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Report No: PAD3091

PROJECT PAPER
ON A
PROPOSED ADDITIONAL GRANT
IN THE AMOUNT OF US\$10.0 MILLION
FROM THE TRUST FUND FOR GAZA AND WEST BANK
WITH CO-FINANCING FROM THE PARTNERSHIP FOR INFRASTRUCTURE
DEVELOPMENT MULTI DONOR TRUST FUND
IN THE AMOUNT OF US\$5.0 MILLION
TO THE
PALESTINE LIBERATION ORGANIZATION
(FOR THE BENEFIT OF THE PALESTINIAN AUTHORITY)
FOR
THE THIRD MUNICIPAL DEVELOPMENT PROJECT (MDP-3)

May 10, 2019

Social, Urban, Rural And Resilience Global Practice
Middle East And North Africa Region

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CURRENCY EQUIVALENTS

(Exchange Rate Effective April 1, 2019)

Currency Unit = New Israeli Shekel
(NIS)

US\$ 1 = NIS 3.63

NIS 1 = US\$ 0.28

FISCAL YEAR

January 1 - December 31

ABBREVIATIONS AND ACRONYMS

AF	Additional Financing
AFD	Agence Française de Développement (French Development Agency)
AML/CFT	Anti-money Laundering/Combating the Financing of Terrorists
DP	Development Partner
ESMP	Environmental and Social Management Plan
EU	European Union
FATF	Financial Action Task Force
FM	Financial Management
GDP	Gross Domestic Product
GoI	Government of Israel
GIZ	Gesellschaft für Internationale Zusammenarbeit
GRM	Grievance Redress Mechanism
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IPF	Investment Project Financing
KfW	German Development Bank
LALAP	Land Acquisition and Livelihood Action Plan
LALPF	Land Acquisition and Livelihood Policy Framework
MDLF	Municipal Development and Lending Fund
MDP	Municipal Development Project
MDP-1	First Municipal Development Project
MDP-2	Second Municipal Development Project
MDP-3	Third Municipal Development Project
MNA	Middle East and North Africa Region
MOLG	Ministry of Local Government
O&M	Operations and Maintenance
OP	Operational Policy
PA	Palestinian Authority
PDO	Project Development Objective
PID-MDTF	Partnership for Infrastructure Development – Multi-Donor Trust Fund
PLO	Palestinian Liberation Organization
PMA	Palestinian Monetary Authority
POM	Project Operations Manual
RAP	Resettlement Action Plan
SDC	Swiss Agency for Development and Cooperation
SDIP	Strategic Development and Investment Plan
TFGWB	Trust Fund for Gaza and West Bank
UNRWA	United Nations Refugee and Works Agency
US\$	United States Dollar

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WEST BANK AND GAZA
ADDITIONAL FINANCING FOR THE THIRD MUNICIPAL DEVELOPMENT PROJECT

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BASIC INFORMATION – PARENT (GZ-Third Municipal Development Project - P159258)

Country	Product Line	Team Leader(s)		
West Bank and Gaza	Special Financing	Christopher T. Pablo		
Project ID	Financing Instrument	Resp CC	Req CC	Practice Area (Lead)
P159258	Investment Project Financing	GSU11 (9352)	MNC04 (5562)	Social, Urban, Rural and Resilience Global Practice

Implementing Agency: Municipal Development Lending Fund (MDLF)

Is this a regionally tagged project?	
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Bank/IFC Collaboration

No

Approval Date	Closing Date	Original Environmental Assessment Category	Current EA Category
21-Jul-2017	28-Feb-2022	Partial Assessment (B)	Partial Assessment (B)

Financing & Implementation Modalities

<input type="checkbox"/> Multiphase Programmatic Approach [MPA]	<input type="checkbox"/> Contingent Emergency Response Component (CERC)
<input type="checkbox"/> Series of Projects (SOP)	<input type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Disbursement-Linked Indicators (DLIs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a Non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	

Development Objective(s)



The project development objective (PDO) is to enhance the institutional capacity of municipalities in the West Bank and Gaza for more accountable and sustainable service delivery.

Ratings (from Parent ISR)

	Implementation		Latest ISR
	31-Jan-2018	27-Jul-2018	25-Jan-2019
Progress towards achievement of PDO	S	S	S
Overall Implementation Progress (IP)	S	S	S
Overall Safeguards Rating	MS	MS	MS
Overall Risk	S	S	S

BASIC INFORMATION – ADDITIONAL FINANCING (Additional Financing for the Third Municipal Development Project - P168544)


Project ID P168544	Project Name Additional Financing for the Third Municipal Development Project	Additional Financing Type Cost Overrun, Restructuring, Scale Up	Urgent Need or Capacity Constraints Yes
Financing instrument Investment Project Financing	Product line Special Financing	Approval Date 23-May-2019	
Projected Date of Full Disbursement 31-Aug-2022	Bank/IFC Collaboration No		
Is this a regionally tagged project? No			

Financing & Implementation Modalities



<input type="checkbox"/> Series of Projects (SOP)	<input checked="" type="checkbox"/> Fragile State(s)
<input type="checkbox"/> Disbursement-Linked Indicators (DLIs)	<input type="checkbox"/> Small State(s)
<input type="checkbox"/> Financial Intermediaries (FI)	<input type="checkbox"/> Fragile within a Non-fragile Country
<input type="checkbox"/> Project-Based Guarantee	<input checked="" type="checkbox"/> Conflict
<input type="checkbox"/> Deferred Drawdown	<input type="checkbox"/> Responding to Natural or Man-made disaster
<input type="checkbox"/> Alternate Procurement Arrangements (APA)	
<input type="checkbox"/> Contingent Emergency Response Component (CERC)	

Disbursement Summary (from Parent ISR)

Source of Funds	Net Commitments	Total Disbursed	Remaining Balance	Disbursed
Grants	36.00	14.15	21.85	 39 %

PROJECT FINANCING DATA – ADDITIONAL FINANCING (Additional Financing for the Third Municipal Development Project - P168544)**FINANCING DATA (US\$, Millions)****SUMMARY (Total Financing)**

	Current Financing	Proposed Additional Financing	Total Proposed Financing
Total Project Cost	95.63	15.00	110.63
Total Financing	95.63	15.00	110.63
Financing Gap	0.00	0.00	0.00

DETAILS - Additional Financing**Non-World Bank Group Financing**

Trust Funds	15.00
Partnership for Infrastructure Development MDTF	5.00
Special Financing	10.00



COMPLIANCE

Policy

Does the project depart from the CPF in content or in other significant respects?

Yes No

Does the project require any other Policy waiver(s)?

Yes No

INSTITUTIONAL DATA

Practice Area (Lead)

Social, Urban, Rural and Resilience Global Practice

Contributing Practice Areas

Governance

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Gender Tag

Does the project plan to undertake any of the following?

a. Analysis to identify Project-relevant gaps between males and females, especially in light of country gaps identified through SCD and CPF

Yes

b. Specific action(s) to address the gender gaps identified in (a) and/or to improve women or men's empowerment

Yes

c. Include Indicators in results framework to monitor outcomes from actions identified in (b)

Yes

**PROJECT TEAM****Bank Staff**

Name	Role	Specialization	Unit
Christopher T. Pablo	Team Leader (ADM Responsible)	Senior Urban Specialist	GSU11
Lina Fateh Allah Abdelmauty Rjoub	Procurement Specialist (ADM Responsible)	Senior Procurement Specialist	GGOPM
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Extended Team

Name	Title	Organization	Location
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Rhoel Bernardo	Municipal Finance Specialist/Consultant	World Bank	



I. BACKGROUND AND RATIONALE FOR ADDITIONAL FINANCING

Introduction

1. This Project Paper seeks the approval of the Executive Directors to authorize an additional grant in an amount of US\$10.0 million to the Palestinian Liberation Organization (PLO) for the benefit of the Palestinian Authority (PA), West Bank and Gaza, for the Third Municipal Development Project (MDP-3, the Project). In addition, the proposed Additional Financing (AF) will be co-financed by a grant in the amount of US\$5.0 million from the World Bank administered Partnership for Infrastructure Development Multi-Donor Trust Fund. The AF has been requested by the PA through the Ministry of Finance and Planning. The proposed AF has been prepared under condensed procedures in accordance with the Bank Policy for Investment Project Financing (IPF) paragraph 12 “Projects in Situations of Urgent Need of Assistance or Capacity Constraints”. The AF will fund a new component to support scale up activities in Gaza and reflect application of simplified procurement procedures. The parent project will be restructured to (i) remove a withdrawal condition which has been met, and (ii) revise the Results Framework to capture the benefits that will result from the activities to be implemented in Gaza through the AF.

Original Grant

2. The original grant in the amount of US\$16.0 million in Special Financing from the Trust Fund for Gaza and West Bank (TFGWB) was approved by the World Bank Board of Executive Directors on July 21, 2017 and became effective on December 14, 2017 with an original closing date of February 28, 2022. Co-financing in the amount of US\$20.0 million equivalent was provided through the World Bank administered PID-MDTF¹. Additional Development Partners (DPs)² are providing parallel financing in the total amount of US\$48 million equivalent. The PA contributes counterpart funding of no less than 10 percent of the total amount committed by the DPs. The PDO is “to enhance the institutional capacity of municipalities in the West Bank and Gaza for more accountable and sustainable service delivery”. Currently, the project finances the following components:

- a. **Component 1: Municipal performance and service delivery** allocates performance-based grants for capital investments and operating expenditures through a transfer formula based on population, needs and municipal performance. (Total US\$79.43 million³, of which US\$13.31 million from TFGWB and US\$16.64 million from PID-MDTF.)

¹ Donors for PID-MDTF include: Denmark (through Danish International Development Agency, DANIDA), Norway, Finland, Sweden (through Swedish International Development Cooperation Agency, SIDA), France (through Agence Française de Développement, AFD), Croatia, Portugal, Netherlands and the United Kingdom (through Department for International Development, DFID).

² Development Partners include: Germany (through German Development Bank, KfW and Gesellschaft für Internationale Zusammenarbeit, GIZ), the Netherlands (through the International Cooperation Agency of the Association of Netherland Municipalities, VNG International), France (through AFD), and Switzerland (through the Swiss Agency for Development and Cooperation, SDC).

³ Total project financing includes parallel financing from DPs and counterpart funding from the PA of no less than 10 percent of the total amount committed by DPs.



- b. **Component 2: Capacity development to municipalities and Palestinian institutions** supports municipalities to graduate to a higher performance category and supports building the capacity of national level institutions namely, the Municipal Development and Lending Fund (MDLF) and the Ministry of Local Government (MOLG). (Total US\$5.14 million, of which US\$0.53 from TFGWB and US\$0.53 from PID-MDTF.)
- c. **Component 3: Municipal partnership projects** provides technical assistance to municipalities to engage more effectively with the private sector and develop joint and innovative investments for municipal service delivery and local economic development. (Total US\$2.54 million, of which US\$0.93 from TFGWB.)
- d. **Component 4: Project implementation support and management costs** provides monitoring and evaluation, outreach and communication, mobilization of local technical consultants for the engineering supervision of Component 1, and MDLF management cost. (Total US\$8.51 million, of which US\$1.23 million from TFGWB and US\$2.83 million from PID-MDTF.)

Project Beneficiaries

- 3. The participants of the project are all 144 municipalities in the West Bank and Gaza. The beneficiaries are the population in all the municipalities estimated at 3,611,649⁴ representing 75 percent of the total population of the West Bank and Gaza.

Status of implementation of the original grant

- 4. The project's implementation progress and progress towards achieving the PDO have both been consistently rated as 'Satisfactory'. Procurement and Financial Management (FM) ratings are Satisfactory while ratings for Environmental and Social Safeguards are Moderately Satisfactory. OP 4.01 (Environmental Assessment), OP 4.09 (Pest Management) and OP 4.12 (Involuntary Resettlement) were triggered.
- 5. All subprojects currently under implementation have complied with Category B requirements. The implementation of World Bank safeguards requirements is progressing well. The subproject level screening mechanism, Environmental and Social Management Plan (ESMP) formulation, implementation, supervision, and reporting procedures are satisfactory, with quarterly progress reports being submitted in a timely manner. The legal covenants, most of which are recurrent, are continuously being monitored and complied with.

Rationale for requesting Additional Financing

- 6. ***The West Bank and Gaza (the Palestinian territories) have faced long lasting political instability and periodic episodes of violence over the last two decades, exacerbating macroeconomic volatility.*** The Palestinian territories are a small open economy with lower-middle income status with a population of 4.8 million in 2016. The Palestinian territories have experienced political instability (both regional and domestic) and a series of violent conflicts over the years. After the 2007-08 conflict, the territories were under control of two different political parties: Fatah held control of the West Bank while de facto

⁴ Based on Palestinian Central Bureau of Statistics predicted populations for 2016.



authority in Gaza was taken by Hamas. Following internal divisions, regular legislative process is suspended as neither side can establish a necessary quorum. Instead, the Cabinet conducts necessary consultations and readings of proposed acts and the President signs them into law. Gaza represents one third of total Gross Domestic Product (GDP), and its borders are subject to highly restrictive controls.

7. ***The economic conditions in the Palestinian territories have significantly weakened in 2018 due to a sharp decline in activity in Gaza.*** According to preliminary data by the Palestinian Central Bureau of Statistics, real GDP growth contracted by 1.3 percent in the second quarter of 2018 —first negative rate of growth since the first quarter of 2015. For the first half of 2018, the economy grew just by 0.3 percent compared to the same period in the previous year. The economy has been hamstrung for more than two decades by restrictions on movement, access and trade that have kept investment levels extremely low and resulted in deindustrialization. Substantial transfers, mostly in the form of aid from the international community, have helped mitigate the impact of the restrictions by fueling consumption driven growth. Nevertheless, transfers have been on a declining trend and have witnessed a very large drop in 2017-18, particularly in Gaza, resulting in a lower growth trajectory for the overall economy and revealing the fragility of the aid-driven growth model.

8. ***Gaza's economy has seen a severe squeeze on movement of goods, people, and income support, pushing it towards a possible collapse.*** Gaza's economy has been kept afloat only by large transfers including donor aid and spending through the budget of the PA, both of which amounted to 70-80 percent of Gaza's GDP. However, these two sources have significantly declined recently, negatively impacting growth. In fact, in 2017, the Gaza economy did not witness any real growth due to severe cuts in aid for reconstruction and transfers from the PA's budget in addition to its continued economic isolation. The situation has become more difficult in 2018 as transfers from the PA have continued to drop, further worsening the liquidity squeeze and placing severe pressure on the depleting buffers of the economy. As a result, Gaza's economy shrank by 6.1 percent in the first half of 2018 compared to the same period in 2017. The decline was seen in most economic sectors but mainly in construction and public administration and defense, both of which were Gaza's main drivers of growth in recent years. Even though more recent growth data is not available yet, anecdotal evidence strongly suggests that the ongoing liquidity squeeze in Gaza has further worsened and that the economic decline has also led to a rapid decline in humanitarian conditions. Unless the liquidity crisis is addressed through pumping additional liquidity into the economy and raising transfers to their pre-2017 level, the Gaza economy may be heading towards a possible collapse in the medium term.

9. ***The economy in Gaza has continued to deteriorate resulting in rising and severe unemployment and worsening poverty.*** Around 52 percent of the labor force in Gaza were unemployed in 2018. Unemployment amongst Gaza's youth exceeds 67 percent while it is even higher for females reaching 71 percent, compared to 43 percent for males. Moreover, unemployment for young women stands at 88 percent (compared to 58 percent for young men). The poverty rate in Gaza has increased dramatically from 39 percent in 2011 to 53 percent in 2018. While high for both women and men, the staggering unemployment gap is due to a combination of reasons including informational constraints women face about availability of jobs in non-traditional sectors (such as those that are infrastructure related,



commerce, etc.) or lack of information employers have on women's skills and abilities in these types of jobs due to their exclusion from such sectors.⁵

10. ***Without a peace process breakthrough, economic conditions are expected to worsen, and jobs created will not be sufficient to reduce unemployment and improve living standards.*** Under a baseline scenario, private sector activity is not expected to pick up and real GDP growth of the Palestinian economy is projected to drop to 1.7 percent in 2018 (-5 percent in Gaza and 3.8 in the West Bank) and to hover around 1.9 percent in the medium term. This growth level implies a decline in real per capita income and an increase in unemployment. Notably, downside risks to this projection in Gaza are considerable. If transfers through the PA's budget continue to decline, the United Nations Refugee and Works Agency's (UNRWA) funding gap is not offset, and funds to continue the reconstruction efforts do not materialize, the current liquidity squeeze is expected to significantly worsen, which will have a severe impact on economic activity, service provision and social conditions in the Strip. Consequently, the Gaza economy is expected to slip into deep recession, significantly raising the potential for unrest.

11. ***Municipal services are deteriorating further.*** The persistent economic contraction in Gaza, and reduced fiscal transfers and aid are severely compromising the ability of the municipalities to continue rendering services at the local level. Further deterioration of the already limited local services provision will expose the Gaza population to increased health and sanitation risks (due to mounting and decomposing solid waste in the very densely populated urban areas), safety risks (from unlit and damaged streets), and degradation of the environment. The Gaza municipalities therefore urgently need financial assistance and sustained donor support to maintain critical local services.

12. ***Climate and Disaster Risks are increasing vulnerability of the population and infrastructure in West Bank and Gaza.*** Additionally, like other countries in the Middle East and North Africa (MNA) region, West Bank and Gaza currently is and continues to be exposed to natural hazards such as drought, extreme heat, water scarcity, and extreme precipitation. Mean annual temperature in the target project locations is projected to increase by approximately two degrees Celsius by 2050 with a similar projected rate of warming for all seasons. In the West Bank, the extreme heat hazard is classified as 'high'.⁶ Similarly, the extreme heat hazard is classified as 'medium' in Gaza and there is more than 25 percent chance that at least one period of prolonged exposure of extreme heat, resulting in heat stress, will occur in the next five years. Due to the extreme heat, the locations have high drought risk. Severe and recurring droughts have devastating impacts on the country's economy, agricultural productivity, food security and the vulnerability of rural populations. The Gaza Coastal Municipal Water Utility and Palestinian Water Authority indicate a significant shortage of water services, which results in a severe public health threat to the Gaza population. High variability in climate and hydrological flows will increase urban flash flooding, which will severely impact the areas where regional water management infrastructure, such as stormwater and wastewater drainage systems, lacks resilience.

⁵ Hillis, Samira Ahmed; Alaref, Jumana Jamal Subhi; Takkenberg, Wouter Matthijs. 2018. *Enhancing job opportunities for skilled women in the Palestinian territories (English)*. Washington, D.C.: World Bank Group. Labor force participation among Gazan women is estimated at less than 20 percent, compared to men at over 60 percent. Female employment in the Palestinian territories is concentrated in services sector (education, health and social) at approximately 45 percent compared to commerce, hotels and restaurants at a little less than 10 percent and construction which is marginal (Hillis et.al. 2018).

⁶ Based on modeled heat information currently available to Think Hazard tool



13. **The World Bank response to the dire situation in Gaza includes sustained engagement with the Gaza municipalities through the Municipal Development Project (MDP).** The World Bank provided AF to the Second Municipal Development Project (MDP-2), closed in February 2018, to address critical emergency needs faced by Gaza municipalities following the July-August 2014 conflict. The project implemented 332 rehabilitation subprojects that helped restore local services (roads, wastewater and solid waste management) in the Gaza Strip. Under the on-going project, Gaza municipalities will continue to receive support for priority municipal subprojects. For municipalities in West Bank and Gaza, the MDP is a reliable source of investment funding and a dependable and fast channel to provide demand-based support through a transparent allocation mechanism. However, the funds available under the current project would not allow the Gaza municipalities to maintain adequate level of local services considering their overall fiscal situation and in the absence of additional external resource mobilization.

14. **The Borrower has requested the World Bank to augment project financing to expand coverage of support to Gaza municipalities and scale up local service provision in the Gaza Strip.** The first request is for US\$10.0 million AF to contribute to the efforts of the municipalities in Gaza to maintain adequate level of municipal services and implement urgent infrastructure projects. The reduced transfers to Gaza are deeply impacting the deteriorating municipal service provision as municipalities are unable to pay salaries of staff. Maintaining a decent level of municipal infrastructure is key to expanding economic activity and improving productivity – fundamental requirements for job creation. Additionally, creating employment to mitigate the livelihood impacts of the liquidity squeeze in Gaza will help avoid escalation of instability in the strip. By selecting municipal activities that are labor-intensive, the AF will at the same time help create temporary jobs from the rich human resource base in Gaza. It is estimated that the activities that the AF will support in Gaza will generate about 5,000 jobs (or 2,500 jobs per year). This can be a significant contribution to the job creation efforts considering the number of jobs (27,000 annually) to absorb the new labor force entrants. The second request for AF is for US\$5.0 million to close a financing gap to complete original project activities. At the time of the parent project approval, it was anticipated that there would be a financing gap in the second cycle of the project as block grants are to be topped by performance grants that were expected to be covered through co-financing.⁷ However, the co-financing has not materialized. Moreover, the AF will cover the financing gap caused by the decision of USAID to discontinue the Communities Thrive Project that was financing Capacity Development activities in 55 of the 119 municipalities in West Bank targeted under the parent project.

15. **Project Restructuring.** The proposed changes brought about by the AF will require restructuring of the parent project to reflect:

- a. Removal of withdrawal condition under Category 1 (Subgrants under Component 1 of the Project), set out in Schedule 2, Section IV, B.1 of the Grant Agreements for TFOA6154 and TFOA4800. The condition provides that “no withdrawal shall be made under Category 1 unless an ESMP and a Land Acquisition and Livelihood Action Plan have been prepared, and any land acquisition has been carried out in accordance with paragraph 4 of Section I (C) of Schedule 2

⁷ The second Municipal performance assessment will be carried out in 2019 to determine municipalities’ corresponding grant allocations in the second cycle of the project. The MDLF will announce allocations from block and performance grants for the second cycle in October 2019. In order to incentivize better performance and respond to population growth in the second cycle of the project, EUR3.45 per capita needs to be topped up to the first cycle per capita allocation of EUR11.8 per capita.



and the Land Acquisition and Livelihood Action Plan”. The requirement to prepare ESMP and Land Acquisition and Livelihood Action Plan (LALAP) for each subgrant is monitored as a recurring supervision function by the World Bank. The World Bank provides no objection for every subgrant proposal that has potential environmental and land/livelihood impacts. This subgrant review process guarantees compliance with safeguards requirements. Thus, preparation of subgrant ESMP and LALAP can be dropped as a withdrawal condition.

- b. A revision of the Results Framework to add new results indicators to capture the benefits that will result from the activities to be implemented in Gaza through the AF. This includes adding three indicators: (i) number of subprojects completed in Gaza municipalities under AF; (ii) number of Gaza municipalities successfully implementing O&M activities; and (iii) number of temporary jobs created in Gaza by the AF (of which for female).

Activities under the proposed AF are expected to be completed by February 28, 2022, the original closing date.

16. ***The requested AF is helping mobilize support from other DPs.*** The European Union (EU) confirmed that it will provide EUR10 million to support the work program in the second cycle in Gaza under the project. Likewise, AFD informed that it will be providing additional EUR4 million for the second cycle of the project. Finally, implementing public works schemes through municipal infrastructure subprojects can be easily set up within the auspices of the project and therefore can quickly provide jobs while making a positive impact on the state of local services.

II. DESCRIPTION OF ADDITIONAL FINANCING

17. ***Scope.*** The proposed AF will finance the costs associated with the scaling-up of the project’s support to Gaza municipalities to enable them to expand local services provision through labor-intensive O&M and municipal infrastructure development activities as part of the new Component – Component 5 “Emergency Labor- intensive Gaza Municipal Services”. Moreover, the AF will close a financing gap in order to complete original project activities under Component 1 and 2 in the second cycle of the project. The AF will thus finance:

Component 1 "Municipal Performance and Service Delivery"

- a. Address the financing gap in the implementation of the second cycle of Component 1 “Municipal Performance and service delivery” (US\$2.45 million from PID-MDTF). This component provides sub-grants for eligible municipalities to finance municipal infrastructure for improved service delivery through: (a) block grants to provide the basic funding for eligible municipalities for infrastructure development based on needs and equity; and (b) a performance grant to provide an incentive for eligible municipalities to improve their performance in three performance areas, (i) namely financial performance and sustainability; (ii) institutional performance; and (iii) transparency, accountability and participation. Financing of recurrent expenditures is allowed for municipalities in Gaza in accordance with the Project Operations Manual (POM).



Component 2 “Capacity development to Municipalities and Palestinian Institutions”

- b. Address the financing gap in the implementation of the second cycle of Component 2 “Capacity development to municipalities and Palestinian institutions” (US\$2.2 million from PID-MDTF). Activities under this component include:
 - (a) Capacity development support to municipalities through: (i) basic capacity development support to participating municipalities; and (ii) targeted capacity development support to strengthen creditworthiness of high performing municipalities, as identified pursuant to the criteria in the POM;
 - (b) Development of municipal management system to strengthen governance and management framework of all municipalities, including, inter alia, support for development of procedural, analytical and technical frameworks and analyses in targeted areas such as revenue management, Municipal Integrated Financial Management and Information System, capital investment preparation and social accountability; and
 - (c) Capacity development support to MDLF and the MoLG in order to strengthen governance and service delivery at the municipal level, including, inter alia, support to: (i) MoLG to develop Municipal Audit Standards and related implementation guidance in collaboration with the State Audit and Administrative Control Bureau and the Palestine Association of Certified Public Accountants; and (ii) MDLF to become a financial intermediary for local government.

Component 4 “Project Implementation Support and Management Costs”

- c. Augment Project implementation support and management cost (Total US\$1.15 million, of which US\$0.8 million from TFGWB and US\$0.35 million from PID-MDTF). This component includes project implementation support through funding of goods and consultants’ services for monitoring and evaluation, outreach and communication, and local technical consultants for the engineering supervision of Component 1 and the MDLF management fee.

Component 5 “Emergency Labor-Intensive Gaza Municipal Services”

- d. Scale up of O&M activities to restore or maintain critical municipal services (US\$5.52 million from TFGWB, or 60 percent of US\$10.0 million net of administrative cost). Given the severe funding constraints facing Gaza municipalities, the proposed AF would support scaling up of O&M activities to restore or maintain critical municipal services. Based on consultations with all 25 Gaza municipalities and the MDLF, the O&M activities to be supported can include costs of labor, equipment and supplies for roads repairs and maintenance (filling of potholes, crack repair and sealing, etc.), periodic cleanup of drainage system, O&M of slaughterhouses, solid waste collection and sorting, fumigation, and clean up and security of coastline and beaches.
- e. Scale up of investment grants for Gaza municipal investments that employ labor-intensive methods in subproject implementation (US\$3.68 million from TFGWB, or 40 percent of



US\$10.0 million net of administrative cost). The type of subprojects to be financed will be defined in a separate annex in the POM that will be revised to reflect these additional project activities. Municipal subprojects identified so far include roads, wastewater, solid waste management, parks and open space development, public markets, tax mapping, archiving of municipal records, solar energy, inventory of municipal assets, landscaping of road medians, etc.

18. **Allocation of the US\$9.2 million to support Component 5 “Emergency Labor- intensive Gaza Municipal Services” from TFGWB.** All 25 Gaza municipalities will receive a simple per capita allocation to support O&M activities as well as investment grants for priority subprojects coming out of their Strategic Development Investment Plans (SDIPs) for a total amount of US\$9.2 million⁸. As for the investment grants, successful subproject proposals will be selected on basis of set criteria, including intensity of labor inputs, that will likewise be defined in the revised POM. The AF will apply simplified procurement procedures per the Bank Policy for Investment Project Financing (IPF) paragraph 12 “Projects in Situations of Urgent Need of Assistance or Capacity Constraints”. The remaining US\$5.8 million from the AF would be allocated to close the financing gap in the implementation of the second cycle of Component 1 “Municipal performance and service delivery”, Component 2 “Capacity Development to municipalities and Palestinian institutions” and Component 4 “Project Implementation Support and Management Costs” to ensure sufficient capacity for project implementation support is maintained at the MDLF and cover management costs. The table below presents the revised budget reflecting the proposed allocation of the AF.

Table 1: Proposed Allocation of Funding Across Project Components with Additional Financing in US\$ million						
Current Component Name	Proposed Component Name	Current Cost TFGWB	Proposed Cost TFGWB	Current Cost PID MDTF	Proposed Cost PID MDTF	Action
Component 1: Municipal performance and service delivery		13.31	13.31	16.64	19.09	Revised cost
Component 2: Capacity development to municipalities and Palestinian institutions		0.53	0.53	0.53	2.73	Revised cost

⁸ This component would apply an allocation mechanism different from the project performance-based formula applied in Component 1 “Municipal Performance and Service Delivery”. The allocation amount under Component 1 is determined through a transfer formula consisting of performance (50 percent), population (20 percent) and need (30 percent). The proposed Component 5 would use a simple per capita allocation for Gaza municipalities only to support Operations and Maintenance (O&M) activities as well as investment grants for priority subprojects in order not to distort the current performance based-system.



Component 3: Municipal partnership projects		0.93	0.93	0.0	0.0	No Change
Component 4: Project implementation support and management cost		1.23	2.03	2.83	3.18	Revised cost
	Component 5: Emergency Labor-intensive Gaza Municipal Services		9.20			New
	Total	16.00	26.00	20.0	25.0	

19. **Mitigation of climate and disaster risks and climate co-benefits.** Given the country's vulnerabilities to climate change, the number and scale of natural disasters are predicted to increase, and these risks create vulnerabilities in the water, health, and urban development sectors. Under, Component 1 and Component 5, the AF will support a number of subprojects that will contribute to mitigating these risks. For example, road subprojects with drain upgrade help eliminate the flash flooding during the rainy season while installing solar photovoltaic (PV) panels in municipal buildings and installation of more efficient lighting in public facilities promote clean and renewable energy, reduce costs and help overcome the electricity shortage given the limited fuel availability for Gaza Power Plant. Moreover, Component 2 will offer capacity building activities to strengthen community awareness on climate change and help alleviate natural disaster risks.

Implementation arrangements

20. **Selection of beneficiaries for O&M activities.** For O&M, municipalities will screen and select the beneficiaries from verifiable list of unemployed persons in the Gaza Strip. The list can come from relevant government databases including the Ministry of Labor’s database and will be closely coordinated with the list being used by the Gaza Emergency Cash for Work and Self-Employment Support Project. As the Executing Agency of the Project, MDLF will supervise the screening and selection of beneficiaries of the O&M activities. The bid documents for works contracts will include provisions for beneficiary selection. Criteria for beneficiary selection will be presented in detail in the POM and apply the following general principles: (a) joblessness (e.g., unemployed for a certain duration); (b) equity (e.g., applicant is not a beneficiary of existing programs, only one from one family); and (c) vulnerability (e.g., youth, women, disabled, etc.). Job opportunities will be advertised in a way to ensure that information is equally accessible to women and men through different outreach methods including traditional and new media and technologies as well as MDLF collaboration with female universities to reach young women and organizations that support vulnerable population groups (such as female head of households), and public notifications for job openings by the project will specify eligibility criteria with explicit encouragement for



women and youth to apply. Information about female recruits will be made equally available to employers through direct MDLF engagement with selected contractors, and provision of sex disaggregated information about available talent pool. Details to be provided in the POM. As employment by the project is envisioned to be on rotation basis (e.g., 3 months per contract, to realize as many eligible beneficiaries as possible), preference will be extended to applicants who are (a) in the government's list of unemployed labor force, (b) on the waiting list in the UNRWA job creation program; and (c) not in other job creation (cash-for-work) and cash transfer programs.

21. **Selection of beneficiaries for Investment grants.** The selection of final beneficiaries of the temporary jobs generated by the operation will be carried out in a transparent and equitable manner. The POM will be revised to specify process and eligibility criteria for job beneficiary selection, as well as the verification and contracting procedures. The revised POM will be subject to review by the World Bank. Specific actions will be identified to support women participation to component 5 activities. These actions will be identified and integrated in the POM.

22. Women are one of the vulnerable groups identified under Component 5. They face higher rates of unemployment and inactivity compared to men. The Gaza municipalities are therefore encouraged to prioritize subprojects and O&M activities that lend themselves to employing as many women as possible. The participation of women to public works to sustain local service delivery will allow them to access wage employment; and their participation in the labor force will also contribute to larger improvements in child welfare, and in women's health and status. Gender disaggregated data will be collected for monitoring and evaluation purposes.

23. **Implementation of O&M activities.** Each municipality shall prepare an O&M Plan that will be submitted to MDLF for review and approval. From the approved O&M Plan, the municipality identifies packages for O&M implementation (that also defines required labor inputs). The municipality then advertises for job openings (specifying criteria for applicant selection). From the applications received, the municipality selects applicants, giving preference to applicants (a) who are on the Ministry of Labor's list of unemployed persons in Gaza, (b) on the waiting list of the UNRWA job creation program; and (c) who are currently not benefiting from existing job creation and cash transfer programs. The municipality will send the list of selected applicants to MDLF (to confirm that agreed procedures are followed), and then contract the services (on a three-month rotation). For work rendered, the municipality will send payment authorization to MDLF that will pay the worker directly through the banking system.

24. **Implementation of labor-intensive subprojects.** The municipalities will identify proposals from their SDIP and propose urgent investment proposals. Subprojects to be funded will be selected from a pipeline developed by the municipalities in consultation with their constituents. The selection criteria will be established by the MDLF and specified in the revised POM and will highlight the labor intensity of works proposed in the subprojects. Based on the criteria, MDLF will appraise subproject proposals and approved subprojects will receive funding from Component 5. The municipalities will procure the subprojects competitively and contractors will select the workers based on skills required by the subprojects. MDLF will pay the contractors directly based on authorization from the municipalities.

25. **Executing Agency.** The proposed AF will add one additional component to the project: Component 5 – "Emergency Labor-intensive Gaza Municipal Services". No changes would be made to the implementation arrangements, i.e. the MDLF will continue to be fully responsible for all project



implementation, safeguards, fiduciary, monitoring and reporting arrangements. The current safeguards instruments in place for the parent operation are sufficient and in full compliance with the Bank Policy for Investment Project Financing (IPF). All potential impacts will be addressed through the existing safeguards instruments. The Bank's engagement with the MDLF now spans more than two decades. MDLF successfully carried out emergency operations with World Bank support, including the Second Emergency Municipal Services Rehabilitation Project, and AF to MDP-2 that delivered emergency support after the 2014 Gaza war. MDLF is currently executing three operations, namely the MDP-3, the Local Governance and Services Improvement Program for Results, and the Integrated Cities and Urban Development Project. The World Bank periodically assesses MDLF's procurement and FM practices, its technical capacity as well as safeguards compliance. MDLF has established a track record of implementing a number of programs supported by other donors, including AFD, Norway, Denmark, EU, Switzerland, Belgium and the Netherlands.

26. **Implementation timeframe.** The activities to be supported by the AF, in the amount of US\$9.20 million to finance Component 5, are expected to be completed in 24 months after effectiveness date. The 25 Gaza municipalities are currently preparing their respective O&M plans that will be the basis of selecting O&M activities to be supported by the AF. They will also begin the process of identifying and prioritizing subproject proposals for review by MDLF for funding support with the investment grants. The US\$4.65 million AF to close the financing gap for Components 1 and 2 will support activities that will be completed by the original closing date of the Project, i.e., February 28, 2022.

Strategic Alignment of the AF

27. **The proposed scale up of the Project is part of the multi-pronged World Bank Group response to the Gaza crisis.** The AF complements other World Bank-funded programs that are now on-stream: the Gaza Emergency Cash for Work and Self-employment Support Project which provides income support to the youth through non-government organization implementation modality; the Innovative Private Sector Development Project that aims at job creation through private sector growth; and the Finance for Jobs Project that will pilot a development impact bond to attract private investment to upgrade skills of the workforce. The project AF activities will harness the role of municipalities in sustained local service provision that will generate employment opportunities in the process.

28. **Alignment with the World Bank's Twin Goals of ending extreme poverty and promoting shared prosperity in a sustainable manner.** Beneficiaries of the proposed AF are the population of Gaza municipalities, equivalent to almost 90 percent of the 1.7 million residents in the Gaza Strip. As the AF will support labor-intensive O&M and infrastructure development activities, the expanded project will help alleviate poverty in Gaza with the temporary job creation it will bring. Moreover, the AF will respond to immediate needs arising from the emergency in Gaza, while contributing to medium term goals, including improved service delivery.

29. **Alignment with Assistance Strategy.** The program falls within Pillar 3 of the World Bank Group's Assistance Strategy FY18-21 for West Bank and Gaza (Report No. 115201-GZ, discussed by the Board of Executive Directors on December 5, 2017), which aims to support the PA objective of "putting citizens first by addressing the needs of the vulnerable and strengthening institutions for improved citizen-centered service delivery". The AF is also fully aligned with the World Bank Group's expanded MNA Regional



Strategy (March 2019), specifically the pillar on renewing the social contract through job creation and provision of services to the poor and vulnerable.

30. **Support to the Palestinian National Policy Agenda and Local Government Sector Strategy.** The multiphase Municipal Development Program⁹ operationalizes the PA's goal of strengthening local governments through enhancing their efficiency and effectiveness and assisting in supporting their fiscal stability through performance-based grants and capacity building packages. The AF will contribute to the project activities lined up to strengthen local governments, including those in Gaza.

III. KEY RISKS

31. **The overall risk rating is Substantial due to the exceptional political and security situation in Gaza.** Areas of concern include risks related to political and governance, macroeconomic, sector strategies and policies, institutional capacity, and fiduciary.

32. **Political and governance risk is rated High:** the overall political situation remains volatile and the internal split persists. Political decisions and institutional relationships among implementation actors can potentially disrupt implementation of program activities. Finally, further deterioration of the fiscal position of the Gaza municipalities can impair their capacity to plan and execute project activities. However, similar programs carried out especially by the MDLF with the Gaza municipalities have withstood these challenges. The Second Emergency Municipal Services Rehabilitation Project carried out through 2011, for instance, was successfully implemented despite the political and economic turmoil following the 2008/09 war. Also, MDP-2 successfully achieved its objective of helping Gaza municipalities cope with reconstruction requirements following the war on Gaza in 2014. The resilience of Gazans in general and the commitment of the MDLF in enlisting support of critical stakeholders in the timely implementation of the project are critical factors in mitigating the risks.

33. **Macroeconomic risk is rated High.** Gaza's economy has been hit by volatile shocks over the last two decades resulting in lower average growth than all comparators. Moreover, the multiple episodes of war in 2008, 2012, and most recently in 2014 have all exacted a significant toll on Gaza's economy pushing it further into recession. Gaza's economy has been kept afloat by large amounts of transfers, which have significantly declined starting in 2017. The World Bank, through its Development Policy Grant series, is supporting measures to mobilize finance for the PA's development plan promoting, among others, business environment reforms that will encourage private investment and therefore help revitalize the economy.

34. **Sector strategies and policies risk is rated Substantial.** Given worsening living conditions in Gaza and huge cuts in humanitarian aid, municipalities will be unable to maintain the current level of basic services provision in the absence of additional resource mobilization. The persistent economic contraction, and reduced fiscal transfers and aid are severely compromising the ability of the

⁹ The multiphase national Municipal Development Program has a three-stage hierarchy of objectives: a) *Sector-Level Objective*: To strengthen municipal governance to enable municipalities to become creditworthy; b) *Program Level Objective*: Support municipalities in providing better coverage and improved coverage of services over the medium term; and c) *Municipal Development Program Phase 1 Objective*: To improve municipal management practices for better transparency.



municipalities to continue rendering services at the local level. The AF while modest compared to the needs will help mitigate the deteriorating services at the local level. The World Bank support to the municipalities is mobilizing additional resources from other DPs, including the French and the EU that have now pledged to augment financing to the municipalities through the MDP.

35. **Institutional capacity for implementation and sustainability risk is rated Substantial.** While MDLF has the experience and capacity to carry out the AF, the additional activities will be driven mainly by local governments in Gaza that are facing constraints especially with the reduced transfers from the PA. While the AF will provide additional resources to the municipalities, preparation and monitoring of AF activities will require effort and commitment by the municipal staff. These risks will be mitigated by the capacity development support that is part of the project.

36. **Fiduciary risk is rated Substantial.** The World Bank has its general fiduciary obligations under its Articles to ensure that its financing is used for the purposes intended. Additionally, under the terms of the United Nations-Bank Relationship Agreement, the World Bank pays due regard to UN Security Council decisions imposing economic sanctions on entities or individuals. As a consequence of the due regard obligation, the World Bank's systems include checks to ensure that no payments are made to designated persons or individuals directly by the World Bank.

37. Palestinian commercial banks are regulated by the Palestinian Monetary Authority (PMA). Along with the Financial Follow-up Unit, the two entities provide the foundation of the controls that are set in place by the PA to safeguard the integrity of the Palestinian financial sector. As part of its supervisory role, the PMA conducts regular checks and inspections on all licensed banks to ensure compliance with its guidelines and regulations. Furthermore, the PMA requires its approval on all key management positions within the licensed banks (e.g., senior management, board representatives, and key department heads).

38. The West Bank and Gaza is a full member of the regional Financial Action Task Force (FATF). Per the terms stipulated in its Memorandum of Understanding, all members must agree to be assessed as part of a continuous peer review program. The assessment, referred to as a Mutual Evaluation, assesses member counties' Anti-money Laundering /Combating the Financing of Terrorists (AML/CFT) regime including a review and analysis of all current laws and regulations related to AML/CFT in the country to define its efficiency and conformity with international recommendations. The PA has requested and has been granted approval for its Mutual Evaluation by MNA-FATF scheduled to take place in 2020. The PA has expressed their commitment to conform with FATF recommendations and to meet global AML/CFT standards. With assistance from the World Bank, the PA is conducting its first self-assessment of Money Laundering/Financing of Terrorists risks, a National Risk Assessment. The International Monetary Fund is providing AML/CFT technical assistance.

IV. APPRAISAL SUMMARY

A. Economic and Financial Analysis

39. To ensure project responsiveness and flexibility, Component 5 will be demand-driven – local governments, in consultation with their communities, determine their own emergency needs. The 25



Gaza municipalities will identify and prioritize municipal subprojects and O&M activities and MDLF will confirm their eligibility for funding under this AF. Considering the demand-driven nature of subprojects, the economic and financial benefits therefore cannot be measured ex-ante. However, subprojects (including roads rehabilitation, construction equipment, street lighting, public buildings, public parks, and water and sewage) will be evaluated based on existing MDLF screening criteria for subproject appraisal adopted in previous World Bank financed emergency operations, as follows: (a) maximum number of beneficiaries in immediate need; and (b) efficiency of the type and nature of proposed subprojects to restore the services. Additional criteria pertaining to job creation (number of jobs that can be generated by the subproject) and vulnerability/inclusion (jobs for women and youth) will be added. Where applicable, existing methodologies detailed in the “guidelines for the economic and financial analysis of subprojects” including financial internal rate of return and cost efficiency measured by net present value per beneficiary will be calculated for the subprojects.

B. Technical

40. Quality of subprojects will be assured by: (a) ensuring that all works conform to national technical norms and standards for each type of subproject; (b) enforcing these norms and standards through technical design and community-responsive, effective procurement procedures, and systematic program supervision of the contractor by municipalities using qualified specialists; (c) ensuring the involvement of technical experts in the design and supervision of works; (d) capacity building for appropriate municipal staff in relevant areas of quality enhancement; and (e) conducting technical audits, in addition to verifying technical soundness and compliance with safeguards.

41. MDLF continues to possess the technical capacity to execute the expanded scope of the project. While the MDLF headquarters are in Ramallah, MDLF operates a Gaza satellite office, staffed with technical, safeguards and administrative personnel working in Gaza on full-time basis. The Gaza office of MDLF will lead project support to the Gaza municipalities and in monitoring project activities.

42. For beneficiary selection, the use of multiple targeting principles will likely lead to a more accurate and comprehensive identification of the neediest, enhancing the targeting performance. Refer to Section 20-21 above.

C. Financial Management

43. There will not be any changes to the existing FM and disbursement arrangements for this AF. The same arrangements in place for the parent project will be used. The FM performance rating for the parent project as well as the predecessors, First Municipal Development Project (MDP-1) and MDP-2, have generally been "Satisfactory" since project effectiveness. Thus, for the proposed AF, the MDLF will continue to manage the FM and disbursement functions for the Project. There will be a new USD designated account opened for the AF and managed by MDLF. The MDLF handles the FM of grant funds for all municipalities in Gaza and no funds are transferred to municipalities in Gaza. The MDLF- FM department is adequately staffed, and the accounting system is well functioning and captures all project-related transactions by component and by each financier. The MDLF has a proven track record of effectively operating in the complex political and institutional environment of Gaza. The FM risk rating for the parent project is assessed at Substantial and there are measures in place to reduce the risk. The risks for the Project will be mitigated through strong management information systems, experienced FM staff



that have worked on World Bank projects in the past, close supervision by the team, as well as regular financial audits.

44. Similar to the parent project, payments will be made to suppliers - either directly from the World Bank or from Designated Accounts in commercial banks based in Ramallah and managed by the recipient. The recipient will select the financial institution, and the World Bank will determine if it is acceptable through a financial institution due diligence review following established procedures by the World Bank. Interim Financial Reports should be submitted to the World Bank semi-annually within 45 days after the end of the period. The World Bank will regularly conduct its own semi-annual implementation support review of FM arrangements. In addition, project financial statements and expenditure eligibility will be audited annually by independent auditors acceptable to the World Bank. All disbursements made directly by the World Bank to individual contractors or entities are checked against the World Bank's AML/CFT lists, which are updated on a continuous basis.

D. Procurement

45. Given the emergency nature of this AF, the simplified procurement procedures¹⁰ for works and goods and selection procedures for consultant services may apply. The MDLF will prepare an annex to the Procurement Manual and submit it for the World Bank's review and clearance, prior to effectiveness. Other than the emergency procedure, procurement for the AF will follow the same arrangements in place for the parent project.

46. Procurement of goods and services will continue to be the overall responsibility of the Ramallah-based PA. Procurement for the AF will be carried out in accordance with the World Bank Procurement Regulations for Borrowers under Investment Project Financing (IPF) dated July 1, 2016, revised November 1, 2017 and August 1, 2018. Furthermore, the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by International Bank for Reconstruction and Development (IBRD) Loans and International Development Association (IDA) Credits and Grants", dated October 15, 2006 and revised in January 2011 and as of July 1, 2016 shall apply to the AF. The AF will finance goods, works and non-consulting services for activities under Component 1, 2, 4 and 5. The overall responsibility for project procurement will rest with the MDLF, which will act as the World Bank's counterpart for all procurement aspects of the project. MDLF will implement procurement for Components 2 and 4, while the beneficiary municipalities will be responsible for subproject procurement, under MDLF's supervision. MDLF prepared, and the Bank approved, an updated procurement plan for Components 2 and 4. Procurement for the subprojects under Component 1 and 5 shall be processed in accordance with the subproject procurement plan and the MDLF Procurement Manual. Municipalities will also be responsible for contract management and for advising MDLF on the release of payments to contractors/suppliers in accordance with the signed contracts. Procurement performance for the Project has been satisfactory.

¹⁰ The proposed simplified procedures which may apply shall be elaborated by Municipal Development Lending Fund (MDLF) in an Annex to the Procurement Manual and will require the World Bank's prior approval. Simplified procedures could include: (i) increasing the threshold for using "Request for Quotations" of Works (e.g. from US\$200K to US\$500K), and of Goods (e.g. from US\$100K to US\$200K); (ii) shortening the period for preparation of bids under National Competitive Bidding; (iii) use of Direct selection as appropriate; and (iv) other procedures defined in accordance with the Bank Guidance: Procurement in Situations of Urgent need of Assistance or Capacity Constraints.



47. MDLF has established a sound control and audit system of procurement activities carried out by municipalities for infrastructure subprojects. The system, which requires municipalities to seek MDLF's no objection prior to proceeding with key steps of the procurement process, will continue to apply for the AF.

48. The World Bank Procurement Regulations for IPF Borrowers recognize that consultants and firms may be declared ineligible to offer goods, works, or services for Bank-financed projects if they are identified as supporting, committing, or participating in terrorist acts by a resolution of the UN Security Council taken under Chapter VII of the UN Charter. Bidders and consultants are electronically screened against the centralized database for contracts subject to the Bank's prior review.

E. Social (including Safeguards)

49. **Safeguard Policies.** OP 4.12 remains triggered since there is a possibility that a number of subprojects under component 1, 3 and 5 would require land. A Land Acquisition and Livelihood Policy Framework (LALPF) was prepared and disclosed in-country and the World Bank's external website on March 26 and April 20, 2017, respectively, for the parent project. The type of subprojects to be supported under the AF will be of the same nature as those currently financed or pipelined under the project, therefore LALPF for the parent project will be applied to this AF. The LALPF includes the principles for land acquisition or any land take that can result from the project. In the majority of cases, subprojects will be built on public lands legally owned by the municipalities that are not encroached or has no claim on them. However, in cases where subprojects will require private land or land is occupied or encroached, site specific Resettlement Action Plans (RAPs) will be prepared in accordance with the disclosed LALPF, consulted and disclosed before the commencement of any civil works. In the case of land donation, the processes are defined clearly in the LALPF that should be followed, including: (a) well-defined and transparent criteria and clear documentation of transactions; (b) strong and readily accessible Grievance Redress Mechanism (GRM); and (c) provisions for more meaningful community participation and consultation. In both cases of voluntary land donation and willing –seller willing –buyer or voluntary provision of land, MDLF and municipalities will document the power of choice as defined and explained in the LALPF.

50. MDLF has adequate capacity of managing social safeguards risks. Under the previous MDPs, Gaza municipalities also have gained experience on social risk management. The 15 larger municipalities in Gaza have One-Stop-Shops that also serve as GRM. The remaining 10 Gaza municipalities will establish their respective GRMs during project implementation. Due to high unemployment rate among the youth, it is suggested that the AF will give special attention to the youth in Gaza (both male and female), in the identification of beneficiaries of the labor-intensive O&M and investment grants for subprojects.

51. **Citizen Engagement.** MDP-3 is deepening and mainstreaming citizen engagement and social accountability into the functioning and performance incentives of municipal development. MDP-3 also seeks to strengthen the quality of municipal-citizen relationship and opportunities for citizen feedback through all phases of the municipal expenditure cycle including implementation of the capital grant sub-projects. In concrete terms, ongoing changes to the municipal investment process will integrate good practice and lessons learned from participatory budgeting and participatory monitoring and evaluation



pilots on participation, disclosure and accountability. Complaints handling mechanisms are scaled up and linked to the national grievance redress mechanism of the MoLG.

52. **Gender.** The project will have an explicit focus on gender; quotas (30 percent minimum) for the inclusion of women and youth in community committees were embedded in the manual and policy notes for SDIP planning processes. Grant application forms were updated to be gender-sensitive, and specific efforts were made to ensure a gender balance in the capacity development components. Citizen Service Centers will generate gender-sensitive reports (i.e., records and statistics per gender) which can be the basis for analysis to better understand any existing gender gaps in service provision, problem identification, or response times. The new generation of SDIPs and new SDIP manual will include recommendations on strengthened community participation, including of women and youth. These approaches will be applied in the implementation of the AF and outcomes in terms of benefits accruing to women will be captured in the results monitoring.

F. Environment (including Safeguards)

53. The MDLF and the 25 Gaza municipalities, being involved in the successful execution of MDP-1 and MDP-2, have demonstrated adequate capacity of managing environmental risks, screening subprojects, and implementing the ESMPs successfully. As the scope of the AF is similar to the activities in the previous MDPs as well as to the original activities of the project, the proposed AF will trigger the same safeguards policies as the project. It will not invoke any additional safeguards policies. The AF will continue to use the safeguards and instruments that have been originally prepared and disclosed.

54. OP 4.01 remains triggered. The project will require an environmental assessment for activities that involve infrastructure construction. The development and rehabilitation of municipal infrastructure includes roads, rehabilitation of water wells, water networks, and wastewater and sanitation facilities, parks, and others. Negative environmental impacts, associated with municipal subprojects and O&M activities, are expected to be minor during the construction phase. Therefore, the Project is classified as category "B". Subprojects and O&M activities are not known a priori. An Environmental and Social Management Framework was prepared for the project and will continue to be used under the AF.

55. A few participating municipalities, particularly in Gaza, have subprojects which may require purchasing of some chemicals for pest control, primarily mosquitoes. A Pest Management Plan based on lessons learned under MDP-1 and MDP-2 has been updated for this project to ensure compliance with OP 4.09 policy. The Pest Management Plan provides guidance on which chemicals can be financed for pest management as well as proper storage and handling during project implementation.

V. WORLD BANK GRIEVANCE REDRESS

56. Communities and individuals who believe that they are adversely affected by a World Bank-supported project may submit complaints to existing project-level grievance redress mechanisms or the World Bank's Grievance Redress Service, which ensures that complaints received are promptly reviewed in order to address project-related concerns. Project affected communities and individuals may submit their complaint to the World Bank's independent Inspection Panel which determines whether harm



occurred, or could occur, as a result of World Bank non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and World Bank Management has been given an opportunity to respond. For information on how to submit complaints to the Bank's corporate Grievance Redress Service, please visit <http://www.worldbank.org/en/projects-operations/products-and-services/grievance-redress-service>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.



VI SUMMARY TABLE OF CHANGES

	Changed	Not Changed
Results Framework	✓	
Components and Cost	✓	
Legal Covenants	✓	
Procurement	✓	
Implementing Agency		✓
Project's Development Objectives		✓
Loan Closing Date(s)		✓
Cancellations Proposed		✓
Reallocation between Disbursement Categories		✓
Disbursements Arrangements		✓
Safeguard Policies Triggered		✓
EA category		✓
Institutional Arrangements		✓
Financial Management		✓
APA Reliance		✓
Implementation Schedule		✓
Other Change(s)		✓

VII DETAILED CHANGE(S)

COMPONENTS

Current Component Name	Current Cost (US\$, millions)	Action	Proposed Component Name	Proposed Cost (US\$, millions)
Municipal Performance and Service Delivery	29,954,255.00	Revised	Municipal Performance and Service Delivery	32,404,255.00
Capacity Development	1,063,830.00	Revised	Capacity Development	3,263,830.00



Municipal Partnership Projects	930,000.00	No Change	Municipal Partnership Projects	930,000.00
Project Implementation Support and Management Cost	4,051,915.00	Revised	Project Implementation Support and Management Cost	5,201,915.00
	0.00	New	Emergency Labor-intensive Gaza Municipal Services	9,200,000.00
TOTAL	36,000,000.00			51,000,000.00

Expected Disbursements (in US\$)

Fiscal Year	Annual	Cumulative
2018	10,000,000.00	10,000,000.00
2019	9,000,000.00	19,000,000.00
2020	15,000,000.00	34,000,000.00
2021	15,000,000.00	49,000,000.00
2022	2,000,000.00	51,000,000.00
2023	0.00	51,000,000.00

SYSTEMATIC OPERATIONS RISK-RATING TOOL (SORT)

Risk Category	Latest ISR Rating	Current Rating
Political and Governance	● High	● High
Macroeconomic	● High	● High
Sector Strategies and Policies	● Substantial	● Substantial
Technical Design of Project or Program	● Moderate	● Moderate
Institutional Capacity for Implementation and Sustainability	● Substantial	● Substantial
Fiduciary	● Substantial	● Substantial
Environment and Social	● Moderate	● Moderate
Stakeholders	● Moderate	● Moderate
Other	● Low	
Overall	● Substantial	● Substantial



LEGAL COVENANTS – GZ-Third Municipal Development Project (P159258)

Loan/Credit/TF	Description	Status	Action
TF-A4800	<p>The following legal covenant is applicable for the project: 1) Trust Fund Grant Agreement between the Palestine Liberation Organization (PLO) and IDA and 2) The Partnership for Infrastructure Development in the West Bank Multi Donor Trust Fund Agreement between the PLO and IBRD/IDA.</p> <p>By no later than April 30, 2018, the PLO shall commit a sum of no less than 10% of the Aggregate Donor Commitment to funding the Project, and thereafter, PLO shall disburse the committed funds on a quarterly basis</p>	Not yet due	No Change
TF-A4800	<p>The PLO, shall ensure that prior to the commencement of any works on the sections within the Project area where land acquisition or resettlement may be required, that the Project Implementing Entity:</p> <p>(a) prepare a Land Acquisition and Livelihood Action Plan or Plans, acceptable to the IDA, in accordance with the Land Acquisition and Livelihood Policy Framework; and disclose and carry out consultations for said Land Acquisition and Livelihood Resettlement Action Plans in accordance with the provisions of the Land Acquisition and Livelihood Policy Framework;</p> <p>(b) carry out the Project in accordance with the Land Acquisition and Livelihood Action Plan or Plans, as the case may be; and</p> <p>(c) not amend, suspend or abrogate any of the provisions of the Land Acquisition and Livelihood Action Plan or Plans, as the case may be, without the prior agreement of the Association.</p>	Not yet due	Revised



The PLO, through the Project
Implementing Entity:

- (a) shall not commence any works in any section of the Project Area where Resettlement has been carried out by the PLO prior to the date of this Agreement, where the Resettlement was done for the purposes of carrying out the Project activities;
- (b) shall not commence any works under the Project in any section of the Project Area where Resettlement becomes required, without first preparing a Land Acquisition and Livelihood Action Plan, satisfactory to the IDA, in accordance with the Land Acquisition and Livelihood Policy Framework, and then ensuring that such land acquisition has been carried out in accordance with the Land Acquisition and Livelihood Action Plan; and
- (c) shall carry out the Project in accordance with the Land Acquisition and Livelihood Policy Framework and respective Land Acquisition and Livelihood Action Plans and shall not amend, suspend, abrogate or waive any of the provisions of the respective Land Acquisition and Livelihood Action Plans without the prior agreement of the IDA.

With regard to the withdrawal of grant proceeds and notwithstanding the provisions of the General Provisions of Section IV of the Trust Fund Grant Agreement, no withdrawal shall be made:

- (a) for payments made prior to the date of this Agreement.
- (b) under Category 1 unless an ESMP and a Land Acquisition and Livelihood Action Plan have been prepared, and any land acquisition has been carried out in accordance with



	paragraph 4 of Section I(C) of Schedule 2 and the Land Acquisition and Livelihood Action Plan.	
Proposed	same as above except for the removal of clause (b) under Category 1 unless an ESMP and a Land Acquisition and Livelihood Action Plan have been prepared, and any land acquisition has been carried out in accordance with paragraph 4 of Section I(C) of Schedule 2 and the Land Acquisition and Livelihood Action Plan.	Complied with

LEGAL COVENANTS – Additional Financing for the Third Municipal Development Project (P168544)

Sections and Description

The Recipient, shall ensure that prior to the commencement of any works on those sections within the Project area where land acquisition or resettlement may be required, that the Project Implementing Entity:

- (a) prepares a Land Acquisition and Livelihood Action Plan or Plans, acceptable to the World Bank, in accordance with the LALPF; and discloses and carries out consultations for said Land Acquisition and Livelihood Action Plans in accordance with the provisions of the LALPF;
 - (b) carries out the Project in accordance with the Land Acquisition and Livelihood Action Plan or Plans, as the case may be; and
 - (c) not amend, suspend or abrogate any of the provisions of the Land Acquisition and Livelihood Action Plan or Plans, as the case may be, without the prior agreement of the World Bank.
5. The Recipient, through the Project Implementing Entity shall:
- (a) not commence any works in any section of the Project area where Resettlement has been carried out by the Recipient prior to the date of this Agreement, where the Resettlement was done for the purposes of carrying out the Project activities;
 - (b) not commence any works under the Project in any section of the Project area where Resettlement becomes required, without first preparing a Land Acquisition and Livelihood Action Plan, satisfactory to the World Bank, in accordance with the Land Acquisition and Livelihood Policy Framework, and then ensuring that such land acquisition has been carried out in accordance with the Land Acquisition and Livelihood Action Plan; and
 - (c) carry out the Project in accordance with the LALPF and respective Land Acquisition and Livelihood Action Plans and shall not amend, suspend, abrogate or waive any of the provisions of the respective Land Acquisition and Livelihood Action Plans without the prior agreement of the World Bank.

The Recipient shall cause the Project Implementing Entity to carry out the Project in accordance with the



Environmental and Social Management Framework (ESMF) and Land Acquisition and Livelihood Policy Framework (LALPF), and any specific environmental and safeguards guidelines and documents required to be prepared under the Project and to ensure the satisfaction of any and all applicable requirements for the preparation, disclosure and implementation of any site-specific environmental and social impact assessments or site specific Environmental and Social Management Plans, in accordance with the ESMF and LALPF, in relation to any Subproject or Operation and Maintenance Activity necessitating an environmental and social impact assessment, resettlement action plan, or site specific environmental management plan.

Not later than forty-five (45) days after the Effectiveness Date, the Recipient shall cause the Project Implementing Entity, for the purpose of forwarding to the World Bank, to submit a work plan and budget for the Project for the duration of this Project, of such scope and detail as the World Bank shall have reasonably requested.

The Recipient shall cause the Project Implementing Entity, through the Palestinian Authority to award to Eligible Municipalities Subgrants, all in accordance with the criteria and procedures set forth in the Operational Manual and the Grant Allocation Manual, and to review, appraise and select proposals and supervise implementation, all in accordance with the Operational Manual, the Grant Allocation Manual, the Environmental and Social Management Framework, the Land Acquisition and Livelihood Policy Framework, and the respective Grant Implementation Agreements.

Conditions

Type

Effectiveness

Description

The Grant Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the conditions specified below have been satisfied in a manner and in form and substance satisfactory to the World Bank:

- (a) The execution and delivery of this Agreement on behalf of the Recipient and of the Project Agreement on behalf of the Project Implementing Entity have been duly authorized or ratified by all necessary governmental and corporate action.
- (b) The Subsidiary Agreement referred to in Section I.A of Schedule 2 to this Agreement has been executed on behalf of the Recipient and the Palestinian Authority.
- (c) The On-Granting Agreement referred to in Section I.A of Schedule 2 to this Agreement has been executed on behalf of the Palestinian Authority and the Project Implementing Entity.
- (d) The Operational Manual, acceptable to the World Bank, has been amended and thereafter executed by the Project Implementing Entity.



VIII. RESULTS FRAMEWORK AND MONITORING

Results Framework

COUNTRY: West Bank and Gaza

Additional Financing for the Third Municipal Development Project

Project Development Objective(s)

The project development objective (PDO) is to enhance the institutional capacity of municipalities in the West Bank and Gaza for more accountable and sustainable service delivery.

Project Development Objective Indicators by Objectives/ Outcomes

Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Strengthened municipal institutions								
Number of municipalities that move up one rank in the performance assessment system (Number)		0.00	0.00	0.00	50.00	50.00	100.00	100.00
Accountable and responsive service delivery								
People provided with improved urban living conditions (Number)		0.00	0.00	0.00	250,000.00	250,000.00	500,000.00	500,000.00
Female beneficiaries (Number)		0.00	0.00	0.00	125,000.00	125,000.00	250,000.00	250,000.00
Municipalities with public disclosure of executed budget and executed SDIP (Number)		0.00	0.00	0.00	50.00	50.00	100.00	100.00



Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Financially sustainable municipalities								
Number of municipalities with operational and enterprise surplus and no increase in arrears (Number)		40.00	40.00	40.00	60.00	60.00	80.00	80.00

Intermediate Results Indicators by Components

Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Municipal Performance and Service Delivery								
Number of municipalities completing sub projects within each cycle (Number)		0.00	0.00	0.00	100.00	100.00	140.00	140.00
Percentage of investments financed under the project in adequate technical state and used as intended (Percentage)		0.00	0.00	0.00	60.00	60.00	80.00	80.00
% of beneficiaries satisfied with municipal sub projects executed under MDP 3 (Percentage)		0.00	0.00	0.00	70.00	70.00	80.00	80.00
Number of municipalities graduated to category A (Number)		5.00	5.00	5.00	10.00	10.00	15.00	15.00



Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Number of municipalities with yearly increase in revenues collected by the municipality (Number)		50.00	50.00	50.00	85.00	85.00	120.00	120.00
Number of municipalities with functional complaint system (Number)		22.00	22.00	22.00	44.00	44.00	100.00	100.00
Capacity Development								
Road Map for MDLF as Lending Intermediary consulted with relevant stakeholders (Yes/No)		No	No	No	No	No	Yes	Yes
Municipal audit standard developed (Yes/No)		No	No	No	No	No	Yes	Yes
Municipal Partnership Projects								
Number of municipalities reporting enhanced capacity to engage with private sector for municipal service delivery and/or local economic development (Number)		0.00	0.00	0.00	12.00	12.00	25.00	25.00
Project Implementation Support and Management Cost								
Percentage of municipalities satisfied with MDLF support (Percentage)		75.00	75.00	75.00	85.00	85.00	95.00	95.00
Emergency Labor-intensive Gaza Municipal Services (Action: This Component is New)								



Indicator Name	DLI	Baseline	Intermediate Targets					End Target
			1	2	3	4	5	
Number of subprojects completed by Gaza municipalities under the Additional Financing (Number)		0.00				0.00	15.00	30.00
Action: This indicator is New								
Number of temporary jobs created in Gaza by the Additional Financing (Number)		0.00				1,250.00	3,000.00	5,000.00
Action: This indicator is New								
Female beneficiaries (Number)		0.00				250.00	500.00	750.00
Action: This indicator is New								
Number of Gaza municipalities successfully implementing an O&M activity (Number)		0.00				5.00	15.00	25.00
Action: This indicator is New								

Monitoring & Evaluation Plan: PDO Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Number of municipalities that move up	The PDO indicator will	2017, 2019,	MDLF	Data will come from	MDLF



one rank in the performance assessment system	measure number of municipalities that move up one rank in performance. The ranking system has 10 ranks based on 4 categories (D, C, B and A) with 21 KPIs from D to A++.	2021	Performance Assessment	performance assessment by MDLF during 2017, 2019, 2021.	
People provided with improved urban living conditions	The Corporate Result indicator (CRI) measures the cumulative number of people living in urban areas that have been provided with access to improved services, housing, tenure, neighborhoods, public spaces, parks, resilience, and/or urban environmental conditions, through the direct interventions of operations supported by the World Bank. Its a new CRI and will added to the WB Portal. Target of 500.000 will be reviewed in 2019.	2019, 2021	MDLF from information on municipal sub-projects.	Regular project progress reports in 2019 and 2021 by MDLF presenting information of beneficiaries of completed subprojects.	MDLF
Female beneficiaries		2019, 2021	MDLF		MDLF
Municipalities with public disclosure of executed budget and executed SDIP	The disclosure will take place on social media platform, (Facebook), municipal bulletin board,	2017, 2019, 2021	MDLF Performance assessment	Data will come from performance assessment by MDLF during 2017, 2019, 2021.	MDLF



	MoLG's homepage and/or other platform. From year three (2019) the readable format from MoLG will be used, once endorsed by MoLG.				
Number of municipalities with operational and enterprise surplus and no increase in arrears	This indicator will measure municipalities that have surplus in their operational and enterprise account and no increase in arrears from last year. Municipalities that fulfill this criterion have not increased net debt to suppliers of water and electricity. Baseline will be updated in June 2017.	2017, 2019, 2021	MLDF Performance Assessment	Data will come from performance assessment by MDLF during 2017, 2019, 2021.	MDLF

Monitoring & Evaluation Plan: Intermediate Results Indicators

Indicator Name	Definition/Description	Frequency	Datasource	Methodology for Data Collection	Responsibility for Data Collection
Number of municipalities completing sub projects within each cycle	The indicator will measure the number of municipalities that complete sub projects within each of the two budget cycles: 1 January 2018 to 31 December 2019 and 1 January 2020 to	2019, 2021	MDLF	Regular project progress reports in 2019 and 2021 by MDLF presenting information on completed subprojects.	MDLF



	31 December 2021.				
Percentage of investments financed under the project in adequate technical state and used as intended	The indicator will measure the percentage of investments with acceptable standard and acceptable usage. Measured as "adequate state of usability" according to MDLF assessment of 5-6 % of executed projects. The baseline will be update in June 2017.	2017, 2019, 2021	MDLF assessment of 5-6% of all sub projects in 2017, 2019 and 2021.	Data will come from performance assessment by MDLF during 2017, 2019, 2021.	MDLF
% of beneficiaries satisfied with municipal sub projects executed under MDP 3	The indicator will measure the percentage of beneficiaries that are satisfied with municipal sub-projects. The baseline will be updated in July 2017. It will be gender disaggregated.	2017, 2019, 2021	MDLF Performance Assessment or the Local Government Performance Assessment (LGPA) questions 2.6 and 9.10.	Satisfaction surveys to be carried out by MDLF in 2019 and 2021.	MDLF
Number of municipalities graduated to category A	The indicator will measure number of municipalities that graduate to category A the highest category in the performance system. It is measured by the project's performance	2017, 2019, 2021	MDLF Performance Assessment	Data will come from performance assessment by MDLF during 2017, 2019, 2021.	MDLF



	assessment system to measure municipal performance from category D (the lowest) to A the highest.				
Number of municipalities with yearly increase in revenues collected by the municipality	The indicator will measure the number of municipalities that increase the revenues collected by the municipality from year to year. It will not cover revenues collected by Ministry of Finance e.g. property taxation and transportation tax.	2017, 2019, 2021	MDLF Performance assessment based on the latest available data e.g. 2014 to 2016 for the assessment in 2017.	Data will come from performance assessment by MDLF to be carried out in 2019 and 2021.	MDLF
Number of municipalities with functional complaint system	The indicator will measure that a functional municipal complaint system exists in 2021 following national guidelines. Functional municipal complaints system will include ability to produce data on grievances by type and by level of resolution. For baseline and in 2019 the indicator will only measure that the complaint system exists in Citizen Service Centers.	2019, 2021	MDLP Performance Assessment	Data will come from performance assessment by MDLF during 2017, 2019, 2021.	MDLF



Road Map for MDLF as Lending Intermediary consulted with relevant stakeholders	A TA is supporting the development of a Road Map for MDLF's transformation into a lending intermediary for municipal borrowing. The Road Map shall be consulted with all stakeholders.	2021	MDLF	Report by MDLF on completion of Lending Road Map.	MDLF
Municipal audit standard developed	MoLG develops standards for how external municipal audits shall be carried out.	2021	MoLG	MoLG to submit a report presenting standards for external municipal audits.	MoLG
Number of municipalities reporting enhanced capacity to engage with private sector for municipal service delivery and/or local economic development	The indicator will measure the number of municipalities that reports enhanced capacity to engage with private sector for municipal service delivery and/or local economic development following concrete actions/TA from MDP-3.	2019 and 2021	MDLF's survey in every 2 years to assess the effectiveness of its capacity development for municipalities.	MDLF's survey in every 2 years (2019 and 2021) to assess the effectiveness of its capacity development for municipalities.	MDLF
Percentage of municipalities satisfied with MDLF support	The indicator will measure the number of municipalities that are satisfied with the support received from MDLF.	2017, 2019, 2021	MDLF satisfactory survey	Satisfaction surveys to be carried out by MDLF in 2021.	MDLF
Number of subprojects completed by Gaza municipalities under the Additional Financing	The indicator counts the number of subprojects approved, financed and completed by the Gaza	2020, 2021, 2022	MDLF	Quarterly progress reports from MDLF to report number of subprojects approved,	MDLF



	municipalities.			financed and completed under the Additional Financing.	
Number of temporary jobs created in Gaza by the Additional Financing	Temporary jobs pertain to employment required by O&M and subproject activities. Job cycles are envisioned, e.g., 3-month person) to allow as many unemployed individuals to benefit from the operation	2021	MDLF	Quarterly progress reports from MDLF will include monitoring of jobs created by O&M and subproject investment activities.	MDLF
Female beneficiaries	This will measure the number of temporary jobs occupied by women in the O&M and subproject investment activities financed by the AF.	2021	MDLF	The data will come from quarterly progress reports from MDLF on the implementation of the O&M and subproject grants financed by the AF	MDLF
Number of Gaza municipalities successfully implementing an O&M activity	The indicator will count the number of Gaza LGUs that have prepared an O&M plan and carried out at least one O&M activity from the plan.	2021	MDLF	The information shall be included in the quarterly progress reports from MDLF on the O&M and subproject investments financed by the AF.	MDLF

