tr>
<td>Closing:</td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

## C. Ratings Summary

### C.1 Performance Rating by ICR

- **Outcomes:** Moderately Satisfactory
- **Risk to Development Outcome:** Substantial
- **Bank Performance:** Moderately Satisfactory
- **Grantee Performance:** Moderately Satisfactory

### C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)

<table>
<thead>
<tr>
<th>Bank</th>
<th>Ratings</th>
<th>Borrower</th>
<th>Ratings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quality at Entry:</td>
<td>Moderately Unsatisfactory</td>
<td>Government:</td>
<td>Moderately Satisfactory</td>
</tr>
<tr>
<td>Quality of Supervision:</td>
<td>Moderately Satisfactory</td>
<td>Implementing Agency/Agencies:</td>
<td>Moderately Satisfactory</td>
</tr>
<tr>
<td>Overall Bank</td>
<td>Moderately Satisfactory</td>
<td>Overall Borrower</td>
<td>Moderately Satisfactory</td>
</tr>
</tbody>
</table>
C.3 Quality at Entry and Implementation Performance Indicators

<table>
<thead>
<tr>
<th>Implementation Performance</th>
<th>Indicators</th>
<th>QAG Assessments (if any)</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Potential Problem Project at any time (Yes/No):</td>
<td>Yes</td>
<td>Quality at Entry (QEA):</td>
<td>None</td>
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<tr>
<td>Problem Project at any time (Yes/No):</td>
<td>Yes</td>
<td>Quality of Supervision (QSA):</td>
<td>None</td>
</tr>
<tr>
<td>DO rating before Closing/Inactive status:</td>
<td>Moderately Satisfactory</td>
<td></td>
<td></td>
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</table>

D. Sector and Theme Codes

<table>
<thead>
<tr>
<th>Sector Code (as % of total Bank financing)</th>
<th>Original</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-national government administration</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Theme Code (as % of total Bank financing)</th>
<th>Original</th>
<th>Actual</th>
</tr>
</thead>
<tbody>
<tr>
<td>Decentralization</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Municipal finance</td>
<td>67</td>
<td>55</td>
</tr>
<tr>
<td>Municipal governance and institution building</td>
<td>33</td>
<td>25</td>
</tr>
<tr>
<td>Urban planning and housing policy</td>
<td>10</td>
<td></td>
</tr>
</tbody>
</table>

E. Bank Staff

<table>
<thead>
<tr>
<th>Positions</th>
<th>At ICR</th>
<th>At Approval</th>
</tr>
</thead>
<tbody>
<tr>
<td>Vice President:</td>
<td>Inger Andersen</td>
<td>Christiaan J. Poortman</td>
</tr>
<tr>
<td>Country Director:</td>
<td>Mariam J. Sherman</td>
<td>Nigel Roberts</td>
</tr>
<tr>
<td>Sector Manager:</td>
<td>Franck Bousquet</td>
<td>Hedi Larbi</td>
</tr>
<tr>
<td>Project Team Leader:</td>
<td>Soraya Goga</td>
<td>Ibrahim Khalil Dajani</td>
</tr>
<tr>
<td>ICR Team Leader:</td>
<td>Christianna Johnnides Brotsis</td>
<td></td>
</tr>
<tr>
<td>ICR Primary Author:</td>
<td>Christian Vang Eghoff</td>
<td></td>
</tr>
</tbody>
</table>

F. Results Framework Analysis

Project Development Objectives (from Project Appraisal Document)
The objective of the Project is to improve local governance and accountability, and thereby foster the efficient and sustainable economic, social and physical development of the urban and rural areas in the parts of West Bank and Gaza under the jurisdiction of the Palestinian Authority, through the capacity building of the Ministry of Local Government (MOLG) and the Local Government Units (LGUs).
Revised Project Development Objectives (as approved by original approving authority)

The PDO was not revised.

(a) PDO Indicator(s)

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Baseline Value</th>
<th>Original Target Values (from approval documents)</th>
<th>Formally Revised Target Values</th>
<th>Actual Value Achieved at Completion or Target Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicator 1: Reform in FM and accounting systems put in place by the end of the project.</td>
<td>No standardized Chart of Account, no standardized budgeting systems, no municipal budget reporting to MoLG, all accounts in the municipalities are manual.</td>
<td>Creation and implementation of a unified chart of accounts and standard budget formats. Introduction of modified accrual accounting including (i) standard Financial Policies Manual for modified accrual accounting (ii) FARV (iii) IFMIS pilots for 34 munis</td>
<td>Outcome indicator unchanged, but dates (part of original PAD indicator) were revised and target values added</td>
<td>Unified chart of accounts and standard budget format in all munis &amp; budgets submitted to MOLG for approval. Modified accrual accounting introduced including 1) standard FPM in 32 munis 2) FARV in 32 munis 3) IFMIS pilot in 32 munis</td>
</tr>
</tbody>
</table>

- Value (quantitative or Qualitative)

Date achieved 09/30/2004 12/31/2008 06/30/2012

Comments (incl. % achievement) Fully achieved. COA work initiated under non-LGCBP funding but finalized by LGCBP. PAD expected accounting and financial management system to be put in place in MOLG; this was implemented under other funding. Two municipalities considered as not running I

Indicator 2: Reform in physical planning procedures for four clusters of LGUs put in place by the end of the project

<p>| | | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Value (quantitative or Qualitative)</td>
<td>No procedures for physical plans in WBG.</td>
<td>Development and of new physical planning approach.</td>
<td>Initial date revised to correspond with new project closing date</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Date achieved</td>
<td>Original Target Values (from approval documents)</td>
<td>Formally Revised Target Values</td>
<td>Actual Value Achieved at Completion or Target Years</td>
</tr>
<tr>
<td>---------------</td>
<td>------------------------------------------------</td>
<td>-------------------------------</td>
<td>---------------------------------------------</td>
</tr>
<tr>
<td>09/30/2004</td>
<td>Computerized systems in place in selected municipalities.</td>
<td>Computerized systems in place in 34 municipalities</td>
<td>Computerized systems in 32 Municipalities.</td>
</tr>
<tr>
<td>12/31/2008</td>
<td>Computerized systems in place in selected municipalities.</td>
<td>Computerized systems in place in 34 municipalities</td>
<td>Computerized systems in 32 Municipalities.</td>
</tr>
<tr>
<td>06/30/2012</td>
<td>Computerized systems in place in selected municipalities.</td>
<td>Computerized systems in place in 34 municipalities</td>
<td>Computerized systems in 32 Municipalities.</td>
</tr>
<tr>
<td>06/30/2012</td>
<td>Computerized systems in place in selected municipalities.</td>
<td>Computerized systems in place in 34 municipalities</td>
<td>Computerized systems in 32 Municipalities.</td>
</tr>
</tbody>
</table>

**Comments (incl. % achievement)**

94% achieved. Two of the targeted smaller municipalities were deemed to not be using a computerized system due to lack of capacity. Hebron municipality is running a different computerized accounting system from the one developed by the LGCBP (due to hist

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Baseline Value</th>
<th>Value (quantitative or Qualitative)</th>
<th>Date achieved</th>
<th>Comments (incl. % achievement)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Indicator 1: New computerized financial and accounting systems operational in selected municipalities.</td>
<td>No Computerization in any municipalities.</td>
<td>09/30/2004</td>
<td>94% achieved. Two of the targeted smaller municipalities were deemed to not be using a computerized system due to lack of capacity. Hebron municipality is running a different computerized accounting system from the one developed by the LGCBP (due to hist</td>
<td></td>
</tr>
<tr>
<td>Indicator 2: Lead Consultant/Advisor, and key consultants and staff for MOLG Budget Department recruited by end May, 2007.</td>
<td>No consultants recruited</td>
<td>05/31/2005</td>
<td>Fully achieved. MOLG Budget department has managed the municipal budget process since 2010.</td>
<td></td>
</tr>
<tr>
<td>Indicator 3: Necessary equipment (and essential spares for 2 years) is procured through a competitive procurement process in accordance with World Bank guidelines by end December 2009.</td>
<td>05/31/2007</td>
<td>05/31/2007</td>
<td>05/31/2007</td>
<td>05/31/2007</td>
</tr>
</tbody>
</table>

(b) Intermediate Outcome Indicator(s)
### Indicator 4:
**Municipal Development and Lending Fund established and institutionalized by end of May 2005.**

<table>
<thead>
<tr>
<th>Value (quantitative or Qualitative)</th>
<th>Date achieved</th>
<th>Comments (incl. % achievement)</th>
</tr>
</thead>
<tbody>
<tr>
<td>MDLF does not exist. PCU imbedded within the MOLG and is not administratively autonomous or self-sustaining.</td>
<td>09/30/2004</td>
<td>Fully achieved, with 5 months delay. The establishment of the MDLF was initiated under EMSRP I but MDLF was fully operationalized as a project implementing agency through the LGCBP.</td>
</tr>
<tr>
<td>PCU capacity building group established by end May 2005.</td>
<td>05/31/2005</td>
<td>The indicator revised to focus on the establishment of MDLF</td>
</tr>
<tr>
<td></td>
<td>05/31/2005</td>
<td></td>
</tr>
<tr>
<td></td>
<td>10/30/2005</td>
<td></td>
</tr>
</tbody>
</table>

### Indicator 5:
**A document outlining strategy and guidelines for the consolidation of LGUs developed and endorsed.**

<table>
<thead>
<tr>
<th>Value (quantitative or Qualitative)</th>
<th>Date achieved</th>
<th>Comments (incl. % achievement)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No guidelines.</td>
<td>09/30/2004</td>
<td>Fully achieved but later than expected.</td>
</tr>
<tr>
<td>Guidelines developed and in use by MOLG for the amalgamation of municipalities</td>
<td>08/31/2006</td>
<td></td>
</tr>
<tr>
<td>The indicator was not revised.</td>
<td>06/30/2009</td>
<td></td>
</tr>
</tbody>
</table>

### G. Ratings of Project Performance in ISRs

<table>
<thead>
<tr>
<th>No.</th>
<th>Date ISR Archived</th>
<th>DO</th>
<th>IP</th>
<th>Actual Disbursements (USD millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>12/30/2009</td>
<td>Satisfactory</td>
<td>Satisfactory</td>
<td>4.97</td>
</tr>
<tr>
<td>2</td>
<td>06/30/2010</td>
<td>Satisfactory</td>
<td>Moderately Satisfactory</td>
<td>6.62</td>
</tr>
<tr>
<td>3</td>
<td>03/05/2011</td>
<td>Satisfactory</td>
<td>Moderately Satisfactory</td>
<td>7.06</td>
</tr>
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</table>
H. Restructuring (if any)

<table>
<thead>
<tr>
<th>Restructuring Date(s)</th>
<th>Board Approved PDO Change</th>
<th>ISR Ratings at Restructuring</th>
<th>Amount Disbursed at Restructuring in USD millions</th>
<th>Reason for Restructuring &amp; Key Changes Made</th>
</tr>
</thead>
<tbody>
<tr>
<td>09/09/2008</td>
<td>N</td>
<td></td>
<td>2.39</td>
<td>Extension of closing date to December 31, 2010. No separate DO and IP ratings for LGCBP while linked to EMSRP II.</td>
</tr>
<tr>
<td>09/30/2009</td>
<td></td>
<td></td>
<td>4.70</td>
<td>Splitting off the TF from the EMSRP as a stand-alone project.</td>
</tr>
</tbody>
</table>

I. Disbursement Profile
1. Project Context, Development Objectives and Design

1.1 Context at Appraisal

1. The West Bank and Gaza (WBG) has been in deep social, economic, and political crisis starting with the second Palestinian Intifada in September 2000. At appraisal, violent conflict between the Israelis and Palestinians had taken the lives of many Palestinians and Israelis. Palestinian economic and social indicators had fallen dramatically. The gross national income declined by 35% between 1999 and 2002, physical damage was estimated at more than US$1.7 billion, and total investments had fallen from about US$1.45 billion in 1999 to as little as US$150 million in 2002. With the Palestinian population growing at over 4% annually, real per capita incomes at the end of 2002 were only about a half of what they had been three years previously and the share of the population living in poverty tripled to about 60%.

Sector Context

As a consequence of the sharp decline in economic activity and household income, municipal revenues declined by as much as 50%, undermining the municipalities’ capacity to provide services. Municipal expenditures were estimated at about 5.5% of GDP and 17.3% of public sector spending in 2003. These are high figures in a regional perspective, explained in part by the fact that many WBG municipalities predate the establishment of the Palestinian Authority (PA)\(^1\) and have historically been charged with providing services under the supervision of the Israeli authorities. In spite of their importance, Local Government Units’ (LGUs, covering municipalities and villages) financial and management capacities were limited; they were using manual, cash-based accounting, and budget preparation and physical planning were ad-hoc. Many LGUs were too small to be viable. The Ministry of Local Government (MOLG), the LGU oversight and policy setting body, was having difficulty in aggregating LGU budgets and guiding LGUs on proper budget preparation.

Palestinian Authority and Donor Strategy

2. The 2004-05 Palestinian Socio-Economic Stabilization Plan (PSESP) aimed overall at responding to the humanitarian and social needs resulting from the crisis, but specifically targeted improvements to LGU service delivery. The local government (LG) component of the PSESP built on a Local Government Diagnostic Study and linked Action Plan (identifying more than eighty sector issues and proposing numerous remedial actions) prepared in the context of the wider PA public sector reform program. The action plan was endorsed by the MOLG, the Palestinian Cabinet, and the donor community, including the Danish Internal Development Assistance (DANIDA) and the World Bank.

3. A number of sector interventions supported by donors were funding recurrent services in LGUs and making job-creating investments, but longer-term developments had largely been placed on hold. DANIDA’s response to the crisis was to continue

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\(^1\) The Palestinian Authority (PA) was established as an interim administrative body after the Oslo Accords (1993-95) with responsibility for management of the territory under its control.
involvement with and deepen its support to municipal management in Gaza. Danish assistance amounting to DKK 20 million was also channeled through the Bank’s Emergency Services Support Project in FY02 and DANIDA wanted to broaden its support to the LG sector in WBG.

Rationale for World Bank Response

Following the Intifada in 2000, the Bank’s strategy had been to balance emergency assistance with maintaining medium-term developmental activity. As captured in the 2003 Replenishment Request for the West Bank and Gaza Trust Fund, one of the higher level objectives for the Bank was to strengthen capacities and finance the delivery of basic services to the poor through the development of efficient and transparent institutions in key institutional domains, including municipalities. With a portfolio including several multi-donor funded operations, the Bank had long been in the forefront of LG sector reform in WBG, funding a Municipal Infrastructure Development Project (MIDP, US$30 million) from 1996 to 2003, focused mainly on infrastructure rehabilitation, but also implementing a Revenue Management Information System (RMIS) in nine pilot municipalities, while having less success with a Financial Management Information System (FMIS). At the time of appraisal of the Local Government Capacity Building Project (LGCBP), the Bank was already managing a multi-donor trust fund for the on-going first Emergency Municipal Services Rehabilitation Project (EMSRP I, US$20 million IDA funding, US$100 million total), typifying the Bank’s approach in seeking to provide emergency assistance to LGUs, while providing limited support to developing the institutional framework of the LG system. The EMSRP I was seen by the PA and many donors as the key vehicle for channeling support to the municipal sector in WBG. As such, it provided a very good starting point for the preparation and implementation of the LGCBP. The Bank was asked by the PA and the Government of Denmark (as the LGCBP donor) to take the lead in preparing the project, which would complement the EMSRP I and focus more on the foundations for longer-term improvements to the local government system, in line with a planned successor project to the EMSRP I.

1.2 Original Project Development Objectives (PDO) and Key Indicators (as approved)

4. The objective of the project was to improve local governance and accountability, and thereby foster the efficient and sustainable economic, social and physical development of the urban and rural areas in the parts of West Bank and Gaza under the jurisdiction of the Palestinian Authority, through the capacity building of MOLG and LGUs.

1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and Reasons/Justification

5. The PDO and key indicators for the project were not formally revised. A formal restructuring focusing on the indicators in the Results Framework was envisaged, but did not happen in the absence of an official request (see Sections 2.2 and 2.3 for details). Adjustments were however implemented when the LGCBP was ultimately split off into a stand-alone operation (see Section 1.7), but were not formalized through a project restructuring.
1.4 Main Beneficiaries

6. The primary beneficiaries were the administrations of LGUs in WBG, which would benefit from improved capacity to carry out adequate financial management and implement physical planning. The central government administration (in particular MOLG) would also be strengthened to better serve LGUs through improved oversight and policy setting, including through the establishment of an internal capacity building group. Ultimately, the beneficiaries of the project would be the populations of the LGUs, who would benefit from improved capacity in LGUs to manage public funds and include the population in participatory planning of investments. From the outset, this was more focused on urban than rural areas.

1.5 Original Components (as approved)

Component 1: Financial Management and Accounting Systems Reform

7. The objective of the component was to improve the accounting, financial management and budgetary control capabilities of MOLG (including its regional offices) and LGUs. This would happen through:

   (a) Conducting MOLG information system needs assessment as basis for developing and implementing a Ministry of Finance (MOF) mandated computerized financial management and accounting system (software, hardware, documentation, and training).

   (b) Development of specifications and methodology for phased implementation of a computerized Integrated Financial Management Information System (IFMIS) in a representative set of LGUs (including software, hardware, documentation and training, and based on a chart of accounts and budgeting framework to be separately prepared by UNDP consultants).

Component 2: Physical Planning and Management Systems Reform
(Appraisal/actual cost: US$2.75 million/US$1.24 million)

8. The objective of the component was to strengthen the capacity of MOLG and the LGUs in WBG to effectively guide, manage and monitor the development of urban areas and be responsive to the needs of citizens. The outputs concerned:

   (a) Development of guidelines for strategic planning and for the programming, financing and management of key infrastructure and services, including for public participation. Training and implementation of guidelines in selected LGUs.

   (b) Assessing LGUs technical, economic and financial performance capacities, to develop a framework and strategy for the amalgamation of small and nonviable LGUs into efficient and sustainable Joint Service Councils (JSCs), including governance structures, management, investment programming, financing and service delivery. Implementation of the framework for selected LGUs.

   (c) Preparing physical planning for LGUs and JSCs, including investment programming, financing and service delivery, and implementation for selected LGUs thereafter (including software, hardware, documentation and training).
Component 3: Institutional Development (MOLG)
(Appraisal/actual cost: US$1.84 million/US$1.46 million)

9. The objective of the component was to increase the capacity of MOLG to manage a decentralized local government system. Planned activities were:

(a) Recruitment of lead capacity building consultant/advisor, LGU budget advisor and 4-5 staff for MOLG’s Budget Department. Capacity building programs in project coordination and support in MOLG.

(b) Preparation of Departmental capacity building strategy and implementation action plan (including improved MOLG Operational and Management Procedures, well equipped Departments, and the recruitment of additional key staff). Further, essential equipment, not exceeding 40 percent of total expected requirement, procured.

(c) Implementation of Departmental capacity building strategy and action plan.

Component 4: Project Management and Operating Support
(Appraisal/actual cost: US$0.46 million/US$0.98 million)

10. The component objective was to coordinate, monitor and report on the project, by establishing a Capacity Building Group, alongside MOLG’s existing EMSRP I Project Coordinating Unit (PCU).

1.6 Revised Components

11. The components were not revised. It was agreed at the mid-term review (MTR) to drop Sub-component 1.1, as the approach was eventually changed by the government to a generic approach for all ministries, and implementation (including for MOLG) was financed by other donors. This change was however not captured in amendments to the Trust Fund Grant Agreement (TFGA). Component 4 was adjusted, as project implementation was transferred to the Municipal Development and Lending Fund (MDLF) and the project focused on making MDLF fully operational.

1.7 Other Significant Changes

12. The LGCBP was appraised as a Trust Fund linked to the EMSRP II, in initial concept stage at the time. The TFGA was signed for US$2.5 million, corresponding to the first tranche payment out of US$10 million foreseen for the project. On September 9, 2008, a TFGA amendment was approved to: (i) increase the total grant amount to US$10 million based on the donor's payment of the entire contribution, and (ii) extend the closing date by two years. The LGCBP had to be de-linked from the EMSRP II, in conformity with the guidance at the time that recipient executed activities with a commitment value over US$5 million shall be given a separate

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2 Initially named Municipal Management and Service Delivery Project (MMSDP, PCN review in May 2005), with the LGCBP to provide joint financing for local government capacity building. Due to the prevailing emergency condition in WBG in 2005 which was coupled with a significant deterioration in essential municipal services, on October 4, 2006, the MMSDP was converted to an emergency operation and renamed EMSRP II (i.e. follow-on to the EMSRP I, closed in March 2006). The EMSRP II was approved in December 2006.
project code (and hence a separate ICR is needed). Given that a substantial amount was disbursed under the grant, the manual re-mapping process took longer than anticipated, and was completed by September 30, 2009.

13. The project was extended twice for a cumulative extension of 3.5 years. See summary timeline included for reference below, including main related Bank-funded sector projects. The mentioned projects are explained more in the ICR sections and in Annex 10: Timeline for LGCBP-related projects.

Illustration 1: Timeline for LGCBP and related projects

2. Key Factors Affecting Implementation and Outcomes

2.1 Project Preparation, Design and Quality at Entry

Preparation

14. Preparation took place in relatively short time, since the grant donor (Denmark) was interested in supporting the recently adopted LG Action Plan, had time constraints to commit funds, and had requested the Bank to administer the TF. In accordance with Bank policies, the LGCBP being trust funded with an initial contribution of $2.5 million it was not prepared and appraised as a standard lending operation and did not go through standard project processing procedures (i.e. no concept review or Board presentation, standard Project Appraisal Document (PAD) was not required). The Bank’s experience and the fit with Bank strategies fully justified the Bank intervention. The project was to use the implementation framework of the on-going EMSRP I, including the well-functioning PCU in MOLG.

Design

15. LGCBP preparation drew on lessons learned from previous interventions, particularly the Bank-funded Municipal Infrastructure Development Project (MIDP, US$40 million, 1996-2003), which aimed to strengthen the local government system. It specifically funded the piloting of a municipal Revenue Management Information System (RMIS), but had not succeeded in implementing a municipal Financial Management Information System (FMIS), partly due to the fact that MOLG was unable to prepare satisfactory terms of reference or provide effective technical and consulting support, and partly due to the onset of the crisis in 2000.

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3 The Trust Fund for Gaza and the West Bank: Status, Strategy, and Request for Replenishment, Nov. 5, 2003 foresees a project to further contribute to the development of a sustainable municipal financial system, building on the design of the MDLF under the ongoing EMSRP I, under implementation.
16. Several lessons were learned from previous operations, particularly that the key pre-requisites for successful reform in WBG include: (i) strong PA commitment and leadership; (ii) a well thought out and agreed reform framework and realistic action plan; (iii) measures by the PA to ensure that the key project staff are retained within the governmental system; (iv) selective and focused use of foreign consultants working closely with local staff and transferring knowledge; (v) tailoring systems to the specific needs and capacities of the organizations involved; (vi) patience and realism with respect to the scope, timing and pace of change; and (vii) an effective and sensitive monitoring, reporting and a problem-solving framework.

17. Some of the above lessons were taken into consideration in project design prior to project approval, most notably (i) and (iv). LGCBP built on the LG Action Plan, for which MOLG had demonstrated strong ownership, in line with point (i), and which provided adequate the background analysis. From the MIDP it was also apparent that there was a need for a computerized accounting system as an overlay to the piloted RMIS. MOLG was about to drop the RMIS in absence of an overlay, so the introduction of IFMIS had a potential double advantage by salvaging previous achievements. The project was further to leverage work on a unified chart of accounts for LG budgets, being prepared by UNDP consultants, and was designed to make use of targeted external technical assistance, in line with (v) above. The project was designed around the IFMIS, but with other elements to enhance the capacities of LGUs, most notably asset registration, which would support a shift from cash-based to accrual-based accounting, and improved planning practices and amalgamation of smaller LGUs to support their financial and fiscal viability.

18. The team worked to assure broad compliance with the other lessons learned, but could not fully incorporate all points prior to appraisal given the limited time available to secure the funds. Regarding points (ii), (iii), (vi), and (vii) above, while the LG Action Plan was broadly shared, it was not sufficiently detailed to directly synthesize project components from, and as such the scope of IFMIS implementation and roll-out phases was not clearly defined, and the monitoring framework could only be developed in preliminary form. Also, the mechanisms to retain staff could not be defined in the time available. The team recognized this and requested additional funds from the donor to carry out full design post-effectiveness. As to point (v), involvement of beneficiary LGUs in definition of the IFMIS requirements was only to take place after appraisal, which might otherwise have unearthed problems with multi-currency accounting and post-dated checks early on – this was later to be at the crux of contractual differences with the IFMIS supplier.

19. The LGCBP was designed as a recipient executed trust fund solely funded by Denmark, with no Bank funds committed. The Bank team was aware that a full appraisal could not be completed in the time available, as the donor was facing time constraints to commit funds, but insisted that a more detailed design should be done, and the donor agreed to provide a Bank-executed trust fund of US$60,000 to hire consultants to carry out full component design after project approval. On this basis, the project could not be deemed ready for implementation at the time of effectiveness, although this was a conscious strategy and measures were taken to assure full design. The team made an informed choice to weigh risk, also considering the fact that the MOLG had already established a well-staffed higher-level group, with the mandate to
further develop and implement the agreed LG reform program. Further, the proposed project would rely on the well-functioning EMSRP I implementation framework.

**Quality at Entry**

20. The overall project concept was based on a home-grown reform agenda and correctly identified need to improve municipal governance, and had a good fit with Bank priorities. Project appraisal was timed to give impetus to the LG agenda and secure the necessary funds, and Bank inputs contributed to assuring that development outcomes could be achieved, by laying down a process to finalize design post-appraisal. However, quality at entry is rated Moderately Unsatisfactory as the project was under-designed by standard operational measures, in spite of the clear roadmap to finalize design (including availability of adequate funding). The reform aspects of the project (introducing concurrent and multiple changes to financial management, budgeting, accounting, and planning) were somewhat under-estimated. Also, the LGCBP PAD and the M&E framework did not follow the standard formats. This became particularly problematic following the de-linking of the project from the EMSRP II in 2009 when the project was suddenly being rated against standard Bank measures and in the absence of a formal restructuring.

**2.2 Implementation**

21. The project encountered significant technical problems and difficulties due to the socio-political environment, which were however overcome to assure full implementation of the main project activities. The project took some time to take off due to an operating environment marked by frequent changes in senior level leadership at MOLG, lack of government and private sector experiences in key areas, and insufficient detail of the proposed components. Consultants were quickly recruited to finalize design and propose TORs for the key outputs related to IFMIS and planning. However, the work on the chart of accounts (as basis for the IFMIS design and carried out externally to the LGCBP) was not of sufficient quality to serve as basis for the IFMIS design, and a decision was taken to finance the work on LGCBP funds. In October 2005, the MDLF was established through EMSRP I and it was decided that MDLF, initially intended as a financing mechanism, should also serve as implementing agency for sector projects, including the LGCBP, which then contributed to making the MDLF fully operational through transfer of equipment and PCU staff.

22. As the initial problems took some time to resolve, the project was not fully into implementation when the Hamas political party won the Palestinian Legislative Council elections in March 2006, resulting in the cessation of aid by much of the international community (although Denmark did not disengage from the LGCBP) and reluctance by international consultants to travel to WBG. The Government of Israel (GoI) ceased transfer of clearance revenues to the PA. A Caretaker Government was established in 2007, whose international recognition enabled fiscal stabilization and the GoI resumed the full transfer of clearance revenues. However, at the time of the MTR in March 2008, only 20% of funds had been disbursed. Some progress had been made, as the chart of accounts and the budget manual were prepared and in use by municipalities. It was agreed to drop Component 1.1 due to the limited progress on the MOF side to finalize the standard financial management system it wished all ministries to adopt. The resources were then reallocated to Components 1.2 and 3. The above-mentioned problems had affected project implementation and were the
primary reasons for the first project extension agreed at the MTR (from December 31, 2008, to December 31, 2010, formalized through amendment to the TFGA on September 9, 2008).

23. A second major implementation difficulty resulted from a contractual dispute between the MDLF and FreeBalance, the IFMIS supplier, mainly due to technical difficulties from the multi-currency nature of WBG public sector financial management, which operates with multiple currencies without a base currency, an issue that is unique to West Bank and Gaza. This delayed implementation and almost resulted in eight IFMIS pilot municipalities abandoning the project. The project context also remained extremely challenging, since from December 2008 to January 2009, there was a major conflict in Gaza which resulted in its blockade by Israel. Together, these factors were the main driving forces for the second extension on December 28, 2010 (from December 31, 2010, to June 30, 2012, approved through a restructuring paper). At the same time as the extension, sub-component 3.3 related to an MOLG Departmental capacity building strategy and action plan was dropped, as it was being supported by other donors.

24. The IFMIS contractual dispute was lengthy but was eventually resolved as all parties made an effort to get the project back on track. MDLF hired an in-house expert IFMIS consultant with good negotiation skills, the IFMIS supplier sent high-level representatives to WBG, and the Bank provided mediation and brought in a consultant with globally recognized knowledge of IFMIS, including the specific FreeBalance software. Once the dispute was resolved, activities resumed in September 2011 and IFMIS activities, including training of municipal staff⁴ were completed before the second extended project closing date. All LGCBP component activities were finalized as designed following effectiveness, except for the original sub-components 1.1 and 3.3, which had been dropped from the project.

### 2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

#### Design

25. The main PDO (“to improve local governance and accountability”) was considered adequate for the type of project and the resources available, although the level of ambition was probably too high with the explicit inclusion of rural areas in the PDO corollary (“efficient and sustainable economic, social and physical development”), since project design gave more prominence to urban areas (rural areas were included through the Component 2 amalgamation strategy). However, the M&E framework design did not follow the standard PAD format, and does not adequately distinguish the different links in the results chain (activities, outputs and outcomes), leading to a focus on outputs rather than outcomes. The data collection method was not described in the PAD. The PDO indicator in the PAD Annex 1 (LG laws revised, granting significant autonomy to LGUs and providing for increased public participation and accountability) does not relate to any project outputs and is disregarded in the ICR.

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⁴ Albeit somewhat rushed during the last days of the project, with a contract amendment for the training signed in March 2012 and training for Gaza staff postponed several times due to logistical difficulties preventing the staff of the contractor entering Gaza and the municipal staff exiting the Gaza strip. The training was finally held in June 2012 in Egypt.
Implementation

26. Prior to the split-off of LGCBP from EMSRP II, all reporting under the LGCBP had been covered under the annual grant reporting and monitoring, combined with detailed annual progress reports to the donor. The LGCBP reporting was also part of EMSRP II missions, for which aide-mémoires would have a paragraph or two on LGCBP progress. Due to many Bank system changes over the seven-year life of the project, the indicators were rephrased (mostly shortened to fit internal reporting document templates) without affecting a formal restructuring. By early 2010, the Bank and the MDLF recognized the need to change the indicators because reform of organizational functions at MOLG were envisaged, which ultimately would not be implemented by the LGCBP, and implementation of a revised sub-component 1.1 was funded by other donors.

27. The revised results framework, which was better suited to monitor results of the project (with more focus on measurable and achievable outcomes under the project, although retaining some simple output indicators), was agreed upon with MDLF in the June 2010 aide-mémoire and the aide-mémoire of March 2011 requested a letter to proceed with the restructuring. However, guidance to the Bank team regarding the requirement for a formal letter was not consistent and in consequence communication between the Bank and MDLF was not sufficiently clear for MDLF to send a formal restructuring request which would include changes to the results framework, hence the proposed and agreed revisions were never formalized, although accepted and implemented in practice by both parties.

Utilization

28. The overall M&E capacity of the MDLF was satisfactory and information on outcome monitoring was consistently adequate for the last two years of the project, following the changes to the M&E framework agreed at in June 2010. However the lack of clarity regarding the status of the revised Results Framework led to the MDLF reporting concurrently on two results frameworks, original and revised (see Annex 7: Grantees ICR).

2.4 Safeguard and Fiduciary Compliance

Safeguards compliance

29. The project was rated Category C as it did not finance any physical investments and there were no negative environmental or social impacts. As foreseen in the PAD, the physical planning manual developed under the project had specific guidelines on environmental and social aspects of investments.

Fiduciary compliance

30. The PCU, then MDLF, was responsible for all fiduciary aspects. In general, financial management arrangements have been rated Satisfactory. Audited financial statements have been submitted on a timely basis, the external auditors expressed unqualified audit opinions and management letters did not include significant observations. Procurement performance has generally been rated Satisfactory, except for delays encountered in processing some packages, mainly attributed to changes in MDLF staffing and management. Post procurement reviews did not reveal major non-compliance, except for a contract for computers (US$60,842), in which the lowest evaluated bid was rejected for non-compliance with the required delivery schedule,
although not stated in the request for quotation. The Bank concluded that this was a genuine misunderstanding of the guidelines and, on an exceptional basis, did not declare misprocurement. Problems related to the management of the IFMIS contract (see Section 2.2) were eventually resolved and management of deliverables assured finalization of all activities before project closing, in spite of very tight deadlines. In the course of the procurement process for services to assist the MDLF in the establishment of IFMIS, MDLF and the Bank detected two separate instances of fraud by a company and by two joint venture partners. Thanks to the cooperation of the MDLF, three companies and one individual were ultimately debarred upon review of the evidence and preemptive actions were taken to avoid awarding contracts to non-qualified companies.

2.5 Post-completion Operation/Next Phase

31. At the end of the project, four key outstanding issues remain in order to ensure IFMIS sustainability: (i) further training is required to assure operation and maintenance of the system, especially for smaller municipalities and the three Gaza municipalities, which received training very late and had little time to learn by doing during the project; (ii) further operationalization is required for the IFMIS Help Desk set up at the MOLG; (iii) the maintenance contract for the software should be kept current with the software supplier; (iv) RMIS requires revisions to handle the issue of post-dated checks, an issue particular to WBG. MOLG and MDLF have been in the process of drafting a strategy paper to address the future implementation of IFMIS for some time and it is expected that the above issues will be addressed by that paper. The issues to be worked out are: (i) the high cost of maintaining Help Desk consultants in MOLG, which do not yet have the full capacity to support municipalities, although it has all the necessary equipment and personnel has been trained; and (ii) deciding who should bear the cost of future software licensing (MDLF or municipalities).

32. Funds are available for demand-based IFMIS roll-out to another 50 municipalities under the Municipal Development Program, supported by all major sector donors. In this context, a solution will be found to the issue of post-dated checks. There is strong demand for LGCBP outputs as implementation of many of them (financial accounting policies and procedures, fixed assets register and effective implementation of IFMIS) are performance criteria required to access funds from the MDLF under the MDP I. Further, the fixed assets registration and valuation manual developed under this project has been adopted by other donor partners (Cooperative Housing Foundation under USAID funding) and the amalgamation manual is being used by projects such as the Local Development Program (LDP, phases II and III 2008-2013, US$12.6 million, Danish funding) and the Local Government Reform and Development Program (LGRDP, 2011-2015, €15 million, Belgian funding). The physical planning manual is being used by the MOLG in clusters on their own financing in addition to being used by other donors (Cooperative Housing Foundation).
3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation
Rating: Substantial

Objectives
33. The objectives of the LGCBP remain highly relevant, in spite of shortcomings in design and difficulties to clearly define the objectives and indicators at appraisal. In its report submitted to the Ad Hoc Liaison Committee in 2011, the Palestinian Government recognized initiatives of financial management, physical planning and amalgamation procedures and guidelines development under LGCBP as important. Phased decentralization and measures to consolidate democratic processes at the local government level are part of the 2011-2013 PA National Development Plan (NDP). A concrete goal is to assure municipal fiscal autonomy, which would not be possible without adequate financial management and investment planning supported by the LGCBP. The NDP also aims to encourage local communities to participate more in public policy, including the formulation of local government expenditure plans and urban and rural planning, which is supported by LGCBP. The municipal sector is a specific focus of the joint Bank-IFC FY12-14 Interim Strategy Note, in support of the NDP, as part of strengthening the institutions of a future state to efficiently manage public finances and ensure services to citizens.

Design and Implementation
34. The project was implemented under very difficult circumstances, with travel to Gaza extremely difficult from 2007 onwards. The MDLF and the Bank made adjustments to implementation arrangements to ensure continued implementation and completion of essential activities, assuring that the project could continue to progress towards the PDO, including dropping activities that had been superseded by changes to the context. However, given the condensed preparation schedule and design shortcomings described several obvious opportunities to formally restructure the project and provide a fully comprehensive component description were missed. In conclusion, this ICR finds that the changes made during implementation contributed to assuring high relevance against the development priorities and circumstances prevailing at the time of the ICR. This was achieved by removing the activities which could be implemented though support from other donors and which were not essential to achieve the major aspects of the PDO. Overall, design shortcomings did not prevent the project from achieving the highly relevant objective, due to the adjustments made throughout implementation, justifying a relevance rating of “substantial”.

3.2 Achievement of Project Development Objectives
Rating: Satisfactory

35. The achievement of the PDO is rated satisfactory. The project has supported significant reforms in the municipal sector and contributed to improving local governance and accountability, the key aspect of the PDO, and as measured through the restrucutred PDO indicators in the datasheet. The affected municipalities are home to over two million people (half the WBG population) who stand to benefit from improvements to municipal management introduced by the project. Key building blocks for a transparent municipal finance system have been implemented by LGUs
and MOLG, fostering the efficient and sustainable economic, social and physical development of urban and rural sectors in WBG and laying the groundwork for continued improvements to the overall local government system.

36. LGCBP was instrumental in reforming the management capacity of LGUs and improving the overall the relationship between the MOLG and LGUs. The shift from cash-based to modified accrual-based accounting is an essential contribution to improved local governance and accountability. Modified accrual accounting can contribute to efficiency, by providing performance benchmarks of costs and service. With the adoption of modified accrual accounting, it becomes possible to publish such measures and to use these measures as management tools. The municipal executive has been provided with the means to receive financial reports on demand and follow up on budget implementation, which was not possible before the LGCBP. With the adoption of modified accrual accounting, publishing budgets enable citizens to exert oversight of local governments, and MOLG oversight of the budget process becomes meaningful. The EMSRP I then II made progress in getting the municipalities to submit budgets (prior to EMRSP I only 20% of municipalities submitted budgets, now 100% submit budgets, as this is part of the funding requirements for MDLF), but the fact that they are using unified chart of accounts, developed under the LGCBP, now means that MOLG can use the data to carry out oversight.

37. Further, through the IFMIS financial reporting between municipalities and the MOLG has been clarified, standardized and simplified, to ensure proper and timely accountability for public resources. Asset inventory has also contributed to proper maintenance, and this is significantly more efficient than letting infrastructure assets deteriorate completely. This LGCBP contribution to both allocation and technical efficiency is even more essential as resources and expenditure decisions are decentralized.

38. The two PDO indicators were fully achieved as follows:

(i) Reform in FM and accounting in the LG system were put in place as foreseen under Component 1, benefiting municipalities with a total population of 1,959,701. This includes standardized systems of accounting (chart of accounts), financial management and budgetary control which has been developed, adopted and implemented in all 134 municipalities, and the design and approval of an IFMIS that has already been introduced in a representative sample (32) of LGs (and will be rolled out to another 50 municipalities under the MDP II). IFMIS is a system that integrates financial processes executed by different related systems such as budget preparation software, financial management information system (FMIS), Revenue Management Information System (RMIS), and asset management to derive full benefits from performance-based public financial management. As such, the LGCBP helped salvage the investments in RMIS under the Bank-funded MDIP, which the MOLG was likely to drop in the absence of a financial accounting module as part of the IFMIS.

The implementation of an IFMIS enables the selected municipalities to exchange budgeting and financial data with the MOLG and will provide municipal officials and MOLG managers the information required to make
management decisions, plan activities, and monitor and evaluate outcomes. The impacts on municipal finances are not yet measurable due to the novelty of the tools introduced, but substantial changes have been introduced by the project. As testified by the mayor of the large city of Nablus (a well-known business man) during the ICR mission, the fact of being able to pull up budget reports through IFMIS has enabled him to manage the municipality in a much more professional way based on accurate and current budget data and the RMIS allows him to keep track of revenues from utilities and municipal buildings, which was not possible before LGCBP. The dropping of the MOF mandated financial management system from Component 1 did not affect the achievement of outcome, as this output related more to central government accounting than to the actual LG system. Further, the activity was implemented through funds from other donors.

(ii) Reform in physical planning procedures and amalgamation for four LGU clusters was also implemented as foreseen, for the first time introducing public participation and voice in planning. The piloting of LGU amalgamation benefits the rural population, through the building of more viable LGUs capable of providing services. The LGCBP outputs directly benefit the 89,291 people living in the affected municipalities, with a further potential to benefit other urban and rural areas of WBG. A new physical planning approach has been developed and MOLG has started rolling out the approach to two additional clusters through its own financing and with the assistance of the LDP and LGRDP, thus establishing the sustainability of this sub-component. All local governments supported by the project now have draft land use plans and these are currently going through the process of being approved through the legal mechanism of the higher planning council.

39. The indicators also demonstrate achievement of the expected objective for each component. The objective of Component 1 was to improve the accounting, financial management and budgetary control capabilities of MOLG and LGUs. MOLG is using the FPPM, and for the first time MOLG is able to actually exert oversight over municipality budgets since they are prepared based on the COA and according to standard budget formats. The Budget Director estimates that having clear policies and procedures has contributed to doubling the efficiency of his department. Further, the joint training of MOLG and municipal staff contributed to establishing working relationships between central and local government staff, previously marked by a lack of mutual understanding and difficulties in communication.

40. The objective of Component 2 was to strengthen the capacity of MOLG and LGUs in WBG to effectively guide, manage and monitor the development of the urban areas and be responsive to the needs of citizens. A clear LG amalgamation process where appropriate has been successfully introduced into a representative set of LG clusters (4) with others under preparation, and public participation in local government decision-making has been piloted.

41. Achievement of the Component 3 objective to increase the capacity of MOLG to manage a decentralized local government system did experience shortcomings in the efforts to build the capacity of MOLG under the LGCBP. This was however due to the fact that other donors decided to support activities planned under LGCBP and
as a result the scope of activities under this sub-component was changed from those outlined in the PAD. MOLG did make clear progress with its responsibility for monitoring LG budgets, a result attributable to LGCBP. It should be noted that the implementation of the departmental action plan was therefore not implemented under the LGCBP. The PAD indicator for Component 4 on establishment of a capacity building group in MOLG alongside the EMSRP PCU was overachieved with the establishment of MDLF (developed but not fully operationalized under EMSRP I).

42. The project also contributed to learning which is used in the MDP I and II on the pace of the introduction of modified accrual accounting and several of the innovations piloted under this project are now being rolled out under MDP I - including the FPPM, FARV, and IFMIS. The synergies with the transfer mechanism managed by MDLF is further evidenced by the fact that implementation by municipalities of several LGCBP outputs have been adopted as performance criteria for the allocation of funds. This creates a strong demand for LGCBP outputs and therefore benefit streams from the LGCBP will likely continue to increase.

43. Overall, Component 1 was clearly the heart of the reforms introduced by the project (including in terms of funding), and has achieved its objectives with no shortcomings. The PAD Logical Framework (precursor the M&E framework) expected implementation in a significant number and representative sample of LGUs, so the fact that two out of 34 municipalities are not fully using IFMIS due to capacity constraints can only be considered as a very minor shortcoming (the target number was added after approval). The MOLG accounting system was implemented through funds from other donors. Component 2 also fully achieved its objective and the policies and procedures piloted and implemented under the project are fully implemented and functional. Component 3 did experience moderate shortcomings, but this did not prevent the project from achieving its overall PDO, and on the other hand overachieved on the establishment of MDLF. See a complete list of outputs in Annex 2 with additional notes on linkages between outputs and outcomes.

3.3 Efficiency
Rating: Substantial

44. The economic justification in the PAD was based on the LGCBP assisting to establish more efficient management of the local government system. The expected economic and financial benefits of the proposed interventions were not quantified. The efficiency analysis for the ICR is carried out for Component 1 (US$6.32 million, IFMIS, RMIS and fixed assets valuation) based on multi-criteria analysis of cost-comparison, time-efficiency, and technical and allocation efficiencies with estimative quantification of benefits. The full justification of the efficiency rating can be found in Annex 3, including details on assumptions regarding comparability.
<table>
<thead>
<tr>
<th>Criteria</th>
<th>Comparator</th>
<th>LGCBP</th>
<th>Comments</th>
</tr>
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<tbody>
<tr>
<td>Cost-effectiveness</td>
<td>US$26,000 per user</td>
<td>US$31,250 per user</td>
<td>LGCBP compared to central government FMIS, reasonable cost-effectiveness given LGCBP environment and number of geographic sites involved.</td>
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<tr>
<td>Time-effectiveness</td>
<td>6.1 years</td>
<td>7.25 years</td>
<td>LGCBP compared to central government FMIS, reasonable time-effectiveness given LGCBP delays attributable to project environment.</td>
</tr>
<tr>
<td>Cost-benefit analysis</td>
<td>Not available</td>
<td>Positive net present value</td>
<td>Net present value positive with estimated 6% allocation and technical efficiency gains from IFMIS, RMIS and fixed assets valuation.</td>
</tr>
</tbody>
</table>

45. The project was designed with the qualitative objective of advancing local governance and transparency. Benefits were not intended to be monetized at appraisal, but the analysis for the ICR shows that, based on realistic assumptions, the project turns out to be economically justified and it is concluded that the IFMIS part of the LGCBP was efficient, given the uniqueness of the implementation environment, justifying investments based on quantitative considerations. Project management decisions to persist with the IFMIS supplier in spite of contractual difficulties contributed to achieving satisfactory project efficiency. The project did not have entirely optimal cost-benefit ratio since lower cost alternatives could have been made available to smaller municipalities (maintaining cash-based accounting and focusing on the change from manual to automated accounting). This was initially envisaged but later abandoned due to the difficulties in implementing the IFMIS, coupled with absence of local expertise, and priority was given to a unified approach across all municipalities. The two-tier approach is being implemented under the MDP I (the local supply has developed), so the lessons learned can entail cost savings going forward.

3.4 Justification of Overall Outcome Rating
Rating: Moderately Satisfactory

46. The PDO was highly relevant at the time of appraisal to ensure improvements to the LG system and remains highly relevant at the time of the ICR. Adjustments during implementation did not prevent the project from achieving its development objective, with minor shortcomings on secondary component objectives (specifically the number of municipalities running a computerized system). The project also has synergies with other projects, likely enhancing the future impact of LGCBP outputs. It should also be noted that the LGCBP was designed as a complement to an emergency operation (EMSRP II) and implemented during a time when the Bank was funding emergency operations. As such, it provided a very important contribution to sustainable and systemic improvements to sector performance, which the emergency projects were not able to support. Analysis shows a likely substantial efficiency, a result contributed by project management decisions. Based on the substantial relevance, satisfactory achievement of PDO, and substantial efficiency, the ICR concludes that on balance the shortcomings are moderate and the outcome of the LGCBP is moderately satisfactory, especially given the significant contributions to improving local governance and accountability, the benefits of which will likely continue to increase.
3.5 Overarching Themes, Other Outcomes and Impacts
(a) Poverty Impacts, Gender Aspects, and Social Development
48. By supporting efficient budget, financial management, and more inclusive physical planning, the project supported the LGUs to better cater to marginalized groups who otherwise did not have a voice in the local planning process. Previously, physical plans were developed by the MOLG without implication of the local population, now public hearings have been introduced, the LGUs have taken over the process, and MOLG role is reduced to supporting the process and approving the final documents.

(b) Institutional Change/Strengthening
49. The project focused on institutional change; the direct impacts are fully captured in Section 3.2. In addition, through support to operationalizing the MDLF, the project contributed to increased donor harmonization in a complex sector with many overlapping activities and laid down part of the groundwork that led to a programmatic sector approach under the two MDPs, with participation of most sector donors. All major sector donors took part to the joint MTR for the EMSRP II and LGCBP and the LGCPB donor (DANIDA) was associated to all supervision missions.

50. Finally, it should be noted that the LGCBP is evaluated as a stand-alone operation in this ICR, but should ideally be seen as part of a continuous process of improvement to the LG system in WBG, complementing other sector projects (see especially EMSRP I\(^5\) and EMSRP II\(^6\) ICRs and the MDP I PAD).

(c) Other Unintended Outcomes and Impacts (positive or negative)
Not applicable.

3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops
Not applicable.

4. Assessment of Risk to Development Outcome
Rating: Significant

51. The risk that improvements to local governance and accountability achieved by the LGCBP will not be maintained is rated as Significant. Overall, it is likely that project outputs will continue to provide benefits, and that roll-out will continue, mainly under the MDP II. However, the overall country context remains fragile and unpredictable. Therefore, although the LG system operates rather independently of the macro-context, as shown by the fact that MOLG continues to supervise LGUs in Gaza in spite of the political divide between the West Bank and Gaza. Political tensions and the threat of a resurgence of violence between Israeli authorities and the PA, changes to context could still pose a risk that priorities will change towards more emergency oriented activities to the detriment of adequately maintaining LGCBP achievements. Another risk to the development outcome comes from the lack of a clear government strategy on continued technical support (Help Desk) and payment of software licenses. The impact of this would be significant, but, although the development of a strategy is part of clarifying the relationship and responsibilities

\(^5\) Overall outcome rated Moderately Satisfactory by the World Bank and IEG.
\(^6\) Overall outcome rated Satisfactory by the World Bank, IEG rating pending.
between the MOLG and MDLF and hence is taking some time, the risk of a clear strategy not materializing in the short to medium term is limited given the good results and strong pressure from donors and municipalities to continue progress and move to phase II (supported by the MDP II). The combined risks from context and lack of clear strategy justify a “significant” risk rating.

5. Assessment of Bank and Borrower Performance

5.1 Bank Performance

(a) Bank Performance in Ensuring Quality at Entry
Rating: Moderately Unsatisfactory

52. The Bank’s main contribution through the lending phase consisted in developing the overall concept and providing a strategy on how to detail components once the project was approved. Due to sector expertise of Bank staff and historic engagement in the sector, the Bank had the trust of both the PA and Grant Donor (Denmark), which enabled the mobilization of resources before the commitment deadline of the Donor, thus assuring the initial support to operationalize the LG Action Plan and giving substance to the emerging local government agenda.

53. The Bank should have assured full appraisal of project activities and did not adequately assess the technical difficulties and capacity to implement IFMIS. Some of the appraisal and documentation shortcomings noted in this ICR can be attributed to the fact that the project was expected to complement the EMSRP II and was therefore not developed as a full stand-alone operation. The highly condensed preparation schedule did not permit adequate preparation or appraisal. However, the PAD provides limited justification for the program of activities appraised, other than referring to the Diagnostic Study and Action Plan and this ICR concludes that the Bank should have assured elaboration of a full standard format PAD with an adequate M&E framework.

(b) Quality of Supervision
Rating: Moderately Satisfactory

54. The Bank was actively supervising the project throughout, and was instrumental in overcoming the main project difficulties relating to IFMIS contractual issues, recognizing that reforms and institutional building require close monitoring and dialogue. The Bank proactively downgraded the rating of the project and with the client developed an action plan that allowed for a close follow up of the IFMIS contract. By bringing in a high-level consultant to support the client, the Bank helped ensure that activities could be completed before the second extended project closing date. Missions were regular and additional ongoing implementation support was provided from successive Country Office-based TTLs. The Bank was also successful in obtaining exemptions from the Gaza blockade ensuring that 10 servers critical to the implementation of the IFMIS were in place after an entire year of inactivity on the implementation of IFMIS in the three Gaza municipalities.

55. Shortcomings in Bank performance relate to the inability to ensure formal restructuring and the bias in the results framework towards outputs rather than outcomes. These shortcomings are however outweighed by the Bank’s decisive
contribution to assuring full project implementation, justifying a Moderately Satisfactory rating.

(c) Justification of Rating for Overall Bank Performance
Rating: Moderately Satisfactory

56. These weaknesses notwithstanding, the Bank did consistently provide a high-level of implementation support and provided significant and decisive inputs to ensure that the project could be implemented with a satisfactory outcome. The outcome rating is in the satisfactory range and this justifies an overall Bank performance rating of Moderately Satisfactory.

5.2 Borrower Performance
(a) Government Performance
Rating: Moderately Satisfactory

57. The project was implemented within a very difficult environment at times in active conflict, including an administrative division between the West Bank and Gaza. In spite of this, the government was able to make progress on the main reform agendas supported by the project (IFMIS and related activities, and planning) and is rolling out the planning on own initiative and funds. This performance is mitigated by the government’s inability to provide a clear strategy for the continued support and roll-out of IFMIS, in spite of this being a condition in the TFGA, and several reminders from the Bank on the lack of engagement to carry out activities related to MOLG capacity building.

(b) Implementing Agency or Agencies Performance
Rating: Moderately Satisfactory

58. The fact that the project was implemented in a very challenging context testifies to the engagement of MDLF, in spite of visits to Gaza being extremely difficult after 2009. MDLF generally retained qualified, efficient, and skilled staff, although the expanding portfolio of MDLF in general, and the preparation of MDP I in particular, did constrain MDLF staff time. Technical, financial and progress reports were provided on time and good programming was developed early during project implementation. Contacts with the government and the Bank team have been excellent and regular. The management shortcomings of the IFMIS contract led to prolonged implementation delays, and for long periods of time jeopardized the overall outcome of the project. By hiring an in-house IFMIS expert the contractual difficulties were overcome and the project delivered, but with many activities rushed through just before project closing (including training of Gaza municipal staff).

59. PCU performance during the first months of the project (before the operationalization of the MDLF) is rated Satisfactory, but this does not influence the implementation agency rating due to the limited role played.

(c) Justification of Rating for Overall Borrower Performance
Rating: Moderately Satisfactory
Both the government and implementing agency experienced challenges that impaired their performance for periods during implementation, placing the project at risk for extended periods of time, and leaving the project without clear follow-on strategy. In spite of these shortcomings, additional efforts made by MDLF ensured that the project could be fully implemented by the closing date in a very challenging environment, thus justifying an overall rating of Moderately Satisfactory.

6. Lessons Learned

61. Implementing improved financial management in local governments is an essential element of improving local governance and oversight but also a complex process that must adapt to shifts in management and technical difficulties. The results were facilitated by to strong demand from local governments and willingness to complete the complex and demanding process due to the benefits in sight. However, the many institutional and technical pitfalls along the way could have derailed the process. In spite of work done to develop clear definition of system specifications and TORs for IFMIS, technical issues became the focus of contractual disputes (as in many other related projects), and so complicated an already complex reform process. In the end, the outside expertise brought in to support the respective parties was instrumental in maintaining focus on problem resolution and generating willingness to overcome the problems.

62. Need to ensure adequate appraisal, quality at entry and documentation of all operations to mitigate risk. An informed choice was made to defer full design until after effectiveness, in line with Bank procedures for trust-funded projects of this type, and based on the ownership of the home-grown LG Action Plan. This however resulted in some activities not being properly appraised, the scope of the IFMIS component not being specified, and some shortcomings in project documentation. In spite of funds being set aside for post-appraisal design, the project eventually had to cancel planned activities, largely because other donors took over. So, while the LGCBP turned out to have positive results, each case should be assessed separately; even those projects which do not formally require full appraisal and documentation could well benefit from going the extra mile by documenting the project fully in a standard format, to make sure that lessons learned are incorporated and risk is properly evaluated.

63. Impact of changes in Bank Policy for projects under implementation should be not be underestimated and should be well communicated to Clients. During the seven year life time of the project, Bank policies and procedures changed including instituting a new Bank reporting system. While such changes can be expected during the course of a project, they should be communicated to clients beyond the project level.

64. Operating in conflict environments necessitates a high level and creativity of supervision, especially for projects with a reform element. The LGCBP succeeded in the face of very challenging conditions, but the IFMIS component was in jeopardy for long periods of time, due to contractual differences between MDLF and the IFMIS supplier, worsened by capacity constraints and difficult project environment. This was only overcome through additional efforts by all parties, including strong engagement by the Bank supervision team and management and use of video conferencing by MDLF to access staff and beneficiaries in Gaza.
65. **Restructuring should be pro-active, especially in conflict areas, and guidance to task teams should always be clear in this regard.** The evaluation in this ICR makes it clear that restructuring should be implemented at the first opportunity to correct design flaws and shortcomings on indicators, especially in conflict areas with evolving project environment and parallel interventions by many donors. In hindsight, there are no objective reasons for not having pursued a formal restructuring of the LGCBP to correct project shortcomings and align the project formally with the reality on the ground, including the activities initially foreseen to be funded by LGCBP, but which were funded by other donors, and correct the indicators which were not be fully developed at appraisal. The restructurings in 2008 and 2010 were limited to project extensions and reallocations, whereas a formal restructuring of components and the M&E framework was warranted to keep the project description and results chain in line with reality.

66. **Pay particular attention to capacity equilibrium in the local government system.** At the end of the project, MOLG has seen its capacities in some areas (such as budget oversight) improve substantially, but is lacking behind MDLF and especially some of the larger municipalities in terms of IFMIS technical capacity. This is partly due to a lack of political decision to improve capacities in MOLG, but also indirectly brought on by MDLF having better knowledge of project activities due to daily implementation and incentives (salary), thus leaving MOLG at a knowledge disadvantage in relation to its policy setting role.

7. **Comments on Issues Raised by Grantee/Implementing Agencies/Donors**

(a) **Grantee/Implementing agencies**
MDLF comments on the draft ICR chiefly concern requests for changes to the text in the draft ICR regarding involvement of beneficiaries in IFMIS design, clarification of IFMIS roll-out, and elaborating on the risk evaluation. MDLF comments have been fully incorporated in the final ICR, as further detailed in Annex 7.

(b) **Cofinanciers/Donors**
Comments on the draft ICR received from DANIDA pertain to the future of IFMIS, MoLG and MDLF strategy, and PAs commitment going forward (see Annex 8). The ICR has been updated with the latest information available based on discussions between the Bank and PA institutions in the context of the MDP I & II.

(c) **Other partners and stakeholders**
*(e.g. NGOs/private sector/civil society)*
Not applicable.
Annex 1. Project Costs and Financing

(a) Project Cost by Component (in USD Million equivalent)

<table>
<thead>
<tr>
<th>Components</th>
<th>Appraisal Estimate (US$ M)</th>
<th>Actual (US$ M)</th>
<th>Percentage of Appraisal</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Financial Management and Accounting Systems Reform</td>
<td>4.12</td>
<td>6.38</td>
<td>154.8%</td>
</tr>
<tr>
<td>2. Physical Planning and Management Systems Reform</td>
<td>2.75</td>
<td>1.30</td>
<td>47.3%</td>
</tr>
<tr>
<td>3. Institutional Development (MOLG)</td>
<td>1.84</td>
<td>1.44</td>
<td>78.3%</td>
</tr>
<tr>
<td>4. Project Management and Operating Support</td>
<td>0.46</td>
<td>0.81</td>
<td>176.1%</td>
</tr>
<tr>
<td><strong>Total Baseline Cost</strong></td>
<td><strong>9.17</strong></td>
<td><strong>9.93</strong></td>
<td><strong>108.3%</strong></td>
</tr>
<tr>
<td>Unallocated</td>
<td>0.75</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td><strong>Total Project Costs</strong></td>
<td><strong>9.92</strong></td>
<td><strong>0.00</strong></td>
<td><strong>0.00</strong></td>
</tr>
<tr>
<td>Project Preparation Costs</td>
<td>0.00</td>
<td>0.00</td>
<td>0.0%</td>
</tr>
<tr>
<td><strong>Total Financing Required</strong></td>
<td><strong>9.92 (a)</strong></td>
<td><strong>9.93 (b)</strong></td>
<td><strong>100.1%</strong></td>
</tr>
</tbody>
</table>

(a) Initial TFGA signed for US$2,474,000.
(b) Number differs from actual disbursements in table (b) below and in the datasheet, since some workshops, newspaper advertisements and other small activities were not attributed to components early in the project.

(b) Financing

<table>
<thead>
<tr>
<th>Source of Funds</th>
<th>Type of Cofinancing</th>
<th>Appraisal Estimate (US$ M)</th>
<th>Actual (US$ M)</th>
<th>Percentage of Appraisal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trust Funds (Denmark: Danish Intl. Dev. Agency-DANIDA)</td>
<td>Full project financing</td>
<td>10.04 (c)</td>
<td>10.00</td>
<td>99.6%</td>
</tr>
</tbody>
</table>

(c) Corresponds to the combined amount of the initial TFGA (US$2,474,000) and September 2008 TFGA amendment (US$7,563,396).
Annex 2. Outputs by Component

67. Below is an expanded list of outputs with some explanatory notes on links to project outcomes, complementing the description in the main text.

Component 1: Financial Management and Accounting Systems Reform


The objective of the component was to improve the accounting, financial management and budgetary control capabilities of MOLG and LGUs.

69. The main component outputs are as follows:

- Unified chart of accounts developed and currently used to prepare all municipal budgets (132 municipalities with amalgamation against 134 at appraisal).
- Financial and accounting policy note elaborated and in use.
- Uniformed budget format and unified Financial Policies and Procedures Manual (FPPM) on a modified accrual basis developed and fully implemented.
- Integrated Financial Management Information System (IFMIS) has been implemented and customized in 34 municipalities (but is fully operational in 32 municipalities) and the Budget Department of MOLG. This includes municipal financial department assessment, supply of hardware, software and training, and consultant assistance to help the municipalities put in place the constituent pieces of the financial framework needed for successful IFMIS implementation.
- Revenue Management Information System (RMIS), developed under the Bank-funded Municipal Infrastructure Development Project (MIDP), was updated and integrated with the IFMIS.
- Fixed assets registration and valuation methodology (FARV) and related supporting manual developed and implemented in 43 municipalities, including targeted implementation support to each municipality. The methodology, once adopted by the MOLG, would be used by all LGUs to value or revalue existing and future fixed assets, as part of the transition from cash to modified accrual basis of accounting.
- Fixed Asset Manual, including the detailed policies and procedures to be followed by local governments in properly recording the acquisition, ownership, utilization, disposal and replacement of municipal fixed assets.
- Hiring of IFMIS specialist responsible for advising MOLG’s IT unit on all aspects of the design, implementation and operations of information systems within MOLG.
- Training workshops for the MOLG and municipal staff on accounting concepts and procedures to enable them to handle the full range of municipal financial management responsibilities when IFMIS implementation was ready.
- Help Desk established in MOLG but not fully operational. It is staffed but does not have office space to be operational and current external consultants are too costly for MOLG to maintain in the longer run.
70. Component 1 further funded the hiring of a number of consultants to assist in various aspects of project implementation:

- Financial Specialist to assist in project implementation in Gaza.
- Municipal Finance Consultant to assist the MDLF and the MOLG to supervise IFMIS implementation.
- IFMIS Consultant to serve as liaison between the IFMIS supplier and MDLF.
- Financial and Institutional Development Consultant, Municipal Financial Officer, IT Officer, Disaster Recovery Expert and IFMIS Project Manager to strengthen MOLG and MDLF capacities for LGCBP implementation.
- Accounting and Financial Consultant to review the functionality of the existing financial application of Hebron municipality and its integration with other applications.

71. The initial activities related to management and accounting systems in MOLG were dropped from the project, although this was not formalized through restructuring. This activity related to central government accounting and not to the local government system (including integration between MOLG and municipalities) and is not considered as a shortcoming for the LGCBP in terms of achieving the component objective, even more so since the MOLG management and accounting systems were implemented by projects financed by other donors.

Component 2: Physical Planning and Management Systems Reform

Appraisal cost: US$2.75 million. Percentage of appraisal cost: 28%.
Actual cost: US$1.30 million. Percentage of actual total project cost: 13%.

72. The objective of the component was to strengthen the capacity of MOLG and the LGUs in WBG to effectively guide, manage and monitor the development of the urban areas and be responsive to the needs of citizens.

73. Component outputs are as follows:

- Baseline survey of urban planning activities and capacities in WBG.
- Physical Planning Manual (PPM) finalized in its first version and adopted by MOLG, which is contributing to piloting it under other projects. The manual enables MOLG, MDLF and the local community to guide and formulate their policies and procedures to implement physical planning corresponding to their level of responsibility.
- Physical planning activities are completed in 4 clusters of LGUs: (i) Qabatia – five LGUs; (ii) Al Izariyeh/Abu Dis – two LGUs; (iii) Al Kafriyat Municipality – five LGUs; and (iv) Al Itihad Municipality – two LGUs. The physical plans direct growth, plan for join public services, integrate the physical development initiatives in the amalgamated area, optimize land use, help preserve agricultural lands, and utilize the resources in a sustainable manner. The four Spatial Strategy Frameworks have been submitted for acceptance by the Higher Planning Council, as per the PA’s legal requirement.
- Amalgamation policy framework and operational manual for amalgamation have been developed and piloted in four clusters. (The piloting is not
supported by the LGCBP. It is financed by Denmark and Belgium through separate projects.

- Amalgamation task force is operational and an amalgamation strategy is being implemented.
- Urban Planning Training Course Workshop for MOLG engineers to support a shift from implementers to supervisors of municipal staff.
- Training of 22 MOLG engineers and planners at Jordan Engineers Training Center.

74. Component 2 further funded hiring of a number of consultants to assist in various aspects of project implementation:

- Senior Urban Planning Advisor to provide technical support to the MOLG Planning Department and the Department of Joint Councils for Services Planning and Development to progressively shift its physical planning functions to a more supportive and policy formulation role. The advisor worked closely with counterparts to address both policy issues and the introduction of new planning practices such as strategic planning and community involvement, and linking plans to investment strategies. The advisor assisted in developing planning practices that address the unique planning constraints faced in the West Bank and Gaza and help in identifying local, regional and international best practices that could be adapted to the local planning environment.
- Urban Planning Consultant to support the physical planning department at MOLG and enhance performance for better policy formulation and more effective management approach for the development of the new systematic physical planning process developed by the LGCBP. The overall scope of work of the consultant was to assist MDLF and MOLG Planning Department in implementing the physical planning component, through delivering a TOR to prepare the Physical Planning Manual (PPM). This enabled MOLG planning department to progressively shift its physical planning functions to more supportive and policy formulation role, in a more decentralized local government sector in West Bank and Gaza.
- Urban Planning Officer at MDLF and MOLG to enhance the overall policy and institutional capacity of MOLG planning department in particular, in setting urban planning policies and guidelines to support LGUs mandated planning responsibilities, and assisting in progressively shifting its current physical planning functions to a more supportive and policy formulation role.
- Local Urban Planner at Department of Joint Service Councils (JSCD) to provide technical support to the MOLG Planning Department and the JSCD for Services Planning and Development, LGUs and JSCs to progressively shift physical planning functions to a more supportive and policy formulation role, in a more decentralized local government sector in West Bank and Gaza.
- Local Government Consultant to help address policy issues for the implementation of the amalgamation strategy and action plan and assist MOLG and MDLF in supervision and implementation in amalgamated LGUs.
- Environmental Consultant to provide technical support to the MDLF in its efforts to enhance the monitoring and mitigation of environmental impacts of projects and sub-projects implemented at municipalities, specifically those
sub-projects funded under the Emergency Municipal Service Rehabilitation Project II (EMSRP II).

Component 3: Institutional Development (MOLG)

Appraisal cost: USS1.84 million. Percentage of appraisal cost: 19%.
Actual cost: USS1.44 million. Percentage of actual total project cost: 15%.

75. The objective of the component was to increase the capacity of MOLG to manage a decentralized local government system.

76. Component outputs are as follows:

- The capacity of 132 MOLG employees was enhanced in computer applications and related office skills.
- IT equipment and furniture for the MOLG headquarter and district offices benefiting approximately 200 employees were purchased.
- Coordination between the MOLG departments of Gaza and the West Bank was improved through the setup and usage of video conference equipment, enhanced skills of IT staff at MOLG in network management and IT support, and basic IT training to MOLG staff.
- Implementation of an MOLG email system (format: info@molg.gov.ps) and activation of MOLG intranet, including training.
- Design and implementation of six managerial and financial training courses to enable the MDLF to deliver training to staff and managers at the pilot municipalities and MOLG departments and district offices to manage in accordance with the new financial and accounting principles and increase their ability to implement IFMIS. Courses covered accounting and financial management, revenues and cost analysis, accounting for non-accountants, communications skills, leadership skills and strategic planning for the employees of eight pilot municipalities in WBG and the MOLG headquarter and district offices’ employees.
- Installation of the Project Grant Management Information System (PGMIS) in 2011 in MDLF, which improves the management of funds, grants and loans and automates the fund mobilization processes from donation to LGU allocation, and from project budgeting to payment tracking. It further automates the project management lifecycle from idea development to project budgeting, design, contracting, implementation and evaluation, enhances communication between MDLF and its stakeholders, including LGUs, donors, banks, central government and the general public. It is expected that all stakeholders will have electronic access to information and/or services specific to them through the MIS solution. The PGMIS also facilitates strict financial management controls by integrating fund management with project budgeting and accounting and provides more timely information to support better policy planning and financial risk management. The availability of historic project data will provide donors and policy makers with the analytic information needed to better target funds where the impact is high and the risks are low.
- Equipment for MDLF (computers, scanners, servers, software, furniture).
• Development of a transfer mechanism for MDLF and providing the MDLF with a methodology and guidelines for its implementation (jointly with EMSRP II, a key international consultant was financed by LGCBP).
• Training to MOLG and MDLF staff on IFMIS, financial management, use of exchange servers, MS project, English, communication.
• Designing and Printing the building and licensing bylaw.

77. The component further funded hiring of a number of consultants to assist in various aspects of project implementation:

• Gaza Project Coordinator to strengthen the channels between the MDLF and MOLG/Gaza branch and different departments in order to ensure successful project implementation.
• Recruitment of 4 junior accountants at the Budget and Institutional Development Departments of MOLG mainly to improve the LG budgetary system and monitoring and supervision system.
• Capacity Building Advisor to assist MDLF and MOLG to coordinate the many project inputs, including the key inputs of other agencies and external consultants linked to LGCBP and to participate in: (i) developing the institutional framework for financial and administrative capacity building for LGUs, (ii) develop the financial system inter-linkage between the central and local governments, (iii) revising the reform activities at MOLG and address its application on the capacity building and infrastructure projects.
• Senior Institutional Development Advisor to assist MDLF with the design and implementation of the local government Financial Management Information System (FMIS) and institution building components of the project, specifically the development of a training program to build institutional capacity within the MDLF, local governments and other relevant entities.
• Procurement Officer to MDLF to ensure smooth project implementation.
• Local IT Specialist to analyze MOLG systems and hardware, advice on and implement IT solutions for a local area network, and implement an e-mail system, including training.
• Local MIS Specialist to advise MOLG’s IT unit on all aspects of the design, implementation and operations of information systems within MOLG.

78. The scope of activities under this sub-component was changed from those outlined in the original PAD to reflect the entry of other donors providing TA to the MOLG, particularly after 2008. The Departmental capacity building strategy and action plan was not implemented under the LGCBP, as other donors took over this activity.

Component 4: Project Management and Operating Support

Appraisal cost: US$0.46 million. Percentage of appraisal cost: 5%.
Actual cost: US$0.81 million. Percentage of actual total project cost: 8%.

79. The objective of the component was to coordinate, monitor and report on the project.
80. Component outputs are as follows:

- Financing of equipment and training for the PCU, which was then transferred to the MDLF to make the entity fully operational.
- Financing of incremental operating expenditures for the MDLF (7 percent of project cost according to TFGA).
- Financing of training of MDLF staff on M&E.
Annex 3. Economic and Financial Analysis

81. The economic justification in the PAD is based on the LGCBP assisting in establishing more efficient management of the local government system, particularly in the areas of finance, accounting, management, planning and service delivery. The PAD states that the direct economic and financial benefits of the proposed interventions would be difficult to quantify, but rate them as significant, including: increased municipal revenues, reduced costs and higher quality municipal services, more efficient resource use and better resource allocation, reduced operating costs and a more conducive environment for business development. The qualitative benefits were also estimated as potentially considerable, including but not limited to better public health outcomes and improved quality of life for the citizens of WBG.

82. Given the difficulties quantifying the benefits correctly identified in the PAD and the limited time passed since implementation, the evaluation of the efficiency of the LGCBP for the ICR is focused on the IFMIS and carried out primarily by means of cost-comparison and time-efficiency, and secondarily coupled with general considerations of technical and allocation efficiencies introduced by the project as a whole. Carrying out an actual cost-benefit analysis poses several problems due to the non-physical nature of investments and difficulties quantifying and attributing benefits from the technical and institutional changes introduced by the project, further complicated by the recent implementation of activities which means that a measurable benefit stream has yet to be established.

Cost Comparison

83. Cost-comparison can be based on the overall approach (locally developed software - LDSW vs. customized off-the-shelf - COTS) and/or compare the selected solution to cost of similar systems. In either case, the analysis should ideally compare the cost of implementing the LGCBP IFMIS with the cost of implementing similar systems under similar conditions. A recent World Bank study on Financial Management Information Systems (FMIS) does present some data for comparison, but with the shortcoming for the purpose of this evaluation that the FMIS study only concerned national treasury systems and government FMIS. The LGCBP is new in a World Bank context in that no prior and directly comparable projects exist that has implemented a LDSW or COTS IFMIS in a municipal project. The analysis should thus be taken as indicative, but would still be telling of general efficiency trends.

84. The LGCBP opted for a COTS since no supplier was available to provide LDSW, and there was no real choice (the market has developed in the meantime). For our purposes, the best information to evaluate cost-efficiency we get from the FMIS study is a finding that in small-scale projects, where the FMIS users are less than 250 in total, total cost of FMIS solutions based on COTS and LDSW are comparable. For larger projects with more users, LDSW comes out as the cheaper solution. In spite of this comparison being between local and central government systems, it can be taken

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8 The LGCBP has about 160 users based on 5 users per municipality in 32 municipalities.
as indicative of the choice of COTS for the LGCBP IFMIS being relatively cost-efficient compared to LDSW, given the limited number of users.

85. Comparing cost of similar systems also provides an acceptable result. Costs of similar systems (comparing only COTS) implemented in similar capacity environments (Ghana, Moldova, and Uganda) and with low (for a government system), numbers of users (400-800) have implementation cost per user of about US$26,000. This compares to US$31,250 per user for the LGCBP IFMIS, not unreasonable given the overall project environment, the double shift from manual to automated and from cash-based to modified accruals-based accounting and the large number of physical sites to implement the project, including difficult access to Gaza and need to send Gaza municipal staff and consultants to Egypt to implement the training.

86. Contractual difficulties in this type of projects are quite frequent (rather the norm in this type of projects combining technical and institutional changes) and so the LGCBP was no anomaly in this regard. If, faced with technical and contractual differences with the IFMIS contractor, the project had opted to change supplier and gone for a different system (COTS or LDSW, as was considered at one point), this would likely have resulted in additional software customization or development cost; and given the technical specifics and local capacity constraints it is uncertain whether another system could have performed better or even become operational. We take this as an indication that project management choices made regarding IFMIS implementation (sticking with the supplier in spite of contractual differences) contributed to cost-efficiency.

Time Efficiency

87. Analyzing time-efficiency again suffers from lack of directly comparable projects, but nonetheless an indicative comparison can be made. The LGCBP took 7.25 years to implement. By comparison, the FMIS database maintained by the World Bank Financial Management Systems Working Group shows that the current average implementation time for a Bank-funded government FMIS project is 6.1 years. Again, this is comparing implementation of central government systems with a local government system implemented in many localities, under very challenging conditions, and with very specific technical difficulties. The fact that the public sector in WBG operates with multiple currencies without a base currency is unique on a global scale, and did result in specific technical difficulties that no existing COTS can handle without significant adjustments. Further, at least two years of project implementation delay can be attributed wholly to contextual matters beyond the control of the Implementing Agency (political split between the West Bank and Gaza, closures in Gaza, difficulty for consultants to travel to WBG), so all in all it is not unreasonable that the LGCBP took longer to implement (1.15 years more to be precise) than projects working only at a central level and under more “normal” conditions.

88. In relation to time-efficiency, a parallel argument can be made to cost-efficiency. Contractual difficulties being rather the norm in this type of projects, the important aspect is whether problems are eventually solved. Again, had the project opted for a different system following the contractual difficulties with the IFMIS supplier, this would likely have extended project implementation by several years,
and given the local capacity constraints it is uncertain whether the system could have become operational. Together, we take this as an indication that LGCBP had satisfactory time-efficiency and that the project management choices made regarding IFMIS implementation contributed to this.

**Technical and Allocation Efficiencies**

89. As a general consideration, budget reforms should add value to the resource allocation process – that is, they should be designed to optimize the allocation efficiency of the budget. The LGCBP introduced two major changes concurrently: moving from cash-based to modified accrual-based and from manual to automated accounting. Regarding the first change, cash-based accounting cannot contribute to measures of efficiency in any meaningful sense. Modified accrual accounting can, by providing measures of costs of service provided, which can then be compared with measures of quantity and quality of output to produce measures of performance.

90. Cost data are necessary for the pursuit of allocation and technical efficiencies, and this is made possible by the new modified accrual-based accounting model, which significantly diminish the difficulties in allocating service and administrative overhead and identifying the true cost of providing local government services, adding a new dimension to budgeting and increasing professionalism of the municipal financial and budget departments. The municipal executive has been provided with the means to receive financial reports on demand and follow up on budget implementation, something that was not possible before the LGCBP. With the adoption of modified accrual accounting, publishing budgets enable citizens to exert oversight of local governments, and MOLG oversight of the budget process becomes meaningful. Asset inventory has also contributed to proper maintenance, and it is estimated that this is significantly more efficient than letting infrastructure assets deteriorate and rehabilitate completely. This LGCBP contribution to both allocation and technical efficiency is even more essential as resources and expenditure decisions are decentralized.

91. In order to compare costs with the benefits from the allocation and technical efficiencies introduced by the project, we will hypothesize that a certain percentage gain in service delivery will result from these efficiencies, which include increased municipal revenues (from the Revenue Information Management System, now fully integrated with the IFMIS), reduced investment and operating costs (from transparent budget management, and benchmarking) more efficient resource use and better resource allocation (from the fixed asset registers as well as budget reports), and generally higher quality municipal services and a more conducive environment for business development. The qualitative benefits also include increased possibilities for participating in planning and overall improved quality of life for the citizens of LGCBP municipalities (and in the longer run the whole of WBG with the roll-out of IFMIS).

92. With an investment of US$6.32 million in the IFMIS, RMIS and FARV, including all software, hardware and training, annual staff plus hardware and software maintenance cost of US$10,000 per municipality, average municipalities budget of US$750,000 annually, and a discount rate of 10% (reflecting the opportunity cost of capital) the efficiency gains would have to be around 6 percent in order to get a positive net present value of the investment. While this is an exercise with very
significant uncertainties, and a quite speculative way of quantifying benefits, it is not without some realism. Gaining efficiencies of 6% would not seem unrealistic given the virtual transformation of the way local governments work. And it should be noted that once the system is developed, it is much less costly to roll it out to more municipalities, as is already foreseen under the MDP II. This will further raise the rate of return on the initial (LGCBP) investment.

Conclusion

93. The above analysis of LGCBP efficiency should be taken as indicative given the nature of the assumptions and the uncertainties involved, However, taking into account the reservations expressed, the multiple criteria used (cost-efficiency, time-efficiency, and technical and allocation efficiencies with estimative quantification of benefits) all point towards a substantial efficiency of the LDCBP, and that project management choices overall contributed to this.
Annex 4. Grant Preparation and Implementation Support/Supervision Processes

(a) Task Team members

<table>
<thead>
<tr>
<th>Names</th>
<th>Title</th>
<th>Unit</th>
<th>Responsibility/ Specialty</th>
</tr>
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<tbody>
<tr>
<td><strong>Lending/Grant Preparation</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ibrahim Dajani</td>
<td>Sr. Operations Officer</td>
<td>MNSTR TTL</td>
<td></td>
</tr>
<tr>
<td>Stephen Karam</td>
<td>Sr. Urban Economist</td>
<td>(*)</td>
<td>TTL, EMSRP II</td>
</tr>
<tr>
<td>Kingsley Robotham</td>
<td>Urban Specialist, consultant</td>
<td>(*)</td>
<td></td>
</tr>
<tr>
<td>Sahera Bleibleh</td>
<td>Municipal Specialist, Consultant</td>
<td>(*)</td>
<td></td>
</tr>
<tr>
<td>Mihaly Kopanya</td>
<td>Sr. Municipal Finance Specialist</td>
<td>(*)</td>
<td></td>
</tr>
<tr>
<td>Ayman Abu-Haija</td>
<td>Sr. Financial Management Specialist</td>
<td>(*)</td>
<td></td>
</tr>
<tr>
<td>Adel Fahed J. Odeh</td>
<td>Financial Analyst</td>
<td>(*)</td>
<td></td>
</tr>
<tr>
<td>Abdallah Awad</td>
<td>Information Officer</td>
<td>(*)</td>
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<tr>
<td>Hisham Labadi</td>
<td>Procurement Specialist, Consultant</td>
<td>(*)</td>
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<tr>
<td><strong>Supervision/ICR</strong></td>
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<tr>
<td>Ibrahim Dajani</td>
<td>Sr. Operations Officer</td>
<td>MNSTR 1st TTL</td>
<td></td>
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<tr>
<td>Samira Hillis</td>
<td>Sr. Operations Officer</td>
<td>MNSSP 2nd TTL</td>
<td></td>
</tr>
<tr>
<td>Soraya Goga</td>
<td>Sr. Urban Specialist</td>
<td>MNSUR 3rd TTL</td>
<td></td>
</tr>
<tr>
<td>Christiana Johnnides</td>
<td>Urban Specialist</td>
<td>MNSUR ICR Team Leader</td>
<td></td>
</tr>
<tr>
<td>Meskerem Brhane</td>
<td>Sr. Urban Specialist</td>
<td>EASIN TTL, EMSRP II</td>
<td></td>
</tr>
<tr>
<td>Lina Abdallah</td>
<td>Operations Officer</td>
<td>MNSUR</td>
<td></td>
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<tr>
<td>Khalida Seif El-Din Al-Qutob</td>
<td>Program Assistant</td>
<td>MNCGZ</td>
<td></td>
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<td>Abdallah Awad</td>
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<tr>
<td>Lina Fathallah Rajoub</td>
<td>Procurement Specialist</td>
<td>MNAPC</td>
<td></td>
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<tr>
<td>Hernando R. Garzon</td>
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<td>ECSS6</td>
<td></td>
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<tr>
<td>Majd Laisoon</td>
<td>Consultant</td>
<td>MNAFM</td>
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<tr>
<td>Sana Mahmoud Mubarak</td>
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<td>Adel Fahed J. Odeh</td>
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<td></td>
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<tr>
<td>Ronald Points</td>
<td>Consultant, IFMIS</td>
<td>EASPR</td>
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<tr>
<td>Suhair M. Saah</td>
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<tr>
<td>Alexander Wegener</td>
<td>Consultant</td>
<td>AFTPR</td>
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<tr>
<td>Christian Eghoff</td>
<td>Consultant, Urban Specialist</td>
<td>MNSUR ICR Author</td>
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</table>

(*) Unit at time of appraisal not available.

(b) Staff Time and Cost

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<th>Stage of Project Cycle</th>
<th>Staff Time and Cost (Bank Budget Only)</th>
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<td>No. of staff weeks</td>
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<tr>
<td><strong>Lending (*)</strong></td>
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<tr>
<td>Total:</td>
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</tr>
<tr>
<td><strong>Supervision/ICR (</strong>)**</td>
<td>Not available</td>
</tr>
</tbody>
</table>

(*) All lending cost was charged to the EMSRP I. US$60,000 was provided by Denmark as Bank-executed TF to carry out full project design, of which US$54,739 was disbursed.

(**) All supervision cost prior to the split off from the EMSRP II was charged to the EMSRP II.
Annex 5. Beneficiary Survey Results
(N/A)
Annex 6. Stakeholder Workshop Report and Results
(N/A)
Annex 7. Summary of Grantee's ICR and/or Comments on Draft ICR
Given the length of the Borrower’s ICR, it is presented below in summary.

(a) Summary of the Grantee’s ICR

Implementation Completion Report for Local Government Capacity Building Project (LGCBP)
September 2012

Project Context: Why Was the Project Initiated

94. In 2003 the Palestinian National Authority initiated the public sector reform program as a response to the economic, social and political hardship that faced the PNA after the Israeli incursion to most of the Palestinian cities in 2002 and the massive destruction to the infrastructure. Local government was among the sectors that were targeted by the reform program. In 2004 the Ministry of Local Government with the support from the Japanese government through the UNDP issued the Local Government Diagnostic Study and responded to the recommendations of that study in an Action Plan. The LGCBP project was designed to assist MOLG in implementing some of the actions listed in the diagnostic study and the action plan.

Key Factors Affecting implementation

Challenges and Obstacles Facing Project Implementation

95. The challenges facing the implementation of LGCBP have resulted in delaying a number of key activities (e.g. Integrated Financial Management Information System, physical planning reform activities, etc.) and thus required extra time to accomplish the activities of the project. Below are the main challenges:

Political and Security Challenges

96. The conflict remains to be the main obstacle to achieve sustainable development. Additionally for this project, the general conditions under which the overall LGCBP has operated has changed dramatically between the period of conceptualization in 2004 and throughout the implementation period, below are some of the key changes:

- Local council elections took place during 2005, the year when the project started which shifted the attention and priorities to accomplishing the elections.
- Legislative council elections took place in 2006; Hamas party won the majority of the seats and formed the government.
- After that, most of the donor countries to the PNA suspended all foreign aid upon which the government largely relies on.
- The PNA fell in deep financial crisis which resulted in civil servants strike.
• This political instability continued throughout 2007 when Hamas and Fateh were involved in clashes that finally resulted in the formation of two governments one in the West Bank led by P.M. Fayad and another in Gaza Strip led by P.M. Haniyeh.

• The current Palestinian legislative council has been inactive since its election (2006) due to imprisonment of a number of the elected council members by Israel, the political conflict between Fateh and Hamas and the postponement of the next elections. This resulted in an inability to pass new laws or amend existing ones, which is a major factor of a reform project.

• The Israeli military closures continued throughout the West Bank making mobility between the different areas hard. Moreover a total siege was imposed on Gaza strip making accessibility of experts and goods extremely difficult.

• In late 2008 there was an Israeli war against Gaza strip that resulted in hundreds of civilians killed and massive destruction to the infrastructure. The siege on Gaza also continued.

Due to the above-mentioned reasons, virtually limited technical assistance to MoLG or municipalities could be provided due to the political situation.

97. Management and Logistical Challenges

• The Local Government Capacity Building Project (LGCBP) agreement was signed in March 2005 with a total grant amount of US$2,474,000 and was planned to end in December 2008. The Grant amount was not amended before September 2008 to reach a total amount of US$10,037,396 and the new planned closure date became December 2010.

• In 2006 and after the MDLF was established, the implementation responsibility of the LGCBP was moved from MOLG to MDLF. This has caused some resentment from senior officials from MOLG who preferred that the project be implemented by MOLG.

• When the project was initiated it was part of the EMSRP project. Reporting, management and supervision missions were part of the parent project. Later LGCBP became a project by its own.

• The project witnessed change in management from all parties: The Task Team Leader (TTL) from the World Bank changed three times, and the project manager from MDLF changed three times throughout the project. The person following up the project from DANIDA has also changed three times. This made follow-up harder.

98. Technical Challenges

• The nature of the project and its objectives to establish and introduce significant changes to the systems and procedures of the financial management, and physical planning practices that will dramatically impact the local government sector in Palestine including MoLG and LGUs, is not an easy or
quick journey as it requires sufficient time to accept the proposed changes in existing management and related systems.

- The Minister (leadership) at MOLG changed several times from 2005 till 2009, thus resulting in change of priorities and directions throughout this period.
- There were several donors working with MOLG on the reform Agenda such as GIZ\(^9\), UNDP, BTC\(^{10}\), USAID/CHF\(^{11}\), DANIDA, etc. some of these donors had competing agendas and wanted to accomplish reform tasks with the ministry. This led to some duplication of efforts, or sending the request to perform a certain task to several donors. As a result some of the planned activities under the LGCBP were cancelled from the project since other donors were working on the same activities with the ministry.
- Due to the nature of the reform objectives of this project, the local and regional expertise in the targeted sectors mainly financial management and physical planning were limited. Some of the international experts had resentment to come to this country due to political instability and insecurity, others needed more time to grasp the local context and be able to customize the recommendations to suit the local needs. This resulted in making this project a learning experience for all parties thus the time slated for implementation was prolonged.

Assessment of outcomes

Assessment of the Achievement of the Development Objectives

99. The reporting of the achievement of the development objectives was done against the original PDO as well as the modified one.\(^ {12}\) It is worth noting that there were assumptions and requisites that should be in place in order for the objectives to be achieved. “The pursuit of these objectives presupposes that the PA will act expeditiously on its commitment to decentralize the local government system, and reflect this commitment in appropriate amendments to the LGL.”\(^ {13}\) Unfortunately and as was mentioned in the previous section (key factors affecting implementation) the PNA was not able to amend the local government law which is the bases under which the MOLG and LGUs are operating.

<table>
<thead>
<tr>
<th>Development Objective</th>
<th>Narrative Summary</th>
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<tbody>
<tr>
<td></td>
<td>To improve local governance and foster the efficient and sustainable economic, social and physical development of the urban and rural areas in WBG</td>
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</table>

\(^{9}\) ICR editors note: German Technical Cooperation.  
\(^{10}\) ICR editor’s note: Belgian Technical Cooperation.  
\(^{11}\) ICR editor’s note: Cooperative Housing Foundation.  
\(^{12}\) ICR editor’s note: The PDO did not change. The PAD refers to a higher-level objective. The comment here is referring to the results framework.  
\(^{13}\) LGCBP PAD page 8.
Indicators

LG Laws revised, granting significant autonomy to LGUs and providing for increased public participation and accountability.

1. Reform in financial and accounting systems for 34 municipalities put in place by the end of Project;
2. Reform in physical planning procedures for 4 clusters of LGUs put in place, by end of Project;
3. Indication of increasing interaction of the public in the LGU decision making process, by end of Project

Achievement

- Although the LGL was not amended, MOLG and MDLF through the developed manuals and policy notes mainly the Physical planning and amalgamation manuals worked towards decentralization and increased public participation.
  - The physical planning manual gave the responsibility of preparing the physical plan to the LGU, thus empowering them to take decisions related to the physical development under their jurisdiction. Before that MOLG used to prepare the masterplan on behalf of the LGU. Public participation also increased in the process of preparing the physical plan.
  - With regard to amalgamation policy and manual, participation is considered key to the amalgamation process, the manual specifies when and how to participate the local stakeholders in the amalgamation process. The notion of amalgamation empowers the small LGUs to merge in a functional and efficient municipality. The municipality will become entitled to collect local taxes and has more capacity to manage and take decisions regarding development under its jurisdiction.
  - Increased awareness of the importance of citizens involvement in the LGUs decision is becoming more noticeable; the MoLG, MDLF, and other stakeholders in the sector have endorsed a set of policies and procedures that promote active public participation including the newly developed SDIP policy and manual, citizen participation manual of MDLF, amalgamation manual and the physical planning manual.
  - Moreover, MDLF and other donors in the sector are enforcing the involvement of the citizens through requiring the infrastructure

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14 Nablus, Qalqilya, Birzeit, BeitUmmar, Dura, Jenin, Ya’abad, Qabatya, Tulkarm, Anabta, Jaba’, Kufira’y, Al Yamoun, Baita, Qabalan, Jericho, Silwad, DeirDibwan, Banizaid Al Sharkiya, Qatana, Bidya, Biddo, Al Zaituna, Bethlehem, BeitSahour, Yatta, Al-Sammou’, Bani Naim, Surif, Tafuh, Hebron, Rafah, Deir Al balah, Al Maghazi.
15 Cluster one: Qabatya, Misilya, Talfit, AlShuhada, Al Kfir, Al Zababdeh; Cluster 2: Abu Dees, Al Izariyeh, Al Sawahreh, Al Ziaem, Al Sekh Saad; cluster 3: Al Kafriyat (newly amalgamated municipality from seven LGUs); Cluster 4: Al Itihad (an amalgamated municipality from 3 LGUs).
16 ICR editor’s note: This indicator was part of the original results framework, not maintained for the revised framework agreed in 2010. The ICR maintains the indicator as it remains relevant.
projects to be identified through proper citizen participation.

- The LGCBP project had fostered the economic and financial development of the Palestinian municipalities by increasing the means and tools for revenue generation. This is accomplished by providing a number of municipalities with the integrated financial management information system which provides the municipalities with a revenue management system which enables municipalities to know the exact dues to each citizen. The IFMIS also provides the municipalities with financial information regarding the cost of services and thus gives them the option to optimize service delivery in a cost effective manner. The system also enables them to get information regarding their operational costs thus the option to take decisions towards its rationalization. The preparation of physical plans to a number of municipalities enables them to increase their revenue base by issuing and managing building licences based on the new masterplan. It also helps them to be entitled to benefit from MOF project of property tax and facilitates the process of assessing the value of the properties.

- The LGCBP fostered the social and physical development of the urban and rural areas by providing them with new procedures to prepare the physical plans. The new procedures take into account the social needs from public services (including green areas, gardens, schools, and health care services), economic development and environmental protection needs.
  - A new financial and accounting system for Palestinian municipalities was developed. The full package of the new system was piloted in 31 municipalities in the West Bank and Gaza.
  - A unified chart of account was developed and circulated to municipalities.
  - The project reformed the budgeting and financial planning procedures in the municipalities by developing a unified template for budget preparation as well as training municipalities on its use. All municipalities are currently preparing their annual budgets on time and according to a Unified Cart of Account, and unified budgeting formats.
  - A financial and accounting policy note was developed.
  - A financial policy and procedures manual on modified accrual basis, was developed and is in place in 32 municipalities.
  - The Integrated Financial Management Information System was implemented in 31 municipalities in the West Bank and Gaza.
  - Fixed Assets Registration and Valuation (FARV) methodology was developed.
  - 43 municipalities in the West Bank and Gaza prepared their fixed assets registration and valuation.

17 ICR editor’s note: The number does not include Hebron municipality, which is running its own system due to history of integration with e-government. The ICR considers that Hebron should be included as it is adhering to the procedures developed under the LGCBP.
There was a reform in the physical planning procedures. A procedure manual was developed and launched in a ceremony attended by H.H. Prime minister Dr. Fayad, H.E. the Minister of local government Dr. Qawasmy, H.E. Minister of planning Mr. Abu Ramadan and the World Bank Country Director Ms. Sherman. The manual was also piloted in 4 clusters. The manual is currently being used by the ministry and other donors in preparing physical plans beyond the LGCBP pilot sites.

**Assessment of Achievement**

Although the LGL was not amended, the essence of the indicator was achieved through the above mentioned activities.

### Specific Objectives

#### Narrative Summary

1. To improve the financial management and budgetary control capabilities of MOLG, and of municipalities.

2. To strengthen the capacity of the Ministry of Local Government (MOLG) and the local government units (LGUs) in WBG to effectively guide, manage and monitor the development of the urban and rural settlement areas, and be responsive to the needs of citizens.

3. To increase the capacity of MOLG departments to guide and manage a decentralised local government system.

### Performance Indicators

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<th>Original</th>
<th>Modified</th>
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<tbody>
<tr>
<td>1.1. New MOF mandated governmental accounting and financial management system in place and operational.</td>
<td>1.2. New computerized financial and accounting systems operational in selected municipalities.</td>
</tr>
<tr>
<td>1.2. New computerized financial and accounting systems operational in selected municipalities.</td>
<td>1.2. New computerized financial and accounting systems operational in 34 municipalities by end of Project.</td>
</tr>
<tr>
<td>2.1. New and effective planning and management strategies, programs and systems established at MOLG in a significant number and representative sample of LGUs.</td>
<td>2.1. Improved and effective physical planning procedures established at MOLG and implemented in 4 clusters of LGUs by end of Project;</td>
</tr>
<tr>
<td>3.1. Mandated tasks and operational procedures are considerably improved when measured against the component baseline study.</td>
<td>3.1. Technical capacity building activities for MOLG departments and district office staff implemented.</td>
</tr>
</tbody>
</table>

### Achievement

- Indicator 1.1. was cancelled because the MOF has developed through another project a unified accounting system for the central government and its related ministries (including the Ministry of Local Government).
- 1.2. A new computerized financial and accounting system is operational.
in 31 municipalities\textsuperscript{18}.

- 2.1. Improved and effective physical planning procedures were established at MOLG. The physical planning manual was piloted in 4 sites and clusters\textsuperscript{19} under the LGCBP and in a number of other sites under other projects (1 through the CHF, 2 through the LDP and 2 through MOLG)

  - The identification of the local urban planning practices and the identification of needed activities to achieve the objectives have been completed through a survey of the urban planning practices and needs in WBG in Feb-2008.

  - Study tours were conducted to Jordan to learn from their experience in physical planning. The tours targeted MOLG and municipality staff.

  - The Physical Planning procedure Manual (PPM) has been developed and piloted. The lessons learnt from the pilot sites were used to update the manual. The updated version of the manual was officially launched in June 2012.

  - Several training sessions have been conducted including on the PPM.

  - A standard training material on (PPM) was prepared for trainees and trainers, which takes a form of a course.

  - An institutionalization plan for (PPM) and its training was developed.

  - A manual for roads and transportation standards was developed.

  - An amalgamation policy and an operational manual has been prepared and delivered in June 2009. By end of 2010, MOLG had announced the amalgamation of four clusters based on the developed manual.

- Operational procedures at MOLG were considerably improved through the LGCBP and mainly through initiatives of other donors such as the CHF and GIZ. The project had therefore focused its intervention in institutional development in the following areas:

  - Equipment and furniture were purchased for the MOLG headquarter and district offices benefiting approximately 200 employees in addition to the provided training.

  - Enhance the skills of IT staff at MOLG in network management and IT support. One of the main goals was to enable the MOLG to implement and use their own email systems (i.e. info@molg.gov.ps) and activate their internal network.

  - Improve the coordination between the MOLG departments of Gaza

\textsuperscript{18} Nablus, Qalqilya, Birzeit, BeitUmmar, Dura, Jenin, Ya’abad, Qabatyia, Tulkarm, Anabta, Jaba’, Al Yamoun, Baita, Qabalani, Jericho, Silwad, DeirDibwan, BaniZaid Al Sharkiya, Qatana, Biddo, Al Zaituna, Bethlehem, BeitSahour, Yatta, Al-Sammou’ , Bani Naim, Surif, Tafuh, Rafah, Deir Al balah, Al Maghazi.

\textsuperscript{19} Cluster one: Qabatyia, Misilya, Talfit, AlShuhada, Al Kfır, Al Zababdeh; Cluster 2: Abu Dees, Al Izariyeh, Al Sawahreh, Al Ziaem, Al SeikhSaad; cluster 3: Al Kafriyat (newly amalgamated municipality from seven LGUs); Cluster 4: Al Itihad (an amalgamated municipality from 3 LGUs).
and West Bank through the setup and usage of video conference equipment
- Enhance the capacity of more than 132 MOLG employees in computer applications and related office skills.
- Institutional development through supporting the ministry by recruiting and hiring a number of staff mainly in the budget and monitoring directorates.
- Financial and Management courses training and English and communication skills courses have been conducted to municipalities, departments of the MOLG, and district offices.
- For MDLF:
  - Equipment and furniture were purchased
  - A Program and Grant Management Information System was developed
  - A grant transfer mechanism was developed, (this grant transferred mechanism was implemented through the MDP)

| Assessment of Achievements | The three specific objectives and their indicators were achieved through the achievements listed above. |

Challenges related to the implementation of project activities at the output level

100. Component one

- The war broke out in Gaza in early 2009, which hindered the process of installing the IFMIS there.
- Limited capacity, lack of sufficient staff and overloaded staff at the municipalities.
- At the beginning of the project, unorganized and scattered financial data at some municipalities.
- The change management process at municipalities took more time than anticipated.
- Underestimation of needed budget to implement the IFMIS (When the software provider was contracted, the IT requirements of the system were very high).
- Technical and contractual problems with the software provider FreeBalance. The software was first piloted in 5 municipalities in the West Bank and faced major technical problems related to mainly report generation, ability to deal with multicurrency as well as the integrity and security of generated data. This created resentment at the pilot sites to accept the system. Negotiations between FreeBalance and MDLF started in April 2011 in order to overcome the technical problems and overcome the delays encountered in the implementation of the software at the pilot and roll out sites. An agreement between FreeBalance and MDLF was reached in May 2011.
101. Component two

- The implementation of the new approach (especially for preparing the spatial development framework) requires cooperation and joint work between the LGUs in the cluster which takes time
- Limited capacities at the municipalities in integrated planning
- The PPM adopted new approach in planning that was not commonly used in Palestine and the consulting firms needed time to grasp the approach.

102. Component three

- The Minister (leadership) at MOLG changed several times from 2005 till 2009, thus resulting in change of priorities and directions throughout this period.
- There were several donors working with MOLG on the reform Agenda such as GIZ, UNDP, BTC, USAID/CHF, DANIDA, etc. Some of these donors had competing agendas and wanted to accomplish reform tasks with the ministry. This led to some duplication of efforts, or sending the request to perform a certain task to several donors. As a result some of the planned activities under the LGCBP were cancelled from the project since other donors were working on the same activities with the ministry.
- After the implementation responsibility of the LGCBP was moved from MOLG to MDLF, this has caused some resentment from senior officials from MOLG who preferred that the project be implemented by MOLG.

Evaluation of MDLF’s performance at project stages with special emphasis on lessons learned

103. Throughout the project the performance of MDLF was satisfactory. Despite all the challenges and obstacles that faced the implementation of the project and the reform complex nature of this project the MDLF was able to complete the planned activities successfully and meet the project development goals.

104. The main lessons learnt from this experience: Reform and capacity development projects have a long term perspective, therefore there should be patience and realism with respect to the scope, timing and pace of change. Future projects should take into consideration providing proper timing to accommodate the time needed for change management.

Evaluation of World Bank performance

105. Throughout the project, the performance of the World Bank was satisfactory. There were continuous follow up by the project team leader and Bank related staff on the progress of implementation and on financial and management issues. In addition the team leader, related staff and experts were involved in periodic missions. During the missions, progress, technical comments, procurement and financial reviews took place and comments were discussed with MDLF staff.
Post-completion/Next Phase

106. It is worth mentioning that the outputs of the LGCBP project are being utilized by other important projects taking place in the local government sector. Below are some examples:

- The MDP project is utilizing the capacity development packages that were developed through the LGCBP. The fixed assets registration and valuation and roll out of IFMIS are two packages that are rolled out under the MDP. Additionally development of a cash based financial procedure manual and budget preparation guideline under MDP are both built upon initiatives that were initiated in the LGCBP.

- The fixed assets registration and valuation manual is also being used by other donors such as the CHF.

- The amalgamation manual is being used by the amalgamation related projects such as the LDP I&II in Jenin area, the LDP III and the LGRDP.

- The physical planning manual is being used by the ministry in clusters of their own financing in addition to being used by other donors such as the CHF.

-(b) Comments received from the government on draft Bank ICR

107. The following comments were received from the MDLF by email on December 11, 2012 in response to the Bank’s request for comments on a full draft version of the ICR. The MDLF comments were inserted directly into the draft ICR, as comments to specific text segments. The comments are rendered here with reference to the current paragraph number in the ICR:

1) §17: “This point is not accurate, the technical and functional specification for IFMIS was based on consultation with the municipalities and all the requirements were reflected in the technical and functional specification (TOR). The multi-currency function spelt out clearly in the TOR and during the negotiation with the IFMIS supplier there was a long session explaining the multi-currency requirements and importance of this function based on the fact that municipalities dealing with different currencies and we don’t have national currency. Unfortunately the supplier showed full commitment during negotiation that he will comply with our requirement, but during the implementation he started arguing with us.” This is a comment to a statement in the draft ICR that participation of the beneficiary LGUs in definition of the IFMIS requirements might have unearthed problems with multi-currency accounting and post-dated checks early on. The final text has been amended to accommodate MDLF’s comment, given that consultation with beneficiary municipalities was in fact carried out prior to signing the contract with the IFMIS supplier, but the ICR concludes that this should have happened as part of project design.

2) §20: “Again this is not acceptable. The problem is not in the specification the problem was with the IFMIS provider.” The comment goes to a statement in the draft ICR that it was not foreseen to involve the beneficiary municipalities
in the development of specifications of the IFMIS to a sufficient extent. The final text has been amended to accommodate MDLF’s comment with the same justification as point 1) above.

3) §21: “It’s not clear! If you mean the chart of accounts done by the UNDP consultant, then it’s true but please mention UNDP consultant.” Comment pertains to a statement in the draft ICR that the work on the chart of accounts was not of sufficient quality to serve as basis for the IFMIS design. In the final ICR the text has been revised to specify that the initial work on the chart of accounts was not carried out in the context of the LGCBP.

4) §35 (i): “The rollout will be implemented during the MDP II given that its demand driven and none of the municipalities requested the IFMIS package during MDP I.” Comment to the text in the draft ICR that IFMIS “has already been introduced in a representative sample (32) of LGs (and is being rolled out to another 50 municipalities under the MDP).” The text has been updated to reflect more precisely that roll-out will happen but is not yet ongoing.

5) §50: “This paragraph is not clear it needs more clarification.” Comment relates to a statement in the draft ICR that a main risk to PDO comes from lack of a clear government strategy on Help Desk and IFMIS roll-out, but that the risk is mitigated by strong pressure from donors and municipalities to add more municipalities (in the context of MDP II), which would also allow MOLG to carry out better budget follow-up due to the larger number of LGUs using IFMIS. The final text has been strengthened to better present the fact that, although the development of a strategy is part of clarifying the relationship and responsibilities between the MOLG and MDLF and hence is taking some time, the risk of a strategy not materializing in the short to medium term is limited given the good results and strong demand.
Annex 8. Comments of Cofinanciers and Other Partners/Stakeholders

The following was received from the DANIDA by email on December 6, 2012, in response to the Banks’s request for comments on a full draft version of the ICR.

“Dear Christianna,

Hope this finds you well.

Overall I think the ICR is good and gives a good understanding of the project. I only have some few comments/questions:

- It is mentioned in the ICR that no clear strategy was in place to assure the operation of the IFMIS – how will the WB make sure a strategy will be in place?
- In relation to that it is mention that MoLG and MDLF are in a process of drafting a strategy paper to address the future implementation of IFMIS – this was also mention during our mission in May. When do you expect MDLF will submit such a strategy paper?
- What is the status of PAs commitment to the future work in order to ensure IFMIS sustainability, helpdesk in MoLG, RMIS etc.? (Very much related to the above questions).

Best regards,
Amal”
Annex 9. List of Supporting Documents

- Project Appraisal Document (December 14, 2004)
- Administration Agreement (December 23, 2004)
- Trust Fund Grant Agreement (March 22, 2005) and amendments
- Project Restructuring Paper (December 27, 2010)
- Project aide-mémoires
- Project Status Reports (PSRs)
- Implementation Status and Results Reports (ISRs)
- Annual Progress Reports (2006-2009)
- Financial Audits
- Government Project Completion Report
Additional Annex 10. Timeline for LGCBP-related projects

First Municipal Infrastructure Development Project (MIDP, US$40 million IDA)

*Effective July 24, 1996*
*Closed June 30, 2003*

108. The MIDP focused mainly on infrastructure rehabilitation (US$30 million). The summary of reform activities for the Local Governance sector include: (a) a new local government law passed; (b) foreseen investment programming mechanisms not developed by MOLG and MOF due to difficulties in finalizing staffing and consulting arrangements; scaled back as reforms in the context of the crisis were deemed unrealistic; (c) implemented Revenue Management Information System (RMIS): new billing, collection and citizen information systems installed and operationalized in nine out of the planned ten municipalities; and (d) did not succeed in implementing accounting systems reform (FMIS); work on implementation was significantly delayed, and was *de facto* terminated in early 2001, due partly to the fact that MOLG was unable to prepare satisfactory terms of reference or provide effective technical and consulting support, and partly to the onset of the crisis (second Intifada).

First Emergency Municipal Services Rehabilitation Project (EMSRP I, US$20 million IDA, US$100 million total)

*Effective January 22, 2003*
*Closed March 31, 2006*

109. The EMSRP I focused mainly on municipal services through budgetary support for non-wage municipal operating costs and creation of temporary labor-intensive employment opportunities (US$18 million IDA). Noteworthy results for LG reform are the design and set-up of the Municipal Development Fund (MDF – Later Municipal Development and Lending Fund, MDLF, although lending is still not implemented) which was made fully operational through the LGCBP.

Second Emergency Municipal Services Rehabilitation Project (EMSRP II, US$20 million IDA, US$70 million total)

*PCN May 6, 2005*
*Effective February 28, 2007*
*Closed December 30, 2011*

110. The project was first envisaged as a Municipal Management and Service Delivery Project (MMSDP) with more focus on institutional reform, but due to the crisis changed to a follow-up operation to the EMSRP I.

111. The project focused on providing assistance for mitigating further deterioration in the delivery of essential municipal services in WB through financing of works in a number of sectors under municipal responsibility and also funded non-wage recurrent expenditures to keep services operational. The project further supported the creation of temporary job opportunities at the local level. Regarding reform of the LG sector, the EMSRP II introduced a transfer allocation
system formula with an element of equalization since it uses population and needs (employment) as part of the formula (developed jointly with the LGCBP), which financed a key consultant.

First Municipal Development Program (MDP I, US$12 million IDA, estimated US$66 million total)

Approval September 17, 2009
Expected Closing April 30, 2013

112. Developed by the MDLF to operationalize the 2008-2010 Palestinian Reform and Development Plan’s (PRDP) goals for promoting local development, the MDP I contributes to the larger PRDP goal of strengthening local governments by enhancing their efficiency and effectiveness and by moving them towards fiscal stability. The MDP I is a multi-phase/multi-donor national program which provides municipalities with a combination of technical assistance and annual performance-based grants for sub-projects that improve service delivery. The formula for performance grants is designed to create incentives for municipalities to progress towards creditworthiness. The MDP I provides grant allocations to municipalities for capital investments and service provision through MDLF, supports municipal innovations and efficiency by promoting amalgamation, energy savings and responsiveness to citizens and provide capacity building to municipalities and MDLF. The MDP I is expected to reach all 132 municipalities given that the MDLF has already demonstrated that it can successfully support all of them.

Second Municipal Development Program (MDP II, estimated US$10 million IDA, co-financing to be announced)

Estimated Date of Board Approval: October 29, 2013

113. This project is currently envisaged to provide financing through the same windows as the MDP I. However, in keeping with the progression towards the program level objective of the MDP and the goals of the 2011-2013 National Development Plan (NDP), the project would also emphasize mechanisms to improve service delivery, citizen engagement, revenue generation and municipal responsiveness.