Report Number: ICRR0024125

1. Project Data

Project ID P159258	**Project Name** GZ-Third Municipal Development Project	
Country West Bank and Gaza	**Practice Area(Lead)** Urban, Resilience and Land	
L/C/TF Number(s) TF-A4800,TF-A6154,TF-A8699,TF-B0101,TF-B5172,TF-B5173	**Closing Date (Original)** 28-Feb-2023	**Total Project Cost (USD)** 75,989,839.89
Bank Approval Date 21-Jul-2017	**Closing Date (Actual)** 31-Aug-2023	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	76,000,000.00	76,000,000.00
Revised Commitment	76,000,000.00	76,000,000.00
Actual	75,989,839.89	75,989,839.89

Prepared by	Reviewed by	ICR Review Coordinator	Group
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2. Project Objectives and Components

a. Objectives

According to the Grant Agreement (GA, p. 9) and the Project Appraisal Document (PAD, paragraph 15), the Project Development Objective of this Third Municipal Development Project for the West Bank and Gaza was "to enhance the institutional capacity of municipalities in the West Bank and Gaza for more accountable and sustainable service delivery."

Public Disclosure Authorized

This review will assess project performance against the PDO parsed into the following two objectives:

- to enhance the institutional capacity of municipalities in the West Bank and Gaza for more accountable service delivery
- to enhance the institutional capacity of municipalities in the West Bank and Gaza for more sustainable service delivery

Note: The ICR notes that at the time of delivery, the West Bank and Gaza (WB&G) were undergoing a major conflict, resulting in a deep humanitarian crisis. The ICR covers the period up to September 2023 and does not reflect the consequences of the conflict on the project. The IEG ICR review is based on the results reported in the ICR.

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

Yes

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

Yes

Date of Board Approval

23-May-2019

c. Will a split evaluation be undertaken?

Yes

d. Components

1. Municipal Performance and Service Delivery (US$79.43 million total at appraisal consisting of US$13.31 million from the World Bank's Trust Fund for Gaza and the West Bank (TFGWB) and US$16.64 million from the Partnership for Infrastructure Development – Multi-Donor Trust Fund (PID-MDTF); parallel financing from Development Partners equivalent to US$41.66 million; and counterpart funds of US$7.81 million; Additional Financing (AF) increased the PID-MDTF financing by US$2.45 million to US$19.09 to address financing gaps in implementing the second cycle of grants; US$33.07 million actual) This component was to finance block grants or performance grants to eligible municipalities to finance infrastructure subprojects prioritized from their respective Strategic Development Investment Plans (SDIPs). The Municipal Development Lending Fund (MDLF) was to distribute these grants in two cycles – first in October 2017, and second, in October 2019. ***Block grants*** were to be distributed to all qualified municipalities based on population (40%) and needs (60%). Needs were to be based on two factors – (i) a flat rate of EUR25,000; and (ii) existing infrastructure and access to services. ***Performance grants*** were to be distributed based on ranking of municipal performance against 21 Key Performance Indicators (KPIs) around three thematic areas; i.e., (i) enhanced capacity; (ii) accountable service delivery; and (iii) sustainable service delivery. Performance ranking ranged from a high "A" to a low "D."

2. **Capacity Development to municipalities and Palestinian institutions** (US$5.14 million at appraisal consisting of US$0.53 million from TFGWB; US$0.53 million from PID-MDTF; US$1.11 million from development partners; and US$2.97 million from government contributions; the first AF increased the PID-MDTF financing by US$2.2 million to US$2.73 million to address financing gaps in implementing the second

cycle of grants; a second AF2 increased the PID-MDTF by 1.0 million to US$3.73 million to improve the ongoing municipal response to COVID-19 and improve their capacity for resilience and response capacity; US$3.22 million actual) This component was to finance capacity development support: (i) to municipalities; (ii) to develop a municipal management system that would strengthen governance and provide a management framework of all municipalities; (iii) to strengthen municipal level governance and service delivery of the Municipal Development Lending Fund (MDLF) and the Ministry of Local Government (MOLG); (iv) to municipalities to build and improve their resilience and COVID-19 crisis response.

3. **Municipal Partnership Projects** (US$2.54 million at appraisal consisting of US$0.93 million from TFGWB, and US$1.61 million from development partners; US$1.9 million actual consisting of US$0.35 million from TFGWB and US$1.55 million from development partners) This component was to finance: (a) the capacity strengthening of participating municipalities to identify, design and implement potential private sector engagement in municipal service delivery and local economic development; and (b) incentives for municipalities and local governance units to jointly prepare and implement investments (investments sub-grants).

4. **Project Implementation Support and Management Cost** (US$8.51 million at appraisal consisting of US$1.23 million from TFGWB, US$2.82 million from PID-MDTF, US$3.65 million from development partners, and US$0.81 million from government contributions; the AF1 increased the TFGWB financing by US$0.8 million to US$2.03 million, and increased the PID-MDTF financing by US$0.35 million to US$3.18 million to augment management costs; AF2 increased the TFGWB financing by 1.05 million to US$3.08 million, and increased the PID-MDTF financing by US$0.7 million to US$3.88 million; US$ million actual) This component was to finance the supervision of project activities, goods and consultant services for monitoring and evaluation, outreach and communication, and local technical consultants to conduct engineering supervision of component 1 activities.

5. **Emergency Labor-intensive Gaza Municipal Services** (AF1 added this component financed by TFWGB at US$9.2 million originally, US$8.65 million actual) The first Additional Financing (AF) added this component to finance subgrants to eligible municipalities so that they could expand local services by financing: (a) operation and maintenance (O&M) activities for critical municipal services; and (b) an investment grant for priority municipal investments subprojects in Gaza that employ labor intensive implementation methods, including recurrent (operating) expenditures.

6. **Contingency Emergency Response Component** (CERC) (US$0 million at the May 2020 restructuring, then March 2021 AF2 allocated US$48.3 million, with TFGWB providing US$13.98 million and PID-MDTF providing US$8.3 million or a total of US$22.25 million; US$ million actual) This component was to finance a response to an eligible emergency. The March 2021 AF was to finance two subcomponents – (i) emergency labor intensive municipal services and (ii) recurrent expenditures.

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

Project Cost: The original total project cost was US$36.0 million consisting of US$16.0 million from the Trust Fund for Gaza and the West Bank (TFGWB) and US$20.0 million from the Partnership for Infrastructure Development Multi-Donor Trust Fund (PID-MDTF). The TFGWB provided two Additional Financing (AF) of US$10.0 and US$15.0 million. Similarly, the PID-MDTF also provided two AF of US$5.0

million and US$10.0 million. These AFs led to a total project cost of US$76.0 million at closing. The grants disbursed US$75.9 million.

Financing: Two grants administered by the World Bank Group financed this project: (i) the Trust Fund for Gaza and the West Bank (TFGWB); and (ii) the Partnership for Infrastructure Development Multi-Donor Trust Fund (PID-MDTF). Development Partners (DPs) from the European Union (EU) co-financed this project with parallel financing equivalent to US$48.03 million. The Development Partners included the following government agencies: the Ministry of Foreign Affairs and the French Development Agency (or *Agence Française de Développement, AfD*) from France; the German Technical Cooperation (or *Deutsche Gesellschaft für Internationale Zusammenarbeit,* GIZ), and the Credit Institute for Reconstruction (*Kreditanstalt für Wiederaufbau* or KfW) from Germany; the Swiss Agency for Development and Cooperation (SDC) from Switzerland; and the International Cooperation Agency of the Association of Netherlands Municipalities (VNG) from the Netherlands.

Borrower Contribution: The Palestinian Authority committed to contribute 10 percent of donor financing equivalent to US$11.59 million. The equivalent of EUR4 million remained undisbursed at closing (ICR, paragraph 64). According to the World Bank Task Team, the government disbursed the equivalent of Euro7.8 million that included (i) 10 percent of aggregate donor commitment of EUR10,672,700, equivalent to US$8.4 million; and (ii) EUR3 million for residual funds that was to be carried over from the Second Municipal Development Project (MDP-2) to the Third Municipal Development Project (MDP-3).

Dates: The two grants were approved on July 21, 2017 and made effective on December 14, 2017. The Mid Term Review (MTR) was conducted on January 19, 2020. The original closing date was on February 28, 2022. The project closed on August 31, 2023 following an 18-month extension. Other important dates were:

- On May 23, 2019 as the first AF (P168544) where TFGWB provided an additional US$10 million and the PDI-MDTF provided an additional US$5 million to finance a new Component 5, Emergency Labor Intensive Gaza Municipal Services and close the financing gap to complete activities under Components 1 and 2. The new component was to expand local services in Gaza municipalities using labor-intensive O&M. MDLF, on behalf of Gaza municipalities, was to pay suppliers eligible recurrent expenditures against ceilings defined in the project operations manual (POM). This AF added three new intermediate/output result indicators (IRIs) to the results framework: (i) number of subprojects completed in Gaza financed by the AF; (ii) number of Gaza municipalities implementing O&M activities; and (iii) number of temporary jobs created in Gaza, with share of female noted. The PDO outcome indicators were unchanged.
- On May 10, 2020 to revise the scope of component 1 – municipal performance and service delivery – to allow municipalities to finance municipal response to COVID-19, sustain the delivery of critical services, and relief to vulnerable communities during the crisis. CERC was added as a new component 6 to provide rapid access to financing in response to imminent crisis or emergencies throughout the life of the project but with no funding allocation. Municipalities were allowed to use part of their grant allocations meant for development activities for urgent COVID-19 response needs.
- On March 2021 to add a second AF of US$25 million to scale up the support for emergency municipal response to the COVID-19 pandemic. This restructuring added (i) US$22.25 million to Component 6; (ii) US$1 million to Component 2 to support municipal emergency policies in response to the pandemic; and (iii) US$1.75 million to Component 4. New outputs and targets were introduced to capture the new activities; and the end targets of PDO indicators were adjusted. The project was extended for the first time from February 28, 2022 to close on February 28, 2023.

- On January 12, 2023 to extend the project closing date by six months – from February 28, 2023, to August 31, 2023; reallocate resources between expenditure categories to complete activities delayed by the lack of timely contributions from the Palestinian Authority (PA), the COVID-19 pandemic, the August 2022 conflict in Gaza, and continued restrictions on the entry of specific materials to Gaza.

Split Rating: A split rating of the outcome will apply because two additional financing resulted in reducing the targets for a couple of PDO outcome indicators. The PDO itself remained unchanged. Output indicators were added with new targets for new activities financed under the 2 AFs.

3. Relevance of Objectives

Rationale

Context: The 1993 Oslo Accords established the civilian Palestinian Authority (PA) in the West Bank and Gaza with security powers in the major urban centers while Israel controlled 61 percent of the area (called Area C) around the West Bank. More than 54 percent of the population in the West Bank and Gaza reside in 11 municipalities. There are also over 100 municipalities with fewer than 25,000 residents. The smallest municipality has only 2,500 residents. Two distinct public services — one managed by the PA in Ramallah, and the other by the *de facto* authority in Gaza delivered services. Local Government Units (LGUs) deliver key infrastructure and basic services. In 1997, the Local Government Act specified that local government units were to deliver 27 functional responsibilities, but according to a 2015 survey, only 80 percent of municipalities were found to provide fewer than 12 of the prescribed services — electricity, water services, and solid waste management services. Local governments struggle to meet their assigned functions due to: (i) sub-optimal revenue potential, (ii) weak budgetary practices, and (iii) administrative fragmentation. Local revenues contributed only 11 percent of total government revenues. The utility fees collected by municipalities that provide water and electricity were not prioritized for O&M costs of these services. The lack of financial and institutional capacity of municipalities in the West Bank and Gaza also limited their ability to mobilize private capital for urban infrastructure.

Country Plans: The PDO was aligned with the West Bank and Gaza National Development Plan (2021-2023); with Focus Area 8, "*Improving Services to Citizens*" that focused on increasing the quality of municipal service delivery. The PDO also supported the Local Governance Sector Strategy of the Palestinian Authority (PA), particularly Objective 3 "*Empowerment of LGUs towards Financial Sustainability*", by contributing to improving the financial sustainability of municipalities. The PDO was also aligned with the PA's updated Nationally Determined Contributions (NDCs, 2021) in adaptation and mitigation by assisting municipalities to manage their growth, rehabilitate and finance resilient infrastructure (especially roads). On the mitigation side, the PDO also calls for the adoption of renewable energy, improving walkability of streets, supporting improvements in solid waste management (SWM), and wastewater management.

World Bank Country Partnership Framework: The PDO was relevant to the World Bank Group's Assistance Strategy 2022-25, West Bank and Gaza, (Report No. 156451-GZ). The PDO was aligned with *Objective 1.2: Support service providers to be financially sustainable*, and *Objective 2.3: Improve infrastructure through Bank investment that leverages donors' resources and attracts private sector investment*. The CPF's objectives were to increase access to basic services, provide assets and services to support economic growth, inform municipal decision making on natural hazard risks, and reduce GHG emissions by improving urban planning and adopting green technology. The PDO supported these CPF priorities. The PDO was aligned with the World Bank's Middle East and Northern Africa (MENA) Regional Strategy 2020–2024 by contributing to improving the quality of basic service delivery and citizen engagement under *Strategic Pillar One: Renewing the Social Contract*. It also contributes to the social contract by assisting local governments to provide services and respond to the needs of their constituents. The PDO also contributed to the MENA regional strategy pillar on *Resilience to Climate Shocks* by integrating natural hazard risk information into their municipal strategic decision-making processes, capital investment planning, and infrastructure design. The PDO was aligned with the *Reconstruction conflict affected areas* pillar, by financing activities in municipalities affected by conflict in Gaza. The PDO was relevant to the goals of the Bank's Fragility, Conflict, and Violence prevention (FCV) Strategy for 2020-2025 by financing the capacity building needs of urban service delivery institutions (Pillar 3: *Helping countries transition out of fragility*) and providing basic services to support local communities. The PDO also supported Pillar 2 (*Remaining Engaged During Crises and Active Conflicts*) by supporting the recovery of areas affected by conflict, especially in Gaza, and offering an operational vehicle (CERC) for emergency support.

World Bank Experience in the Sector, in the Country: The World Bank has financed the previous Emergency Municipal Services Rehabilitation Project (EMSRP), and the first two MDPs. This project was to consolidate and scale up the gains from the first two Municipal Development Projects (MDPs). The first two enhanced municipal performance and accountability with the introduction of the Strategic Development and Investment Plans (SDIPs) and achieved some economies of scale by forming Joint Service Councils (JSC) to jointly provide services, planning and development functions. JSCs were marked by weak governance, lacked legal agreements among member LGUs, or had unclear rules on fee contributions or arrears management. A Local Governance Services Improvement Program, (RSMP in the PAD) was under preparation at the time of this project's implementation.

Overall, the relevance of the objective is rated High. The PDO was set at a realistic level given the drivers of fragility, sources of resilience, and risk factors of the program design.

Rating
High

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1
Objective
To enhance the institutional capacity of municipalities in the West Bank and Gaza for more accountable service delivery

Rationale

THEORY OF CHANGE: A Theory of Change (TOC) was not prepared at appraisal. A TOC was prepared at the time of the March 2021 AF.

Inputs: were to include the distribution of block and performance grants to eligible municipalities and the design of a performance assessment of municipalities. In addition, inputs were to include the technical assistance designed to build the capacity of both the central government agencies to support the municipalities to deliver services to their constituents.

Outputs: were to be the drawing up of the performance assessment systems, the actual conduct of those performance assessments, the delivery of the capacity development activities of the municipalities to deliver services and the completed infrastructure investments. In addition, the outputs would include the scores achieved by the municipalities following the MDLF assessments. These included, for example, the scores achieved by municipalities to graduate to category "A", because these represent enhanced capacity to engage with the private sector for municipal service delivery or undertaking local economic development activities; scores indicating that subprojects were completed within each funding cycle; the scores received to show that the share of investments financed by the project were technically adequate and used as intended.

Outcomes: were to be improved rankings of the municipalities following the conduct of performance assessments by MDLF. Another outcome was the expressed satisfaction of the municipalities with the assistance provided by the MDLF and the MOLG.

Critical Assumptions: No assumptions were presented when the TOC was prepared at the March 2021 AF. At closing, the following assumptions were included as part of the reconstructed TOC, which if realized would enhance the achievement of the PDO: (i) the Government of Israel (GOI) would continue to transfer revenues to the Palestinian Authority (PA); (ii) municipal authorities continue to have access to areas A and B; (iii) municipalities' would continue to have access to materials and required imports for the construction of works in the West Bank and Gaza (WB&G); (iv) the PA would transfer the government's contribution to the project; (v) there is sufficient supply of workers for labor intensive works; and (vi) no outbreak of conflict to prevent the delivery or completion of works.

OUTPUTS:

The following output targets were almost achieved or achieved:

- 23 municipalities reported enhanced capacity to engage with the private sector for municipal service delivery and/or local economic development. The original target of 25 municipalities was almost achieved.
- 108 municipalities completed subprojects in cycle 1 (89 in the West Bank and 19 in Gaza). 139 municipalities completed subprojects in cycle 2. The original combined target of 140 municipalities was almost achieved.
- 94.5 Percent of municipalities surveyed indicated satisfaction with MDLF support, interaction, and transparency. The baseline was 75 percent, and the original target of 95 percent was almost achieved.
- Municipal audit standards were developed achieving the target.
- 20 municipalities prepared crisis management and resilience plans. The original target of 20 was achieved. These were the largest municipalities. They worked with a local university to plan or prepare a strategic framework to respond to shocks. These plans would then support municipalities to

minimize the existing risk by prioritizing investments in their respective Strategic Development and Investment Plans (SDIPs).

The following output targets were **exceeded**:

- 35 municipalities graduated to Category A. The baseline was 5, the original target was 15 municipalities.
- 100 percent of investments financed under the project were in adequate technical state and used as intended. The original target was 80 percent.
- 134 municipalities had functional complaint systems. The original target was 100.

OUTCOMES: The following outcome target was **almost achieved:**

- 96 municipalities have moved up a rank. The original target was 100 municipalities.

The following outcome targets were **exceeded:**

- 700,000 people were provided with improved urban living conditions. The original target was 500,000 people. 350,000 of these people were female meeting the original target of 350,000 female beneficiaries.
- 159 Municipalities with public disclosure of executed budget and SDIP. The original target was 100. This was an indicator of transparency and accountability.
- 84.20 percent of beneficiaries surveyed expressed their satisfaction with the relevance, coverage, impact, and accessibility of the completed municipal subprojects. The original target was 80 percent.

Overall, the efficacy of the project to achieve the objective of enhanced capacity in municipalities for more accountability in delivering services is rated **Substantial**. The institutional capacity inputs led to completing the investment outputs according to agreed standards. The target municipalities received improved scores in the assessments of how they were accountable for the infrastructure investments delivered to their residents.

Rating
Substantial

OBJECTIVE 1 REVISION 1
Revised Objective
To enhance the institutional capacity of municipalities in the West Bank and Gaza for more accountable service delivery.

Revised Rationale
The objective was unchanged. One PDO outcome indicator target was reduced.

Revised TOC: The TOC was unchanged. AF1 introduced two new activities and associated outputs and output targets. Restructuring revised the scope of component 1 – municipal performance and service delivery

– to allow municipalities to finance municipal response to COVID-19, sustain the delivery of critical services, and provide relief to vulnerable communities during the pandemic.

Revised Inputs: AF1 provided additional resources to finance a new activity, Component 5 – Emergency Labor Intensive Gaza Municipal Services – and fill the financing gaps of activities that have been initiated under the first two components under this objective. The new activity was to expand local services in Gaza municipalities using labor-intensive operations and maintenance (O&M). MDLF, on behalf of Gaza municipalities, was to pay suppliers eligible recurrent expenditures against ceilings defined in the project operations manual (POM). CERC was also added as a **new** activity, Component 6, to finance rapid access to respond to imminent crisis or emergencies. The new component 6 had no funding allocation. Municipalities were allowed to use part of their grant allocations meant for development activities under components 1 and 2 for urgent COVID-19 response needs.

Revised Outputs: were to be the subprojects financed by the AF in Gaza, the Gazan municipalities who have implemented O&M activities, and jobs created in Gaza from the added resources. In addition, revised outputs were to include the number of beneficiaries, the paid working days created using the Labor-Intensive Public Works (LIPW) intervention, municipalities that prepared crisis management and resilience plans, and the share of beneficiaries surveyed who expressed satisfaction with the impact achieved under the COVID-19 response and the share of funds that were allocated towards subprojects that primarily benefited women.

Revised Outcomes: The PDO outcome indicators were unchanged but added a target for the beneficiaries of how the municipalities responded to COVID-19.

OUTPUTS: The following output targets financed by the AF were **achieved** or **exceeded**:

- 324 subprojects were completed by Gaza municipalities. The target was 30. According to the World Bank Task Team, the target assumed that each of the 25 municipalities would implement at least one big sub-project. The municipalities implemented multiple smaller-scale sub-projects instead, to distribute the support across various neighborhoods and expand their outreach and inclusivity.
- 5,572 temporary jobs were created in Gaza. The target was 5,000. 834 of these temporary jobs were taken up women, exceeding the target of 750 females.

OUTCOMES: The following outcome targets were **exceeded**:

- 96 municipalities that have moved up a rank. The reduced target was 80 municipalities.

Overall, the efficacy of the project to achieve this objective with additional resources and targets is rated Substantial. MDLF assessments resulted in more than the originally target municipalities to receive an upgrade in their performance ranking to reflect accountability in delivering services, including in response to COVID-19 pandemic.

Revised Rating
Substantial

OBJECTIVE 2

Objective

To enhance the institutional capacity of municipalities in the West Bank and Gaza for more sustainable service delivery.

Rationale

THEORY OF CHANGE: A Theory of Change (TOC) was not required at preparation, but a TOC was developed during the preparation of the second Additional Financing (AF2). The objective was to promote the financial sustainability of municipalities.

Inputs: were to include grants that would finance training and technical assistance and the financing of O&M activities for completed infrastructure assets in solid waste, roads, and water. In addition to the investments in capacity building directed at the target municipalities, financing was also directed to enhance the capacity of the central agencies, the Ministry of Local Government, the Municipal Development Lending Fund (MDLF) to deliver operations and maintenance (O&M) training needs to target municipalities and build their capacity to partner with the private sector to deliver municipal services.

Outputs: were to include the municipal revenues collected from the services delivered, a road map for MDLF to allocate grants to municipalities, conduct of audit by the Ministry of Local Government and O&M expenditures for the completed infrastructure investments such as rehabilitated electricity networks, rehabilitated water, and wastewater networks, newly constructed or rehabilitated roads, rehabilitated storm water drainage, solar energy units installed, and solid waste containers or trucks supplied. Another output was to have been a PPP analytical study and a list of capacity development activities for municipalities to engage with private sector providers for municipal service delivery or local economic development undertakings.

Outcomes: were to be that municipalities gain operating and enterprise surplus with no increase in arrears while providing for the operational and maintenance needs of the completed assets. Outcomes were also to include enhanced ability of central agencies to assist municipalities in delivering services or partnering with the private sector to deliver municipal services or undertake local economic development projects. Another outcome was the expressed satisfaction of the municipalities with the assistance provided by the MDLF and the MOLG.

Critical Assumptions: No assumptions were presented. The same considerations noted under Objective 1 apply here.

OUTPUTS: The following output targets were **achieved** or **exceeded**:

- Under the first funding cycle, the following investments were completed
    - in the West Bank, the following targets were met:
        - Supplied 1 backhoe loader, 1 crane for electrical works, 2 skid loaders, 1 excavator, and 1 hydraulic platform utility vehicle.
        - Installed 1,908 solar energy units and rehabilitated 3.5 km of electricity network
        - Supplied 1 solid waste truck and 1,154 solid waste containers
        - Supplied 2,114 prepaid water meters (target was 2,100), 1 water pump, rehabilitated 18 km of water networks, and connected 125 households to water lines
        - Constructed or rehabilitated 130 km of roads, 508 streetlights, 1,108 km of storm water drainage, 72,847 km of sidewalks

        - Connected 127 households to wastewater lines and rehabilitated 8.8 km of wastewater networks
        - Constructed 23,326 m2 of public gardens and 3,691 m2 of public buildings
    - In Gaza, the following targets were met
        - Installed 55 solar energy units
        - Supplied 1,342 solid waste containers
        - In water, supplied 9 water pumps, rehabilitated 35 km of water network, connected 2,385 households to waterlines (target was 2,370 households),
        - In wastewater, rehabilitated 58 km of wastewater networks, and connected 2,905 households
        - In public facilities, constructed 6,555 m2 of public buildings and 28,700 m2 of public gardens
        - In roads, rehabilitated 50 km of roads; installed 2,586 streetlights; rehabilitated 4,620 km of storm water drainage; and rehabilitated 29,553 km of sidewalks.
- Under the second funding cycle, the following investments were completed
    - In the West Bank, the following targets were met:
        - Supplied 11 backhoe loaders, 2 cranes for electrical works, 8 skid loaders, and 11 hydraulic platform utility vehicles.
        - Installed 2,492 solar energy units; rehabilitated 0.59 km of electricity networks
        - In solid waste, supplied 8 solid waste trucks and 1,406 solid waste containers
        - In roads, constructed or rehabilitated 103.7 km of roads (target was 106.8 km); installed 1,918 streetlights (target was 1,924), rehabilitated 1,910 km of storm water drainage (target was 1,898 km); and rehabilitated 57,745.5 km of sidewalks (target was 57,352 km)
        - In water, supplied 1 water pump, rehabilitated 18 km of water networks, and connected 319 households to water lines
        - In wastewater, rehabilitated 4 km of wastewater networks, connected 77 households to wastewater lines
        - In public facilities, constructed 4,500 m2 of public buildings and 6,880 m2 of public gardens
    - In Gaza, the following targets were met:
        - Installed 146 solar energy units (target was 117)
        - In solid waste, supplied 10 solid waste trucks and 824 solid waste containers
        - In roads, constructed or rehabilitated 56,771 km of roads (target was 60,563 km) supplied 2,428 streetlights (target was 2,480), rehabilitated 3,606 km of storm water drainage (target was 4,358 km), and rehabilitated 31,200 km of sidewalks (target was 39,224 km)
        - In water, rehabilitated 66.8 km of water networks (target was 60.8 km), and connected 4,100 households to the waterlines (target was 4,025 households).
        - In wastewater, rehabilitated 65.7 km of wastewater networks (target was 60.3 km); connected 4,061 households to the wastewater networks (target was 3,397 households) and supplied 4 pumps (target was 3).
        - In public facilities, constructed 70,030 m2 of public buildings (target was 7,804 m2) and 13,776 m2 of public gardens (target was 13,720).

- Under the AF, 25 Gaza municipalities successfully implemented O&M activities, as targeted. The following assets were completed meeting targets unless exceeded:

  - In solid waste management, supplied 126 solid waste management containers (target was 90).
  - In roads, constructed or rehabilitated 13.1 km of roads (target was 12.1 km), and installed 144 streetlights (target was 123 units), and completed 16,394 km of sidewalks (target was 14,723 km)
  - In wastewater, rehabilitated 19.4 km of wastewater networks (target was 18.6 km) and rehabilitated 1,080 km of storm water drainage, roads, and culverts
  - In water, connected 2,513 households to water lines (target was 2,302 households) and supplied 2 water tanks
- A road map for MDLF as lending intermediary was completed and shared with development partners, as targeted.
- The World Bank Task Team confirmed that the PPP analytical study was delivered. The study included a list of 20 PPP initiatives that municipalities could undertake with private sector providers to deliver municipal services or undertake local economic development activities.
- 150 municipalities achieved yearly increases in collected revenues. With a baseline of 50 municipalities, the original target was 120 municipalities.

OUTCOMES:

- 57 municipalities achieved operational and enterprise surplus. They did not increase their arrears. The original target was 80, the target was **not achieved** because of the limitations in mobility brought about by the response to the COVID-19 pandemic.
- 84.20 percent of beneficiaries surveyed expressed their satisfaction with the relevance, coverage, impact, and accessibility of the completed municipal subprojects. The original target was 80 percent.
- According to the World Bank Task team, the Municipal Development and Lending Fund (MDLF) confirmed that 2 out of the 20 PPP initiatives were implemented. These were (i) a service contract for a park with Qalqilia municipality; and (ii) a contract to develop a public park, construct a swimming pool, and water land for Al Thahriyah municipality.

Overall, the efficacy of the project to achieve this objective of enhancing municipal financial capacity for more sustainable service delivery is rated Modest The municipalities gained operating and enterprise surplus and no increase in arrears although not in the expected magnitude (57 of 80). They were assessed to have met operational and maintenance needs of the completed assets. The central agencies enhanced their ability to assist municipalities evident in the completed assessments of these municipalities following the improved design in the conduct of such assessments and the expressed satisfaction of the municipalities with the assistance provided by the MDLF and the MOLG. Some level of achievement (2 out of 20 PPP) indicated partnering with the private sector to deliver municipal services.

Rating
Modest

OBJECTIVE 2 REVISION 1

Revised Objective
To enhance the institutional capacity of municipalities in the West Bank and Gaza for more sustainable service delivery. The objective was not revised.

Revised Rationale
One outcome indicator was reduced because of the impact of COVID-19 mobility restrictions and the Gaza conflict. Both reduced the capacity of the municipalities to achieve any surplus in their O&M budgets.

REVISED TOC: The TOC was unchanged.

Revised Inputs: Additional resources were to finance the various activities as part of the municipalities response to COVID-19.

Revised Outputs: In addition to those completed assets above, revised outputs were to include the paid working days created using the Labor-Intensive Public Works (LIPW) intervention, municipalities that prepared crisis management and resilience plans, scores these municipalities received to indicate that they prepared adequate crisis management and resilience plans, the share of beneficiaries surveyed who expressed satisfaction with the impact achieved under the COVID-19 response, and the share of funds that were allocated towards subprojects that primarily benefited women.

Revised Outcomes: were to include the number of beneficiaries, and financially sustainable municipalities that achieved surplus without increasing their arrears. The target was reduced from 80 to 70 municipalities.

OUTPUTS:

- 20 municipalities prepared crisis management and resilience plans. The target added at AF of 20 municipalities was **achieved**. These were the largest municipalities. They worked with a local university to plan or prepare a strategic framework to respond to shocks. These plans would then support municipalities to minimize the existing risk by prioritizing investments in their respective Strategic Development and Investment Plans (SDIPs).
- 586,347 paid working days were created through the Labor-Intensive Public Works (LIPW) intervention as part of the COVID-19 response. The target of 540,000 days was **exceeded**. 276,110 days were in the West Bank and 310,237 days were in Gaza.
- 13 percent of the funds under subcomponent 6(a) – emergency labor intensive municipal services – were allocated to subprojects that would benefit women. The target of 10 percent was exceeded. These subprojects included school buildings, water or solid waste facilities, and support to women-owned community-based organizations.
- 84.90 percent of beneficiaries expressed satisfaction with the impact achieved under the COVID-19 response. The target of 80 percent was **exceeded**.

OUTCOME:

- 57 municipalities with operational and enterprise surplus and no increase in arrears. The revised target was 70, the target was **not achieved**. Municipalities encountered external risks such as the COVID 19 pandemic, which affected the municipal financial performance.
- 250,000 direct beneficiaries of the COVID-19 response. The target of 200,000 people was **exceeded.** These beneficiaries referred to the additional residents that benefited from the AF resources used for the additional investments in Gaza as well as the labor-intensive municipal services and the agreed use of funds for current operating expenditures and equipment.

Overall, the efficacy of the project to achieve this objective with additional resources from AF2 is rated Substantial. 81 percent of the main expected outcome under this objective did not increase their arrears after implementing crisis management plans to address COVID-19 reflecting a significant degree of achievement. The number of beneficiaries and all output targets were achieved or exceeded.

The central government, through the Ministry of Local Government and the MDLF were themselves provided capacity enhancement. They then delivered technical assistance to enhance the capacity of the targeted municipalities to deliver infrastructure services to its constituents by conducting the performance assessments as factors in distributing grants for capital investments. The targeted municipalities showed their capacity to sustain such assets by providing for operations and maintenance needs and receiving scores in their performance assessments as evidence.

Revised Rating

Substantial

OVERALL EFFICACY

Rationale

Original Efficacy: The overall efficacy of the project to achieve its objectives - to enhance the institutional capacity of municipalities in the West Bank and Gaza for more accountable and for more sustainable service delivery - using the original indicators and targets is rated Substantial. The efficacy of the project to achieve the first objective is rated Substantial because enhanced institutional capacity was evident in the infrastructure services they delivered to their constituents. The efficacy of the project to achieve the second objective using the original target outcome indicator is rated Modest. While the central government showed its enhanced capacity to boost the capacity of municipalities to support completed investment assets O&M, the main target outcome indicator was not achieved. There is a moderate shortcoming in the lack of indicator regarding enhanced private sector participation to deliver services in the target municipalities. The overall efficacy is rated Substantial because most of the target indicators were almost achieved, achieved, or exceeded even as the one outcome indicator for the second objective was unmet.

Overall Efficacy Rating

Substantial

OVERALL EFFICACY REVISION 1

Overall Efficacy Revision 1 Rationale

Revised Efficacy: The efficacy of the project to achieve the first revised objective is rated Substantial because the revised outcomes provided the evidence that the target municipalities improved their institutional capacity to be accountable for the services delivered to their constituents. The efficacy of the project to achieve the second revised objective for sustainable service delivery using revised indicators was also Substantial. Output targets were achieved or exceeded with a significant degree of the outcome target achieved. The outcome targets related to addressing COVID-19 were exceeded. The overall efficacy is rated Substantial.

Overall Efficacy Revision 1 Rating

Substantial

5. Efficiency

Economic Efficiency: At appraisal, no cost benefit analysis was conducted because of uncertainty in the works to be financed under the two SDIP cycles. The capacity building packages to be financed was also unclear.

At closing, a cost benefit analysis was conducted. The qualitative analysis measured the impact of the new infrastructure on economic growth and job creation and the impact of improved municipal governance. The quantitative assessment resulted in an internal rate of return (IRR) for the investments in road rehabilitation (equivalent to 70 percent of total investments) at 14.91 percent and a benefit-cost ratio of 2.0. In the case of WASH, the value of the avoided cost of desalinated water from private vendors produced an estimated IRR of 72.36 percent and a benefit-cost ratio of 9.71. For solar energy investments, the IRR was estimated at 4.82 percent and a benefit cost ratio of 1.3 considering the avoided costs of grid-based electricity generated from natural gas. If benefits from greenhouse gas (GHG) emissions were included, the IRR for the energy investments increased to 9.09 percent and the benefit cost ratio to 1.8. All benefit cost ratios of the investments were over 1. For qualitative benefits from improved municipal governance, these included tangible share in subprojects that relate to improving health service delivery (e.g., water, wastewater, and solid waste investments) and improved local transparency and accountability with evidence provided in the indicators used in the results framework.

Administrative and Operational Efficiency: Administrative costs relative to the entire project amount was at a reasonable rate of 8.12 percent. Staff turnover was minimal. Although some qualified technical staff were observed to be working in more than one municipality at the same time. MDLF addressed this issue with the hiring of technical consultants. Consistent management practices were maintained throughout project implementation. The project completed the planned activities although the project was extended by 18 months to complete the activities delayed by COVID 19 pandemic lockdowns and conflict flare ups during implementation. The extension did not increase the implementing agency's supervision costs. Delays in PA counterpart financing led to some PA-financed Gaza subproject implementation delays. These were linked to the entry of some construction materials, equipment, and goods and O&M commitments for completed infrastructure assets. The Ministry of Finance also did not disburse EUR4 million of its counterpart commitment to MDLF by the time the project closed. These hurdles were overcome by lessons learned from prior MDP implementation.

Overall, the project efficiency is rated Substantial

Efficiency Rating

Substantial

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

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

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

6. Outcome

	Original	**After AF1**
Relevance of Objective	High	
Efficacy of the Project to achieve		
Obj 1 - Accountability	Substantial	Substantial
Obj 2 - Sustainability	Modest	Substantial
Overall Efficacy	Substantial	Substantial
Efficiency	Substantial	
Outcome	Moderately Satisfactory	Satisfactory
Outcome Value	4	5
Disbursement (in US$ millions)	14.15	75.94
Rate of Disbursement	14.15/75.94=18.63	61.79/75.94=81.37
Weighted Value of Outcome	4*0.1863=0.74	5*0.8137=4.07
Value of Final Outcome	0.74+4.07 =	4.82 rounded off to 5
Value of Final Outcome		Satisfactory

a. Outcome Rating

Satisfactory

7. Risk to Development Outcome

The West Bank and Gaza continue to face high risks in sustaining the outcomes achieved. The political, security, macroeconomic, and institutional capacity risks arise from the ongoing war. West Bank and Gaza continues to be vulnerable because it is a fragile, conflict, and violence-affected region (FCV). All development outcomes of this project are at high risk.

8. Assessment of Bank Performance

a. Quality-at-Entry

The World Bank team designed this project as a third after the implementation of the first two similarly designed projects. The World Bank team worked closely with the government and other donor partners to address the territory's reform priorities, anticipated implementation issues from the constant threat of conflicts or violence, and its development strategy. A multi-disciplinary team collaborated to address poverty, gender, climate resilience, and social development aspects of service delivery. The Bank team designed the project by incorporating lessons from similar operations in similar FCV contexts as well as those from the previous two projects in the series. Some of these included: (i) municipal management consisting of planning, finance, and service delivery would focus on strengthening municipal finance to help improve the remaining functions. Hence, the Bank team designed key performance indicators on improving revenues and arrears management as incentives to strengthen the financial management of the target municipalities. (ii) Targeting more municipalities spreads the expected outcomes while spreading risk across a wider set of participants. More participating municipalities meant more competition. Weaker municipalities would have opportunity to improve performance to qualify for future project funding. Non-performing municipalities would not receive funding. Hence, the World Bank team targeted 144 municipalities. (iii) Simplifying the performance measurement system strengthens incentives and lowers transaction costs. Under MDP 1 and 2, a complex ranking system showed that certain key performance indicators (KPIs) proved too complex and were unachievable. Hence, the World Bank team simplified the system using a "ladder" of steps to improve performance from a low "D" to a high "A" by using KPIs that focus on performance outcomes instead of outputs. (iv) Capacity development support to specific output/outcome indicators may enhance social accountability**.** Under MDP 2**,** planned and executed SDIPs and budgets were disclosed. Some municipalities established grievance redress systems. Participatory planning manuals or guides were adopted. Hence, the World Bank team scaled up these social accountability activities and integrated participatory processes in the municipal management and expenditure cycle. (v) Counterpart contribution may build ownership. The government intended to adopt the performance-based grant allocation formula for central fiscal transfers to the municipalities. Delayed counterpart contributions experienced under MDP 2 delayed implementation. Hence, a cabinet level decision committed the government to provide 10 percent of the total donor contribution as its counterpart funding for the first time and has agreed to disburse quarterly payments. vi) Donor coordination was institutionalized under the previous Emergency Municipal Services Rehabilitation Project (EMSRP), and MDPs 1 and 2 and included in the proposed Local Governance Services Improvement Program. The World Bank team was to continue this coordination, joint financing reporting to all donors, and conducting joint supervision missions.

The project design was flexible, allowing AF to address shortfalls in international aid from donor partners. Adjustments were to be captured in the Project Operations Manual (POM). The project was strategically relevant to the government's needs. Lessons from preceding and similar projects informed the design.

Expecting incremental resources during implementation was an adaptive approach. The implementing agency was an experienced entity with several years of Bank-financed experience to mitigate implementation risk. Overall Bank performance to ensure the quality at entry is rated Satisfactory.

Quality-at-Entry Rating
Satisfactory

b. Quality of supervision

The World Bank team supervised this project and conducted 12 supervision missions over the 7-year implementation period, including virtual missions from March 2020 to late 2021 during the COVID-19 pandemic. Aide Memoires captured key issues and agreed actions, and timely implementation status and results reports. There were two TTL handovers, both located in the field, and most team members remained engaged throughout the Project, some having been part of the previous MDP projects. Two AFs were negotiated. The project team remained constant with skills to provide technical guidance. The team conducted the January 2020 MTR and highlighted corrective measures for support including risks and adequacy of safeguard measures. The World Bank team met regularly with Israeli authorities to follow-up on approvals for the import of construction materials required for the Project.

Bank performance is rated Satisfactory. Bank Performance in Ensuring Quality at Entry and Quality of Supervision are both rated Satisfactory.

Quality of Supervision Rating
Satisfactory

Overall Bank Performance Rating
Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The results framework specified a clear PDO. The indicators were sound, encompassed the outcomes of the PDO and were reflected in the results framework. Intermediate results indicators captured their contributions to achieving the PDO. The indicators were specific, measurable, achievable, and time bound. The indicators had baselines and targets. Key performance indicators (KPIs) were updated from those used in MDPs 1 and 2 to measure municipal performance considering the priorities of the PA and respond to the issues faced by the territory. Following the lessons from the previous MDP series, the POM would address any changes in local conditions, or availability of data in the M&E framework and the final design of the KPIs. An independent consultant team was to verify the achievement of municipal KPI results including the inspection of supporting documents and conducting site visits. Questionnaires were to be distributed to participating municipalities to assess their performance at baseline, midterm and closing. A transparent appeal mechanism was included in design for municipalities to submit appeals regarding their proposed ranking within a 10-day period before disclosing performance rankings to the public.

b. M&E Implementation

The MDLF implemented the M&E as designed. AF1 and AF2 added new intermediate results indicators (IRIs) to track activities related to the components introduced by these AFs. The verification needs of indicators related to the completion of municipal assessments were completed in a timely manner, despite the difficulty of movement between territories and the pandemic. The Geo Enabling Initiative for Monitoring and Supervision (GEMS) piloted to monitor compliance with environmental and social safeguards was to be expanded for M&E use of the successor project, the RSMP. Only two outcome indicators were reduced as part of restructurings and in response to the COVID 19 pandemic's impact on implementation. The MDLF conducted a series of independent verification of results to confirm findings and conducted beneficiary feedback surveys to gain qualitative information relating to the achievement of results.

c. M&E Utilization

The MDLF and the World Bank team used the results of the M&E system to assess the achievement of the objectives and to test the links in the results chain. For example, the scoring system used in the performance assessments of the municipalities provided the M&E system with the evidence to support the achievement of the targeted infrastructure investments and the capacity of the municipalities to support the O&M needs of these assets. The KPIs created a robust platform for monitoring the project progress. The M&E findings were used to inform the direction of the project, and to develop a strategy for the AFs.

Overall, the quality of M&E is rated as High.

M&E Quality Rating

High

10. Other Issues

a. Safeguards

Environmental Safeguards. The project received a category “B” and triggered OP/BP 4.01 Environmental Assessment and OP/BP 4.09 Pest Management. The Environmental Management Framework was disclosed prior to project appraisal and guided implementation. Environmental and Social Management Plans (ESMPs) were prepared for all relevant subprojects and were attached to construction documents. The project complied with the environmental safeguards (ICR, paragraph 74). Local technical consultants inspected construction sites weekly and confirmed compliance with the ESMPs. Notes and penalties to contractors were introduced to further ensure environmental safeguards compliance. During the COVID 19 pandemic, all relevant framework documentation were updated to include measures to ensure no environmental issues from the activities. No major environmental safeguards issues were reported except dust, noise, and safety issues during construction that were satisfactorily addressed through the Grievance Redress Mechanism (GRM, see below).

Social Safeguards. The project triggered the World Bank's Policy on Involuntary Land Acquisition and Resettlement (OP 4.12). The Land Acquisition and Livelihood Policy Framework (LALPF) and the subproject-level Land Acquisition and Livelihood Action Plan (LALAP) indicated compliance with the World Bank's land acquisition and resettlement policies. The project received 118 complaints, mostly related to dust, working conditions, and accessibility to houses and sidewalks. The project resolved all relevant complaints under the GRM. The implementing agency hired social safeguard consultants to address the risks arising from municipalities' inadequate knowledge of the requirements of implementing numerous small subproject investments across areas with severe movement restrictions and constant fragility. A Geo Enabling Initiative for Monitoring and Supervision (GEMS) was piloted to overcome the challenge of monitoring hundreds of works in severely mobility-restricted areas and fragile contexts. The GEMS was used to monitor compliance with environmental and social safeguards (ICR, paragraph 63).

b. Fiduciary Compliance

Financial Management (FM). The project complied with the World Bank's FM and disbursement requirements (ICR, paragraph 77). MDLF has and experienced FM team with extensive experience on World Bank-financed projects for the past number of years. MDLF used six Designated Bank Accounts (DAs) at the National Bank (TNB) to cover all the Trust Funds financing this project to avoid comingling of funds from other donors or other projects. MDLF used an automated accounting system to create a separate cost center. Other accounting software and excel spreadsheets captured daily transactions and generated financial reports. MDLF office in Ramallah centralized all payments. All external audit reports and management letters were submitted on time. The auditor issued clean audit opinions on all project's financial statements and the management letters did not report significant weaknesses in internal controls.

Procurement. The project complied with the July 2016 World Bank Procurement Regulations for IPF Borrowers (ICR, paragraph 76). Procurement followed the procedures in the World Bank-approved MDLF Procurement Manual, the procurement for activities conducted by MDLF, and by the municipalities overseen by the MDLF. The World Bank team conducted five ex-post procurement reviews. All reviews confirmed compliance with the Bank's Procurement Regulations and the MDP Procurement Manual. Some procurement issues were identified and resolved. These included procurement delays, underestimated bids, underperformance of some contractors, delays in issuing some payments, and unavailability of construction materials, equipment, and other goods, particularly in Gaza.

c. Unintended impacts (Positive or Negative)

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d. Other

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11. Ratings

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

12. Lessons

The operation identified the following lessons:

- ***Local governments in an FCV (Fragile, Conflict, and Violence) environment may benefit from incremental assistance***. In this project, the implementation agency has a track record of delivering quality operations in a complicated and FCV environment. By continuing to use the same implementing agency, its capacity to institutionalize systems and procedures from lessons offered by completing prior projects allowed them to increase the technical ambition of subsequent projects. This proven implementation arrangement may serve as a prototype to achieve results in building local government capacity.
- ***Formulating impactful grants that follow international best practices may benefit the response to local needs****.* In this project, allocating grants used international best practices. For example, this project adopted a high share of capital grant funding relative to other funding sources. This project was the only source of municipal funds for infrastructure. A substantial grant size was between US$11-15 per capita rather than the global convention of over $5-10 per capita. The grant allocation formula responded to local conditions by allowing the use of funds for operational expenses, acknowledged financial sustainability needs, and by adding substantial needs-based focus.
- ***Financing larger investments may lead to more transformational results****.* In this project, as MDP moved from 1, 2, to 3, proposed investments in West Bank municipalities evolved into fewer and larger investments. This signified increasing ambition as municipal capacity improved over time. Encouraging such flexibility boosts municipalities' confidence to focus on larger investments. Future operations in FCV environments may consider such progressive flexibility and support for intermunicipal cooperation to facilitate transformational results.
- ***Committing to counterpart financing may better promote local ownership of completed investment projects****.* In this project, the MDLF and the MOLG implemented the various projects to show ownership of these activities. However, counterpart contributions earlier committed to facilitate the sustainability of these completed investments did not materialize. To mitigate the volatility of the source of counterpart funds (aid from the international donor partners), future operations in FCV countries may design creative commitments to make available counterpart financing to reflect ownership and sustainability of project investments.
- ***Customized technical support may further enhance the capacity of municipalities***. In this project, the capacity-building needs of municipalities were designed as opportunities to

be addressed as these arose. For example, local technical consultants and TA were customized to solve procurement, safeguards, technical designs, etc. issues and met key performance indicators to achieve results in municipal finance projects. Other areas were identified that required additional attention - cost accounting systems, IFMIS implementation, green spaces investment, and budget execution – and were added as interventions to enhance capacity.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provided a reasonably detailed overview of the operation. The TOC created during the AF2 and offered as part of the ICR provided a reasonable overview of the causal links between the inputs, outputs and expected outcomes of the project to convince the reader of the ratings reached. The annexes adequately supported the narrative to demonstrate the achievements of the project. The lessons learned were useful and grounded in experience. Overall, the quality of the ICR is rated Substantial.

a. Quality of ICR Rating
Substantial