



Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

Concept Stage | Date Prepared/Updated: 12-Jan-2017 | Report No: PIDISDSC20424



BASIC INFORMATION

A. Basic Project Data

Country West Bank and Gaza	Project ID P159258	Parent Project ID (if any)	Project Name GZ-Third Municipal Development Project (P159258)
Region MIDDLE EAST AND NORTH AFRICA	Estimated Appraisal Date Feb 13, 2017	Estimated Board Date May 23, 2017	Practice Area (Lead) Social, Urban, Rural and Resilience Global Practice
Lending Instrument Investment Project Financing	Borrower(s) Palestine Liberation Organization (For The Benefit of the Palestinian Authority)	Implementing Agency Municipal Development Lending Fund (MDLF)	

Proposed Development Objective(s)

Strengthened Municipalities in WBG capable of providing accountable, sustainable service delivery to their citizens

Financing (in USD Million)

Financing Source	Amount
Borrower	0.00
BELGIUM, Govt. of (Except for MOFA - DGIC)	3.30
FRANCE: Govt. of [MOFA and AFD (C2D)]	11.00
NETHERLANDS, Govt. of THE (Except for MOFA/Min of Dev. Coop)	1.70
GERMANY: KREDITANSTALT FUR WIEDERAUFBAU (KFW)	22.30
Special Financing	15.00
SWITZERLAND: Swiss Agency for Dev. & Coop. (SDC)	3.90
West Bank & Gaza - Non IBRD Funded	20.90
Total Project Cost	78.10

Environmental Assessment Category
B-Partial Assessment

Concept Review Decision
Track II-The review did authorize the preparation to continue



Other Decision (as needed)

n/a

B. Introduction and Context

Country Context

1. Without a permanent peace agreement, Palestine remains fragmented and heavily dependent on dwindling donor aid to meet its development needs. As a result of the Oslo Accords, the Palestinian Authority (PA) was established to govern, for an interim period, the territory partly under its control in the West Bank and Gaza. However, the current multilayered system of physical, institutional and administrative restrictions continues to stand in the way of increased economic growth and private sector investment.

2. The Palestinian economy was making progress towards the twin goals of eradicating poverty and increasing shared prosperity with less than 1% of the population living on less than US\$ 1.25 a day. Between 2004 and 2009, the annual per capita income growth of the bottom 40 percent of the population slightly outpaced the average per capita income growth. Since then the Palestinian economy has been under considerable strain with a sharp deceleration in economic growth, from over 8 percent during 2007-2011 to just 3 percent during 2012-15. Currently, about 25.8 percent of Palestinians are living in poverty according to the national, basic-needs based poverty line. In addition, a GINI coefficient of 40.3 percent indicates a significant level of income inequality in the Palestinian territories.

Sectoral and Institutional Context

Urban management institutions and fiscal systems

3. Local government units (LGUs) in Palestine have a long history with some municipalities established over a century ago. LGUs were the only administrative institutions allowed to exist and function officially until the Palestinian Authority (PA) was established. With increasing political and geographical fragmentation over the last two decades, LGUs have gained paramount importance providing services to the local population, particularly in areas where the nascent central authority was politically, geographically, and fiscally constrained.

4. The Ministry of Local Government (MoLG) was established in 1994 by the PA to oversee the development of the local government sector and take the lead in policy formulation. The Palestinian territories are 75% urbanized with 146 municipalities operating within the West Bank and Gaza. Municipalities have historically been responsible for the provision of key infrastructure and services at local level including but not limited to electricity, water, solid waste management services, and school building maintenance, local roads, parks, and municipal markets.

5. However, in light of eroding budgets and accumulating arrears, municipalities struggle to address the swelling service needs of their rapidly increasing urban populations, let alone to invest in rehabilitation and upgrading of strained infrastructure networks. Municipal revenues fall far short in financing the expenditure assignments prescribed in the Local Government Law of 1997. Consequently, only a fraction of the prescribed 27 expenditure



assignments are fulfilled by the majority of municipalities, namely solid waste management, local roads, electricity, and water services. Revenues barely cover operational expenditures, let alone capital investments to address critically needed services improvements and extension to rapidly growing municipalities.

6. Despite these challenges, the PA recognizes the role of municipalities to deliver basic services and facilitate economic development. For close to a decade, the National Development Plans had included pillars to support local development and recognized the need for LGUs to be better managed and more accountable in order to provide effective services for their citizens.

Relationship to CPF

7. The proposed Municipal Development Project 3 (MDP3) directly supports the first pillar of the Interim Assistance Strategy which focuses on good governance and institution building. The proposed MDP 3 will support good governance by providing resources for municipal infrastructure based on performance indicators for participatory planning, financial management, transparency and sustainable delivery of services. The proposed MDP 3 will also further strengthen institutions at the local level to spatially plan larger infrastructure projects and at the central level for the Municipal Development Lending Fund (MDLF) to launch its path to become the financial intermediary to support municipalities' access to commercial financing in the long run.

C. Proposed Development Objective(s)

The objective of the project is to improve municipal management practices for better service delivery and municipal transparency.

Key Results (From PCN)

- 8.** The proposed MDP 3 will produce enhanced institutional performance resulting in:
- Increased amount of own source revenue at municipal level;
 - Improved management of municipal service related arrears;
 - Improved municipal infrastructure, service delivery, and Operations and Maintenance (O&M) systems;
 - Strengthened accountability in municipal service revenues, expenditures, arrears, and outputs ;
 - Strengthened budgetary and performance oversight of municipalities by the PA;
 - Unconditional fiscal transfer based on per capita allocation introduced from the PA to municipalities.

9. The independent annual assessment will be the main tool to assess progress in addition to the KPI assessment done by MDLF. The proposed program fund will be provided through disbursement linked indicators (DLIs).

D. Concept Description

10. The proposed MDP 3 will support the PA to implement emerging Government Program guided by the Local Government Strategic Framework (LGSF) as the Program's centerpiece. Similar to previous phases of MDP, the proposed MDP 3 will serve as the only performance-based grant targeting all of Palestinian municipalities. Other donors, such as USAID, are currently preparing local government programs to provide either grants to limited number



of municipalities or technical assistances in limited thematic areas of municipal capacity development. The MoLG is coordinating donor programs to avoid duplication and to align as much as possible under the principles of MDP to better serve the LGSF.

- 11. Indicative commitments from the Development Partners for the proposed MDP 3 are estimated at USD 62 million in addition to the Bank's USD 15 million contribution through Special Financing.** The total of USD 77 million is roughly half of the estimated MDP 3 financing needs by the PA.
- 12. Building upon previous phases, the core of the proposed MDP 3 would remain the performance, needs, and population-based grant allocation to incentivize improvement in municipal management.** The majority of proposed program funding will, therefore, continue to be individually allocated to municipalities based on their performance on updated KPIs to meet their municipal service investment needs.
- 13. In addition, the proposed MDP 3 would include a number of new areas necessary to further improve financial sustainability and accountability of municipal service.** Firstly, the proposed MDP 3 will enhance municipal capacity in developing bankable multi-year investment projects that are too large to be financed through individual municipal grants based on GAM. The proposed MDP 3 will include capacity development for the municipalities to formulate multi-year investment proposals that can be funded through parallel financing from DPs in the medium term and less concessional financing in the long term.
- 14. The proposed Program would also support central level reform necessary to create an enabling environment for improving municipal financial sustainability and accountability.** Specifically, the proposed MDP3 would support the PA in developing a transparent and regular fiscal transfer to municipalities to improve fiscal stability and reduce Net Lending.
- 15. Activity 1: Incentives to Improve Municipal Management.** Under Activity 1, municipalities will continue to be incentivized to improve municipal management performance through capital investment grants that are allocated based on the performance-based grant allocation formula (GAM). The GAM is comprised of 1) population; 2) needs¹; and 3) municipal management performance. Under the proposed MDP 3, options would be reviewed to transfer the per-capita based allocation under the GAM as part of a formal fiscal transfer by following the same fund flow as other existing transfers disbursed in accordance with the PA's budget cycle. The performance weight in the GAM may increase to further incentivize municipal management improvements. The municipal management improvements incentivized by the performance-based grant allocation will be in the area of, *inter alia*, own-source revenue mobilization, arrears and asset management, expenditure efficiency, financial management, transparency and enhanced satisfaction in municipal service management, and participatory investment planning. Municipal performance in these areas would continue to be measured by KPIs, yet the content of KPIs would be updated from previous phases to focus on improvements in municipal services in addition to general municipal administration.
- 16. The achievement of results under this activity will be incentivized through disbursements based on the following Disbursement Linked Indicators (DLIs).**
 - X² % of municipalities that move up its municipal management performance ranking.

¹ The same proxy indicators as MDP 2 would be used until the new Household Survey is completed toward the end of 2017. The proxy indicators are poverty and municipal equipment collected by Palestinian Central Bureau of Statistics.

² All of X would be filled upon the completion of KPI formulation exercise and grant allocation simulation based on the agreed KPIs. The completion is anticipated toward mid-November 2016.



- X% of municipalities that demonstrate satisfactory level of own-source revenue collection efficiency and own-source revenue generation.
- X% of municipalities that demonstrate X % surplus in operational and enterprise budgets and reduction in municipal arrears to electricity and water suppliers.
- X % of municipalities develop and disclose information on revenue, expenditure, and output per key municipal service to the public on annual basis.

17. Activity 2: Institutional Support to eligible municipalities and MDLF for Larger, Multi-year, and Municipal Capital Investments. Under activity 2, municipalities who perform well in financial management and fiscal position related KPIs will be provided with capacity development support to develop large scale, multi-year, municipal investment proposals. Such proposals are to be funded through either parallel financing from DPs or non-MDP financing donors in the medium term. The investment proposals would be in a larger size than the ones that could be funded by the individually allocated grant under Activity 1. The quality of proposals would also need to be at the level that can be funded by less concessional financing in the long run. Therefore, the capacity development support under this activity would be two-fold; the one for the MDLF to develop its appraisal system for such proposals and the other for municipalities to develop proposals that can be appraised.

18. The achievement of results under this activity will be incentivized through disbursements based on the following DLIs.

- Large, Multi-year capital investment appraisal criteria developed by MDLF.
- X (number) of investment proposals developed by eligible municipalities and appraised by MDLF.

19. Activity 3: Institutional Support to Municipalities and PA. Activity 3 will be split into two sub-activities based on the recipients of institutional strengthening support, namely municipalities (activity 3-1) and PA institutions (activity 3-2). Municipalities will be provided with capacity development support that would enable them to improve their municipal management performance ranking. Such improvement would result in the increased investment grant amount allocated through GAM under Activity 1. In addition, the relevant PA institutions will be assisted to reform intra-governmental fiscal relations in order to address the Net Lending issue, enable municipalities to improve revenue and expenditure performance, and access long term capital investment financing in the long run. Further, the MoLG would be supported to improve its oversight of municipalities by developing budget approval criteria and national benchmarking system of municipal service delivery performance.

20. The achievement of results under this activity will be incentivized through disbursements based on the following DLIs.

- MoLG develops budget approval criteria and disseminates it with municipalities.
- MoF and MoLG adopts annual and transparent fiscal transfer to municipalities based on per capita allocation.
- MoLG develops National benchmarking system for municipal service delivery performance and disseminates the result annually to municipal stakeholders.

SAFEGUARDS



A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)

144 municipalities in West Bank and Gaza

B. Borrower’s Institutional Capacity for Safeguard Policies

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.

Specifically, the MDP2 ESMF included 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, monitoring plan with clear indicators and mechanisms for implementation and reporting. It also described the training and capacity building required for effective environmental safeguards at the municipal level. In the preparation of the ESMF, the MDLF also 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 were prepared during project implementation by client municipalities. The Bank Policy OP 4.09 was also triggered and the ESMF included 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 ESMF also included some mitigation measures and a management plan prepared by the Palestinian Energy Authority (PEA) for consideration while using transformers that contain Polychlorinated Biphenyls (PCBs). 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.

C. Environmental and Social Safeguards Specialists on the Team

Tracy Hart, Helen Z. Shahriari

D. 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, rehabilitation of water wells, water networks, and wastewater and sanitation facilities, parks, and others. 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-2 is currently being 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, individual Environmental Management Plans (EMPs) will be produced 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	
Forests OP/BP 4.36	No	
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	
Involuntary Resettlement OP/BP 4.12	Yes	OP 4.12 is triggered since there is a possibility that under component 2 some larger joint projects will require land. As a result before the appraisal, a Resettlement Policy Framework (RPF) will be prepared and disclosed in the country and the Info shop. This RPF will include 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 training 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

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

E. Safeguard Preparation Plan

Tentative target date for preparing the Appraisal Stage PID/ISDS

Feb 06, 2017

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

The updated ESMF, with PMP, is expected to be disclosed prior to April 2017. The RPF will also be prepared and disclosed in the Country and the InfoShop.



CONTACT POINT

World Bank

Ellen Hamilton, Noriko Oe, Rama Krishnan Venkateswaran
Lead Urban Specialist

Borrower/Client/Recipient

Palestine Liberation Organization (For The Benefit of the Palestinian Authority)

Implementing Agencies

Municipal Development Lending Fund (MDLF)
Mohammad Ramahi
Finance Director
mramahi@mdlf.org.ps

Municipal Development Lending Fund (MDLF)
Tawfiq Budeiri
Managing Director
tbdeiri@mdlf.org.ps

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Ellen Hamilton, Noriko Oe, Rama Krishnan Venkateswaran
----------------------	--

Approved By

Safeguards Advisor:	Nina Chee	07-Jan-2017
---------------------	-----------	-------------



Practice Manager/Manager:	Ellen Hamilton	08-Jan-2017
Country Director:	Marina Wes	12-Jan-2017

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