

**PROGRAM-FOR-RESULTS INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: PID0024995

Program Name	Local Governance and Services Improvement Program (P148896)
Region	MIDDLE EAST AND NORTH AFRICA
Country	West Bank and Gaza
Sector	Rural and Inter-Urban Roads and Highways (20%), General water, sanitation and flood protection sector (30%), Subnational government administration (30%), Central government administration (20%)
Lending Instrument	Program for Results
Program ID	P148896
Parent Program ID	
Borrower(s)	Ministry of Finance
Implementing Agency	Ministry of Local Government Municipal Development and Lending Fund (Program Manager)
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I. Country Context

1. The Palestinian Authority (PA) was initially established for a five-year interim period after the Oslo Accords in 1993 with responsibility for the administration of the territory under its control. However, the Oslo accords were never fully implemented and came to full halt with the beginning of the second Intifada in 2000. The consequence today is a multilayered system of physical, institutional and administrative restrictions which have fragmented the Palestinian territories into small enclaves. The fragmentation goes beyond a West Bank and Gaza (WB&G) divide, with the West Bank further divided into Areas A, B and C¹, each with its concomitant administrative and security arrangements.

2. In early June 2014, the PA announced the forming of a unified government to cover the total geographic area of WB&G for the first time in seven years. This was however not implemented, when a new conflict broke out in Gaza in July and August 2014, which resulted in serious damages on infrastructure in Gaza and a need for subsequent reconstructions. Hostilities ceased on August 26, 2014, which has been maintained so far but the instability and fragility remain.

3. Growth in the WB&G dropped from 6 percent in 2012 to about 2 percent in 2013 as a result of political uncertainty, a reduction in aid, the ongoing restrictions and the collapse of tunnel activity which had a severe impact on the economy of Gaza. The deterioration continued in 2014. Despite that the PA managed to reduce the size of the deficit in the economy in 2013, the fiscal situation remains difficult and additional spending on reconstruction in Gaza is expected to place additional pressure on an already tight

¹ Area A covers 18 percent of the West Bank and is under full Palestinian security and civil control. Area B comprises 21 percent of the West Bank and is under Palestinian civil control and Israeli security control. Area C constitutes about 61 percent of the West Bank territory and is under Israeli civil and security control according to the 1995 Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip.

budget. In addition, donor aid for recurrent spending has declined from USD1.76 billion in 2008 to about USD1.3 billion projected for 2014. Even though the PA has cleared some of its private sector arrears in 2014, it continues to accumulate additional ones due to its difficult fiscal situation.

II. Sectoral and Institutional Context

4. With increasing political and geographical fragmentation over the last two decades, Local Government Units (LGUs) have gained paramount importance providing services to the local population, particularly in areas where the relatively young central government was politically, geographically, and fiscally constrained. Until the PA was established in 1993, LGUs were the only administrative institutions allowed to exist and function officially in the WB&G which was under military order by the Government of Israel. After the PA was established, LGUs were strengthened as means to reinforce a national Palestinian identity at the local level, and to overcome critical institutional and service delivery gaps.

5. The Ministry of Local Government (MoLG) was established by the PA in 1994, with the initial objective to increase the territorial administration under the PA's autonomous control. This led to creating several new LGUs. Accordingly, the number of LGUs increased from 139 in 1994 to well over 350 by 1997. Today, there are 378 LGUs: 137 municipalities and 241 Village Councils (VCs). Although with no linkage to criteria, population size is the main distinguishing factor between Municipalities and VCs.

6. The growing number of VCs received assistance from the PA and selected Development Partners (DPs), focusing on small-scale capital expenditure funding, and improving community development and investment planning. However, less urgency was given on assuring minimum service levels and long-term institutional development and sustainability. Only a small proportion of existing VCs can sustain provision of local services. More than 70 percent of the VCs, have a population size below 3,000 inhabitants; and even the few relatively larger villages suffer from inefficient service provision, heavy burden of staff salaries, and insufficient technical capacity. While municipalities have access to funds provided by the Municipal Development and Lending Fund (MDLF), no systematic funding mechanism exists to finance investments in VCs.

7. The MoLG acknowledged the need to better leverage economies of scale in local service provision. One of the initiatives is to establish Joint Services Councils (JSCs). JSCs allows LGUs to provide services, planning and development functions jointly. In total, 91 JSCs exist, but the degree of functionality varies greatly among them. In addition, the current institutional framework and governance structure for joint service provision blurs roles and responsibilities of LGUs, JSCs, and public utilities. Financing, management and supervision arrangements are unclear, and weaken both vertical accountability between higher and lower levels of government; and horizontal accountability between citizens, local authorities, and service providers.

III. Program Scope

8. **The PA Program.** The Local Governance and Services Improvement Program (LGSIP) is part of the local government sector support to the PA's public sector reform strategic plan as outlined in the National Development Plan 2014-2016 (NDP 2014) and in the supplemental sector strategies developed by the MoLG. The NDP 2014 is structured along four key sectors, which also includes support to LGUs under sub-sector "Local Government". The PA has a comprehensive program comprising of financing infrastructure, institutional development and capacity building of LGUs. This is described further in MoLG Strategic Framework 2015-2017, which has been elaborated following approval of the NDP 2014. It includes five strategic directions: (i) Establishment of infrastructure and institutional structures able to provide services and strengthen the citizens' resilience in Area "C"; (ii) Continuous improvement of the ministry's technical, human, and legal structure to lead the local governance sector; (iii) Establishing an

effective and flexible legal enabling environment for partnerships between the private sector and local authorities; and (iv) Building the financial and administrative capacity of local authorities, and contributing to reconstructing basic services in Gaza.

9. **Ongoing support to the Local Government Sector Program.** The PA program consists of support to LGUs to deliver infrastructure services in an accountable and responsive manner through a combination of budget allocations, donor financed investment operations, specific investment support for LGUs in marginalized areas, and technical assistance and capacity building for LGUs on selected thematic issues financed by DPs. Through this program, the PA intends to shift from an “infrastructure delivery” approach and individual interventions to one that is embedded in a sector-wide programmatic approach focusing on local government performance and accountability.

10. **Village Support Program.** The PA’s program intends to focus its support to villages in four key areas sub-programs: (i) local service delivery in villages; (ii) larger-scale infrastructure service delivery through joint service arrangements; (iii) capacity building and institutional strengthening; and (iv) investments in marginalized communities in Area C. The PA’s program will be supported through a mix of instruments. The proposed LGSIP PforR (the” Program”) would finance sub-programs (i) to (iii). Sub-program (iv) would be funded by the PA’s own resources and parallel financing.

11. **The Program for Results (the “Program”).** LGSIP will support the PA’s desire to move away from a project specific approach of financing and implementing specific projects in a ring fenced manner and instead introduce a results focused approach of strengthening local governance institutions that can deliver infrastructure and other local services in an accountable, transparent and efficient manner. LGSIP would be embedded in the broader Local Government (LG) sector reform that requires institutional, policy and investment support at both the local and central level. While LGSIP would provide financing targeted at villages, the program would also support initiating key policy and institutional reforms at the central-level that are critical for both villages and municipalities, including an overdue reform of the LG financing system and establishing a strong framework for joint service provision. The PforR will target VCs in the West Bank, financing investments in areas A and B. Gaza will not be included in the Program since no VCs exist in the Gaza Strip.

12. In accordance with the PA’s strategy to strengthen the institutional capacity and performance of the Palestinian local government system, the Program aims to consolidate the foundations of the local government system in villages and rural communities. The Program will provide incentives to VCs to invest in appropriate institutional arrangements and build the capacities for more accountable, transparent and financially sustainable local governance. Providing incentives for institutional strengthening and enhancing the capacity of VCs to deliver local services in a participative, accountable and financially sustainable manner is at the core of the proposed program. The Program intends to provide incentives to large VCs with (i) planned and predictable resources; and (ii) capacity support to enable them to fulfill their mandate as fully functional local governments capable of managing their resources and work programs on their own or jointly with other LGUs. For small VCs, which face a critical shortage of skills and capacities, and in which pooling of resources and capacity would be the only way to viably draw the benefits of economies of scale, the Program intends to strengthen the execution of local level plans and projects through JSCs. This would enable small VCs to fulfill their accountabilities to their citizens and stakeholders despite the limited scale and prevailing capacity constraints. The Program intends to reform the existing intergovernmental fiscal transfer system for VCs by making it formula based, transparent and predictable and combines it with institutional incentives and capacity building.

13. **Program sub-components and funding envelope.** The proposed Program would finance the following three sub-components: (i) Delivery of local services by VCs; (ii) Infrastructure Service Delivery through Joint Projects; and (iii) Capacity Development to strengthen Local Governance. Total

overall program resources are estimated at around US\$30-40 million for the first program phase, to be confirmed at appraisal. The PforR, funded by the World Bank Trust Fund for Gaza and the West Bank (TFGWB) with co-financing from the Partnership for Infrastructure Development (PID) Multi-Donor Trust Fund (MDTF), would finance Sub-components I-III in an amount of US\$20-25 million. Total parallel financing would be estimated at around US\$10-15 million.

14. Sub-Component I: Delivery of local services by VCs (US\$16million; TFGWB: US\$2.5 million, PID MDTF: US\$11 million, PA: US\$2.5 million). This sub-component would finance annual capital investment grants to eligible VCs for individual projects identified in an Annual Capital Investment Plan (ACIP). Capital grants would be allocated to the VCs according to a transparent and predictable formula. Allocations will be made on a per-capita basis to keep the formula simple, transparent and comprehensible to all stakeholders. VCs will use the capital grants to implement their ACIPs. VCs will be assessed at the start of the annual Program cycle. Those VCs who successfully comply with the eligibility criteria will be admitted to the Program and will be eligible to receive the annual capital grant. VCs would need to meet eligibility criteria to receive funding under Sub-Component I. Fund execution modalities would differ according to the VC capacity and distinguish between “large” and “small” VCs. Large VCs would receive the per-capita grant allocation transferred directly from the MoLG to their accounts for execution by the individual VC. Small VCs would not receive funds directly from the MoLG and the investments would need to be executed through a qualified JSC.

15. Sub-Component II: Infrastructure Service Delivery through Joint Projects (US\$5 million; TFGWB: US\$1.5 million, PID MDTF: US\$3.5 million). This sub-component would finance capital investment grants for projects that cut across VCs and are identified in a joint or consolidated ACIP. Participating VCs would receive additional funding through a ‘top-up’ for joint projects executed by a qualifying JSC or other joint service provision arrangement. The additional ‘top-up’ capital grant under Sub-Component II would be determined by the sum of the pooled individual per capita allocation of participating VCs multiplied with an incentive factor. The eligibility criteria for a qualifying JSC are similar to those under Sub-Component I, i.e., a JSC would be considered eligible upon demonstrating to have in place a Good Governance Structure in line with six internationally accepted good governance criteria. This sub-component targets the identification, formulation, preparation and implementation of large investment projects with the potential for mobilizing additional financing from DPs and other funding sources.

16. Sub-Component III: Capacity Development for strengthening Local Governance institutions at the Central and Local level (US\$4 million; TFGWB: US\$1 million, PID MDTF: US\$3 million). This sub-component would finance capacity building activities to support VCs and JSCs meeting the program eligibility criteria, preparing and implementing ACIPs, and strengthening their core functions such as planning, procurement and financial management. The sub-component would also finance institutional strengthening targeting central level institutions to improve local governance, service delivery and financing. Activities to be financed would be identified and updated in an annual capacity building plan prepared by the MoLG.

IV. Program Development Objective(s)

17. The development objective of the proposed program would be to strengthen the local government financing system and improve local service delivery in villages.

V. Environmental and Social Effects

18. An Environmental and Social System Assessment (ESSA) for the program has been conducted to examine the country environmental and social management systems for local government infrastructure

projects and to ensure their consistency with the core principles outlined in the Bank's Operational Policy² for PforR Financing. The ESSA analyzes those systems as written and how they are applied in practice to assess the gaps between those systems and the principles of the Operational Policy and identify measures to mitigate for those gaps.

19. The system for environmental and social management of the Program will rely on the existing Palestinian legal, regulatory and institutional systems for environmental and social assessment and management, and draw on the accumulated experience of MDLF and MoLG on similar municipal programs in the WB&G. The ESSA has found that the Palestinian system for environmental and social impact assessment is well established, relatively comprehensive, and reflecting international practices. This system is in general sufficient to ensure that potential impacts will be identified and managed, however, some gaps and limitations have been addressed for compliance with the requirements of the related Operational Policy and described briefly below and in more details in Annex 6 of the Program Appraisal Document and the ESSA. In addition, the system is constrained by human resource gaps at various levels, and its implementation is at times inadequate as personnel frequently lack the required qualifications to make site inspection visits, or to adequately carry out consultations.

20. The likely Program portfolio of sub-projects was analyzed to identify typical environmental and social effects for the types of projects that are eligible for financing under the Program. These activities include roads works (construction, paving, rehabilitation, upgrading, retaining walls, street lighting), water and sewerage networks extensions, storm water drainage, solid waste collection, parks and recreational facilities, markets, and other service delivery improvements. Negative effects from Program activities are likely to have low to moderate environmental and social impacts. Based on the type, scope and scale of works allowable under this program, adverse effects are expected to be typical construction impacts that are site-specific and generally limited to the construction phase. Any projects of significant negative environmental and/or social impacts (i.e., Category A projects) will not be eligible for funding under the Program.

21. The Policy application mainly can support limited involuntary land use issues for clients with experience with these issues. Given the client's limited experience in this area as confirmed during consultations with LGUs and the MDLF/ MoLG, sub-projects involving involuntary resettlement and land acquisition will be excluded from the Program. Therefore, any land requirements (temporary or permanent) for investments to be financed under the Program will be met through lands that are under the ownership of VCs or JSCs. The exclusion will cover sub-projects involving relocation of households, temporary or permanent land take, and impacts on livelihoods, including those that may occur through restriction of access to resources. To screen out for these exclusions, the Program will rely on capacity building of LGUs and guidelines in the technical manual, which will include a rigorous sub-project screening process that will be performed by LGUs. In cases where the LGUs may purchase land through a willing-seller willing-buyer or in cases of voluntary land donation, LGUs will be required to document willing consent of the transactions, i.e., landowners were advised they could refuse donating land or they were not pressured into it.

22. From a social perspective, weaknesses have been identified in the Palestinian Social Management System. As detailed above, sub-projects will be met through the lands under the ownership of LGUs and exclude sub-projects involving involuntary resettlement and land acquisition. In terms of squatters/ users of public or state lands, Palestinian legislation on expropriation, Law No. 24 of year 1943 modified by Law No. 2 of year 1953 on Land Expropriation for Public Projects, does not make reference to the rights of this category of people. To meet the Operational Policy for PforR financing requirements, capacity building and guidance in the technical manual will be necessary for the sub-project screening process,

² OP/BP 9.00 Program-For-Results-Financing.

including on excluding sub-projects involving the use of land with squatters/ users of public or state lands. In addition, the Palestinian Environment and Social Impact Assessment policy does not provide information on voluntary land donation, monitoring for social risk issues during sub-project implementation and participation of communities in the selection, implementation and monitoring of sub-projects. Training and guidance in the technical manual need to be provided in these areas. As mandated for all ministries by the Palestinian Council Resolution No. 6 in 2005, a complaints system exists at the MoLG, but requires strengthening in some key aspects including, documentation of complaints and responses, timely responses, a log of all complaints received. However, local communities are not aware of this system. In fact, complaints are overwhelmingly dealt with informally at the LGU level and not documented. Training and guidelines in the technical manual need to be provided to LGUs participating in the Program in order to adopt an effective grievance and redress mechanism.

VI. Financing

23. The available Program financing envelope will be agreed upon at appraisal. Summarized below is the tentative financing by sources.

Program Financing (to be confirmed at appraisal), in US\$ Million

Source	Modality	Amount	% of Total
PA	Co-financing	2.5	10
World Bank	PforR	5.0	20
PID MDTF	Co-financing	17.5	70
Other Development Partners	Co-financing	[TBC]	
Total Program Financing		25.0	100

VII. Program Institutional and Implementation Arrangements

24. The Program will use existing government systems. Hence, implementation will be carried out by VCs, JSCs or similar joint service provision arrangements, the MoLG, and the MDLF, as the Program Manager. MoLG has the legal mandate for local government affairs and is in charge of overall policy setting and supervision. MoLG will also have the lead responsibility for support to villages and capacity building (Sub-Component I and III); MDLF will be responsible for joint projects (Sub-Component II) and function as the Program Manager. The Ministry of Finance (MoF) will be responsible to ensure a timely and predictable transfer of funds to the program budget.

25. Large VCs who meet the eligibility criteria under Sub-Component I would receive the annual capital grants directly into their accounts and would be responsible for the implementation of their ACIPs. Small VCs eligible under the Program will be allotted capital grants, but funds will not be transferred and execution of their ACIPs would be delegated to JSCs. JSCs would execute ACIPs for small VCs, or joint projects with support from MDLF. MoLG will have the regular oversight and supervision function as per the existing legal framework and be responsible for managing capacity building support under Sub-Component III.

26. The Program will be implemented through the PA's budget system. Amounts corresponding to the Disbursement Linked Indicators results expected to be achieved in a year would be included in the PA budget. All payments of the Program will be made through the Central Treasury System. The Program would follow the established fund flow procedure for the PA under which the MoF requests

disbursements from the World Bank, based on the supporting information provided by the Program Manager. The Bank would disburse the requested funds to the PA's Central Treasury Account.

27. MDLF will be the Program Manager responsible for the organization and management of the Program activities including the preparation of Program Financial Statements. For joint projects under Sub-Component II, MDLF will also coordinate and supervise implementation. MoLG will manage capacity building and TA activities to prepare VCs and JSCs, which are not yet eligible for funding for program investments.

28. MoLG and MDLF would use the funds exclusively for the implementation of the agreed Program using the government financial and procurement procedures that are currently used by the MoLG and MDLF respectively. The technical, fiduciary, and safeguards systems assessments will confirm, by appraisal, the appropriateness of the proposed implementation arrangements, program management, and capacity of the PA and the Program Manager for carrying out the proposed activities with the aim of meeting the expected Program results.

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