Note to Task Teams: The following sections are system generated and can only be edited online in the Portal.

Combined Project Information Documents / Integrated Safeguards Datasheet (PID/ISDS)

Appraisal Stage | Date Prepared/Updated: 23-Mar-2017 | Report No: PIDISDSA20451

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
West Bank and Gaza	P159258	GZ-Third Municipal Development Project	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
MIDDLE EAST AND NORTH AFRICA	20-Mar-2017	20-Jul-2017	Social, Urban, Rural and Resilience Global Practice
Lending Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Palestine Liberation Organization (For The Benefit of the Palestinian Authority)	Municipal Development Lending Fund (MDLF)	

Proposed Development Objective(s)

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

Components

Municipal Performance and Service Delivery
Capacity Development
Municipal Partnership Projects
Project Implementation Support and Management Cost

Financing (in USD Million)

Financing Source	Amount
Borrower	11.50
FRANCE: Govt. of [MOFA and AFD (C2D)]	10.64
NETHERLANDS, Govt. of THE (Except for MOFA/Min of Dev. Coop	1.28
GERMANY: KREDITANSTALT FUR WIEDERAUFBAU (KFW)	31.91
State and Peace Building Fund	1.00
Special Financing	15.00
SWITZERLAND: Swiss Agency for Dev. & Coop. (SDC)	4.04
West Bank & Gaza - Non IBRD Funded	20.21
Total Project Cost	**95.59**

Environmental Assessment Category

B - Partial Assessment

Decision

The review did authorize the preparation to continue

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Other Decision (as needed)

B. Introduction and Context

1. **The Palestinian Authority (PA) was established in the West Bank and Gaza shortly after the Oslo Accords of 1993**. The PA assumed civilian responsibility for most of the Palestinian residents: its security powers were limited, however, to the major urban centers. Israel maintained full control of large tracts of land around settlements and primary movement axes, leaving 61 percent of the West Bank (called Area C) outside the PA's reach. Under the Oslo accords, this arrangement was intended as a temporary measure, to be replaced by a final-status agreement by the year 2000, but it still remains in force. Several peace processes were initiated but none so far have been successful. In 2007, the National Unity Government collapsed and violent conflict erupted in Gaza between the two political parties: Fatah and Hamas, resulting in two separate government entities, one based in Ramallah and the other in Gaza. Although a consensus government was established in 2014 (made up of a cabinet of technocrats, who are not affiliated with any political party, endorsed by both *Fatah* and *Hamas*) the internal polity remains divided.

2. **The economic situation remains worrying with recent growth being mainly driven by Gaza reconstruction.** Unemployment in the West Bank and Gaza continues to be extremely high and has further increased to 27%. As many as quarter of the population lived below the national poverty line according to the latest available data (Palestinian Central Bureau of Statistics, 2011).

3. **On the fiscal front, recent growth and fiscal consolidation efforts have reduced the relative size of the PA's deficit. However, Palestinian economic growth and PA revenue potential remain significantly depressed by movement and access restrictions.** The inability of Palestinians to exploit economic opportunities in Area C, for example, has been estimated by the Bank as reducing potential Palestinian GDP by up to US$3.5 billion per year, and potential revenue by up to US$800 million a year. Low tax effectiveness in Gaza and lower than hoped for compliance in the West Bank also affect the PA's revenue potential.

4. **Fiscal pressures are expected to intensify throughout the rest of the year if additional donor aid is not identified.** Aid to the PA budget has declined from 32 percent of GDP in 2008 to about 5 percent for 2016. In nominal terms, aid has declined from about US$2 billion in 2008 to US$700 million projected in 2016, while the PA's total deficit is projected to reach US$1.3 billion or about 10 percent of GDP in 2016, leading to a financing gap in excess of US$600 million. While both budget support and donor aid directed toward development projects have been reduced, the most significant drop occurred in budget support grants. As in previous years, the gap will be financed through borrowing from domestic banks and domestic arrears to the pension fund and private suppliers, unless additional donor aid is identified.

Sectoral and Institutional Context

5. **Local Government Units (LGUs) are critical for the delivery of key infrastructure and basic services, yet they struggle to meet their assigned functions due to (i) sub-optimal revenue potential, (ii) weak budgetary practices, and (iii) administrative fragmentation**. Out of the 27 functional responsibilities specified by the Local Government Act of 1997 for LGUs, eighty percent of municipalities are providing fewer than 6 to 12 of the prescribed services.[1] In addition, capital investment expenditures exhibit significant intertemporal variability and remain relatively small, failing to address the critical needs for service extensions to and economic development in rapidly growing municipalities. The financial and institutional capacity of municipalities in the West Bank and Gaza is also a key constraint limiting the potential to mobilize private capital for urban infrastructure.

6. **Overall, municipal revenues remain significantly below potential** with total local government revenues accounting for only 11 percent of government revenues, sufficient to cover only a minority of LGUs functions. Municipalities exhibit sub-optimum user fee collection and cost-recovery rates for all municipal services[2]. Municipal tax revenues represent only a fraction of municipal budget and are also significantly underutilized[3]. With little tax revenue, municipalities that provide water and/or electricity often divert user fees to cover other municipal costs, contributing to the national debt to water and electricity suppliers.[4] In addition, no formalized and regular grants or transfers is available from the PA to supplement the shortage of LGUs' own-source revenues.

7. **Municipal Financial Management practices continue to be weak, and administrative fragmentation prevents economies of scale in service delivery.** Though there has been significant improvements in many municipalities over the years, in general for most Municipalities financial management practices require further improvement to effectively facilitate decision-making and performance monitoring for municipal service.[5] Municipalities have not yet started to use the new functional budgeting format, and continue to use cash accounting as opposed to accrual accounting, which allows municipalities to show budget surpluses that--after accounting for payment arrears--should have been significant budget deficits. In addition, service delivery is also negatively affected by excessive local administrative fragmentation**.** While more than 54 percent of the population in the West Bank and Gaza resides in 11 municipalities, there are over 100 municipalities with fewer than 25,000 residents, with the smallest municipality consisting of only 2,500 residents. To achieve economies of scale, some municipalities and village councils have formed Joint Service Councils (JSC) to jointly provide services, planning and development functions. However, utility service consolidation remains slow, as evidenced by the 226 small-scale water service providers.[6]

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[1] Despite wide coverage of electricity, water services, and solid waste, the large majority of municipalities (93 of the 120 surveyed) still lack a sewage network (PCBS, 2015). Road infrastructure is also of poor quality in most municipalities.
[2] For example, one of the key municipal services, solid waste management, has only 30, 60, and 60 percent of its user fee collection rate in Bethlehem, Birzeit, and Beit Surik, respectively.
[3] Municipal tax revenues account for 29 percent of total revenues for municipalities without utility revenues compared to 5 percent for municipalities with utility revenues.
[4] For municipalities directly providing electricity or water, the utility fees are the most important source of income. The O&M costs for the electricity and water distribution services are also not prioritized, causing asset depletion and affecting utility service delivery outcomes.
[5] Despite the introduction of new functional budgeting format by the MoLG in 2015, municipalities continue to report budgets with the old format, failing to give an accurate indication of municipal services.
[6] JSCs also suffer from weak governance by member LGUs, reflected in the lack of legal agreement among members and unclear rules on fee contribution and arrears management.

8. **Despite the many challenges faced by municipalities in the WBG, the support through the Municipal Development Project (MDP) over the past decade enabled significant gains in municipal financial management and social accountability, lifting 49 % of municipalities to reach performance rank B+ by 2014.**[7] The MDP, developed by the PA in 2009 with the support of the Bank and Development Partners (DPs), was designed to incentivize the development of municipal management capacity through performance-based grants, supported with demand driven capacity development activities. With the MDP's support, as many as 30 municipalities started to record basic operating and enterprise budget surplus and 122 municipalities developed a fixed asset register in place and updated. In addition, municipal awareness and adoption of citizen feedback channels were enhanced. Ninety-four percent of municipalities applied at least two public disclosure methods on key municipal planning and budgetary documents,[8] while 80 percent applied participatory approaches to update their Strategic Development and Investment Plans (SDIPs).

9. **Covering three-quarters of the Palestinian population, and as the core project for local government support. the proposed MDP3 will consolidate and scale past gains under MDP 1 and MDP 2 in municipal performance and accountability enhancement. In addition, the proposed MDP 3 will start to strengthen the enabling environment at the central level and municipal partnerships with the private sector to improve efficiency and sustainability of municipal services.** The basic municipal capacity developed in financial management and budgeting need to be taken to the next level of improving arrear management practices and own-source revenue performance so that municipalities are able to achieve financial sustainability. Participatory processes need to be integrated throughout the municipal investment cycle thereby strengthening the social contract between Municipalities and citizens/stakeholders. In addition, the proposed MDP 3 will strengthen the capacity of the MDLF and MoLG to enhance the enabling environment for municipalities and sustainability of municipal sector. The proposed MDP 3 will also provide support to MoLG in strengthening its regulatory and oversight role for the LGU sector. Further, municipalities will be supported to develop partnerships with the private sector to improve efficiency and sustainability of municipal services. More generally, the proposed MDP 3 will continue to serve as a model for an eventual fiscal transfer system for the PA.

10. **The proposed MDP 3 is at the center of a series of interlocking interventions by the Bank and donor partners in collaboration with the PA that are aimed at strengthening the institutional development, accountability and financial sustainability of local governance and service delivery in Palestine.** The recently approved Integrated Cities and Urban Development Project (ICUD) enhances the capacity of selected urban agglomerations to jointly develop regional growth framework under which municipal investments financed by the proposed MDP 3 can be geospatially rationalized. Similarly, the Local Governance and Services Improvement Program (LGSIP) has been capacitating Village Councils and Joint Service Councils (JSCs) that are not targeted by the MDP in the West Bank by following the MDP model. These three operations together cover all levels of LG sector: village councils and JSCs (through LGSIP); municipalities (through MDP); and urban agglomerations (through

[7] Fulfillment of 3-4 KPIs out of the following menu constitutes B+ ranking under MDP 2. The KPIs are: 1) basic Operation and Enterprise Account Surplus (more than 5%); 2) Fixed Assets Register in place and Updated; 3) Operation and Maintenance Plan in place and updated; 4) Public disclosure of all municipal investments, SDIP execution, and external audit reports; and 5) Satisfactory Collection Efficiency and own Revenue Generation (Specified own revenues > 50 NIS per capita or5% above last two years' average).

[8] Strategic Development and Investment Plans (SDIPs), annual external audits, project related data, municipal budgets and performance rankings. Prior to MDP 1, no municipalities applied at least two public disclosure methods.

ICUD). The proposed MDP 3 is also complemented by Development Policy Grant (DPG) and a series of ASAs to establish sustainable and sufficient financing for municipal services. In particular, the Programmatic TA for municipal financial management, will support the MDLF to develop a municipal lending framework and roadmap to facilitate municipalities' access to long-term capital investment financing from the commercial banking sector in the future as well as provide inputs for strengthening local government public financial management systems and practices. While the proposed MDPs enhances the municipal revenue performance and expenditure efficiency, the DPG and Local Government Sector Reform ASA directly support the PA to put in place transparent and reliable fiscal transfers to municipalities as well as municipal revenue and expenditure assignment reform. In addition, the ongoing Local Government Performance Assessment ASA will provide household-level information of municipal service delivery outcomes that can be utilized by the MoLG and MDLF to monitor municipal service delivery performance rigorously.

C. Higher Level Objectives to which the Project Contributes

11. The Project is aligned with the PA's long-term strategy to consolidate and strengthen service delivery in the LG sector and to nurture financially sustainable LGUs as specified in the MoLG's recently shared outline for a Sector Strategy for 2017 – 2022. The main challenges identified in the Sector Strategy include: i) the need to revise the legal, regulatory and administrative framework for Local Governments to better fit emerging needs for enhanced LGU financial, technical, and administrative performance, and to clarify roles, mandates and responsibilities of the different stakeholders; ii) the need to optimize the use of scarce financial and natural resources while maintaining service quality; iii) creating an enabling environment for local economic development; and, iv) enhancing LGU accountability through strengthened citizen participation.

12. The proposed Project is fully aligned with the World Bank's first pillar in the West Bank and Gaza Country Assistance Strategy under preparation for the period FY2017-18 (Report No: 89503 GZ), to "Strengthen Peace and Stability through Inclusive Institutions" and contributes to Pillar No.2, "Accelerating Growth through Private Sector Participation". It also follows the first pillar of the World Bank's Middle East and North Africa Strategy: "*Renewing the social contract – to generate a new development model that is built on greater citizen trust; more effective protection of the poor and vulnerable; inclusive and accountable service delivery; and a stronger private sector that can create jobs and opportunities for MENA's youth*". The proposed project supports this strategy by keeping institutional development of municipalities, accountability and financial sustainability of local service delivery as the key development objectives for MDP3. MDP3 will strengthen the social contract between citizens and municipalities through improved citizen engagement in local investment planning, strengthening complaint and grievance resolution systems and improved transparency and accountability through citizen participation in municipal budgeting process and enhanced information disclosure. The proposed project intends to strengthen the linkages with the private sector by enhancing the capacities of municipalities to partner in different ways with the private sector to address local infrastructure development requirements, as well as by strengthening the capacities of MDLF to facilitate the flow of private capital to finance municipal infrastructure. Through improving municipalities' financial position and service delivery performance, the proposed project also facilitates greater opportunities for the municipalities to partner with the private sector in municipal development financing in the long run.

13. Moreover, by supporting improved access to services and enhanced potential for economic growth for municipalities, which will potentially affect 74% of the population, the proposed project contributes to the Bank's twin goals of eliminating extreme poverty by 2030 and boosting shared prosperity. The block grant portion of the proposed MDP 3 helps reduce the disparity of municipal infrastructure among municipalities by relating grant size to the degree of infrastructure deficit. The performance grant portion of the proposed MDP 3 incentivizes and supports municipal institutional capacity development that is critical for improved good governance and accountability, while simultaneously helping to facilitate private sector led economic growth.

C. Proposed Development Objective(s)

Note to Task Teams: The PDO has been pre-populated from the datasheet for the first time for your convenience. Please keep it up to date whenever it is changed in the datasheet.

Development Objective(s) (From PAD)

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

Key Results

PDO Result Area	*Indicators*
Institutional Strengthened Municipalities	1. Number of municipalities that moved up one rank in the performance assessment system [9]
Accountable and Responsive Service Delivery	2. People provided with improved urban living conditions (WB core) 3. Municipalities with Public Disclosure of executed budget and executed SDIP
Financially Sustainable municipalities	4. Number of municipalities with Operating and Enterprise[10] surplus and no increase in arrears

[9] The ranking system has 10 ranks based on 4 categories (D, C, B and A) with 21 KPIs. Please see details below).

[10] **Operating Budget (General Budget)**: non-commercial services provided by LGU. Those services include Health services, Public works, educational services, cultural services, social services and security. Enterprise budget refers commercial services (that incur profits) provided to civilians like water, electricity, sewage, vegetable and fruit market, fish market, slaughterhouse, etc.

D. Project Description

A. Project Components

Component 1: Municipal Performance and Service Delivery. USD 79.4 million (Euro 74.7M) (of which USD 13.2 million (EUR 12.4M) from TFGWB, USD 16.8 million (EUR 15.8M) from PID-MDTF)

14. **The project will finance municipal infrastructure for improved service delivery.** The project's block grant will provide the basic funding for all municipalities for infrastructure development based on needs and equity, while the performance grant will provide an incentive for municipalities to improve their performance. Under the component, 50% of the total component 1 financing would be allocated for the block grant and 50% for the performance based grant. The block grant will be allocated based on population (40%) and needs[11] (60%). All municipalities will receive block grants, subject to simple eligibility criteria. Gaza municipalities will be allowed to use 20% of their grants for recurrent expenditures to reflect the special circumstances they face. The eligible expenditures will be defined in the project's operational manual.

15. **Block Grant Eligibility**. Municipalities must fulfill the basic eligibility criteria to receive the project's block grant. From the outset, municipalities are required to have an annual budget approved by the municipal council and submitted to MoLG. From the third year of the project, a second eligibility criterion will be added requiring a SDIP to be prepared according to new SDIP Guidelines that are to be introduced in early 2018. All eligible municipalities will have access to the basic block grant.

16. **Performance Grants.** The performance based grants will be provided to the block grant eligible municipalities that further fulfill minimum eligibility criteria for performance grants. Municipal performance is measured through 21 KPIs that are designed to achieve three performance areas, namely: i) Financial Performance and Sustainability; ii) Institutional Performance; and iii) Transparency, Accountability and Participation. Based on the achievement of KPIs, the municipalities are categorized into performance categories ranging from D to A as well as a total of 10 ranks from D to A ++. Municipalities with higher rankings receive more funds. Municipal performance will be assessed in 2017, 2019, and 2021.

17. **Grant Cycle**. Based on the Municipal Performance Assessments, the MDLF will announce allocations from block and performance grants in October 2017 (for the first cycle) and October 2019 (for the second cycle). Based on the allocation, municipalities will select sub-projects to be funded by the grant from the list of sub-projects that were prioritized in their SDIPs.

Component 2: Capacity Development. USD 5.3 million (EUR 5M) (of which USD 0.53 million (EUR 0.5M) from TFGWB, USD 0.53 (EUR 0.5M) from PID-MDTF)

18. **This component will provide capacity support to municipalities and national level institutions, namely Municipal Development and Lending Fund (MDLF) and the Ministry of Local Government (MoLG).** MDLF will prepare a Capacity Development Plan at the start of the project in consultation with all stakeholders providing a detailed description of the priorities, activities and their inter-linkages for this component.

19. **Capacity Development of Municipalities**: The support would be provided at two levels: (1) Basic Capacity Development Support to all participating municipalities; and (2) Targeted Capacity Development Support to strengthen creditworthiness of high-performing municipalities. The Basic Capacity Development Support will aim at improving municipal performance measured against the program's KPIs, as well as improving sub-project

implementation capability (e.g. pre-feasibility study, procurement, financial management, and safeguards). For the municipalities with good capacity, Targeted Capacity Development will be provided to enhance their capabilities to access market finance in the long run. Accordingly, targeted advisory and training will be provided to strengthen the performance of municipalities in the areas such as revenue and expenditure management, management of receivables and payables, cash management, oversight, and project management.

20. **Development of Municipal Management Systems**: In addition, this component will also support the development of municipal management systems that will strengthen the governance and management framework of all municipalities. Effective systems to regulate and guide municipal activities make a critical contribution to available capacity through clarifying and streamlining procedures and requirements as well as improving their efficiencies through automation. Support will be provided for the development of procedural, analytical and technical frameworks and analyses in targeted areas such as revenue management, municipal integrated financial management and information system (IFMIS), capital investment preparation, and social accountability.

21. **Capacity Development of MoLG and MDLF**: Recognizing the critical role played by national level institutions in the strengthening of governance and service delivery at the municipal level, the project will provide capacity development support to MoLG and MDLF to enable them to play their mandated roles and responsibilities more effectively. Accordingly, support will be provided to the MoLG to develop Municipal Audit Standards and related implementation guidance in collaboration with the State Audit and Administrative Control Bureau (SAACB), and the Palestine Association of Certified Public Accountants (PACPA). In accordance with the Strategic Plan of the MDLF, capacity support will be provided to MDLF to become a financial intermediary for local governments in the long run. The details of activities are to be informed by the ongoing Bank-executed TA to strengthen municipal lending framework and to include training to MDLF staff as well as preparation of internal procedures and risk management system.

Component 3. Municipal Partnership Projects. USD 3.1 million (EUR 2.9M) (of which USD 0 from TFGWB, USD 0 from PID-MDTF, and USD 1.5 million (EUR 1.4M) from SPF)

22. This component will support municipalities to: a) engage more effectively with the private sector, and b) work across administrative boundaries to develop joint investments.

Sub-Component A: Private Sector Partnership Support. USD 1.5 million (EUR 1.4 M) from SPF

23. In order to better leverage private sector engagement, this component will support municipalities to identify, develop, and structure opportunities for private sector participation in addressing local development needs on a demand-driven basis. This component will support municipalities to identify the potential modalities for private sector engagement, select the most relevant or appropriate modality based on feasibility, and design the implementation of the agreed modality. Specific areas for support would range from permitting and other processes to structuring private sector participation in infrastructure and service delivery (contracting out, joint ventures, special purpose vehicles and build-operate-transfer agreements), as well as strategic land use planning and associated

[11] The MDP 2 relied on proxy indicators-- availability of roads, water, public space, office space (80%) and PCBS data on poverty (household) measured at governorate level (20%). As the governorate level poverty data does not provide municipality level results, it was agreed to drop this measure.

infrastructure development related to economic growth priorities. The component will be particularly important in terms of supporting technical and human capacity development at the municipal level.

Sub-Component B: Joint Municipal Project Development Support. Zero fund from TFGWB, PID-MDTF, and SPF.

24. This partnership support would complement the performance grant system and eligible activities would be required to align well with the objectives of the MDP 3. This component will not include any funding from the Bank and co-financing partners. One important area of partnership would be with neighboring municipalities or village councils. By providing small amounts of additional funding the component would incentivize municipalities and neighboring LGUs to jointly prepare and implement mutually beneficial investments as joint planning and implementation requires additional efforts. At the same time, in an environment where little coordination across administrative boundaries occurs, this would be a catalyst to cooperate particularly for smaller municipalities.

Component 4: Project Implementation Support and Management Costs. USD 8.6 million (EUR 8.1M) (of which USD 1.3 million (EUR 1.2M) from TFGWB, USD 1.2 million (EUR 2.7M) from PID-MDTF).

25. This component will finance 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.

E. Implementation

Institutional and Implementation Arrangements

26. Component 1 sub-project implementation: municipalities are responsible for implementing the infrastructure projects that are financed from their individual basic and performance-based grants allocated from the project under its component 1, called sub-projects. The 144 LGUs are classified as municipalities by the MoLG – provided they fulfill the eligibility criteria for the project – will identify such sub-projects through a participatory public consultation process. Procurement by the municipalities will be processed based on the updated MDLF procurement manual, and the municipalities will also be responsible for contract management. The municipalities will also be responsible to advise the MDLF to release payments to their contractors and suppliers in accordance with the signed contracts. The usage of the basic and performance-based grants for recurrent expenditure was permitted for the municipalities in Gaza Strip during the MDP 2 to reflect special circumstances they faced. This practice will continue under the proposed MDP 3, but with its narrowed list of eligible expenditures that are specific, traceable, and well defined in the Operations Manual.

27. For selected municipalities who are proven to have strong performance based on the performance assessment and are in the West Bank, the MDLF will transfer the component 1 fund in tranches directly to the municipal bank accounts for them to handle associated payment and reconciliation on their own. This direct funding to municipalities will be financed out of the Bank and co-financiers'

contribution to the project.[12] This change from the MDP 2 implementation arrangement is to enhance the municipal ownership of sub-projects while reflecting municipal capacity built through the MDP 2. Sub projects preparation and procurement will follow the same procedures as for other municipalities.

28. The MDLF will continue to serve as the proposed project's implementing agency by directly implementing component 2, 3, and 4, while retaining overall management responsibility for the component 1 sub-projects implemented by municipalities. The MDLF is an independent, semi-governmental organization, governed by a Board of Directors (the Board), which is the policy and strategy-setting authority responsible for monitoring the direction and performance of the Fund. The Board Chairman is the Minister of Local Government and its 11 members consist of representatives of Public Sector entities (State Ministry for Planning, Ministry of Finance, Ministry of Public Works and Housing, and Ministry of National Economy), civil society (Engineers Association, Banking Association, Association of Palestinian Local Authorities, Women's Association) and two mayors. The MDLF has demonstrated its capacity to administer donor-funded projects since its establishment in 2005, including the multi-donor financed MDP 1 and MDP 2. The MDLF is staffed with all key positions required for project implementation.

29. Flow of Funds and Legal Relationships. The Recipient of the grant is the Palestinian Liberation Organization (PLO) for the benefit of the PA as with nearly all cases of assistance provided to the Palestinian people under the TFGWB. The PLO will make the proceeds of the Grant available to the PA through a Subsidiary Agreement. An On-Granting Agreement between the PA and the MDLF will further make the proceeds of the Grant available to the MDLF as the implementing agency. The Bank and the MDLF will also sign a Project Agreement. The MDLF would implement the project in accordance with the legal agreements and the OM. The Ministry of Finance (MoF) would open the Designated Account (DA) on behalf of MDLF, under the Central Treasury Account (CTA). However, advances made to the DA would not be commingled with other resources of the government or donors. The MDLF would be responsible for managing the account but the Ministry of Finance is responsible for requesting replenishments from the World Bank. DPs may have different arrangements for withdrawal applications.

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F. Project location and Salient physical characteristics relevant to the safeguard analysis (if known)

144 municipalities in West Bank and Gaza

[12] This arrangement will be confirmed by the end of appraisal and included in the grant agreement.

G. Environmental and Social Safeguards Specialists on the Team

Tracy Hart,Helen Z. Shahriari

SAFEGUARD POLICIES THAT MIGHT APPLY

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	Yes	OP 4.01 is triggered and requires an environmental assessment for activities that involve infrastructure construction. The development and rehabilitation of municipal infrastructure includes roads and sidewalks, public lighting, solid waste management, public facilities (e.g. parks, youth centers, women's centers) as well as rehabilitation of water wells and rehabilitation and/or minor extensions of water networks. Negative environmental impacts, associated with municipal subprojects, are expected to be minor during the construction phase. Therefore, the project is classified as category “B”. As all sub-projects are not known a priori, in accordance with OP 4.01, the Environmental and Social Management Framework (ESMF) for MDP-3 has been updated by MDLF. The ESMF contains provisions for screening of subprojects and acceptance/rejection criteria (e.g. a negative list). Hence larger scale subprojects which require a full-fledged EIA (category A) will be excluded. Furthermore, the size of funds available to municipalities under this program limit the scope of the subprojects. For category “B” subprojects, the MDLF will rely on sector-specific Environmental Management Plans (EMPs), each one with a site-specific addendum, to manage and mitigate adverse impacts. The MDLF will monitor compliance on EMP provisions of participating municipalities during implementation.
Natural Habitats OP/BP 4.04	No	Sub-projects are allowed only on land zoned for municipal services through the Master Planning process.

Forests OP/BP 4.36	No	Sub-projects are allowed only on land zoned for municipal services through the Master Planning process.
Pest Management OP 4.09	Yes	A few participating municipalities, particularly in Gaza, support subprojects which may require financing to purchase of some chemicals for pest control, primarily mosquitoes. A Pest Management Plan based on lessons learned under MDP 1 and 2 has been updated for this project to ensure compliance with OP 4.09 policy. This PMP provides guidance on which chemicals can be financed for pest management as well as proper storage and handling during project implementation.
Physical Cultural Resources OP/BP 4.11	No	The project, and its sub-projects, will contain a "chance find clause" in its bidding documents, as is described in the ESMF. Any sub-project activity which a priori involves cultural heritage sites will be excluded.
Indigenous Peoples OP/BP 4.10	No	Any sub-projects that are on sites with Internally Displaced People will be excluded through the sub-project social screening form.
Involuntary Resettlement OP/BP 4.12	Yes	OP 4.12 is triggered since there is a possibility that under component 3 some larger joint projects will require land. A Resettlement Policy Framework (RPF) has been prepared and will be disclosed in the country and the Info shop. This RPF 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 within the planned areas, in which case only public land will be affected. However, in cases where subprojects will require private land or will impact livelihood site, specific Resettlement Action Plans (RAPs) will be prepared in accordance with the disclosed RPF, consulted and disclosed before the commencement of any civil works. In the case of land donation, the processes will be defined clearly in the RPF, including: (a) well-defined and transparent criteria and clear documentation of transactions; (d) strong and readily accessible grievance redress mechanism; and (e) provisions for more meaningful community participation. In the case of willing –seller willing – buyer or voluntary provision of land, MDLF and Municipalities will document for power of choice. To strengthening the capacity of the municipalities

		once the project is effective, a number of trainings will be undertaken by the World Bank and Environmental and Social team within MDLF on social safeguards in the main municipalities under MDP3. This will be after the completion of the assessment of the capacity of selected municipalities in terms of social safeguards.
Safety of Dams OP/BP 4.37	No	The ESMF sub-project screening excludes any sub-project which involves dams.
Projects on International Waterways OP/BP 7.50	No	OP7.50 is not applicable since project activities do not involve the use or potential pollution of international waterways. 80% of the sub-projects have been and are expected to continue to be in the roads, public building and solid waste sectors.
Projects in Disputed Areas OP/BP 7.60	No	This policy is not applicable.

KEY SAFEGUARD POLICY ISSUES AND THEIR MANAGEMENT

A. Summary of Key Safeguard Issues

1. Describe any safeguard issues and impacts associated with the proposed project. Identify and describe any potential large scale, significant and/or irreversible impacts:

This project is a category 'B' project. The screening criteria described in the ESMF and the OM includes a negative list of ineligible interventions. Furthermore, the size of grant to be allocated to different municipalities limits the sub-project scope. The sub-projects to be funded include development and rehabilitation of municipal infrastructure, including (but not limited to) roads, parks, electricity services not provided by a utility, street lighting and improvement, and extension, rehabilitation and maintenance of existing water systems (water wells, water networks, wastewater and sanitation). 80% of the sub-projects in MDP 2 were in the road sector, and it is expected that MDP-3 demands will be similar. In the Gaza Strip, incremental costs for service delivery and rehabilitation are also financed. The environmental and social impacts of these sub-projects are expected to be positive. Minor temporary negative impacts which are expected during the construction phases will be mitigated using procedures described in the project ESMF. MDLF is responsible for ensuring that the approved sub-projects comply with the subproject screening criteria, apply the relevant sector-specific sub-project EMPs as needed, and that they are properly monitoring as per the ESMF. OP 4.12 is triggered since there is a possibility that under component 1 and 3 some of the projects would require land. A Land Acquisition and Livelihood Policy Framework (LALPF) has been prepared and will be disclosed in the country and the Info shop. The LALPF is prepared to set up the principle and criteria to be followed in case projects might need land or impact livelihoods. In summary, the LALPF will be the guide for the preparation of projects specific RAPs when needed. Since exact subprojects that will be funded in each municipality were not identified by appraisal individual RAPs could not be prepared. Moreover, the subprojects will be primarily built in public land; however, in unlikely cases that land and other assets as well as livelihoods are impacted the LALPF will be the bases for the preparation of project specific RAPs, that will be prepared, consulted, and disclosed before the commencement of any civil works.

2. Describe any potential indirect and/or long term impacts due to anticipated future activities in the project area:
There are no potential indirect or long-term impacts due to anticipated future activities in the project area. Most of the activities are rehabilitation, with minor new construction.

3. Describe any project alternatives (if relevant) considered to help avoid or minimize adverse impacts.
Sub-projects are designed in the context of a larger municipality-level Master Planning Process so that the cumulative impact of interventions is assessed and designed appropriately.

4. Describe measures taken by the borrower to address safeguard policy issues. Provide an assessment of borrower capacity to plan and implement the measures described.
MDLF is staffed with environmental and social specialists, supported by a full slate of site engineers, who have good experience following up the implementation of Environmental and Social Management Framework (ESMF) during the predecessor projects of MDP1 and MDP2.

During MDP1 and MDP2, sound environmental and social management was recorded during construction stage, noting that screening and ESMP preparation was fully managed by MDLF. Because lower capacity municipalities showed lack of proper capabilities in ESMP preparation, sectoral ESMPs as guides have been reintroduced in MDPIII. Furthermore, the environmental penalties showed good impact when applied on ground; MDPIII has amended these penalty covenants to simplify the process. These lessons are reflected in the ESMF, further to be reflected in the Operational Manual and the Local Technical Consultant Terms of Reference.

Specifically, the MDP3 ESMF includes a detailed assessment of the regulatory and institutional framework and capacity of MDLF, environmental assessment of possible impacts and mitigation measures, an environmental management plan, as well as a monitoring plan with clear indicators and mechanisms for implementation and reporting. It also describes the training and capacity building required for effective environmental safeguards at the municipal level. In the preparation of the ESMF, the MDLF has consulted with other Funding Partners supporting the MDP, and it was agreed that the World Bank's safeguards policies would apply to the project as a whole.

By virtue of the ESMF, project-specific environmental assessments and environmental management plans will continue to be prepared during project implementation by client municipalities.The Bank Policy OP 4.09 has been triggered; thus the ESMF includes a Pest Management Plan (PMP) and specific guidelines as mitigation measures for safe handling of the pests and management for insects and rodent control. These guidelines had been authorized by the Palestinian Ministry of Health. The

Overall, environmental safeguards compliance has been rated so far as “satisfactory”. MDLF institutional capacity for safeguards management, including compliance monitoring and reporting, continues to be high. MDLF safeguards team responsibilities during MDP-3 will continue to include building municipal capacity for sub-project screening and construction-phase site monitoring.

MDPII did not trigger the OP 4.12 therefore there is no track records.

5. Identify the key stakeholders and describe the mechanisms for consultation and disclosure on safeguard policies, with an emphasis on potentially affected people.
During project identification and preparation, consultations were conducted with beneficiary municipalities in West Bank and Gaza. MDLF documented in the ESMF the consultation process that took place and the municipalities, local

communities and NGOs that took part of the consultations. Consultations with beneficiary communities are also conducted on a rolling basis as part of the continuing MDLF project cycle.

B. Disclosure Requirements

Environmental Assessment/Audit/Management Plan/Other

Date of receipt by the Bank	Date of submission to InfoShop	For category A projects, date of distributing the Executive Summary of the EA to the Executive Directors
01-Mar-2017	15-Mar-2017	

"In country" Disclosure

West Bank and Gaza
13-Mar-2017

Comments

Municipal Development Lending Project website

Resettlement Action Plan/Framework/Policy Process

Date of receipt by the Bank	Date of submission to InfoShop
01-Mar-2017	13-Mar-2017

"In country" Disclosure

West Bank and Gaza
13-Mar-2017

Comments

Municipal Development Lending Project website

Pest Management Plan

Was the document disclosed prior to appraisal?	Date of receipt by the Bank	Date of submission to InfoShop
Yes	01-Mar-2017	15-Mar-2017

"In country" Disclosure

West Bank and Gaza
13-Mar-2017

Comments

Municipal Development Lending Project website

If the project triggers the Pest Management and/or Physical Cultural Resources policies, the respective issues are to be addressed and disclosed as part of the Environmental Assessment/Audit/or EMP.

If in-country disclosure of any of the above documents is not expected, please explain why:

N/A

C. Compliance Monitoring Indicators at the Corporate Level (to be filled in when the ISDS is finalized by the project decision meeting)

OP/BP/GP 4.01 - Environment Assessment

Does the project require a stand-alone EA (including EMP) report?
Yes
If yes, then did the Regional Environment Unit or Practice Manager (PM) review and approve the EA report?
Yes
Are the cost and the accountabilities for the EMP incorporated in the credit/loan?
Yes

OP 4.09 - Pest Management

Does the EA adequately address the pest management issues?
Yes
Is a separate PMP required?
Yes
If yes, has the PMP been reviewed and approved by a safeguards specialist or PM? Are PMP requirements included in project design? If yes, does the project team include a Pest Management Specialist?
Yes

OP/BP 4.12 - Involuntary Resettlement

Has a resettlement plan/abbreviated plan/policy framework/process framework (as appropriate) been prepared?
Yes
If yes, then did the Regional unit responsible for safeguards or Practice Manager review the plan?
Yes

The World Bank Policy on Disclosure of Information

Have relevant safeguard policies documents been sent to the World Bank's Infoshop?
Yes

Have relevant documents been disclosed in-country in a public place in a form and language that are understandable and accessible to project-affected groups and local NGOs?
Yes

All Safeguard Policies

Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies?
Yes

Have costs related to safeguard policy measures been included in the project cost?
Yes

Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies?
Yes

Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents?
Yes

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APPROVAL

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Note to Task Teams: End of system generated content, document is editable from here.