



The Municipal Development
and Lending Fund (MDLF)

Semi-Annual Progress Report

2009



January 1st – June 30th, 2009
Palestine





Annual Progress Report

Covering the period from January 1st to June 30th,
2009

Municipal Development and Lending Fund (MDLF)
Palestine

August, 2009

MDLF Vision

The Municipal Development and Lending Fund is a sustainable main national institution that recognized as the primary source of reform and development assistance to local governments for the betterment of Palestinian's quality of life.

MDLF Mission

The Municipal Development and Lending Fund (MDLF) is a sustainable semi-government institution that effectively manages funds to enable local government units to provide quality services and achieve sustainable development in harmony with national plans and policies.

MDLF Values

Transparency	is...	Our policy
Professionalism	is...	Our identity
Accountability	is...	Our strength
Credibility	is...	Our principle
Scientific method	is...	Our approach

MDLF Strategic Themes

1. **Institutional Strengthening of MDLF:** aims at building a stable and recognized national institution that is capable of carrying out its mandate.
2. **Supporting and Enabling LGUs:** aims at supporting and building the capacity of LGUs and to enable them to better serve their citizens.
3. **Improving MDLF external Image and Relations:** aims at strengthening the MDLF external (regional & international) image and relations as a key development actor in the local

ABBREVIATIONS

AFD:	French Development Agency
APLA:	Association for Palestinian Local Authorities
BOD:	MDLF Board of Directors
BTC:	Bilateral Technical Committee
COA:	Chart of Account
DCF:	Donor Consultation Forum
DJSC:	Department for Joint Service Councils
EC:	European Commission
EMP:	Environmental Management Plan
EOI:	Expression of Interest
EQA:	Environment Quality Authority
EMSP:	Emergency Municipal Support Program
EMSRP II:	Emergency Municipal Services Rehabilitation Project Phase 2
FMIS:	Financial Management Information System
FPPM:	Financial Policies and Procurement Manual
GD:	Government of Denmark
GTZ:	German Technical Cooperation
IFMIS:	Integrated Financial Management Information System
ICDL:	International Computer Driving License
IG:	Italian Government
ITAU:	Italian Technical Assistance Unit
JSCs:	Joint Service Councils
KFW:	German Development Bank
LGCBP:	Local Government Capacity Building Project
LGP:	Local Government Program
LGUs:	Local Government Units
LTCs:	Local Technical Consultants
MDLF:	Municipal Development and Lending Fund
MDP:	Municipal Development Project
MIS:	Management Information System
MOLG:	Ministry of Local Government
MOF:	Ministry of Finance
MOP:	Ministry of Planning
MTDP:	Medium Term Development Plan
NDC:	NGOs Development Center
NGOs:	Non Governmental Organizations
NRO:	Netherlands Representative Office
PCU:	Project Coordination Unit
PGMIS:	Project Grant Management Information System
PMSP:	Palestinian Municipalities Support Program
PNA:	Palestinian National Authority
PRDP:	Palestinian Reform and Development Plan
SMDN:	Support to Municipal Development for Northern West Bank
SIDA:	Swedish International Development Cooperation Agency
SWMP:	Southern West Bank Solid Waste Management Project
TOR:	Terms of References
WBG:	West Bank & Gaza

TABLE OF CONTENTS

1. Executive Summary	1
2. Progress By Scheme	4
2.1 Emergency Scheme Projects	5
2.1.1 EMSRP II Component 1 and 2	
2.2 Development Scheme Projects	20
2.2.1 MDP/AFD	
2.2.2 PMSP	
2.3 Institutional Development and Technical Assistant Scheme Projects	24
2.3.1 LGCBP	
2.3.2 SWMP	
2.3.3 PHRD	
2.4 Innovative Window Scheme Projects	43
2.4.1 EMSRP II Component 3	
2.4.2 North East Jenin Pilot Project	
2.4.3 LDP	
2.4.4 LGCDP	
2.4.5 Community Development Stability Fund	
3. MDLF Institutional Activities	61
3.1 BoD Updates	
3.2 MDLF Institutional Development	
3.3 MDLF Strategic Plan	
3.4 MDLF Monitoring and Evaluation (M&E) Capacity	
3.5 Human Recourses development	
3.6 MDLF Staff Retreat	
3.7 Donors Consultation Forum	
3.8 MDLF Transfer Mechanism	
4. Anticipated Activities	68
5. Challenges and Obstacles	70
6. Lessons Learned and Recommendations	73
7. Donors Support and the MDP	76
Annexes	
Annex A. EMSRP II	
Annex B. MDP/AFD	
Annex C. Stability Fund Project	
Annex D. Jenin Pilot Project	
Annex E. LDP Project	



Annex F.	LGCBP Project	
Annex G.	MDLF Strategic Plan	
Annex H.	Transfer Mechanism Criteria and Presentation	
Annex I.	Financial Data	

1. EXECUTIVE SUMMARY

This report presents the activities and achievements of the Municipal Development and Lending Fund (MDLF) during the period from January 1st to June 30th of the year 2009. It intends to keep the Palestinian Government and other MDLF Partners informed about the various programs and projects and to highlight the future plans to reform and improve local governments and namely municipalities for the betterment of Palestinian's quality of life.

The ***Palestinian Reform and Development Plan (PRDP)*** of 2008 identifies fiscal autonomy and discipline at the local level as a key area of reform and highlights the need to build the operational, administrative and financial management capacity of local government bodies. It singles out the Municipal Development and Lending Fund (MDLF) as the PA's preferred institution for supporting municipalities in implementing these reforms.

The ***Municipal Development and Lending Fund (MDLF)*** is a semi governmental juridical entity established by the Decree under the Council of Ministers, to accelerate Palestine's drive toward self-sustained, decentralized, prosperous and creditworthy local governments. The main objective of the Fund is to encourage the flow of financial resources to Local Government Units.

Since the start of operations in 2005, the MDLF portfolio of programs and projects included about US \$120 million from several development partners, including the World Bank, SIDA, the Dutch, AFD, Danida, KFW, GTZ, EU, and the Italian Cooperation, and carried forward the functions of previously existing project implementation units under the Ministry of Local Government. ***The projects implemented to date could be categorized into four main schemes:*** (i) Emergency Projects, (ii) Development Projects, (iii) Technical Assistance, and (iv) Innovative Window Projects.

To date, ***the focus of MDLF projects was on emergency operations but development initiatives are currently under design*** and will become operational before the end of the year 2009. During the reporting period the MDLF has been preparing for ***the new Municipal development Program (MDP)*** along with the several funding partners. In the last technical mission conducted during the month of April, 2009, AFD, Denmark, SIDA, the Netherlands, GTZ, KFW and the World Bank agreed to harmonize their support for municipal development in Palestine over the coming years, beginning in late 2009.

The MDP is designed to address the core issues in municipal service delivery including: poor management practices that compound an already severe budgetary crisis (lack of local budgets for capital investments and low revenue generation). ***The program includes four windows:*** Window 1 provides grant allocations to all 132 municipalities for needed capital investments in service delivery, but also rewards those municipalities that have better management practices through its

performance based **grant allocation formula (Transfer Mechanism)**; Window 2 tests innovative approaches that promote efficiency and revenue generation from which successful lessons will be drawn and disseminated ; Under Window 3, the MDP offers a demand driven and customized capacity building packages to local governments in the areas of financial management, strategic planning and technical practices; and window 4 provides financing and tools for the management of the MDP.

The MDP is a multi-phase national program which provides municipalities with a combination of technical assistance and annual performance based grants for sub-projects that improve service delivery. The formula for performance grants is designed to create incentives to improve financial, planning and management practices, to ensure the essential needs for all municipalities for the delivery of basic services, as well as to create incentives to catalyze implementation of policy actions aimed at improving local governance.

The MDLF is working with the MDP financing partners to prepare the technical manuals and procedures needed for the implementation of the MDP, and to finalize the legal agreements and documents in order for begin the implementation of the program. In this regard the MDLF has received a grant from **the Policy and Human Resource Development (PHRD)** Trust Fund funded by the Government of Japan through the World Bank. The objective of the PHRD Grant to prepare for the Municipal Development Program (MDP) through supporting the MDLF activities to strengthen its institution including developing/upgrading the internal procedures and manuals, establishing a baseline data for the MDP, building the capacity of the MDLF staff, and laying the ground for smooth implementation of the MDP.

During the first half of the year 2009, **the MDLF has successfully closed several key projects and programs**; the MDLF has successfully closed the Danish- funded North East Jenin Pilot Project which was designed to develop sustainable mechanisms at the Joint Service Council (JSC) level through a creative approach of implementing social and physical infrastructure projects which coincide with the national policy of the MOLG to promote amalgamation of small scattered communities under bigger umbrella such as joint municipality or JSCs; The MDLF has also finalized and delivered a feasibility study for the Southern West Bank Solid Waste Management Project (SWMP) which is funded by Japan through the World Bank PHRD grant; The implementation of the German Technical Cooperation (GTZ) -funded Local Governance and Civil Society Development Program (LGCDP) was also completed which aimed to improve the quality of social services provided to the public in the targeted areas through supporting a number of service joint projects between the municipalities and civil society organizations; Under the Second Emergency Municipal Services Rehabilitation Project (EMSRP II), the MDLF has completed all sub-projects financed by the Netherlands Government and most of the sub-projects financed by the World Bank.

The implementation of several key initiatives and projects is still ongoing including:
The Municipal Development Project (MDP) financed by the French Development

Agency (AFD); The German Development Bank (KfW) “Poverty-Oriented Infrastructure Municipal Finance” project under the EMSRP II umbrella; The sub-projects under though the contribution of the Swedish International Development Cooperation Agency (SIDA) through EMSRP II project; The Danish funded Local Government Capacity Building Project (LGCBP), The Dutch-funded “Community Development Stability Fund (CDSF), and the Danish-funded new Local Development Programme in Jenin Governorate (LDP).

In late 2008 and early 2009, the Israeli military began a 22 day military attack on the Gaza Strip resulting in a severe humanitarian crisis to the civilians and systematic damage of the basic infrastructure and municipal buildings. To prepare for proper interventions, ***the MDLF along with the World Bank had conducted a damage assessment of the municipal sector in Gaza.*** The findings of the assessment were published in the “Gaza Municipal Sector Damage Assessment Report” in February 2009. Based on this report and the Gaza Early Recovery and Reconstruction Plan the PA has requested an additional financing from international partners for assistance to the EMSRP II. The World Bank (US\$ 3 million) , the Denmark (US\$ 5 million) and possibly Sweden have agreed to contribute to the Additional Financing through a co-financing agreement with the World Bank.

The MDLF interventions have resulted in assisting municipalities in maintaining their basic infrastructure and creating thousands of jobs to the citizens. In addition, the MDLF has helped in maintaining the basic municipal services including solid waste collection, street lighting and pumping water through budget support to municipalities. These outputs directly coincide with the PRDP objective to increase national prosperity, and enhance quality of life for citizens. The overall impact of the implemented projects will help the municipalities to mitigate further deterioration in the delivery of essential services and generated income to families through the job creation activities.

Most importantly ***the institutional development and capacity building activities implemented by the MDLF contribute in building open local governments and greater accountability to citizens,*** and enhance the transparency, accountability, efficiency and effectiveness of the local government which are the key features of good governance. In addition, the MDLF approach to partner with municipalities and build their capacity throughout the preparation, planning and implementation processes has improved the skills, and the capacities of the municipal staff in managing the municipal services.

This report provides detailed information and data on the progress of the MDLF managed projects as well as its institutional activities. It also outlines the main anticipated activities as well as the challenges encountered during the report period. Lessons learned and recommendations are also provided at the end of the report.

2. PROGRESS BY SCHEME

Since its establishment in October 2005, the Municipal Development and lending Fund (MDLF) has been managing and implementing several projects with a total value of more than US\$ 141 million. These projects could be categorized into four main schemes:

- 1- **Emergency Scheme Projects** aiming at sustaining essential municipal services, promoting temporary employment generation, and at the same time maintaining a medium-term development agenda. These types of projects are intended to be simple in design, fast disbursing and responsive to emergency needs aimed at restoring/rehabilitating assets and services of the local government units (LGUs). The MDLF will thus continue to provide funding to LGUs for the repair, rehabilitation and maintenance of basic technical infrastructure, namely in the fields of water supply provision, sanitation, solid waste management, energy supply and transportation.
- 2- **Development Scheme Projects** intending to foster the development agenda in the Palestinian Community which is considered one of the most rapidly expanding (urban) populations in the world. The increased investment in municipal infrastructure and services is a key challenge for the future to ensure adequate coverage and quality of services for the population. In addition, such investments would serve to reinforce the role of local governments not only as service providers but as agents fostering local development in line with the priorities of their constituencies.
- 3- **Institutional Development and Technical Assistant Scheme Projects** that designed to raise the capacity Local Government Units (LGUs) and support the Ministry of Local Government (MOLG) in order to strengthening the planning, financial and management abilities of these institutions, and thereby foster the efficient and sustainable economic, social and physical development of the urban and rural areas in West Bank and Gaza (WBG). MDLF decided to take a unique approach in encouraging the institutional development program, by linking it to the level of readiness and compliance of the municipalities to the financial and technical rules and guidelines set by the Ministry.
- 4- **Innovative Initiative/Window Scheme Projects** which aims at introducing new interventions that leads to foster and strengthen local authorities' role as socio-economic development entities. The main objective of this scheme is to foster Local Government-Non Governmental Organizations (NGOs) collaboration in response to urgent community needs and assist municipalities in recovering costs for the provision of services.

The MDLF will therefore assist in bringing innovative approaches to the LGUs to improve and sustain municipal services and activities such as fostering cooperation and collaboration between LGUs and local NGOs in planning and

managing the delivery of local services and programs of assistance, increasing municipal revenue collection by introducing new technologies such as pre-paid metering systems, introducing the private-public partnership concept, and increasing the collaboration and cooperation between LGUs and the private sector, etc.

The following sections highlight the progress of various projects under the above mentioned schemes from January 1st, 2009 until June 30th, 2009.

2.1 Emergency Scheme Projects

Projects fall under this category include: component 1 and component 2 of the Second Emergency Municipal Services Rehabilitation Project (EMSRP II). A brief description of this project and its progress is provided below:

2.1.1 The Second Emergency Municipal Services Rehabilitation Project (EMSRP II)-Components 1 and 2

In 2007 The World Bank (WB) and the Government of Netherlands represented by the Netherlands Representative Office (NRO) in the WBG contributed with a grant of an amount of US\$10 million and US\$ 6.17 million respectively to provide emergency assistance to the Palestinian LGUs. The financed program is called the second phase of the Emergency Municipal Services Rehabilitation Project (EMSRP II) under which the beneficiaries are the municipalities in West Bank and Gaza. Both the Swedish International Development Cooperation Agency (SIDA) and the German Development Bank (KfW) decided to contribute for the year 2008 by US\$5.0 million and Euros 15 million respectively.

The main project objectives are to:

- 1) Help mitigate further deterioration in the delivery of essential municipal services, including solid waste collection, provision of water, wastewater and electricity services (where such services are provided by municipalities), and street cleaning, among other services, through rehabilitation of damaged or deteriorating infrastructure and the provision of non-wage budgetary support for direct service cost inputs.
- 2) Create temporary job opportunities at the local level through the launching of labor-intensive employment generation schemes, proportionally allocated on the basis of an unemployment index.
- 3) Pilot innovative initiatives that foster Local Government-NGO collaboration in response to urgent community needs and assist municipalities in recovering costs for the provision of services.

Based on the findings of final review of the First Emergency Municipal Services



Rehabilitation Project (EMSRP I) done by the World Bank (WB) and the MDLF, it was noted that the project scope was too broad, aiming at addressing over 400 localities, thus spreading too thinly limited resources while limiting the Project's impact. The lessons learned have been incorporated into the proposed project's design, as EMSRP II would be targeting only the 132 municipal areas, while other Bank interventions (particularly the Integrated Community Development Project) would aim to target refugee camps and smaller village councils and communities.

EMSRP II project components:

- **Component 1: Emergency Municipal Services Assistance Grants:** This component would finance (a) rehabilitation, reconstruction and upgrading of damaged municipal infrastructure and facilities, as well as the supply of equipment to sustain municipal service provision, and (b) non-wage recurrent expenditures as direct inputs to the provision of essential municipal services over a period of up to two years.
- **Component 2: Labor-intensive Employment Generation:** This sub-component would finance labor-intensive temporary employment sub-projects that are identified and implemented by municipalities in coordination with locally-based community groups. Funds would be earmarked for municipalities on the basis of the unemployment index of the Governorate in which they are located and then the total amount allocated for the governorate will be distributed based on population among its municipalities¹. This allocation method would ensure that localities in greatest need of assistance would be eligible to receive a greater share of resources.
- **Component 3: MDLF Innovation Window:** Refer to section 2.4.1

This financial support was transferred from the MDLF in two allocation cycles for fiscal years 2007 and 2008 (January-December)². These allocations are linked to the annual budget preparation and reporting cycle for municipalities. Access to EMSRP II financing is conditional on submission of a prior year executed budget report, a budget plan for the current fiscal year, and a statement of year-end financial accounts conforming to the Municipal Unified Chart of Accounts (COA) adopted for fiscal year 2007³. This measure is intended to improve municipal budgeting and financial reporting, and provide the MDLF with municipal financial



¹ Disaggregated data at the municipal level is unavailable.

² WB fund for EMSRP II was one allocation for two years implementation, while the Netherlands fund was two allocations for two years and directed to component 1.a only. For 2009, the allocation will be from SIDA and KFW contribution too.

³ The rationale for including this condition is the demonstrated effectiveness of this provision under EMSRP I where executed and planned budget submissions to MOLG rose dramatically from 25 percent reporting prior to the project to over 85% reporting during the project, based on the incentive to access financing. In addition, these conditions are required by the MOLG and will be part of the future MDLF Transfer Mechanism.

data which would be used to strengthen sector monitoring during and after the course of the project.

A new allocation table for the year 2008 was developed by MDLF based on a per capita distribution and is included in Annex A. The total resource pool for distribution over the two year timeframe is estimated US\$ 44,864,197, with an average distribution of US\$ 24.0 million for the first annual budgetary cycle and about US\$ 24.86 million for the second annual budgetary cycle. This would represent approximately US\$ 17.68 per capita. All 132 municipal areas would be eligible to participate, representing coverage of about 70 % of the WBG population.

Progress during the reporting period:

The implementation of a total of 654 approved sub-projects from the first cycle has almost completed in the reporting period despite facing many obstacles including the recent Israeli military attack and the continues difficult security situation in Gaza, dollar devaluation, and prices instability. A breakdown of the sub-projects according to the funding source is provided in table 1:

Table 1: EMSRPII 1st Cycle Sub-Projects Per Funding Source

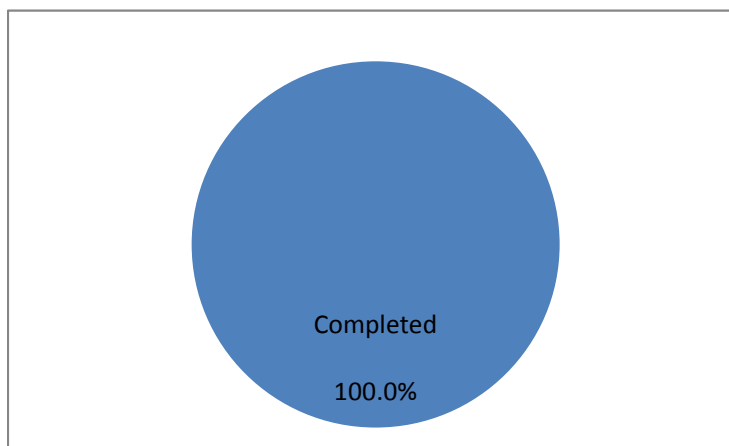
Funding Source	No. of Projects	Allocated Budget (WB)-US\$	Allocated Budget (Dutch)-US\$
World Bank	509	6,441,388	0
Dutch	45	0	1,098,680
World Bank and Dutch	100	1,660,008	1,876,988
Total	654	8,101,396	2,975,668

World Bank funded sub-projects (West Bank): For the World Bank funded sub-projects in West Bank, 100.0% sub-projects are considered as completed with an allocated budget of US\$ 5,170,256. Table 2 and Chart 1 show the status of West Bank subprojects.

Table 2: World Bank Projects Status Per Governorate - West Bank – 1st Cycle

Governorate	Status By Fund Allocation (US\$)
	Completed
Jenin	683,051
Tubas	91,719
Tulkarm	449,631
Nablus	435,838
Qalqilya	164,534
Salfit	199,719
Ramallah	564,089
Jericho	38,163
Jerusalem	583,658
Bethlehem	404,243
Hebron	1,555,612
Total	5,170,256
Percentage	100.0%

Chart 1: Status of EMSRP II Sub-Projects by Allocated Fund -West Bank-1st cycle



The progress in Gaza: was slower compared to the West Bank. The situation in Gaza and in particular after the recent Israeli military attack from December 27, 2008 to January 18, 2009 in addition to the chronic unavailability of construction materials caused by the Israeli blockade, have badly affected the progress of infrastructure sub-projects. Moreover, the shortage in fuel supply and spare parts is delaying the budgetary support sub-projects.

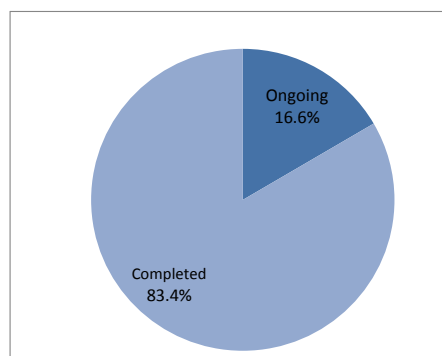
World Bank funded sub-projects (Gaza): For the World Bank funded sub-projects in Gaza, 83.4 % sub-projects are considered as completed with an allocated budget of US\$ 2,444,981. There are 16.6% of ongoing sub-projects with a total value of US\$ 486,159. It is expected these sub-projects will be completed before the end of 2009. Due to the current situation in Gaza and the unavailability of necessary materials it was impossible to implement three sub-projects in Gaza under components 3 of EMSRP II. The MDLF was engaged with related municipalities to identify new use of the allocated funds and thus agreed with the municipalities to reallocate the funds to other components. In June, 2009 the MDLF requested the approval from the World Bank to reallocate the budget of these sub-projects to components 1 and 2.

Table 3 and Chart 3 show the status of West Bank subprojects.

Table 3: World Bank Projects Status Per Governorate - Gaza Strip -1st cycle

Governorate	Status By Fund Allocation (US\$)			Total (US\$)
	Reallocated from Comp. 3 to (1&2)	Ongoing	Completed	
Gaza	116,770	486,159	62,635	548,794
North Gaza	0	0	768,983	768,983
Deir Al-Balah	14,409	0	806,278	806,278
Khan Yunis	0	0	614,807	614,807
Rafah	0	0	192,278	192,278
Total	131,179	486,159	2,444,981	2,931,140
Percentage	4.4%	16.6%	83.4%	100.0%

Chart 2: World Bank Projects Status Per Governorate - Gaza Strip -1st cycle

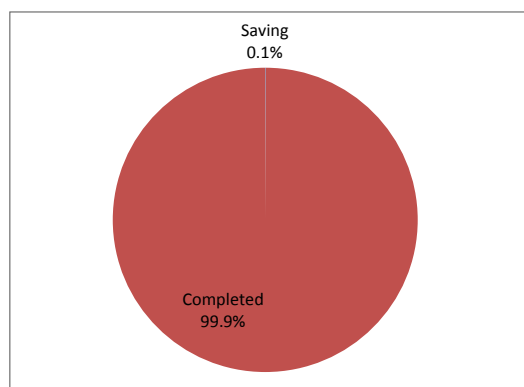


Dutch funded sub-projects of the 1st cycle (West Bank and Gaza): forty five sub-projects are funded by the Dutch only in West Bank and Gaza in the first cycle and 100 sub-projects are co financed by the World Bank and the Dutch. For these sub-projects, 100 % sub-projects are considered as completed with an allocated budget of US\$ 2,966,931. There is US\$ 2,136 or 0.1% of the allocated budget to municipalities was not allocated and remained as saving. Table 4 and Chart 3 show the status of Dutch funded subprojects.

Table 4: Dutch Projects Status -West Bank & Gaza -1st Cycle

Governorate	Status By Fund Allocation (US\$)		Total (US\$)
	Ongoing	Completed	
West Bank	0	2,061,244	2,061,244
Gaza	2,136	905,687	907,823
Total	2,136	2,966,931	2,969,067
Percentage	0.1%	99.9%	100%

Chart 3: Dutch Projects Status -West Bank & Gaza -1st Cycle



Dutch funded sub-projects of the 2nd cycle (West Bank only): The second cycle of the Dutch funded sub-projects includes 43 sub-projects in West Bank only. For this cycle, 100 % sub-projects are considered as completed with an allocated budget of US\$ 2,873,132. Table 5 shows the status of Dutch funded subprojects per governorate.

Table 5: Dutch Projects Status -West Bank Only -2nd Cycle

Governorate	Status By Fund Allocation (US\$)	Total (US\$)
	Completed	
Jenin	1,296,550	1,296,550
Tulkarm	1,070,970	1,070,970
Salfit	403,803	403,803
Jericho	59,773	59,773
Jerusalem	42,036	42,036
Total	2,873,132	2,873,132
Percentage	100%	100%

For more information and data please refer to Annex A.

Progress in the job creation projects: can be illustrated by the fact that 266 municipalities' sub-projects with total allocated budget of US\$2,613,867 were completed, forming 84.0% of the total allocated budgets (US\$ 3.1 million) and with direct employment of 142,283 person-days and indirect employment of 2,720 person-days. On the other hand, 7 municipalities' sub-projects in Gaza with total allocated budget of US\$ 486,159 are still ongoing and expected to be completed by end of 2009 (6.0% of the total allocated fund). The total person-day for all job creation projects for all governorates is expected to be 100,000 person day out of which 142.0% was achieved until the date of writing this report.

In 2008 the Swedish development association (Sida) contributed with a grant of an amount of 35 million Swedish Kronor (SEK) which is equivalent to approximately US \$ 5.4 million. The Administration Agreement between the World Bank and SIDA was signed in March 14, 2008. Subsequently; the Grant Agreement between the Bank and the MDLF was signed on December 29, 2008.

As agreed with SIDA, SIDA's funding is not earmarked and can fund any of the EMSRPII components. However, the MDLF and SIDA decided to allocate the fund to Gaza Strip and therefore the MDLF has completed all necessary preparations for 222 sub-projects to be funded from SIDA contribution.

During the reporting period, 26.6 % sub-projects are considered as completed with an allocated budget of US\$ 1,491,206. There are 48.0% sub-projects are still ongoing with a total value of US\$ 2,503,620 and 23.4% of sub-projects are under preparation and are expected to start soon. Table 6 and Chart 4 illustrate the status of the sub-projects and Table 7 specifies the categories of expenditure to be financed by the grant fund:

Table 6: SIDA Projects Status Per Governorate - Gaza Strip – 2nd cycle

Governorate	Status By Fund Allocation (US\$)			Total (US\$)
	Under Preparations	Ongoing	Completed	
Gaza	598,447	1,213,317	188,308	2,000,072
North Gaza	103,546	309,903	427,695	841,144
Deir Al-Balah	329,707	289,256	314,054	933,016
Khan Yunis	175,313	650,927	209,417	1,035,657
Rafah	10,000	40,217	351,732	401,949
Total	1,217,013	2,503,620	1,491,206	5,211,839
Percentage	23.4%	48.0%	28.6%	100.0%

Chart 4: SIDA Projects Status Per Governorate - Gaza Strip – 2nd cycle

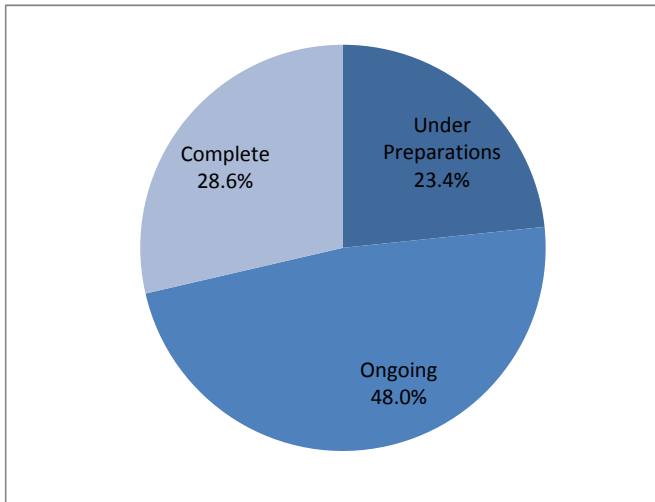


Table 7: SIDA Fund Allocation per Category for EMSRP II

Category	Amount of Grant allocated (in \$ US)
Works	250,896.00
Goods	2,358,423.00
Incremental Operating Costs	2,602,520.00
MDLF Management Fee	274,307.32
Total	5,486,146.41

KFW Agreement- Poverty-Oriented Infrastructure Municipal Finance

The KFW decided to contribute with 15 million Euros to EMSRP II with duration of three years. The overall objective of the KFW grant which is titled “Poverty-Oriented Infrastructure Municipal Finance” is to contribute to improved living conditions in Palestine. In addition, the program objective is to achieve better municipal delivery of basic services.

The following program activities will be financed from the KFW contribution:

- Municipal Infrastructure and facilities in 132 municipalities
- Consulting services for local technical consultants
- Consulting Services for an International Consultant
- Procurement Audits
- MDLF management cost

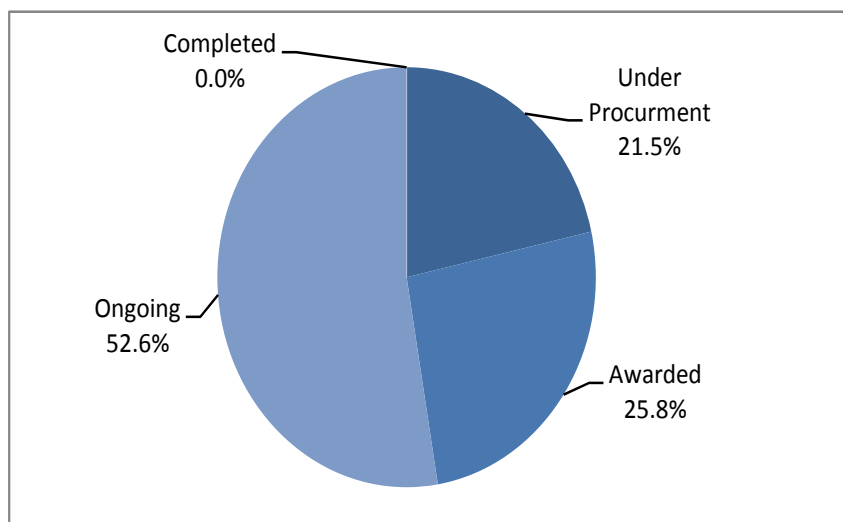
The Grant agreement was signed on September 15, 2008. The MDLF informed the municipalities about their allocations and started receiving sub-projects applications from the municipalities. The list of sub-projects was approved by KFW along with the MDLF operational manual.

The implementation of 93 approved sub-projects has started since the beginning of the year 2009. During the reporting period, more than half of the sub-projects are still ongoing with an allocated budget of 3,944,381 Euros. There are 25.8% of sub-projects with a total value of 1,936,624 Euros are awarded and will start the implementation soon. It is expected that the all sub-projects will be completed before the end of 2009. Table 8 and Chart 5 show the status of KfW subprojects.

Table 8: Status of KfW Projects Status Per Governorate

Governorate	Status By Fund Allocation (Euro)				Total (Euro)
	Under Procurement	Awarded	Ongoing	Completed	
Bethlehem	221,280	13,900	447,060	0.0	682,240
Hebron	912,666	1,697,408	766,813	0.0	3,376,887
Jerusalem	249,584	62,016	423,600	0.0	735,200
Nablus	0.0	67,817	1,355,051	0.0	1,422,868
Qalqilia	0.0	0.0	314,877	0.0	314,877
Ramallah	146,581	48,070	636,980	0.0	831,631
Tubas	81,528	47,413	0.0	0.0	128,941
Total	1,611,639	1,936,624	3,944,381	0.0	7,492,644
Percentage	21.5%	25.8%	52.6%	0.0%	100%

Chart 5: Status of KfW Projects Status Per Governorate

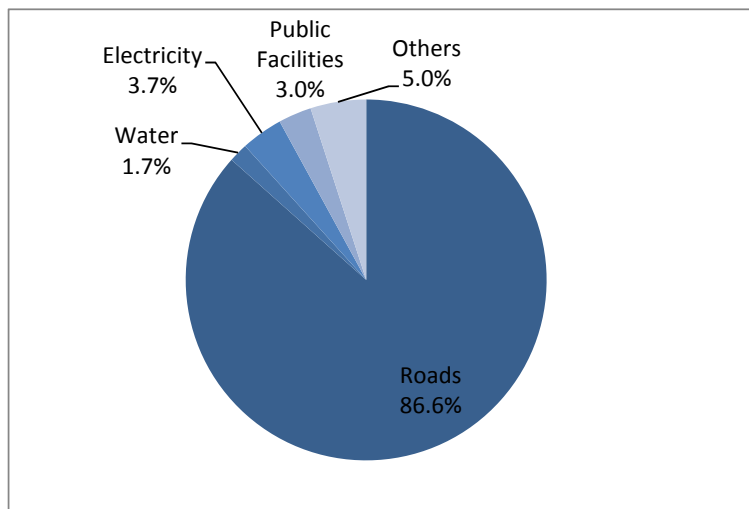


It should be noted that the application and appraisal process haven't started for Gaza Municipalities due to the current situation there which prevent a smooth implementation of infrastructure rehabilitation projects. The MDLD in coordination with KfW will discuss possible scenarios for Gaza allocation.

In terms of allocation per sector, around 86.6% of the allocation is for the roads sector. This high percentage indicates the level of needed improvement in the roads

infrastructure for many municipalities. This was also reflected in the needs assessment that has been conducted by MDLF for the PRDP preparation. Chart 6 shows the allocation per sector for the KFW sub-projects.

Chart 6: KFW Contribution to EMSRP II-Allocation per Sector in West Bank



Another ongoing activity under the KfW financing agreement is the **updating of the MDLF Technical Manual**. The assignment objectives include (i) further development of technical manual and procedures, (ii) the upgrade of business processes and workflow of the MDLF according to the developed/upgraded manual and (iii) related training of MDLF staff. After completing the appropriate procurement procedures, the MDLF has contracted an individual consultant in April 2009 to carry out the assignment which is still ongoing.

For more information and data about the progress of EMSRP II please refer to Annex A.

Indicators:

As mentioned previously, the main objectives of EMSRP II include: help mitigate further deterioration in the delivery of essential municipal services, create temporary job opportunities at the local level, and pilot innovative initiatives that foster Local Government-NGO collaboration in response to urgent community needs and assist municipalities in recovering costs for the provision of services. These objectives coincide with one of the major goals of the PRDP which is to increase national prosperity, and enhance quality of life. In addition, the EMSRP II objectives fall within the second Strategic Theme of the MDLF Strategic Plan “ Supporting and Enabling LGUs “.

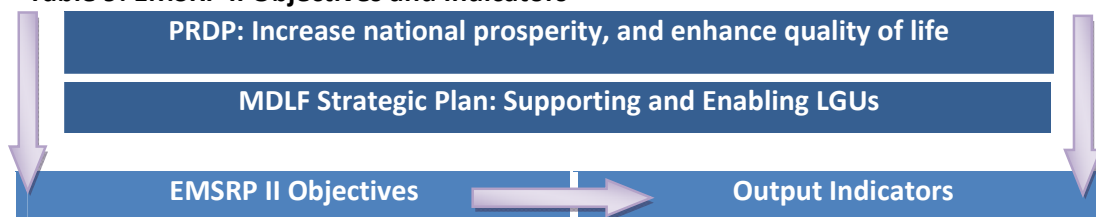
It is obvious that the implementation of the EMSRP II activities is directly coincides with the Palestinian Reform and Development Plan (PRDP) objective to increase national prosperity, and enhance quality of life for citizens. The project also falls under the objective of the MDLF strategic theme to support and enable LGUs. The



EMSRP II various activities have improved the ability of municipalities to provide better services to their constituents. The outputs of the implemented projects will contribute in the improvement of basic services and infrastructure. Moreover, the MDLF approach to partner with municipalities and build their capacity throughout the preparation, planning and implementation processes has improved the skills, and the capacities of the municipal staff in managing the municipal services. The outcomes of EMSRP II will be evaluated upon the completion of the project and will include beneficiary's satisfaction survey and measuring the progress toward the objectives of the project. Table 9 links the indicators of the EMSRP II activities with the objectives of the three levels (EMSRPII, PRDP, and MDLF Strategic Plan).


Annex A includes a detailed table for the outputs indicators of the EMSRP II sub-projects under component 1 and 2 until the end of the reporting period. Annex I provides financial data about EMSRP II project.

Table 9: EMSRP II Objectives and Indicators



<p>Objective 1: help mitigate further deterioration in the delivery of essential municipal services</p>	<p>I- Roads: 69km pavement, 10km sidewalks and shoulders, 0.8km culverts and drainage, 0.63 km retaining walls.</p> <p>II- Water: 28,459L.m pipes, 1,163 water meters, US\$ 56,374 bills for water pumps.</p> <p>III- Electricity: 9.0km networks rehabilitation, 2.0km street lighting, 44,323 L.m cables, 2,962 lighting units, US\$ 206,477 for supplying miscellaneous spare parts, US\$ 788,878 electricity and lighting bills, maintaining the service through supplying fuel for generators.</p> <p>IV- Sewerage: 0.69 km network rehabilitation, 7,498L.m pipes.</p> <p>V-Solid Waste: 427 containers, 2 tractors, 3 trailer, 10 bicycles, US\$ 131,516 miscellaneous spare parts, maintain solid waste collection service through supplying fuels for collection services with increase in hours of operation in four municipalities, US\$ 858,260 fees for dumping sites and other related expenses.</p> <p>VI- Public Facilities: 3,958 Sq.m public buildings rehabilitation, 1,030 Sq.m parks and gardens.</p> <p>VII- Others: US\$ 744,725 service tools and vehicle maintainance for municipalities, and US\$ 907,469 for vehicle insurance, labor insurance, service tools and fuel supply for municipal services to maintain basic services.</p>
<p>Objective 2: create temporary job opportunities at the local level</p>	<p>I-Direct Temporary Employment: 142,283 Person-Day was created with US \$12.64 Per Person-Day. Which is equivalent to 4,743 Person-Month with US \$379 Per Person-Month. Labor content for that is 68.8% which is higher than the percentage set in the technical annex of the project (50%).</p> <p>II- Indirect Temporary Employment: 2,720 Person-Day was created with US \$15 Per Person-Day. Which is equivalent to 91 Person-Month with US \$450 Per Person-Month.</p>
<p>EMSRP II Objective 3: pilot innovative initiatives that foster Local Government-NGO collaboration in response to urgent community needs and assist municipalities in recovering costs for the provision of services</p>	<p>For the LGU-NGO activities: 33 joint proposals were received from municipalities and NGOS, 10 of these proposals were approved.</p> <p>The Expected number beneficiaries will be 22,180 persons in the West Bank and 18,387 persons in Gaza.</p> <p>Note: The activities under this objective are still ongoing and are expected to finish by February 2009.</p>

Safeguards Measures:

- MDLF included environmental and social safeguards measures as part of the EMSRP II appraisal and implementation process. This assessment aimed at addressing the environmental issues and the social impacts associated with the project and check the compliance with the applicable national and international standards.
- 
- During EMSRP II preparation, MDLF prepared a draft Environmental Management Plan (EMP). The EMP was revised and new measures related to cultural and heritage assets were added. The EMP has been prepared based on the existing environmental situation and the auditing requirements. These requirements were realized after analyzing each of the 20 sub-projects and a sample of sub-projects financed under the first EMSRP. The EMP was also prepared in compliance with the Palestinian environmental laws and municipal bylaws. It provides tools for the evaluation and management of the impacted environmental parameters and they are:
 - Dust and gases emissions
 - Water (wastewater, surface water discharge, storm water)
 - Construction waste
 - Accidental risks
 - Loss of vegetation
 - The application of the EMP was extended to include other similar projects managed by the MDLF including the MDP, and the Jenin Pilot Projects. The MDLF Environmental Specialist is working closely with municipalities and LTCs to ensure that the environmental safeguard measures are in place.
 - Contractors and municipalities were required to use the EMP as a working guide to reduce the environmental and public health risks and assist in improving environmental management. The primary objective of the environmental safeguard is to ensure that each project is implemented in a manner that does not cause adverse impacts on the environment. The main components of environmental assessment were:
 - Base line environment.
 - Environmental impacts.
 - Implementation of management plan and mitigation measures.
- The assessment addressed the following main environmental issues:
- Physical resources (air quality and noise, water supplies and water quality, new sources development).
 - Land use and transportation.
 - Biological environmental issues (vegetation and wildlife).
 - Cultural and heritage (archaeological resources, recreation and tourism).
 - Public health, health facilities and services issues.

- Another safeguard is the social assessment which was carried out to ensure that implemented projects satisfy community needs and that the adverse effects are minimal. The objective of the social assessment is to collect information that aids in assessing the impact of the small-scale projects on their direct and indirect beneficiaries as well as on institutions involved in the projects cycle. The main issues that need to be explored by the social assessment are:
 - Beneficiary participation.
 - Institutional impact.
 - Improvement objective.
 - Community involvement and satisfaction.
 - Gender analysis and women contribution.
 - Impact on social categories.
 - Economical improvement and financial return.
 - Future improvement.
- As an emergency Project financing mainly service-related operating costs, potential adverse social impacts are likely to be few, if any, under the EMSRP II. However, as a means of ensuring appropriate safeguards are in place, the MDLF screened all emergency program assistance requests to identify any that may have a potential adverse social impact. This is being done through a dedicated Social Specialist based at MDLF in a full time bases. .

Gaza Municipal Sector Damage Assessment:

On December 27, 2008 the Israeli military began a 22 days of military attack on Gaza Strip resulting in a severe humanitarian crisis to the civilians and systematic damage of the basic infrastructure and municipal buildings. Several reports published by the Office for the Coordination of Humanitarian Affairs (OCHA) and other humanitarian agencies indicated that the humanitarian crisis has worsened as a result of the Israeli attack and 1,314 Palestinians were killed , 412 of them children. In addition, Israeli bombardment has caused extensive destruction to homes and to public infrastructure throughout the Gaza Strip and is jeopardizing water, sanitation and medical services.

To prepare for proper interventions, the MDLF along with the World Bank had conducted a damage assessment of the municipal sector in Gaza. The findings of the assessment were published in the “Gaza Municipal Sector Damage Assessment Report” in February 2009. The report was endorsed by the Ministry of Local Government (MoLG) as Part of the National Plan to Rebuild Gaza and presented to the Local Government Sector Working Group (SWG). The municipal sectoral assessment estimated the infrastructural damages at approximately US\$ 46 million and also highlighted that municipalities are unable to cover their service costs due to their inability to collect user fees, licenses and taxes resulting from the economic crisis. The following are the highlights of the report:

- The damage to municipal assets and institutions resulted from a combination of aerial bombardment, underground sonic bombs, tanks and heavy bulldozers

during the course of the 22 day invasion (December 27, 2008 to January 18, 2009). During this period, 4 municipal employees were killed and 7 were injured.

- The total loss to the municipal sector is estimated at over US\$ 46 million. About 80 percent of these damages are born by 3 municipalities: Rafah Municipality (US\$ 19.1 million), Gaza City (US\$ 10.6 million) and Beit Lahia (US\$ 7.0 million). Two other municipalities had an estimated damage of over a million dollars: Jabalia (US\$ 3.2 million) and Beit Hanoun (US\$ 1.1 million). These five municipalities are concentrated in 3 Governorates of the Gaza Strip (north, Gaza, and Rafah). The bigger municipalities with a wider range of assets have suffered greater damages in terms of absolute costs, compared to the smaller ones. However, although the smallest municipalities experienced comparatively low losses in absolute figures, they have accumulated larger per capita damages: Wadi Gaza (US\$ 235 per capita) and Al Fukhare (US\$ 132 per capita) both located close to the green-line have some of the highest per capita losses. Rafah (US\$ 269 per capita) and Bet Lahia (US\$ 177 per capita) experienced high losses in both absolute and per capita terms as they endured the thrust of the invasion.
- Recommendations:
 - Immediate: Extension and additional financing of Emergency Municipal Services Rehabilitation Project II that will enable municipalities to restore vital services and enable them to pay for service costs, opening critical roads etc.
 - Medium-term 6-12 months: reactivate the most basic services (sustain solid waste collection and rehabilitation, road opening, rubble removal, water and waste water rehabilitation (through CMWU), land surveying, street lighting.
 - Long-term 12-24 months: urban planning, street rehabilitation, revitalization of revenue base (markets, parks, etc) and rehabilitation of administration buildings.

EMSRP II Additional Financing

The PA has requested an additional financing from international partners for assistance to the EMSRP II based on the Gaza Early Recovery and Reconstruction Plan as well as the Gaza municipal sector assessment conducted by the MDLF. The World Bank (US\$ 3 million) , the Denmark (US\$ 5 million) and possibly Sweden have agreed to contribute to the Additional Financing through a co-financing agreement with the World Bank. The MDLF is currently working with the World Bank to prepare for the AF agreement which is accepted to be signed during the month of July, 2009.

2.2 Development Scheme Projects

Projects fall under this category includes: Municipal Development Project (MDP) and Palestinian Municipalities Support Program (PMSP). A brief description of these projects and the progress of each one are provided below:

2.2.1 The Municipal Development Project (MDP)

The Municipal Development Project (MDP) aims at providing financial support to the selected LGUs to improve the municipal services delivery to the population. The project is funded by the French Development Agency (AFD) and was designed to include the 16 main cities of the Governorates of West Bank (Jerusalem excluded) and of the Gaza strip. These cities concentrate more than 45% of the total population and 78% of the urban population. In addition, the MDLF selected 5 Joint Service Councils for Planning and Development or Joint Municipalities, where the Project could finance infrastructure, with the aim to supporting the Palestinian Authority's effort to reduce the overall number of LGUs in the West Bank and Gaza. However, due to the fact that the implementation of the Project in the Gaza Strip has become impossible because of the blockade of all the importations by the Israeli authorities, the MDLF with the approval of AFD reallocated the budget of Gaza municipalities to West Bank municipalities. The AFD has expressed its commitment to provide additional support for Gaza municipalities once the conditions in Gaza allow for implementation.

The Project objectives include:

- Improve the conditions of living and economic activity in the Palestinian municipalities through the maintenance, rehabilitation, and in limited cases creation of basic municipal infrastructure.
- Stimulate the local economy through the mobilization of local contractors who will create jobs and therefore generate additional income.
- Reinforce the linkages between the newly-created Municipal Development and Lending Fund and the municipalities.

The Project funds will be divided among the selected municipalities according to their respective populations, with a minimum allocation per LGU of 400,000 Euros to ensure that the available budget per LGU is above a critical minimum threshold for impact and visibility. The Joint Service Councils or joint municipalities will be allocated 320,000 Euros each. Table 9 lists the targeted municipalities and the amount of fund allocated for each.

A quick look into the allocation of the AFD fund reveals that most municipalities (about 69%) requested roads projects which are similar to the case in the World Bank and Dutch funds under the EMSRP II project. This indicates the urgency and need for new road as well as maintaining the existing roads network. The second needed sector is public facilities (17%) which include municipal buildings, libraries, community centers and public parks. Chart 5 shows the distribution of the AFD fund per sector

Progress during the reporting period:

- After the approval of the priority investment lists and application forms received from the municipalities by MDLF and AFD, MDLF sent the bidding documents to the municipalities. The documents were filled and then reviewed by the MDLF during the month of May, 2008.
- During the months of April and May, 2008 The MDLF signed project MOUs with each municipality to ensure the commitment of the municipality to comply with the procedures and conditions of the program.
- The municipalities advertised for the prequalified contractors to bid for the approved sub-projects and since June 2008 until June 2009, the contractors started to submit their bids to the municipalities for the advertised projects.
- Evaluation of bids was conducted by the municipalities and then evaluation reports were sent to the MDLF for review and no objection. The MDLF issued a No Objection to ward and the implementation of the approved sub-projects has started.
- Regarding Gaza allocation, the MDLF with the approval of the AFD reallocated the funds to West Bank Municipalities due to the current situation in Gaza. On February 2009, the AFD gave its No Objection on the new sub-projects to be financed from the reallocated budget. Table 10 lists the distribution of AFD sub-projects by sector per governorate.
- During the reporting period, 62.2% municipalities' sub-projects with an allocated budget of 5,606,490 Euro were completed. The remaining sub-projects are still under procurement or ongoing with a total allocated budget of 3,393,510 Euro. These sub-projects are expected to be completed by the end of 2009. Chart 8 illustrates the status of the municipalities' sub-projects.
- In regard to the JSCs sub-projects, 80% sub-projects with an allocated budget of 1,280,000 Euro were still ongoing and is expected to be completed by the end of 2009. Only one sub-project with an allocated budget of 320,000 Euro is still under the tendering process and will start in the next quarter. Chart 9 illustrates the status of the JSCs sub-projects.

Table 10: Distribution of AFD Sub-Projects by Sector Per Governorate

Governorate	Roads	Water	Waste water	Electricity	Public Facilities	Total (Euro)
Tulkarm	825,000	0	0	0	0	825,000
Salfit	475,000	0	0	0	0	475,000
Tubas	530,000	0	0	0	0	530,000
Qalqilia	445,000	0	310,000	0	0	755,000
Nablus	782,241	147,802	227,787	317,170	0	1,475,000
Jenin	685,000	0	0	0	0	685,000
Jericho	560,000	0	0	0	0	560,000
Hebron	1,382,600	0	357,400	0	0	1,740,000
Bethlehem	635,000	0	0	0	0	635,000
Al-Bireh	140,000	0	0	0	580,000	720,000
Ramallah	510,000	0	90,000	0	0	600,000
JSCs	320,000	0	0	87,000	1,193,000	1,600,000
Total	7,289,841	147,802	985,187	404,170	1,773,000	10,600,000
Percentage (%)	68.8%	1.4%	9.3%	3.8%	16.7%	100.0%

Chart 7: MDP Fund Distributed per Sector

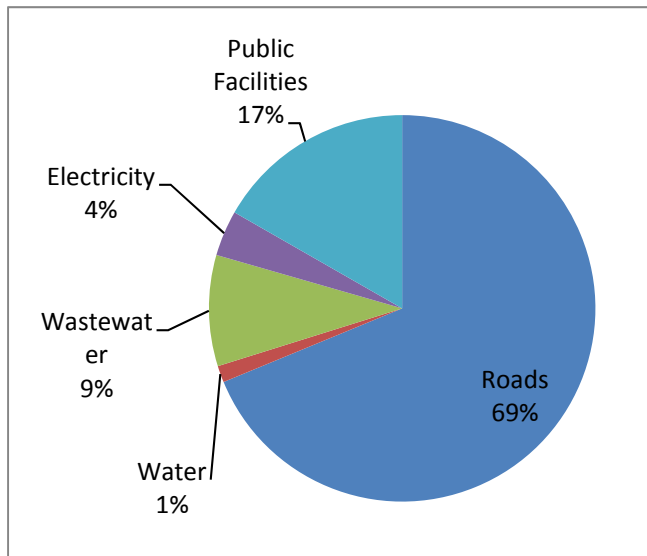


Chart 8: Status of MDP Sub-Projects by Allocated Fund- Municipalities

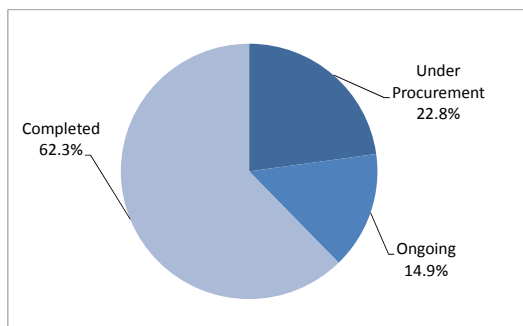
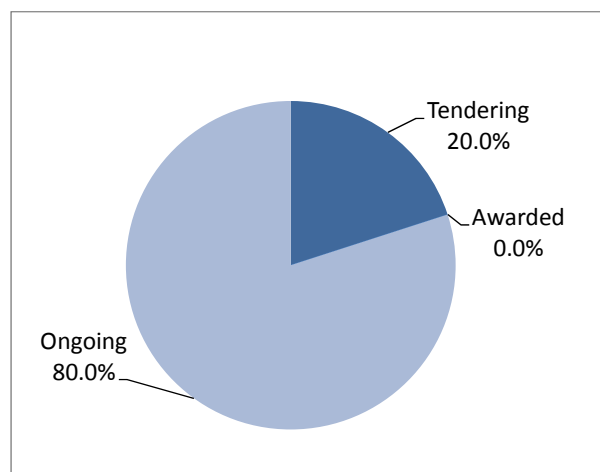


Chart 9: Status of MDP Sub-Projects by Allocated Fund- JSCs



Annex B includes detailed information about the status of the MDP projects as of the reporting period. Annex I includes the financial data of the MDP.

2.2.2 The Palestinian Municipalities Support Program (PMSP)

Following the exchange of letters that occurred between the Palestinian Minister of Finance and the Italian Minister of Foreign Affairs in the year 2004, the Italian Government contributed to the Palestinian Municipalities Support Program (PMSP) with a grant of Euro 25 million (Not less than additional 30% will be contributed from the Italian Regions and Local Governments (IRLG) upon a partnership agreement to be signed between the Palestinian LGUs and the IRLGs.

The PMSP aims at supporting and integrating the Palestinian Authority's efforts to reform the local authorities system. In addition the program aims at improving the living conditions of the Palestinian population specifically in four governorates.

Beneficiaries of the program include communities living in the geographic areas where the program is implemented, in particular, JCS for Planning and Development, municipalities and village councils operating in the governorates of Jerusalem including East Jerusalem, Bethlehem, Hebron and Khan Yunis. Consequently, the APLA itself will also benefit from the program. For East Jerusalem area, NGOs, associations and institutions will be the targeted beneficiaries.

Since it started the project steering committee has approved 22 projects (total value of 3,442,051.79 Euros) among which 12 were endorsed for implementation (1,924,501.22 Euros) representing 55% of the total number of projects and 56% of the total project's cost. Out of the 22 project 10 projects (1,517,550.57 Euros are still frozen due to freezing the projects funds following the PA elections in 2006.

Progress during the reporting period:

- The project has been frozen since the Palestinian elections of 2006. Aiming at resuming the activities of the project, the MDLF Chairman of the BoD and the Acting General Manager met with the Italian General Consular in January, 2008 to discuss the project status. The Consular stressed on the interest and willingness of Italy to resume the project once they fulfill specific requirements to the Italian Technical Team.
- The MDLF submitted a proposal to modify the mechanisms of the project to reflect the lessons learned from previous activities and to harmonize the project procedures with the MDLF Operational Manual.
- During the month of February the project's Joint Technical Committee held several meetings where it was agreed to start the implementation of East Jerusalem Projects. However, due to the issues related to the readiness of the Italian Team, to date this decision has not been activated.
- Three out of the five ongoing projects were completed. The other two projects are still under implementation and will be completed during the year 2009.



2.3 Institutional Development and Technical Assistant Scheme Projects

Projects fall under this category includes: the Local Government Capacity Building Project (LGCBP) and the Study to prepare for the Southern West Bank Solid Waste Management Project (SWMP), and the Policy and Human Resource Development (PHRD) Grant. A brief description of these projects and the progress of each one are provided below:

2.3.1 The Local Government Capacity Building Project (LGCBP)

The Danish co-financed Local Government Capacity Building Project (LGCBP) supports the on-going efforts of the Palestinian Authority (PA) to reform the local government system in the WBG. With respect to implementation, the Government of Denmark and the World Bank have agreed that the support provided under this project will be channeled through the framework of MDLF. The overall development objective of the project is to improve local governance and accountability thereby fosters an efficient and sustainable economy, and the social and physical development of the urban and rural areas in WBG. The specific objectives of the project are to improve the accounting, financial management and budgetary control capabilities of MOLG Finance and Budget Department, and of the LGUs as well as the capacity of the MDLF.



The Agreement between the three parties involved (Denmark Government: the donor, the World Bank: administrator and Palestinian Authority: beneficiary) was signed on March, 2005. The Project is composed of the following three components:

- **Component 1: Financial Management and Accounting Systems Reform:**
The main objective of the LGCBP first component is to improve the accounting, financial management and budgetary control capabilities of MOLG and LGUs through designing a unified financial and accounting system for LGUs.
- **Component 2: Physical Planning and Management Systems Reform:**
The main objective of the second component is to strengthen the capacity of MOLG and the LGUs in WBG to effectively guide, manage and monitor the development of the urban areas and be responsive to the needs of citizens.
- **Component 3: Institutional Development (MOLG/MDLF):**
The main objective of the third component is to increase the capacity of MOLG/MDLF to manage a decentralized local government system. A World Bank consultant assessed the situation and provided the needed Terms of References (TOR) for different assignments.

Progress during the reporting period:

Component1: Financial Management and Accounting Reform

- **Unified Budgetary forms for 2008** were developed and approved by the Minister of Local Government. These budgetary forms are in total compliance with the classification and categorization of the approved COA and will enable the proposed MDLF system, Integrated Financial Management Information System (IFMIS), be more responsive to municipalities' budgetary and actual reporting needs.

- The MDLF produced the first **Local Government Financial Database** which includes the planned and executed budgets for all municipalities for the year 2006. The MDLF has updated the data base for 2007-2008 budgets.
- For the first time, the project has succeeded in developing and implementing a **Fixed Assets Valuation Methodology** and valued the assets at 8 pilot municipalities in West Bank and Gaza Strip. The developed methodology assessed the value of municipal assets among 8 pilot municipalities. Three firms were contracted and finalized the valuation of the assets at the pilot municipalities as following:
 - West Bank municipalities (Qalqilia, Beit Ummar, Birzeit, Dura)
 - Nablus Municipality
 - Gaza municipalities (Al Maghazi, Deir Al Balah, Rafah)
- The MDLF is advising other municipalities (non-pilot) to start using the same system to register their assets, however, based on the results of this above mentioned assignment, all lessons learned will be forwarded to 35 municipalities (representing the second phase of the project) and provide them with more intensive training to allow them to register and value their assets as it is considered as a bases to start implementing the new accounting system.
- MDLF has contracted a local firm to finalize the expansion of Fixed Assets valuation methodology based on the experience and lessons learned of the first phase of the eight pilot municipalities.
- The MDLF has contracted six local firms to carry-out the fixed assets registration and valuation of the 35 roll out municipalities in the West Bank and Gaza Strip. The main objective of this assignment is to conduct a detailed and comprehensive valuation of the fixed assets of the selected municipalities based on the detailed methodology and the updated standardized price list which was developed by MDLF. The targeted municipalities are divided as the following:
 - Area1 Northern Municipalities – WB (Tulkarem, Jenin, Qabatya, Anabta, Jaba’a, Kufor Ra’ie, Al- Yamun, Beta, Qabalan and Ya’bad)
 - Area 2 Middle Municipalities –WB (Jericho, Silwad, Deir Debwan, East Beni Zeid, Qatanna, Bedia, Bedu and Al-Zaytunah)
 - Area 3 Southern municipalities –WB (Bethlehem, Beit Sahour, Yatta, Al- Samu’e, Beni Na’im, Surif and Taffouh)
 - Area 4 Hebron Municipality – WB (Hebron Municipality)
 - Area 5 Gaza Strip Municipalities (Beit Hanoun, Beit Lahya, Beni Suhaila , Al Bureij , Al Nuseirat, Absan Al Kabirah , Al Qarara and Khuza’a)
 - Area 6 Gaza Municipality (Gaza municipality)

The assignment in all municipalities is still ongoing and is expected to be completed by October 2009.

- Moreover, the MDLF encouraged other partners to use its established methodology and experience on the fixed asset registration for the pilot municipalities; GTZ through their Local Government Support Program and with full cooperation with the MDLF will support three municipalities (Ramallah, Al-Bireh, and Salfeet) to conduct institutional assessment of the financial departments of the three municipalities, Registration and valuation of their assets.
- The MDLF signed a MOU with the Engineer's Association (EA) on June 10, 2008 to outline the cooperation between the MDLF and the EA in building the capacity of municipal asset registration and valuation. This cooperation was facilitated through the GTZ Local government and Civil Society Development Programme-LGP and will build on the outputs of the LGCBP. The areas of cooperation will compromise following components and stages: Training-of-Trainers, Pilot Training for Municipalities, and Pilot Training for Valuers.
- MDLF has contracted **a Municipal Finance Consultant** to prepare a Financial Policies and Procedures Manual (FPPM) covering in details all financial policies and procedures to be used by the municipalities in preparing their budgets and processing all financial transactions. The consultant has submitted a draft manual in April 2009. The MDLF reviewed the draft version and submitted the comments to the consultant for finalization.
- MDLF has contracted **a Municipal IFMIS Consultant** to supervise the implementation of the Integrated Financial Management Information System (IFMIS) and act as a technical supervisor on behalf of MOLG and MDLF mainly in controlling and quality assurance which will include helping municipalities as well as MOLG in the user test acceptance. The assignment was completed in March 2009.
- MDLF has contracted **a Financial Consulting Firm** to assist the pilot municipalities in preparing the data and accounting information for conversion from the cash basis of accounting, which is currently used by most Palestinian municipalities, to the modified accrual basis of accounting which will be used by these pilot municipalities once the new computerized IFMIS is installed and operated. The purpose of this assignment is to:
 - a) Assist the pilot municipalities to prepare the data and accounting information for conversion from the cash basis of accounting, which is currently followed by most Palestinian municipalities, to the modified accrual basis of accounting which will be followed by these pilot



municipalities once the new computerized IFMIS is installed and operating.

- b) Supervise the implementation of IFMIS from an accounting point of view in the eight pilot municipalities and the MOLG and extend necessary support and assistance to the pilot municipalities and the MOLG



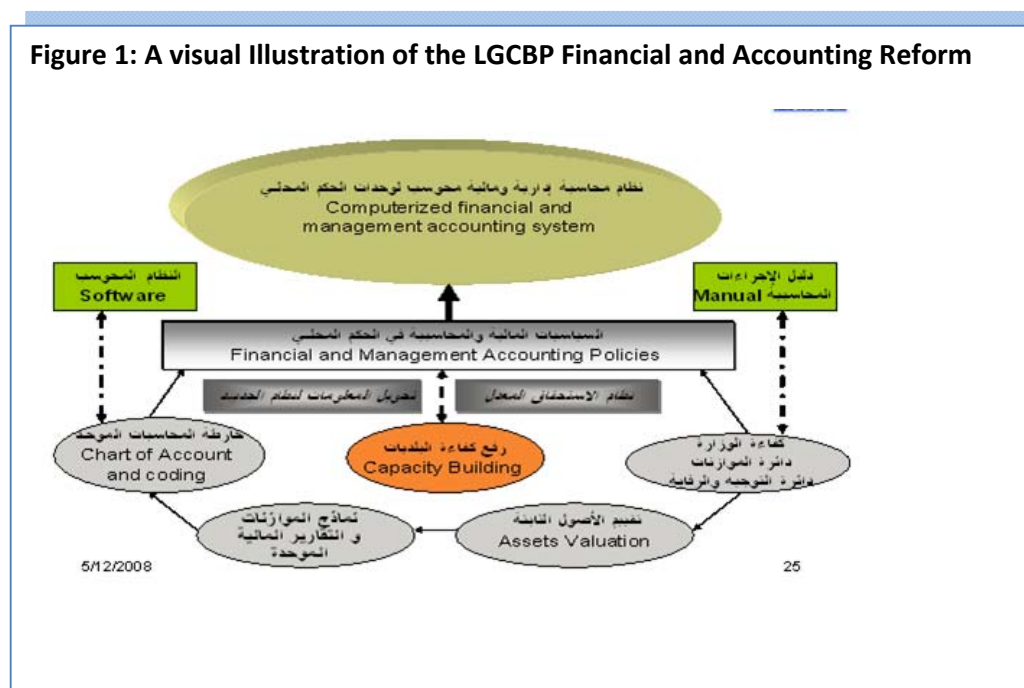
during the implementation period to ascertain successful implementation process in coordination with the project financial and IT consultants.

- MDLF has contracted a **Financial Institutional Development Consultant** to assist the MDLF in the implementation of capacity building activities of the financial staff at the 35 municipalities to handle the full range of municipal financial management responsibilities once the IFMIS is ready to be implemented.
- The project has started the implementation of the **Integrated Financial Management Information System (IFMIS)** which will target large, medium and small municipalities in West Bank and Gaza. The system meets the accounting and financial reporting needs of municipalities and central government (MOLG). Following the procurement process, the MDLF has finalized the negotiations with the selected international firm "Free Balance Int." and signed the contract on July 12, 2008 under the patronage of the Minister of Local Government .The team of Free Balance was mobilized during the month of July to start the implementation of the assignment. The firm is located at the MDLF premises and is coordinating with all stakeholders this will include MOLG, municipalities and the project consultants.
- Free Balance Inc. Accountability Suite software is built on good practices and international government financial standards as follow:
 - *International Monetary Fund Government Finance Statistics (GFS)*
 - *World Bank treasury reference model*
 - *International Monetary Fund Code of Good Practice on Fiscal Transparency*
 - *International federation of Accounts International Public Sector Accounting Standards Board International Public Sector Accounting Standards (IPSASs)*
 - *UN Common Functions of Government*
 - *Medium Term Expenditure Frameworks (MTEF)*
 - *General Accepted Accounting Principles (GAAP)*
- Free balance Inc. can be configured to operate on: Cash, Modified Cash, Modified Accrual or Full Accrual. The Following modules will be implemented at the municipalities:

- a. Accounting system which include (General Ledger, account receivable, account payable, purchasing, inventory, fixed assets)
 - b. Budgeting preparation and controlling
 - c. Revenue Management system
- To facilitate the rolling out of the asset registration and IFMIS implementation for the 38 municipalities, the MDLF hired a consultancy firm to assess the current individual and departmental capacities and the adequacy of individual skills and qualifications in the financial departments in the targeted municipalities. The study aims to identify gaps and shortcomings against future staffing and skills requirements on an individual and departmental basis in order to ensure successful IFMIS implementation at the 35 municipalities. The assignment was completed in February, 2009.

Figure 1 shows a visual representation of the financial and accounting reform activities under the LGCBP.

Figure 1: A visual Illustration of the LGCBP Financial and Accounting Reform



Annex F includes a detailed progress report about the assignment prepared by Free Balance team.

Component 2: Physical Planning and Management System Reform

- **Baseline Survey of Municipalities and Joint Councils Urban Planning Practice:** The purpose of the survey was to review current practices and needs at central and local levels so that proposals for improved procedures can be put forward which are based on a thorough understanding of present planning practices.

New-vision was awarded the contract to do this assignment based on the evaluation of the interested firms. The firm has developed the inception report and started to distribute the agreed questionnaire for the selected municipalities and joint service councils with full coordination with the MOLG. In November, 2007 New Vision has finalized and achieved the assignment and final payment was made based on deliverables approval.

- The **Urban Planning Consultant** was contracted on May 11, 2008 for a short period of one month. The overall scope of work of the Consultant is to assist MDLF and MOLG planning department in implementing the physical planning component, through delivering a TOR to prepare the Physical Planning Policies and Procedural Manual (PPPPM). This will enable MOLG planning department to progressively shift its current physical planning functions to more supportive and policy formulation role, in a more decentralized local government sector in West Bank and Gaza. The consultant finished his assignment and prepared the needed TOR and specifications to prepare Planning Guidelines and Operational Manual.
- Following the previous assignment and based on the prepared ToR, in June 2009 the MDLF contracted consultancy firm to help MoLG in developing **the Physical Planning Policies and Procedures Manual (PPPPM)**.

The main objectives of the assignment are the following:

- *Institute operational physical planning process at the regional and local levels.*
- *Enhance competence and capabilities of physical Planning leading at national, regional and local level.*
- *Enhance Coordination and cooperation between the selective Physical planning institutions and regulate Physical Planning operation among them.*
- *Establish a procedural physical Planning Manual that will enable Ministry of Local Government (MOLG) and Municipal Development and Lending Fund (MDLF) as well as the local community to guide and formulate their policies and procedures to implement physical planning operation of their level.*

For this purpose, an Expressions of Interest (EOI) had been advertised in September 2008, for which seven firms had expressed their interest in providing the requested consultancy services. An evaluation committee from MoLG and MDLF was formed and a short list of the most qualified firms was prepared. The selected consultancy firm submitted its technical and financial proposal and the contract was signed on June 1, 2009. The inception phase was started immediately after signing the contract.

- Another **Local Government Consultant** was contracted in July, 2008. The objectives of the assignment is to assist the Ministry of Local Government (MOLG) and Municipal Development and Lending Fund (MDLF) in developing a framework for the reducing of the Local Government Units (LGU's) through the exiting institutional set up of the Joint Service Council (JSC) or through any proposed setup that would be supported by the development of a merging strategy and action plan. However, this would include the support for the JSC department at the MOLG to shift their current functions in to

more supportive and policy formulation role, in a more decentralized local government sector in West Bank and Gaza. The main tasks of the consultant will include:

- *Asses the institutional setup of the existing JSC and develop the framework to strengthen MOLG merging policy to reduce number of LGU's*
- *Recommend the MDLF role in enhancing the amalgamation policy*
- *Strengthening the JSC department supervising and clarification of their policy formulation role/MOLG*
- *Assist MOLG and MDLF in supervision and implementation in a set of JSC's or merged municipalities*

The consultant started his assignment and conducted his first mission in August, 2008 which produced an inception report and action plan. Another mission was conducted during the month of November where an **Amalgamation Task Force (ATF)** was formed and an outline for the amalgamation policy framework was developed and discussed with all stakeholders. The ATF membership include: related departments and senior staff of MoLG and MDLF. A final mission was conducted during the month of June 2009 in which a final draft of the Amalgamation Operations Manual and an Amalgamation Policy Framework and Implementation Strategy were prepared and disseminated to the MoLG.

- Implementation on a phased basis in a representative set of Municipalities (**Local Technical Consultants / LTC**): This assignment was supposed to be accomplished by the 31st December, 2007, however, it was extended until the 30th April, and 2008. The delay on finalizing the deliverables was mainly because of the problems in finalizing appropriate application forms from the municipalities and the current unstable situation in Gaza which forced the municipalities to change their proposals several times to accommodate the needs and the capability for implementation. Therefore, the payments were delayed accordingly and caused variances.

Component 3: Institutional Development (MOLG and MDLF)

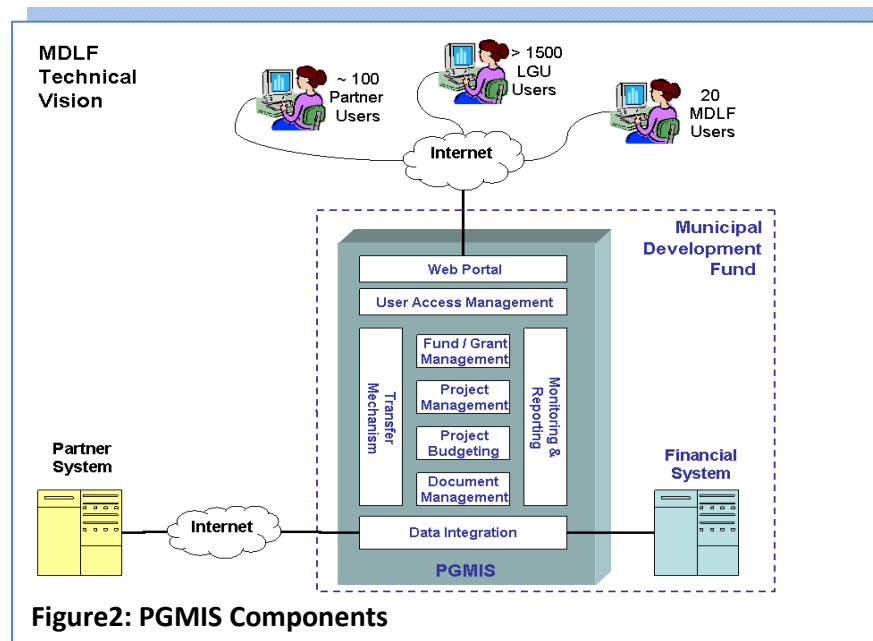
- **Project and Grant Management Information System (PGMIS)** for MDLF:
A promising initiative the MDLF is currently working on is the Project and Grant Management Information System (PGMIS) that will be used by MDLF as a management and tracking tool for its projects and activities.
The PGMIS is a fully-integrated computerized Fund and Project and Management Information System for the MDLF and will be implemented across more than 500 LGUs in the West Bank and Gaza. Initially, it is expected that more than half the LGUs will have electronic connection through the Internet to access the PGMIS System.
The main objectives of PGMIS include:
 1. Improve the management of funds, grants and loans and automate the fund mobilization processes from donation to LGU allocation, and from project budgeting to payment tracking.

2. Improve and automate the project management lifecycle from idea development to project budgeting, design, contracting, implementation and evaluation.
3. Enhance the communications between MDF and its stakeholders, including LGUs, donors, banks, central government and the general public. It is expected that all stakeholders will have electronic access to information and/or services specific to them through the MIS solution.
4. Automate the exchange of information between MDF and LGUs and between MDF and donors. LGUs furnish the necessary information for fund and project management. Donors require periodic status and evaluation reports on donated funds and how effectively they are being utilized.
5. Facilitate strict financial management controls by integrating fund management with project budgeting and accounting. The financial loop (fund allocation, project budgeting, financial transactions and account reconciliation) must be closed and controlled at every step in the financial process.
6. Provide more timely information to support better policy planning and financial risk management. The availability of historic project data will provide donors and policy makers with the analytic information needed to better target funds where the impact is high and the risks are low.

The contract with Safad-NTS was signed on November 19, 2007 to start the design and development of the system. Both the Project team and MDLF team is working on in a collaborative approach to design and develop a state of the art computerized system. Weekly meetings, presentations, and workgroup discussions are being held to improve the system during the design phase. The development of PGMIS is in its final stage and Safad-NTS team installed a trial version of the system during early 2009. The MDLF is currently testing the system through entering the required data. The system is expected to be fully functional before the end of 2009.

To prepare for PGMIS, MDLF requested from Safad-NTS to conduct an assessment of the current IT status at the MDLF so to identify the needed improvement related to MDLF IT and MIS infrastructure. As a result of the assessment, MDLF started upgrading its IT infrastructure including hardware and software.

Figure 2 illustrates the components of the PGMIS.



- Contracting **short term individual consultants**, including:
 1. The IT specialist produced the equipments need assessment report for MOLG (headquarter, Gaza and district offices) in addition to the training needed for the IT department
 2. The MIS specialist assessed the specification developed by the MOLG, and developed the first draft for the MOLG information strategy. Another specialist also is following up on the development and implementation of the Project Grant Management Information System (PGMIS) at the MDLF.
 3. Recruitment of Translators: translated all the produced documents and deliverables from English to Arabic.
- **English courses training:** The MDLF has contracted the AMIDEAST to provide training to MDLF and MOLG staff on English language skills. The main objective of this assignment is to enhance the MOLG and MDLF employees' English language skills in grammar, reading, vocabulary, listening, and speaking everyday context. The training was completed in January 2009 benefiting nearly 100 employees from MOLG headquarters and district offices and 12 from MDLF staff.
- **Financial and Management courses training:** In order to prepare for the successful implementation of the IFMIS system, the MDLF has contracted Birzeit University Continuing Learning Center to conduct a series of accounting and financial management courses to the staff and management of the pilot municipalities, departments of the MOLG, and district offices. The courses in West Bank were completed in February 2009, while Gaza courses were delayed as a result of the recent Israeli attack on Gaza Strip.

The purpose of this assignment is to:

- Assist the MDLF to deliver a training intervention that transfers Knowledge, Skills, and Attitudes (KSA) to staff and managers at the pilot municipalities and MOLG departments and district offices that enhances their capacity to efficiently and effectively manage in accordance with the comprehensive set of financial and accounting principles as well as improves their ability to effectively implement the new IFMIS system.
 - Prepare and deliver six detailed and intensive courses in accounting and financial management, revenues and cost analysis, accounting for non accountant, communications skills, leadership skills and strategic planning for the employees of eight pilot municipalities in West Bank and Gaza Strip, and the MOLG headquarter and district offices' employees.
2. Enhance the **Municipalities' Staff Knowledge** on new accountings concepts. This is based on the institutional assessment review conducted in 2007 for the financial departments at the pilot municipalities, seven courses were recommended in the field of financial, accounting, and managerial skills. The first course title "fixed assets management" was conducted and 105 employees were trained from the pilot municipalities' staff and MOLG district offices through 4 sessions in Gaza and West Bank.

Progress against key outputs and performance indicators:



The Palestinian Reform and Development Plan (PRDP) emphasizes the importance of bringing government closer to the people by ensuring that local government is both empowered and accountable. Under the PRDP, the proposed 'Accountable Local Government' (ALG) program will: introduce new legislation to clarify and regulate the relationship between central and local government; establish a policy framework which promotes fiscal autonomy and discipline at the local level; and build the operational, administrative and financial management capacity of local government bodies.

The LGCBP is one of the major contributors toward achieving the PRDP objective of good governance and accountability. The various institutional development activities of the LGCBP will contribute in building open local governments and greater accountability to citizens. It will also enhance the efficiency and effectiveness of local government through good practice of financial management and sound planning.

Table 11 provides a matrix that summarizes the main achievement of the LGCBP against key outputs and performance indicators.

Table 11: Summary of progress against key outputs and performance indicators for LGCBP

<p>Component 1: Financial Management and Accounting Systems Reform</p> <p><i>Objective : Improve the accounting, financial management and budgetary control capabilities of MOLG and of the LGU's</i></p>	<p><u>Main Achievements:</u></p>
<p>Output 1.1 (MOLG) ^(*): New MOF-mandated computerized governmental financial and management accounting system for MOLG (including software, hardware, documentation and training, and based on system design prepared by separate MOLG/MOF consultants) reviewed, refined and subsequently implemented.</p>	<ul style="list-style-type: none"> • Development and approval of a Unified Chart of Accounts, Coding and Budgetary Formats in WBG. • Development and implementation of new financial department institutional framework, new job description and segregation of duties policies at 8 pilot municipalities. • Development of fixed assets valuation methodology and manual. • Development of fixed assets standardized price list. • Implementation of fixed assets valuation at 8 municipalities and the results of tables for lands, equipments, services' assets, etc. • Based on the success of the pilot asset registration phase, the MDLF has contracted 6 local firms to value the assets at 35 additional municipalities.
<p>Output 1.2 (LGUs): Computerized financial and management accounting system for the LGUs (including software, hardware, documentation and training, and based on a chart of accounts and budgeting framework separately prepared by UNDP consultants) developed, refined and subsequently implemented on a phased basis in a representative set of LGUs.</p>	<ul style="list-style-type: none"> • Development of the technical and functional specifications for the IFMIS for large municipalities and medium and small municipalities. • The contract for IFMIS was signed with an international firm (Free Balance Inc.). The work on the system is currently ongoing and will be completed during 2009 • Enhance the municipalities' staff knowledge on new accountings concepts. This is based on the institutional assessment review conducted for the financial departments at the pilot municipalities, seven courses were recommended in the field of financial, accounting, and managerial skills. The first course title "fixed assets management" was conducted and 105 employees were trained from the pilot municipalities' staff and MOLG district offices through 4 sessions in Gaza and West Bank. • Developing of action report which included methodology to be used as a guide for future municipalities implementing IFMIS. This report show how any municipality could prepare its accounts including migration of historical data and opening balances to be ready for the implementation of IFMIS under the accrual/ modified accrual basis and with implementation of the financial software (FreeBalance accountability suit & RMIS). The



	<p>report reflects actual experience and lessons learned during the preparation of the opening balances and also during the entering of these opening balances into the IFMIS.</p> <ul style="list-style-type: none"> • Development of the draft financial policies and procedures manual (FPPM) covering in detail all financial policies and procedures which should be followed by the municipalities in preparing their budgets and processing all financial transactions.
<p>Component 2: Physical Planning and Management Systems Reform <i>Objective: Strengthen the capacity of MOLG and the LGUs in WBG to effectively guide, manage, and monitor the development of the urban areas and be responsive to the needs of citizens</i></p>	<p><u>Main Achievements:</u></p> <ul style="list-style-type: none"> • The identification of the local urban planning practices and the identification of needed activities to achieve the objectives, the results of the conducted survey on 17 municipalities and 13 joint serves councils showed that several policies and systems needed to organize the planning sector in local government especially in the legal framework, institutional, local and central capacities, laws and procedures and public participation in planning. The results and recommendations will help in developing the needed assignments to be implemented under the LGCBP. • A TOR to prepare the Physical Planning Policies and Procedural Manual (PPPPM) was drafted. • Following the ToR preparation, the MDLF assigned the contract with a consultancy firm to help MoLG in developing the Physical Planning Policies and Procedures Manual (PPPPM). This manual will enable MOLG planning department to progressively shift its current physical planning functions to more supportive and policy formulation role, in a more decentralized local government sector in West Bank and Gaza. • The work on the amalgamation policy framework has started and the Amalgamation Task Force (ATF) was formed. The ATF membership include: related departments and senior staff of MoLG and MDLF.
<p>Output 2.1 (MOLG and LGUs): The Physical Planning and Investment Programming capacity of MOLG and LGUs strengthened (including the capacity to develop guidelines for strategic planning, and for the programming, financing and management of key infrastructure and services). Also, implementation strategies, planning and programming guidelines, and action plans for LGUs prepared.</p>	
<p>Output 2.2 (DJC and JSCs): The Physical Planning and Investment Programming capacity of MOLG's Department of Joint Councils (DJC) in Bethlehem and JSCs strengthened (including the capacity to further develop: the framework,</p>	



strategy and program for consolidating small and economically unviable LGUs into efficient and sustainable Joint Service Councils (JSCs), guidelines for strategic planning, and guidelines for the programming, financing and management of key infrastructure and services). Also, implementation strategies, planning and programming guidelines, and action plans for the further consolidation and development of JSCs prepared.

Output 2.3 (MOLG/DJ/LGUs/JSCs): Physical and Investment Plans and Programs (including strategic planning, investment programming, financing and management for key infrastructure and services) for a representative set of LGUs and JSCs implemented, and National system of JSC's rationalized and strengthened. (Includes software, hardware, documentation and training.)

Component 3: Institutional Development (MOLG)

Output 3.1 (MOLG/PCU): Lead Capacity Building Consultant/Advisor (individual or a consulting firm), and urgently needed LGU budget advisor and (4-5) key budget staff for MOLG's Budget Department recruited.

Output 3.2 (MOLG Departments): The overall MOLG organizational analysis, redesign and training needs assessment (separately prepared by UNDP consultants) reviewed, and further

Main Achievements:

- Enhance the capacity of more than 132 MOLG employees in computer applications and related office skills. An evaluation test was conducted before and after the training, the test shows that the employee's skills in using the computerized programs have been improved by 35%.
- Equipment was purchased for the MOLG headquarter and district offices benefiting approximately 200 employees in addition to the provided training.
- Improve the coordination between the MOLG departments of Gaza and West Bank through the setup and usage of video conference equipments.



detailed review at Departmental level completed. Also, Departmental Capacity Building strategy and implementation action plan prepared (including improved MOLG Operational and Management Procedures, well equipped Departments, and the recruitment of additional key staff). Further, essential equipment, not exceeding 40 percent of total expected requirement, procured.

Output 3.3 (MOLG Departments): MOLG's Departmental Capacity Building strategy and action plan reviewed, refined and implemented, and key Departments strengthened. (Includes software, hardware, documentation and training, as well as improved MOLG Operational and Management Procedures).

Component 4: Project Management and Operating Support

Objective: Increase the capacity of MOLG and MDLF to manage a decentralized local government system

Output 4.1 (EMSRP/PCU): Capacity Building Group established, alongside MOLG's existing EMSRP PCU and PTS; and LGCBP coordination, monitoring and reporting capacity developed. (Includes software, hardware, documentation and training.)

- Enhance the skills of IT staff at MOLG in network management and IT support. One of the main goals was to enable the MOLG to implement and use their own email systems (i.e. info@molg.gov.ps) and activate their internal network.
 - Enhance the MDLF systems through the installation of a Project and Grant Information Management System (PGMIS) that would integrate all needed Palestinian local government data; the MDLF was able to produce the first Municipalities' Financial Database of 2006. The MDLF is currently updating the data base for 2007-2008.
 - English courses training: The MDLF has contracted the AMIDEAST to provide training to MDLF and MOLG staff on English language skills. The number of participants in this training will be nearly 100 employees from MOLG headquarters and district offices and 12 from MDLF staff.
 - Financial and Management courses training: In order to prepare for the successful implementation of the IFMIS system, the MDLF has contracted Birzeit University Continuing Learning Center to conduct a series of accounting and financial management courses to the staff and management of the pilot municipalities, departments of the MOLG, and district offices.
-
- The MDLF as an institution has been created from the PTS/PCU and currently in operation
 - The MDLF internal procedures, bylaws, and manuals have been developed and are in place.
 - The MDLF developed its Strategic Plan, and HR policies, and is currently finalizing its M&E systems, and PGMIS.
 - Training of MDLF staff in various topics including; procurement, PMP, project management, M&E, English skills, etc.



(*) Per the recommendation of the World Bank and Danida mission during March 2008, it was agreed that this output will be canceled since it is outside the mandate of MDLF.

Disbursement:

Table 12 shows the financial data, including the disbursement, of the LGCBP

Table 12: Summary of the Financial Status of the LGCBP as of June 30, 2009

Project component	Estimated cost for 4 years (US \$)	Disbursement (US \$)
1.Financial Management and Accounting Systems Reform, MOLG and Municipalities	4.237	2,200,374.81
2.Physical Planning and Management Systems Reform	2.75	492,776.04
3.Institutional Development (MOLG)	1.84	1,116,117.36
4.Project Management and Operating Support	0.46	589,588.26
Subtotal	9.287	4,398,856.4
Unallocated	0.75	0.00
Total	10.037	4,398,856.4

2.3.2 The Southern West Bank Solid Waste Management Project (SWMP)

The Palestine Liberation Organization, for the benefit of the Palestinian Authority (PA), has received a grant with the amount of US \$385,000 from the Policy and Human Resource Development (PHRD) Trust Fund funded by the Government of Japan and administered by the World Bank through the International Development Association (IDA). The PHRD grant will be used towards the preparation of Feasibility and Environment and Social Impact Assessment Study for the Southern West Bank Solid Waste Management Project (SWMP). The PA is currently administering this grant through the Municipal Development and Lending Fund (MDLF). The grant's main objective is to finance a) a Consultancy Assignment to Prepare Feasibility Study and Environment Impact Assessment for the Second Solid Waste and Environmental Management in Southern West Bank, b) support to establish the Project Implementation Unit (PIU) and c) incremental operating cost of the MDLF to managing this grant.

The SWMP project consists of the following components:

- **Component 1: Technical Assistance (US\$0.50 million)** toward institutional building of the joint services council for SWM in Bethlehem and Hebron (the Council) including SWM policy formulation and training on modern techniques of management (including financial management and performance monitoring).
- **Component 2: Development and implementation of solid waste management elements (US\$11 million):** This component would support the construction of a sanitary landfill, waste collection and transport, recycling and composting techniques, rehabilitation and closure of existing dump-sites and construction of transfer station to reduce cost of waste transportation.
- **Component 3: Public Awareness (US\$0.25 million):** This component would support the design and implementation of a public awareness campaign in the southern West Bank involving local environment NGOs who worked closely with international experts in donor financed projects in the WBG.
- **Component 4: Incremental Operations Cost (US\$0.25 million):** This component would support a gradually decreasing operational cost over a five year period. The support would be in the form of salaries of qualified Project Implementation Unit (PIU) staff and office operations cost.

Out of the above mentioned components, the MDLF is currently working on phase 1 which is conducting the Feasibility and Environment and Social Impact Assessment Study. The main objectives of the Study are to:

- i. Update the feasibility study for the solid waste management for the Hebron Governorate, which was carried out by a consultant in 1998-1999, and to extend this feasibility study to include Bethlehem Governorate;
- ii. Carry out a feasibility study to identify an appropriate site for a new sanitary landfill to serve both Bethlehem and Hebron Governorates, including carrying out the required investigations;
- iii. Identify the number, location and status of existing dumpsites and recommend measures for rehabilitation for interim use and eventual closure;
- iv. Carry out environmental and social impact assessment (EA), in accordance with World Bank safeguard policy and guidelines, for the proposed development of a modern solid waste management system and recommend adequate mitigation and monitoring measures in the areas served by the landfill and transfer stations to be included in the project design;
- v. Prepare preliminary designs, cost estimates and bidding documents for: (a) a sanitary landfill and transfer stations at the approved sites; (b) rehabilitation and eventual closure of dumpsites; (c) access roads and off-site infrastructure (power, water sewerage and drainage) as required, and (d) procurement of SW collection equipment and vehicles, and office equipment and facilities;
- vi. Carryout an institutional assessment and recommend options for project implementation and commissioning, and for operation of the new solid waste system;
- vii. Identify priority investments and institutional strengthening needs.



Progress during the reporting period:

The assignment has been finished on March 1, 2009. The following outputs were delivered and completed:

- The European Union (EU) in Jerusalem who received copy of the investigation report and commented on it through an independent reviewer. This report will be the basis for future revisions by the EU of other related documents, mainly the environmental and social assessment study

- Based on the Israeli Civil administration request in providing additional reviews of the proposed Bani Naim landfill site, and to allow the consultant to finalize the needed deliverables, the MDLF requested the extension of the project for additional three months. The World Bank approved the extension until March 1st, 2009.
- MDLF received the final Feasibility Study Report (and was disclosed together with Environmental Management Plan and Resettlement policy Framework), the environment and Social Impact Assessment Report,
- MDLF supervised the recruitment done by the HJSC of the Technical Operations Unit (TOU) Staff that will be the executing agency of the HJSC.
- MDLF procured a computerized financial management system to be installed at HJSC office to facilitate the requirement of the project in terms of accounting, record keeping and reporting. MDLF also procured equipments and furniture for the TOU staff.
- Part of the deliverables was the preliminary designs, cost estimates and bidding documents for: (a) a sanitary landfill and transfer stations at the approved sites; (b) rehabilitation and eventual closure of dumpsites; (c) access roads and off-site infrastructure (power, water sewerage and drainage) as required, and (d) procurement of SW collection equipment and vehicles, and office equipment and facilities;

Disbursement:

Table 13 provides financial information about SWMP

Table 13: Financial Position for SWMP as of June 30, 2009

Category	Budgeted Amount (US \$)	Disbursed (US \$)	Remaining (US \$)
Consultancy Services	350,000.00	333,261.89	16,738.11
Goods, Training and Operating Costs	35,000.00	31,648.51	3,351.49
Total	385,000.00	364,910.40	20,089.6

2.3.3 PHRD Grant for the Preparation of the Municipal Development Program

A grant from the Policy and Human Resource Development (PHRD) Trust Fund funded by the Government of Japan was received through the World Bank. The objective of the PHRD Grant is to prepare for the Municipal Development Program (MDP) which has of its objectives to support the delivery of effective municipal services through demand-based infrastructure investments and capacity building for local governments. The Grant will support the MDLF activities to strengthen its

institution through developing/upgrading the internal procedures and manuals, establish a baseline data for the MDP, build the capacity of the MDLF staff, and lay the ground for smooth implementation of the MDP.

The agreement was signed in December 2008. The implementation of the various components is currently undergoing. These components include:

1. Development of MDLF financial manual and procedures
2. Development of MDLF procurement manual
3. Development of MDLF image including PR support and website
4. Carry out municipal infrastructure data base collection
5. Measurement of Clients and beneficiaries satisfaction
6. Conduct Public Private Partnership Study
7. Provide technical training to Engineering Units in Municipalities
8. Provide training on developed MDLF procurement manual and draft the Arabic version of the Manual
9. MDP Management Retreat
10. Fraud Protection and anti corruption measures training
11. Training to MDLF and municipalities on Cost Benefit Analyses
12. Training to MDLF and municipalities on EMP

2.4 Innovative Window Scheme Projects

Projects fall under this category includes: Component 3 of The Second Emergency Municipal Services Rehabilitation Project (EMSRP II), North East Jenin Pilot Project, the New Local Development Programme in Jenin Governorate (LDP)-Phase 1, the Local Governance and Civil Society Development Program (LGCDP), and the Community development Stability Fund (CDSF). A brief description of each project and the progress of each one are provided below:

2.4.1 EMSRP II Component 3

This component is the third component of the EMSRP II project supported by the WB and is divided into two sub-components:

A) Piloting pre-paid metering systems at municipalities: This subcomponent was designed to install electricity pre meters at no more than 3 pilot municipalities and tested as a means of enabling municipalities to enhance local revenue collection.

B) Piloting Local Government-NGO collaboration for emergency and other joint programming purposes: This pilot activity is being prepared in coordination with a parallel World Bank-financed operation (NGO Project III). The main aim of this pilot

is to encourage greater coordination and joint programming by local governments and NGOs at the local level through the requirement of a joint funding proposal. NGOs will be financed under the NGO III Project, while municipalities will be financed under EMRSP II. EMSRP II will likely finance physical rehabilitation and/or expansion of public facilities, parks and other municipal-owned assets within which NGOs will provide programming for social activities for youth, children, and women. Public awareness campaigns to promote water and energy conservation, public health, and environmental management are proposals likely to receive support. The LGU component would involve financing for small-scale civil works and goods not to exceed an aggregate value of US\$70,000 per subproject and would likely include playground and park rehabilitation, fencing, sports facilities (soccer/basketball) and amenities to provide a platform for NGOs to organize community activities for youth, children, women, etc.

Progress during the reporting period:

1. Piloting pre-paid metering systems at municipalities:

The objective of this activity was to test pre-paid metering as a way for enhancing revenue collection for those who municipalities providing electricity services. According to the initial design of the EMSRP II, 3,500 new meters in 2 or 3 localities would be installed and technical assistance for managing such technologies would be provided.

A number of changes have occurred in the electricity sector, since the original approval of the EMSRP II by the World Bank's Board in December 2006. The Palestinian Prime Minister has advocated the wide spread installation of prepaid meters as a means of enhancing collection of electricity bills so there is commitment at the highest levels of government on the use of this technology. Many municipalities have already installed pre-paid meters: distribution companies installed about 4,000 new pre-paid meters last year and have plans to install at least 40,000 more next year. A new proposed World Bank funded project, the Electricity Utility Management Project (EUMP) includes the installation of 140,000 pre-paid meters. The PEA has already carried out an assessment of the use of pre-paid meters with an international consulting firm including many of the features (beneficiary satisfaction, development of specifications etc) in the TORs of the innovation window. More importantly, there is now a national policy as articulated in the PRDP, for electricity functions to be gradually transferred to five utilities one in Gaza (GEDCO), two in the south (SELCO, HEBCO), one in the middle area (JDECO) and one newly established utility in the north (NEDCO). In short, the objectives intended under this pilot have already been achieved and are being scaled up.

During the World Bank midterm review mission the MDLF discussed with the World Bank the latest development as mentioned above and the need to review and amend

the activities in this sub component. It was agreed that the planned installation of the 3,500 be cancelled and the following tasks to be done:

1. Continue the study currently being carried out by MDLF so that its recommendations can feed into a national framework.
2. Conducting a study to evaluate the impact on municipal revenues if electric facilities are taken out from them to independent utilities or companies.
3. Implementation of pilot initiative for the parking meters in some cities which could add value and help in increasing municipal revenues.

The MDLF included these amendments in the amendment request sent to the World Bank by Prime Minister Salam Fayyad as the Minister of Finance on May 26, 2008 (attached in Annex A). The MDLF received the approval on the requested amendments on October 3, 2008.

The MDLF team and consultant conducted a research on various parking metering systems and met with Ramallah and Al Bireh Municipalities to discuss implementing a joint pilot project for both municipalities.

The MDLF finalized the specifications for the parking metering system and presented them to Ramallah and Al Bireh Municipalities.

The bidding documents for the parking metering system were prepared by both municipalities, and then reviewed by the MDLF. The documents were submitted to the World Bank for No Objection. Based on the World Bank no Objection, the invitation for bid was advertised on February 2, 2009. Since the offers received



were not responsive, the municipality in coordination with MDLF decided to re advertise for the invitation in during the month of July 2009.

Study for Pre-Paid Metering: The MDLF signed a contract with a local consultant in early March to carry out the TA portion of the task. The consultant will develop specifications for buying pre-paid meters, guidelines for managing the systems; assess consumer satisfaction with the systems etc.

The purpose of the study is to assess the current situation of the electricity utilities operations in the West Bank municipalities that provide the service. A questionnaire was designed to capture information about the electricity department operations (purchases, sales and collections) in general and about pre-paid electricity meters in the municipalities that have these systems installed.

A series of workshops was held in Jenin , Salfeet and Hebron on 19th, 20th and 22nd May 2008. These workshops were attended by more than 60 financial and the electricity departments' managers representing sixty municipalities in West Bank that manage electricity services.

In all the workshops, MDLF explained that the purpose of the study was to get the real picture of the electricity utilities in the municipalities. A questionnaire was distributed to all participants and a thorough step by step explanation was made on how to fill the forms. The analysis of the information derived from the questionnaire will help all parties concerned draw up a program for assisting the municipalities in going through the transformation of the electricity utilities and overcoming anticipated problems. The workshops discussions also covered technical issues related to pre-paid metering and issues regarding the commercialization of the electricity utilities that is being promoted by PEA.

It is evident from the workshop discussions that on the technical side there is a lack of basic understanding of specifications and requirements to install pre-paid metering systems and the municipalities have asked for assistance in this regard. On the financial side, the municipalities are worried that a major source of cash flow (not necessarily revenue) will be lost once the electricity services are taken away from them. Other major issues that were raised during the workshops include:

1. Fear of loss of revenue poses a major obstacle to the restructuring and commercialization of the municipal electricity utilities.
2. Municipalities are not happy with the way that PEA is conducting this transformation.
3. Many municipalities are not sure that the new electricity companies are/or will be managed profitably
4. Municipalities that installed pre-paid meters, especially the first one to do so were not fully aware of the many issues involved in installing and managing pre-paid systems and hence did not achieve the desired objectives. However, other municipalities that came in later learned from the bad experience of the others.
5. Municipalities said that they want to be consulted, not imposed upon.
6. Municipalities want budget allocations from the Ministry of Finance to cover the loss of electricity revenue in the future.
7. Some feedback from municipalities indicates that the workshops were very informative.

The final report about the study was completed and disclosed at MDLF website for the public.

Study of the “Main Causes of Municipal Electricity Arrears and Expected Fiscal Impact of Transferring the Electricity Service”: In September 2008 another study was launched which aims at exploring the impact of transforming the municipal electricity utilities to commercial enterprises on the financial situation of the municipalities. In addition, the study seeks to provide municipalities with the

necessary information, tools and guidelines to enable them to go through this transition with minimum disruption to their services. The inception report for the study was prepared and discussed with MDLF and relevant stakeholders during the months of September and October 2008. The final report of the study was produced and disseminated on January 2009.

The above mentioned studies were discussed at a Workshop held on November 13, 2008 at the Rocky hotel in Ramallah entitled “Reform Strategy for the Electricity Distribution Sector - Impact on Municipal Finances”. The workshop presented a diagnosis of the current situation in the municipal electricity sector and reviewed the implications of the reform strategy on the finances and operations in the relevant municipalities. The issues and challenges accompanying the implementation of the sector reforms were highlighted along with findings and recommendations to strengthened the electricity sector. The workshop was attended by: Ministry of Local Government (MOLG), Ministry of Finance (MOF), Ministry of Planning (MOP), Palestinian Energy Authority (PEA), Association of Palestinian Local Authorities (APLA), representatives from municipalities of Concern (Nablus, Jenin, Toubas, Tulkarem, Salfit, Qalqilya, Hebron, Beit Ummar), Electricity Companies (JDECo, TDECo, HEPCo, SELCo, NELCo), and representatives from donors.

2. Local Government-NGO collaboration Activities:

- Following the appraisal of the LGUs-NGOs joint proposals and the approval of 10 proposals (6 in West Bank and 4 in Gaza) as the first priority for implementation, notification letters were sent to the municipalities on January 13, 2008.
- The MDLF signed the implementation agreements with the municipalities on February 26, 2008 .
- The tender documents and the procurement plans for the sub-project were prepared by the municipalities and then were reviewed and approved by the MDLF. The MDLF issued the “No-Objection” to award for the municipalities to start the implementation of the sub-projects.
- The implementation of all West bank sub-project has been started. Table 14 lists the projects and their status to date.
- The progress of the activities under this component in Gaza has been also affected by the political situation and the unavailability of construction materials; Four sub-projects were appraised, One of them (Furnishing and Maintenance of a Multi Purpose and Training Center of Khuza’a Municipality) were modified in close coordination with the NDC and is currently under implementation and expected to be completed by September 2009. the other three sub-projects were changed from construction activities to other activities under components one and two of the EMSRPII.

Table 14: LGUs-NGOs Joint Sub-Projects-West Bank

Municipality	Governorate	NGO Partner	Project Name	Status	Expected Completion Date
Beit Sahour	Bethlehem	Palestinian Wild Life Society	Environmental Conservation Center	Completed	August , 2008
Janata		Janata Woman Center	Social Services Center	Completed	February, 2009
Sourif	Hebron	Sourif Charitable Association	Construction of Public Library	Completed	February, 2009
Al-Shyoukh		Shyoukh Zakat Committee	Pre-Paid Metering System	Completed	October, 2008
Beit Awwa		Beit Awwa Charitable Society	Beit Awwa Social Services Center	Completed	October, 2008
AL-Samou		AL- Samou Youth Club	Rehabilitation & Upgrading Works in the Stadium	Completed	February, 2009
Khuza'ah	Khan Younis	Beit Al Moustaqbal	Furnishing a multipurpose Hall and computer center for children	Ongoing	August, 2009

2.4.2 North East Jenin Pilot Project

The main goal of the innovative initiatives scheme is to support national policies related to the local government sector such as amalgamation, fiscal equalization, public-private partnership, decentralization, public participation and involvement, and the introduction of new tools and technologies. With the aim of supporting the MoLG policy towards reducing the number of LGUs and amalgamating the smaller communities into bigger one for better efficient and effective services, the Government of Denmark as part of the SMDN program, is funding the project: "Support the Local Municipal Development in the Northern West Bank-pilot phase". The overall development objective of the project is: *Sustainable improvement of living conditions in Jenin Governorate*, with an Immediate Objective of: *Improved delivery of municipal services through the First Joint Service Council in North East Jenin*. The outcome is expected to be: to ensure that the basic service delivery mechanisms of the First Joint Service Council (JSC1) is established with a potential for sustainability; and to gain implementation experience from the West Bank to be

used in the expanded local development programme scheduled to commence after 2008.

The pilot programme concentrated on implementation of social infrastructure and physical infrastructure. The JSC was responsible for the sub-projects implementation. The supported projects included income generation projects and social activities. The physical infrastructure projects assisted the JSC and village councils in providing improved infrastructure services. The activities have been chosen and prioritized through identification of needs and demands expressed through the communities.

The emphasis was on labor intensive construction methods in order to help create employment and income possibilities for residents in agricultural area where the unemployment rate is reported to be 26%.

The pilot project is designed and implemented with the purpose to gain implementation experience in the West Bank and to test lessons learned in the SMDM2 projects in Gaza before final design of a larger local development project in the West Bank. The SMDM model will be modified to enable project implementation through Joint Service Councils, rather than directly through municipalities. The project was designed to develop sustainable



mechanisms at Joint Service Council level to provide basis services to the population in the participating communities, and not to provide emergency relief. The total amount of money allocated to the two components for the communities of JSC1 is USD 1,328,870. The breakdown of the project by component is illustrated in Table 14.

The project targeted the northern part of the West Bank. The project area covered ten local authorities in the Jenin governorate comprising the Joint Service Council (JSC1) North East Jenin. The JSC1 has a total population of about 19 thousands. Jenin district covers an area of 835 sq km, has a total population of approximately 250,000, representing 10% of the total population of the West Bank. Approximately 43.4% are below 15 years of age, which is slightly higher than 42.9% for West Bank as whole. The population of the JSC1 forms about 8% of the population of Jenin Governorate. Figure 3 shows a map for the northern eastern of Jenin which illustrates the location of each of the targeted localities.

Table 15: The Distribution of Allocated Fund by Component, Locality and Sub Projects in JSC1 for the Jenin Pilot Project

No.	Council	Physical Infrastructure Projects		Social Infrastructure Projects	
		Project	Budget (\$)	Project	Budget (\$)
1	JSC1	Main Road	392,452	Exhibition	27,522
2	Dair Abu Da'ef	Roads	96,000	Sport (Playground)	91,060
3	Faqu'a	Entrance	72,000	Public hall	34,000
4	Jalboan	Entrance	73,746	Technology (Computer center)	15,000
5	Al Jalama	Roads	73,020	Agriculture (Arboretum)	17,000
6	Arrana	Roads	74,700	(Children) Kindergarten	25,000
7	Arrabona	School	60,059	Public garden	15,000
8	Dear Ghazala	Roads	57,240	Nursery (Kindergarten)	8,034
9	South Beit Qad	School	63,750	Computer Center	7,332
10	North Beit Qad	Women Center	58,165	Furniture	8,000
11	Aba	Entrance and Agricultural Roads	53,790	Computer Center	6,000
Total			1,074,922		253,948

The JSC1 and its ten members have the advantage of geographic proximity and are eager to join and form one municipality. The project creative approach of implementing social and physical infrastructure through a Joint Service Council instead of directly through municipalities will develop potential sustainable delivery mechanisms at Joint Service Council level to provide basic services to the population in the participating communities, and not to provide emergency relief. Moreover, this approach will set a practical example of the national policy of the MOLG to agglomerate small scattered communities under bigger umbrella such as the JSCs.

Figure 3: A Map for the North Eastern Jenin Illustrating the Location of the Targeted Localities for the Jenin Pilot Project



Progress during the reporting period:

By the end of 2008 the works in ***eleven physical and eleven social infrastructure projects*** were completed as planned. Tables 16 and 17 show the status of the project.

Table 16: Social Infrastructure Projects Status

No.	Location	Project	Status
1	Al-Jalameh	Agriculture (Arboretum)	Completed
2	Aba	Computer Center	Completed
3	Jalbun	Technology (Computer center)	Completed
4	Dair Ghazalah	Nursery (Kindergarten)	Completed
5	Arrana	(Children) Kindergarten	Completed
6	Deir Abu da'if	Sport (Playground)	Completed
7	Faqqu'a	Public Hall	Completed
8	North Beit Qad	Furniture	Completed
9	South Beit Qad	Computer Center	Completed
10	Arabbuna	Public Garden	Completed
11	JSC1	Exhibition	Completed

Table 17: Physical Infrastructure Projects Status

No.	Location	Project	Physical Status (% completed)
1	Al-Jalameh	Rehabilitation of Internal Roads	Completed
2	Aba	Rehabilitation of entrance & Agriculture Roads	Completed
3	Jalbun	Rehabilitation of the Main Entrance	Completed
4	Dair Ghazalah	Rehabilitation of Internal Roads	Completed
5	Arrana	Rehabilitation of Internal Roads	Completed
6	Deir Abu da'if	Rehabilitation of Internal Roads	Completed
7	Faqqu'a	Rehabilitation of the main Entrance	Completed
8	North Beit Qad	Construction Women Center & kindergarten	Completed
9	South Beit Qad	Construction Class Rooms in South Beit Qad Girls School	Completed
10	Arabbuna	Construction Class Rooms in Arabbuna School	Completed
11	JSC1	The project is under implementation (Asphalt works).	Completed

An important dimension of the project is the ***capacity building activities*** which took place during the project implementation. Meetings, seminars, and workshops were conducted under the umbrella of the JSC to empower the JSC and to promote the

concept of amalgamation among the residents. These activities concentrated on the importance of wide participation of the community and encourage community involvement, motivate committees and increasing their efficiency and ability to work, activate the role of marginal groups in the community throughout the operation of decision making, and make every possible effort to maximize benefits and positive impacts on all social groups such as women, children, the disabled, and the elderly people.

A final **Social Assessment Report** was prepared by the social expert of the LTC in coordination with the MDLF social Specialist. The 22 physical and social projects were divided into four categories. About 500 questionnaires were distributed in all localities based on the category of each project. The LTC Professional Engineer gathered the questionnaires and the Social Expert made the required analysis and the output of the projects. The majority of the respondents believe that the social projects are more acceptable than the physical projects as the social projects are directly affected their lives and the impact of the projects appears in the short run. Moreover, the community degree of satisfaction towards the selected projects was very good. In addition, the majority of respondents believe that the success of the projects depends mainly on the community cooperation and participation. Finally, a considerable percentage of respondents are strongly encouraging merging the LGUs in one municipality.



The JSC1 and its ten members have the advantage of geographic proximity and are eager to join and form one municipality. The project creative approach of implementing social and physical infrastructure through a Joint Service Council instead of directly through municipalities will develop potential sustainable delivery mechanisms at Joint Service Council level to provide basic services to the population in the participating communities, and not to provide emergency relief. Moreover, this approach will set a practical example of the national policy of the MOLG to agglomerate small scattered communities under bigger umbrella such as JSC or even a joint municipality.

Marj Bin Amer Exhibition: the exhibition which is the joint social project in the program took place between May 13, 2008 and May 15, 2008 in Al-Jalama children garden which is another funded project through this program. It was organized fully by the residents of the area through the JSC with the help and support of the MDLF. The exhibition aimed to:

- Enhance marketing of farmers production
- Contribute in the exchange of experience between farmers
- Build confidence and trust between farmers and consumers
- Show the different kinds of local production
- Promote the idea of amalgamation and working together

The exhibition included a number of activities such as:

- Local agriculture products.

- Different kind of seedlings and transplants from Al-Jalama Arboretum project.
- Handicraft production, mostly made by woman, reflecting the Palestinian cultural heritage.
- Palestinian fine art shows during the opening hours, such as rural songs.
- Popular meals.
- Different activities such as agriculture education, recreation and sports

The tremendous success of the exhibition was due to the hard work and effort by the JSC, the local council and the residents in preparing and organizing the exhibition. The exhibition was opened in by the Minister of Local Government with the attendance of the DRO, the MDLF, and other key institutions in the area it was estimated that around 15 thousand people visited the exhibition, thus showing a sign of success.

As an indication of the success of the program, **Mr. Tony Blair**, the Quartet Representative and Former British Prime Minister, visited the women center and the kindergarten of Northern Beit Qad on May 7, 2008. The visit was a good opportunity for the MDLF to present the projects objectives and activities to Mr. Blair. In his press statements during the visit Mr. Blair appraised the MDLF contribution in assisting the local community in Palestine as an implementing arm for the MoLG policies toward efficient and sustainable local government sector.



The recent devaluation of the dollar value has resulted in drastic change in the exchange rate of the project allocated budget and therefore a budget surplus occurred. This money was reallocated to finance additions and improvements to the original list of sub-projects.

The completion report of the project was submitted to the DRO in May 2009. Annex D includes the completion report and other data about the project.

2.4.3 The New Local Development Programme in Jenin Governorate (LDP)-Phase 1

After the MDLF success in implementing the pilot project for the Joint Service Council of northeast Jenin, The Danish Government agreed to proceed with a wider scale programme in the same area and expand activities to another area in the Jenin governorate. Therefore, Denmark decided to fund the LDP with a total grant of up to DKK 30 million (approx USD 6.0 million) in two financial allocations.

The programme will be implemented in two area clusters of local councils in the Jenin Governorate:

- *Area 1:* This is the area covered by the Pilot Programme 2006-08 which includes ten village councils comprising the Joint Service Council (JSC1) North East Jenin.
- *Area 2:* This will be a new area of operation. A survey was conducted to select the most appropriate communities and recommended Maithalon municipality and the surrounding three village councils (Siris, Al-Judeida and Seir) in South East Jenin which covers a population of about 22,000. The recommended area was approved by the Ministry of Local Government (MoLG).

The LDP will assist the two areas in Jenin Governorate to go through the amalgamation process. Recognizing that amalgamation is not an end in itself but a mean to more effective service delivery, the programme will support the areas in building unified administrative and management systems including offices, technical equipment, IT systems and financial management capacity as required. The financial management systems will be those developed by MDLF through the Local Government Capacity Building Project (LGCBP) funded by the Danish government through the World Bank.

The amalgamation process will be promoted on a practical level through the incentive of implementation of social, cultural and infrastructure projects identified by the local councils through citizen participation. The sub-projects will target more than one community to the extent possible.

Despite the fact that the actual implementation of the LDP was delayed during the preparation phase, that included activities to raise the awareness of the local government councils' members of the JSC1 and Maithalon Cluster. As a result of that, official letters from both areas were issued to express their willingness to participate in the amalgamation process and to request the MOLG to approve their request for merging together. The awareness activities included also meetings and workshops with all individual councils in the presence of MOLG and MDLF senior and



technical staff. The project management believes that this step was very crucial for the implementation and success of the LDP.

The delay caused the project management to officially request the extension of the closing date from June 2009 to end of December 2009.

Progress during the reporting period:

- An Advanced Amalgamation Draft Policy was completed by the task force team composed from 6 senior staff from the MOLG and MDLF. The draft policy was discussed through several workshops with different stakeholders and expected to be approved by the Ministry in August, 2009.
- An amalgamation strategy and operation manual was developed by the task force with assistance from a technical consultant funded by the Danish government. The final drafts are already submitted and reviewed by the task force team and several workshops were held with different stakeholders and have been approved by the MOLG.
- A steering committee and a technical committee were formed and draft action plan was developed. The committees include senior and technical staff from MoLG, MDLF, Danish Representative Office, and JSCs.
- A ToR for a local technical consultant was prepared in December 2008 for a consultancy assignment to conduct a comprehensive survey of the two targeted areas- JSCI and Maithaloon. The task aims to explore the possibility of merging the capacity of both village councils and the JSC1 to carry out and administer the merging process. In addition, the assignment includes designing a full awareness campaign that will focus on the merging objectives and will target the different stakeholders including marginalized groups in both areas. The contract for the JSC1 was finalized and the assignment was successfully accomplished. A public awareness campaign was held with different groups in the 10 villages and was apparent that there is a general lack of public awareness about the proposed merger, particularly regarding the expected advantages and disadvantages of the merger, and its anticipated impact on the individual communities with regard to governance, development and services delivery issues. Some fears raised by local community members during the meetings included:
 - Taxes that people expect to be forced to pay after having a strong organized system, i.e. municipality.
 - Losing their rural characteristics.
 - Having their resources shared with other villages that have deficits.
 - Domination of small villages by larger villages, and not being represented in the decision making process.

- Remoteness of the future municipality from the individual communities, and the associated travel costs.
 - Reduced level of services delivery and the possibility of land confiscation by the Israeli army in village adjacent to the separation wall.
 - Domination by Der Abu Deif, as this is the largest in population, and has different mentality and culture (as reported by other villages), and at the same time has the biggest deficits.
 - Duplication of the problems faced in the city of Jenin as a result of having an overstaffed municipality and poor services delivery system.
 - Unfair distribution of services and future projects.
- Despite of these fears, the study revealed that 70% of the people seems to agree on merging.
 - The assignment for the second cluster is under implementation and expected to be finished by September 2009.
 - The assets registration and valuation assignment for the two areas has been launched and the consultant started the assignment and expected to be finalized by October 2009.
 - The institutional set up and organizational development including the development of the legal framework and the strategic development plan assignment has been advertised for consultant to express their interest to bid for the assignment.
 - The bidding documents for physical plan for the two areas are under development and will be launched during August 2009.
 - The installation of the Integrated Financial and Management Information System will be done immediately after the assets registration and valuation is finalized.
 - The Technical committee together with the consultants met with the communities in the two areas to identify the joint physical and social infrastructure projects.
 - The technical committee of the LDP composed from both MOLOG and MDLF met several times to discuss the implementation plan of the LDP and to evaluate some of the bids for the project activities.
 - The steering Committee met several times to discuss the project implementation plan and measure the progress of the LDP.



- Despite the fact that the disbursement during the reporting period was still low (USD 27,400 for the awareness campaign of the JSC1 area), it is expected that the disbursement will increase as most of the activities are capacity building and are ongoing and the infrastructure projects will start as soon as the bidding process is completed.

2.4.4 Local Governance and Civil Society Development Program (LGCDP)

The Municipal Development and Lending Fund (MDLF) had received a grant of about US \$840,000 from the German Development Cooperation (GTZ) to finance a series of small scale projects in municipalities with less than 20 thousand people in the northern West Bank governorates.

This is the pilot phase comprises the funding of joint social services delivery projects between eligible local government units (LGUs) and eligible community-based organizations (CBOs). The overall objective of this programme is to improve the quality of social services provided to the public in the targeted areas through supporting a number of service joint projects between the municipalities and civil society organizations. The Municipal Development and Lending Fund (MDLF) encourage close cooperation and mutually beneficial interaction between the local governments and civil society organizations. Such approach is more likely to enhance transparency and accountability to the public while building trust between and capacities of partners in the joint projects. The programme also promotes active participation by the local communities and representatives of all social groups to create an enabling environment more conducive to local community development.



The MDLF signed a MOU with the Engineer's Association (EA) on June 10, 2008 to outline the cooperation between the MDLF and the EA in building the capacity of municipal asset registration and valuation. This cooperation was facilitated through the GTZ Local government and Civil Society Development Programme-LGP and will build on the outputs of the LGCBP. The areas of cooperation will comprise following components and stages: Training-of-Trainers, Pilot Training for Municipalities, and Pilot Training for Valuers.

The MDLF has worked closely with the German Development Corporation (GTZ) in preparing the program concept and has developed procedural guidelines that



coincide with the Procedures that have been developed in cooperation with the NDC under the EMSRP II. The two parties have also reviewed the draft agreement that was signed on August 2007.

Progress during the reporting period:

- The MDLF received the joint projects applications from the municipalities. The applications were reviewed by the MDLF and the GTZ during the months of March and April, 2008.
- Based on the review, The MDLF and the GTZ jointly approved the final list of projects to be funded by the program.
- Agreements for the approved projects were signed with the benefited municipalities during the reporting period. Each municipality also signed a MOU with the associated LGU.
- The MDLF informed the municipalities to start preparing the tender documents and the procurement plan for the projects.
- The MDLF hired a LGU Training and Capacity Enhancing Consultant/Engineer. The consultant main duties include: assisting in developing the best institutional framework to achieve technical and administrative capacity building for LGUs reform by coordinating between municipalities and MDLF, following up on the procurement process, and supervising and monitoring the implementation of the projects in close coordination with the municipalities and NGOs.
- The implementation of all sub-projects has been completed by March 2009. Table 18 lists these sub-projects.
- A closing ceremony for the project was organized on April 14, 2009. The ceremony was opened by the Minister of Local Government with attendees from GTZ and LGUs representatives.

Table 18: Status of approved projects for the LGCDP

Governorate	No.	LGU	Project Name
Jenin	1	Al-Zababdeh	Children's playground garden
	2	Seelat Al-Hartheyya	Rehabilitation activities for the disable
	3	Maythaloun	Rehabilitation of municipal public park
Tulkarem	4	Bala'a	Completion of the construction of sports club hall
	5	Anabta	Rehabilitation of municipal sports court
	6	Baqa al-Sharqeyya	Rehabilitation of current field or establishment of new sports field
	7	Kufr Labad	Establishment of a public library at the sports club
	8	Deir Al-Ghossoun	Library and computer center
Salfet	9	Qarawa Bani Hassan	Establishing a computer/ internet center at the CBO
	10	Al-Zaweya	Refurbishing, equipping and operating Abdul Kader Abu Nab'a Cultural Center
	11	Salfet	Improving kindergarten, nursery, and establishing a student service center
	12	Deir Ballout	Medical equipment for specialized health clinics
Tubas	13	Tammoun	Library and fitness center
	14	Tubas	Women's vocational center
Qalqilia	15	Habla	Addition of fitness hall to sports club
Nablus	16	Jamma'een	Library and computer center
	17	Baita	Mother & child garden
	18	Huwwara	Rehabilitation of youth club sports court
	19	Qabalan	Addition of a child library & computer center to public library

2.4.5 Community Development Stability Fund (CDSF)

A new program titled "Community Development Stability Fund-CDSF" was signed in December 2008 with the Dutch government. The program will act as a quick response mechanism to emergency situations, while at the same time strengthening the role and visibility of central and local government. The program which is titled "Community Development Stability Fund" aims to consolidate stability and to

improve living conditions through socio-economic development projects in areas affected by emergency conditions

The CDSF response mechanism will largely be focused on areas where security campaigns and other stabilization measures are being implemented, but the mechanism could be used in other emergency situations such as natural disasters. Activities will start in selected priority areas in the West Bank as determined by the PNA in agreement with donors.



Priority will be given to projects that are labor intensive, and use local labor and materials. Priority will be given to community beneficial activities such as recreational and cultural facilities and for repair of damaged public services. The allocation to any one Municipality or JSC will be spread over a number of projects. The identification process will be managed by the local authorities and will involve public announcements for submission of proposals, public meetings to discuss and priorities the proposals and publication of the final lists.

Progress during the reporting period:

- The MDLF has worked with the relevant parties in identifying the areas to be benefited from the Fund and received a list of priority sub-projects from municipalities in May 2009.
- The MDLF signed MoUs with all municipalities on June 25, 2009. The signing ceremony was attended by the Minister of Local Government and the NRO representative.
- The implantation of the approved sub-projects will start in July 2009. It is expected that most of the sub-projects will be completed by end of 2009.

Annex C includes more data about the project.

3. MDLF INSTITUTIONAL ACTIVITIES

3.1 BoD Updates

The Fund's Board of Directors (the "BOD") is the policy and strategy formulating body responsible for the direction and performance of the fund. The Board exercises appropriate powers to conduct the business of the Fund.

The BOD met three times during the first half of the year 2009 and has taken the following main decisions:

- Approved the appointment of the MDLF new General Director of the MDLF, Engineer Abel Moghni Nofal.
- Decided to develop a BoD manual to manage the work of the BoD and to organize its relation with the executive management of the MDLF.
- Decided to submit the draft MDLF law to the Ministerial Cabinet to proceed with the process to enact the law.
- Approved the Grants Allocation Mechanism (Transfer mechanism).
- Decided to enhance the capacity of the Institutional Development and Technical Assistance Department (IDTA) through the appointment of a new manager and the needed staff.

It is worth to mention that the BoD membership was completed after adding new BoD members representing the civil society and the LGUs (Hebron Municipality and Rafah Municipality)

3.2 MDLF Institutional Development

On February 15, 2008 the MDLF signed a MOU with the GTZ with the objective of further contribute to improving the MDLF professional capacities to develop, coordinate and implement capacity development tools and mechanisms that aim at improving the performance of local government units in Palestine. Both the MDLF and GTZ have agreed to base any further cooperation on the MDLF Strategic Plan and align all the support activities to achieve its intended outcomes. In particular, the aims of this support are:

- To support the MDLF in operationalizing its Medium-Term Strategy through detailed annual business plans;
- To support the MDLF in developing an integrated impact-monitoring and evaluation system;
- To support the MDLF in improving its Human Resource Development systems and procedures with a perspective to maintain and develop its human resources;

- To support the MDLF in improving its professional image locally and internationally through activating its PR unit and support its presence in selected development-related events; and
- To assist the MDLF in developing a framework for integrating and harmonizing technical assistance and capacity development contributions of donors and other agencies under the MDLF's umbrella.

The next sections detail the support for each component.

3.3 MDLF Strategic Plan

MDLF has been active recently in outlining its strategic plan for the upcoming 5 years. The aim of this exercise is to improve the performance and efficiency of MDLF as a *"sustainable main institution that manages development funds for the betterment of Palestinian's quality of life"* in accordance with the policies of the Ministry of Local Government (MoLG) and other national development plans.

The final draft document of the Strategic Plan was discussed by the MDLF BoD on March 1, 2008. The discussion took place during a workshop organized by the MDLF and attended by MDLF key staff, the GTZ team in addition to the MDLF BoD. After receiving the BoD comments on the draft, a final version of the Strategic Plan was produced and approved by the BoD.

The MDLF Medium-Term Strategy is laying a broad and solid ground for MDLF future business in the upcoming five years. With a view of transforming the strategy into operations at the MDLF, GTZ-LGP supported the preparation of detailed business planning process. For this component, the following outputs shall be achieved:

- Assessment of the MDLF Financial status;
- Identification of financial gap to implement the strategy and alternative sources;
- Detailed business plans and budgets of key priority projects;

The contract with a local consultant was signed during the month of June 2008. The consultant is currently finalizing the Business Plan with close coordination with the MDLF Staff.

The main themes and strategies of the MDLF Strategic Plan is provided in Annex F

3.4 MDLF Monitoring and Evaluation (M&E) Capacity

The MDLF is currently working to shift its operations from emergency towards a more developmental and performance-based approach. This shift requires also building up the MDLF M&E system and the relevant staff capacities. The MDLF medium-term strategic plan has outlined the key challenges, amongst which the development of a Results-Based Monitoring and Evaluation (M&E) System was one

of the priorities. Already, a M&E unit has been established by the MDLF within the Strategic Planning Department.

Part of the GTZ support to the MDLF was to assist the MDLF in developing an integrated impact-monitoring and evaluation system. This assistant will include technical assistance (TA) to develop the M&E manual of the Fund, and training of the MDLF staff in M&E.

Since March, 2008 a German consultant has started to work with MDLF to develop its M&E system. Several discussion papers were produced, which raised general questions with regard to the approach to be chosen and implications for other functions of MDLF. Further, a draft paper for the monitoring of Capacity Building in the area of Financial Management and Accounting was produced.

After several weeks of internal discussions on some of these issues, feed-back was given to GTZ on MDLF's priorities and interest expressed to continue German TA-support under the suggested approach⁴. Another TOR was developed to define an Action Plan for the following Technical Assistance and consulting activities related to M&E.

The consultant produced the first draft of the M&E manual which included:

- a concept on how to gradually compile, maintains, update, and improve required data. Moreover, the concept should include recommendations on which type of information should be compiled and managed by the MDLF itself, and which information should be better processed by other institutions, e.g. MOLG, APLA, PCBS;
- a concept and procedures for monitoring and evaluation as well as documentation of impacts of municipal infrastructure and service projects;
- a concept and procedures for monitoring and evaluation as well as documentation of impacts of capacity building measures;



Main Features of the proposed MDLF M&E System

- *Link projects achievements to the national strategies (PRDP) and MDLF strategic objectives*
- *Results-Based*
- *Measure the outcomes and impact and not only outputs and progress*
- *Cross cutting function*
- *Closely related to the reporting function*
- *Should "ring the bells" to the management and staff*

⁴ The consultant suggested to work according to the result-based monitoring approach and terminology of OECD's Development Assistance Committee, which was developed with the participation of 22 development partners in 2002/2003. MDLF will further consult its partners to investigate if any details have to be adjusted to the particularities of the Palestinian Situation.

- a proposal how to regularly document, report and publish aggregate impact monitoring results;

The draft manual was shared with MDLF partners and consolidated comments will be sent to the consultant before producing the final version of the M&E manual.

3.5 Human Recourses development

As outlined in MDLF's medium-term strategy, a key issue is to maintain and develop the MDLF's human resources to maintain the level of proficiency and credibility that the MDLF currently possesses. To accomplish this, improved HR by-laws, systems, and procedures are necessary.

The MDLF via the support of GTZ contracted a specialized HR consultant to work with the MDLF in updating and developing its HR systems and procedures and provide required training measures to selected MDLF staff.

For this component, the following outputs were achieved through a collaborative discussion between the consultant and the MDLF staff:

- Prepare an assessment report on the MDLF status quo;
- Update the draft HR bylaws and procedures manual (including Provident Fund regulations);
- Modify and update the Performance Appraisal System;
- Assess the MDLF staff capacity and develop training needs assessment and training plan.

The draft bylaws and policies were discussed and then approved by the BoD.

3.6 Donors Consultation Forum

The MDLF organized the third meeting of the Donors Consultation Forum (DCF) on May 4, 2009. The forum was attended by MDLF BoD, MDLF staff, MoP, MoLG, and donors.

The meeting discussed the upcoming Municipal Development Program (MDP) including its allocation mechanism, components, and objectives. The Ministry of Finance (MoF) announced about the commitment of the PNA to contribute to the MDP by 10% of the total donor's contribution.

3.7 MDP Missions

During the reporting period, two missions from MDLF partners were conducted to prepare for the upcoming Municipal Development Program (MDP). The first technical mission took place from April 28 to May 6, 2009, while the second appraisal mission took place on June 22-30, 2009. Several donors and partners participated in these missions including: AFD, Denmark, SIDA, the Netherlands, GTZ, KFW, and the World Bank.

In these missions, AFD, Denmark, SIDA, the Netherlands, GTZ, KFW and the World Bank agreed to harmonize their support for municipal development in Palestine over the coming years, beginning in late 2009

3.8 MDLF Transfer Mechanism

Until recently, the MDLF has been using an emergency fund allocation mechanism that uses population as the main criteria for grant allocation. The MDLF strategic objective is to assist the LGUs in graduating from their emergency status to a more developmental agenda that requires a new funds allocation mechanism. This mechanism (called the Transfer Mechanism) should link municipal grants to performance standards to create incentives for municipalities to improve their capacities and become creditworthy.

As agreed in the Donors Consultation Forum and per the directions of the MDLF BoD, an international consultant has started working on developing the Transfer Mechanism of the Fund. The main objective of the assignment is to review the original criteria of the transfer mechanism/model and provide the MDLF with a methodology and guidelines for its implementation. The consultant has worked with the MDLF team to develop a simple , objective Transfer Mechanism (or Grants Allocation Mechanism) designed to incentivize better management practices. The TM allocates resources to municipalities in an equitable, efficient, and accountable way, based on three weighted criteria that determine the distribution of the funds including: population (40%), needs (20%), and performance (40%).

The MDLF has conducted simulation of the developed TM to prepare for the upcoming MDP and to rank the municipalities based on their performance.

More information about the Transfer Mechanism can be found in Annex H.



What are the Features of a Good Transfer Mechanism Design?

In order to facilitate the assessment of the proposed design of MDLF TM, it would be useful to consider the features that characterize a good municipal development fund. The following features, in terms of their own-merits, are considered good practice and will be implied in the MDLF TM:

1. **Equitable:** *In principle the access to the financial resources of the MDLF should be open to all LGUs, subject to the compliance with certain minimum conditions. In other words, MDLF should not discriminate in favor or against any of its potential beneficiaries. The allocation system should recognize the differences in local institutional capacity across LGUs/municipalities, and allocate the funds by classes of LGUs/municipalities (in consistency with Palestinian law) to avoid that the LGUs/municipalities in the higher classes, due to their greater capacity, may capture most of the financial resources.*
2. **Transparent:** *The rules to access resources should be clear, simple, and be made public to all – that is, they should be transparent. Equivalently, the rules to deny access to resources should have the same characteristics of clarity/transparency and openness.*
3. **Demand Efficient:** *The MDLF TM should finance the goods and services that the residents need. These needs should be included in their local investment plans, and their priorities should be established in consultation with their communities. This demand-driven approach supports local autonomy in its decision- making, and their submitted projects must be eligible for financing.*
4. **Cost Efficient:** *The decision making on the financing of local development projects should consider different cost alternatives for the same public work or service; and given comparable standards and quality should consider the least responsive offer.*
5. **Effective:** *MDLF should insure that the projects it finances are actually built and become operational and sustainable. This is generally achieved through disbursements against actual physical implementation progress and the supervision of related institutional capacity development to operate it and maintain it.*
6. **Adequacy in Financing:** *The indicative or actual ceilings by typology of projects should be of such a magnitude that they should allow for an adequate financing of at least the average cost of a typical municipal public work for the corresponding type of LGU.*
7. **Predictability of Funds Available:** *Beneficiaries/LGUs should be able to predict the magnitude of the resources available to them, so that they can plan their yearly investments with the participation of their communities.*
8. **Simple Design:** *All actual and potential beneficiaries should easily understand all the MDLF's rules, procedures, and incentives built into the system. Incentives should be clear and transparent to all in order for them to be effective.*

4. ANTICIPATED ACTIVITIES

The following is the main anticipated activities of MDLF projects in the coming period:

EMSRP II-Components 1 and 2:

- Produce the completion report of the 1st cycle projects which will include the M&E indicators and beneficiaries' satisfaction survey
- Continue the implementation of SIDA funded sub-projects in Gaza.
- Continue the implementation of KfW funded sub-projects.

EMSRP II Component 3

- Continue the procurement and then the implementation of the parking meters sub-project.
- Complete the implementation of Gaza sub-projects.

MDP:

- Continue the implementation of the approved sub-projects which is expected to be completed by end of 2009.

PMSP

- Continue the discussion with relevant partners resume the project activities.

The Upcoming MDP:

- Finalize the MDLF internal procedure manuals including the financial, technical, procurement, and M&E manuals.
- Ensure the preparedness of the MDLF capacity to carry out the program
- Finalize the Program Appraisal Document (PAD)
- Conduct negotiations with relevant donors and sign the agreements.

Community Development Stability Fund:

- Continue the implementation of sub-projects.

LGCBP

- The work on IFMIS will continue and the installation of the system in the pilot municipalities will be carried out.
- PGMIS will go live before the end of 2009.
- Continue the implementation of the Fixed Assets registration and Valuation assignment.



- The MDLF will continue the coordination with GTZ in evaluating the assets in three municipalities (Ramallah, Al Bireh, Beitunia, and Salfit) and conducting institutional assessment of the financial departments of these municipalities.
- The Financial Policies and Procedures Manual for municipalities will be developed.
- The work on the Physical Planning Policies and Procedural Manual (PPPPM) will continue.

The New LDP

- Start the implementation of the program different activities based on the developed action plan.

5. CHALLENGES AND OBSTACLES

During the reporting period, some challenges and obstacles have occurred. MDLF fortunately overcame them and learned a lot of lessons to be contemplated in the future. Some of these challenges and obstacles included:

General:

- During 2008 the environment in Gaza was characterized by more restrictions on movement of people and goods from and into Gaza. The Israeli Military continued to impose a high level of restrictions preventing the entrance of most basic materials as well as the construction material into Gaza. These restriction have been affected the municipalities activities and the implementation of EMSRP II's subproject leading to a clear delay in the progress of the program first cycle of allocation "2007 allocation". Moreover, these restrictions and the closure of Gaza Strip during most of the reporting period has negatively affected the supply of fuel that was considered at the beginning of the program as one of the most urgent needed materials and was thought to be feasible to implement. The situation in Gaza has also affected the implementation of the MDP, which made the BoD reallocate the available Gaza funds to West Bank municipalities.
- On December 27, 2008 the Israeli military began a 22 days of military attack on Gaza Strip resulting in a severe humanitarian crisis to the civilians and systematic damage of the basic infrastructure and municipal buildings. The Israeli attack against Gaza had a severe impact on the implementation fo the MDLF projects in Gaza.
- The continues practices of the Israeli occupation of hindering the real development and prosperity through of preventing the free access and movement in the West Bank and between the West Bank and Gaza along with the acquisition and separation of land through the apartheid wall. This major obstacle faces almost every project and activity of MDLF.
- Many LGUs lack the capacity and needed skills to identify their needs and understand and fill the sub-projects application forms. MDLF worked closely with the municipalities and the LTCs to overcome this challenge through training, workshops, and visits.
- Another major challenge is the capacity of municipalities and LTCS related to procurement procedures, preparations of bidding documents and procurement plans. The MDLF will strengthen its procurement capacity and

will arrange for conducting further training to strengthen procurement capacity at the LTCs and municipalities who will carry out procurement for the coming projects.

- Most municipalities are still lacking the appropriate capacity and skills in terms of financial planning, and investment and development planning. This was clear during the collection of baseline data, financial data, and needs assessment data. Many municipalities don't have the systems required for collecting, verifying and analyzing these types of data.
- There is limited participation of the community in general, and by the women and the marginalized groups at specific in community participation meetings to identify needs and priorities. In many cases the participants represent the community based organizations. Recommendations for future in this regard include the need for prior arrangements for the meetings, sending invitations, preparation of meeting agenda, etc.

EMSRP II:

- The municipalities are still using old financial management practices, especially in regard to budgeting, which makes it difficult if not impossible to link the proposed municipal sub-projects/ budget items under EMSRP I fund with the municipal annual budget. This was mainly due to the fact that: (i) municipalities are using the cash basis, (ii) with the limited forecasted revenue, municipalities normally are focusing on the employee's salaries in their expenditures, and giving little attention to other running costs. In general, municipalities are trying to finance these items through donations and external support which are not included in their yearly budgets. MDLF, in such cases verified the needs of the municipalities by on site investigations (for 1.a and 1.b components) and through consultation and coordination with other institutions (especially for fuel sub-projects).
- During the preparation and implementation stages it was obvious that municipalities in general suffer from poor management of operation and maintenance (O&M) experience as well as systems and lack of monitoring and tracking of their existing infrastructure and services. The MDLF will include M&O capacity building components in any future support to the municipalities. The MDLF also started to ask the municipalities to submit a simple M&O plan in any project application.
- As a result of Palestinian Energy Authority intervention with the MOLG and the World Bank, all donor funded pre-paid electricity meter projects require prior approval from the MOLG and subject to municipalities consent to join

up with the electricity company in their region. All MDLF pre-paid metering projects are therefore conditional on municipalities obtaining the necessary approvals.

LGCBP:

- The LGCBP has been faced by several specific challenges including: the delay in signing the amendment and the new agreement with the World Bank, the delay in receiving the World Bank No Objection on the consultancy assignments, and the large number of consultants that need to be managed by the MDLF.

PMSP

- The Freezing of the PMSP funds in the Bank caused negative economical impact on the contractors who have waited to be paid for more than two years, taking into consideration that the objective of the project is to improve the economical situation of the people. Similarly, the PMSP funds are still frozen in the Bank on a time where the local government sector is in vital need for such projects to improve their services.

SWMP:

- Obtaining the Israeli Authorities approval on the proposed site for the sanitary landfill is a major challenge to the SWMP project. The MDLF will work with all stakeholders and the international community to overcome this challenge.
- The acceptance of the local community to the idea of having a sanitary landfill is still immature and required a lot of efforts. The consultant of the SWMP project along with the MDLF team will conduct public awareness campaigns and outreach activities to secure the local community smooth acceptance of the proposed site

6. LESSONS LEARNED AND RECOMENDATIONS

- The fund transfer mechanism should be modified to reflect the objectives of the national government and the MDLF which is building the capacity of municipalities and improve their performance as the basic requirement for development. The recommended transfer mechanism should include incentives to reward better financial, planning and management practices in the municipalities.
- Based on the Paris Declaration (endorsed on March, 2005) it's highly recommended to work with donors and relevant ministries to ensure the harmonization of the donors' projects through coordination and continuous discussion among different parties. Working together will maximize the benefits and the impact of international support to the Palestinian community. The PRDP should serve as the guidance to all donors who are active in the local government sector.⁵
- Furthermore, donors shall coordinate their efforts with each other's and with the Palestinian counter parts to eliminate funds earmarking so to achieve better impact and more transparent approach of allocations and have efficient implementation. The MDLF has been promoting the idea of pooling and having one basket of funds from all donors.
- It is recommended to further develop the M&E system at the MDLF and build the capacity of the staff of MDLF and municipalities on this issue. It is important to start thinking about measuring impact and outcomes of different projects and not only the progress and the outputs.
- The Italian Partner is recommended to take actions and work with the MDLF team to finalize the project modified guidelines and resume the project activities.
- The MDLF approach in building the capacity of municipalities through training and workshops as well as following of unified procedures have improved the municipalities' capacities in project and financial management.

⁵ Paris Declaration: is an international agreement to which over one hundred Ministers, Heads of Agencies and other Senior Officials adhered and committed their countries and organizations to continue to increase efforts in harmonization, alignment and managing aid for results with a set of monitorable actions and indicators

This is one of the bases of encouraging the development of sound governance institutions and programs at the central and local sector level. The use of different donor's procedures and procurement guidelines in the past caused some confusion to small municipalities. Therefore, simple unified procedures should be always developed and used.

- MDLF has learned that the involvement of MOLG in the early stages of projects has added a great value as it enhanced the ownership and understanding of the MOLG to the work of the MDLF. It is still recommended that MOLG should continue facilitating the dialogue between different players in the local government sector to identify the roles and responsibilities of different institutions and to guide the local government development process.
- MDLF shall keep and continue the consultation and coordination with different stakeholders and other programs to keep cost effective, better results and efficient outcomes.
- The MDLF should continue its approach in strengthening the municipalities' institutions and improving their staff capacities through in job training and transfer of know-how. This will enable the municipalities to be efficient and sustained institution as well as better rank to the municipality toward the implementation of the MDLF's transfer mechanism.
- Through urging the municipalities to propose projects linked to the annual municipal budgets, MDLF achieved some progress towards enhancing the municipalities' capacity in financial management/ investment planning (this for component 1.a and 1.b). Moreover the fund believes that progress to some extent was achieved in improving the municipalities' capacity in the financial planning regarding the maintenance and operation (M&O) of their basic infrastructure and services. These achievements will support and integrate the efforts of the MDLF in reforming the municipal sector financially through the current LGCBP project
- It is recommended to coordinate with relevant authorities, ministries, and consultants regarding similar activities to those related to building of know-how and capacity of the municipalities and executed through the EMSRP II and LGCBP Project. Other similar training and capacity building activities had been implemented by the MOLG and the MDLF through other programs. It is believed that coordinated efforts will maximize benefits of the trained Municipal Staff.



- It is recommended to pay more attention to gender balance in the selection of participants for trainings and workshops especially for social projects. This will result in a better representation of the community.
- It is recommended to increase the public awareness activities and outreach programs to the local communities in order to reduce their resistance to new initiatives (examples: sanitary landfill, amalgamation, etc) and to enhance their involvement in the local decision making process.
- It is recommended to initiate and facilitate the discussion about the electric services and the initiative to take out the electricity service from the municipalities. A discussion on the implication of this initiative and the impact it will have on the municipal financial situation should be organized with different stakeholders.
- As the MDLF web site was successfully used to submit the application forms, it is recommended to further develop the MDLF website to be utilized in the follow up of projects technically and financially. It is expected that PGMIS will help in the communication and application process between the MDLF and the municipalities.
- It is recommended to start training the municipalities on how to prepare their budgets prior as early as possible and before the start of the next fiscal year. It is also recommended to focus on training the municipal council on budgeting because of the weaknesses in the preparation of budgets, especially as related to planning, and identifying and prioritizing needs. Therefore, need exists to the adoption of methods thus linking budgeting with planning.
- It is recommended to encourage using accrual basis for accounting in the municipalities, in order to enhance the predictability of the financial status. Variations will be lowered between budgeted and actual numbers. Budgets as a planning tool will become more useful and understandable.

7. DONORS SUPPORT AND THE MDP

During the first half of 2009, donors have already approached the MDLF to explore the potential for more support and projects. During the reporting period the MDLF has been preparing for the new Municipal development Program (MDP) along with the several funding partners. In the last technical mission conducted during the month of April, 2009 AFD, Denmark, SIDA, the Netherlands, GTZ, KFW and the World Bank agreed to harmonize their support for municipal development in Palestine over the coming years, beginning in late 2009. On the basis of the prior joint pre-appraisal mission in October 2008, World Bank prepared a draft Project Appraisal Document (PAD) for the joint Municipal Development Program, which was discussed and revised with inputs from MDLF and Funding Partners. The finalized PAD will serve as reference document for all parties and contains all program details. The indicative commitments foreseen by the different Funding Partners are as follows:

	2009	2010	2011
AFD	EUR 3m	EUR 3m	To be considered
Denmark*	US\$ 1.0m	US\$ 19.0 m	To be considered
KFW**	EUR 7.5m	To be considered	To be considered
GTZ	EUR 0.15m	EUR 0.2m	EUR 0.15m
SIDA	US\$ 5.0m	US\$ 5.0m	US\$ 5.0m
World Bank	US\$ 5.0m	US\$ 5.0m	To be considered
Netherlands		To be determined	To be determined
PA	10% of the total MDP budget		
Financing Gap	0	US\$10-15m	US\$15-25m

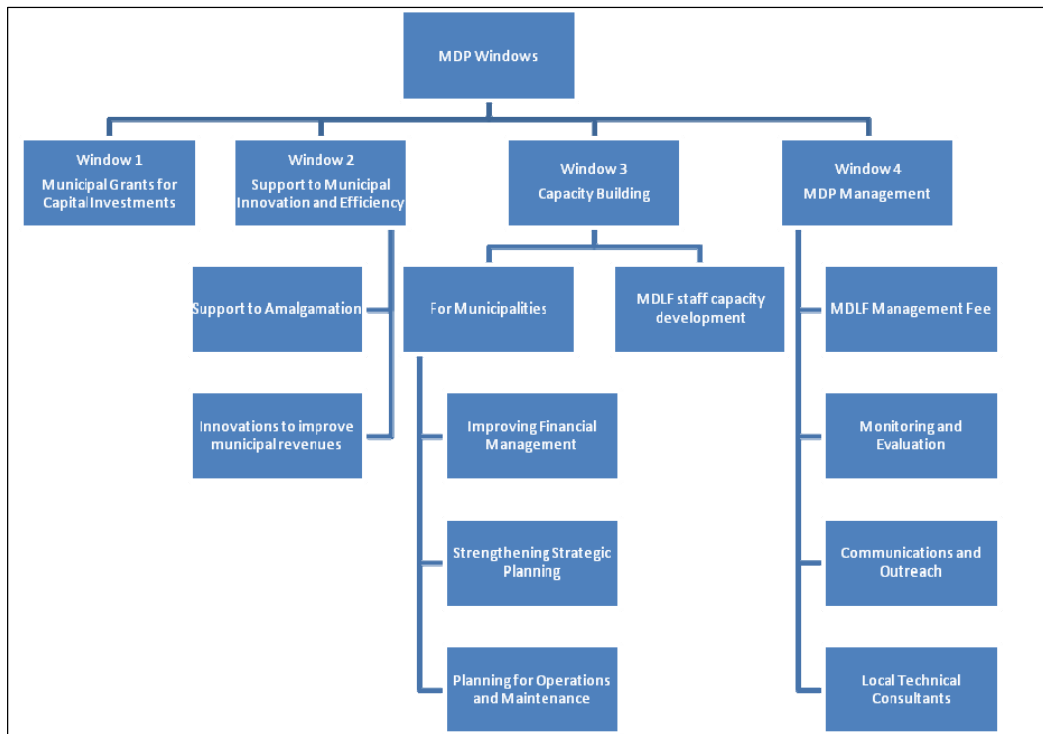
* DKK 120m for 3 years

** a further commitment of EUR 25m is under consideration

The Municipal Development Program (MDP)

To support the PRDP's goals for development at the local level, the PA has developed the MDP. The program is designed to address the core issues in municipal service delivery including: poor management practices that compound an already severe budgetary crisis (lack of local budgets for capital investments and low revenue generation). The MDP's Window 1 provides grant allocations to all 132 municipalities for needed capital investments in service delivery, but also rewards those municipalities that have better management practices through its performance based grant allocation formula (discussed in greater detail further in this Annex). Recognizing that municipalities would need technical assistance to improve their performance, under Window 3, the MDP offers a demand driven and customized capacity building program. In Window 2, it tests innovative approaches

that promote efficiency and revenue generation from which successful lessons will be drawn and disseminated. The chart below summarizes the 4 Windows of the MDP:



The MDP is a multi-phase national program which provides municipalities with a combination of technical assistance and annual performance based grants for sub-projects that improve service delivery. The formula for performance grants is designed to create incentives for municipalities to progress towards creditworthiness. The MDP has a three-stage hierarchy of objectives, as described below:

- (a) Sector-Level objective: Drawing on the MDLF's institutional mandate and vision, over the long-term the MDP contributes to strengthening municipal governance to enable municipalities to become creditworthy and thereby access resources from the market for investments that will enhance service delivery. At present, no municipalities are creditworthy.
- (b) Program-Level objective: Drawing on the PRDP, over the medium-term, subsequent phases of the MDP will be designed to support municipalities in providing better coverage and improved quality of services.

(c) Objective of the First Phase of the MDP: Over the short-term, the MDP – Phase I, will support municipalities in improving their management/governance practices.

- (a) *Sector-Level objective:* Drawing on the MDLF's institutional mandate and vision, over the long-term the MDP contributes to strengthening municipal governance to enable municipalities to become creditworthy and thereby access resources from the market for investments that will enhance service delivery. At present, no municipalities are creditworthy.
- (b) *Program-Level objective:* Drawing on the PRDP, over the medium-term, subsequent phases of the MDP will be designed to support municipalities in providing better coverage and improved quality of services.
- (c) *Objective of the First Phase of the MDP:* Over the short-term, the MDP – Phase I, will support municipalities in improving their management/governance practices.

The proposed operation constitutes Phase I of the MDP (2009 to 2012) and is a building block for the program's medium and long-term objectives as described above. The MDP - Phase I is expected to reach all 132 municipalities given that the MDLF has already demonstrated that it can successfully support all of them. Each phase of the MDP is expected to last about 3 years with an approximate budget of US\$60 to US\$100 million and will include a mix of investment grants and technical assistance. Phase I will test the tools to improve municipal performance, enable donor harmonization, and draw lessons for future phases. At the end of Phase I, the Grant Allocation Mechanism will be refined based on the lessons of the first three years of the program. Subsequent phases of the MDP will continue to focus on improving the management capacity of municipalities as demonstrated by their ability to graduate to higher categories of the performance ranking system and will also focus on improving the quality of municipal service provision and revenue generation.



The Municipal Sector Working Group (SWG)

The Municipal Sector Working Group (SWG) was reactivated as a platform to coordinate and share information among all actors in the local government sector. As a member in the SWG, the MDLF presented to the group members the



components and objectives of the new Municipal Development Program (MDP) which is designed based on the Sector Wide Approach (SWAp) principles.

The different allocation mechanisms that donors proposed and adopted made it hard for the MDLF to cope with its mandate to adopt transparency and reach equity in funds allocation for the municipalities. Therefore, the MDLF through discussion with partners including donors, ministries, and municipalities has developed the Transfer Mechanism (Grants Allocation Mechanism) to channel funds to municipalities based on performance and other criteria. The developed Transfer Mechanism will be used to allocate funds to municipalities in the MDP.

Table 19 provides a summary of donors support to MDLF.

Tables 20 to 22 and Charts 10 to 12 illustrate the donors support to the emergency and development infrastructure projects.



Table 19: Donors Support to MDLF

Project /Program	Donor	Estimated Amount (Million US\$) ⁶	Focus Area	Start Date & End Date	Status
Emergency Scheme Support					
EMSRP II	World Bank	10.0	Emergency municipal services rehabilitation	Signed in February 2007 Will end in December 2009	On-going and will be completed by the end of 2009
EMSRP II	Netherlands	6.17	Emergency municipal services rehabilitation	Signed in February 2007 Ended in February 2009	Completed
EMSRP II	Germany (KFW)	21.0	Emergency municipal services rehabilitation (Poverty-Oriented Infrastructure Municipal Finance)	Signed in September 2008 Will end in September 2011	On-going
EMSRP II	Sweden (SIDA)	8.0	Emergency municipal services rehabilitation	Signed in December 2008 Will end in June 2011	On-going The agreement was extended to include the additional financing of USD 3.0 million received as a response to Gaza situation.
Development Scheme Support					
MDP	France (AFD)	16.08	Municipal infrastructure development	Signed on July 24, 2007 Will end in July 2010	On-going

⁶Exchange rate: 1€=1.4\$



PMSP	Italy	33.5	Infrastructure (water, waste water, roads, agriculture & others), capacity building, health, education, women, children & youth, etc	Signed on November 2004	Frozen Italian and Palestinian sides are discussing the possibilities of unfreezing the project and resume its activities.
Institutional development and Capacity Building Scheme Support					
LGCBP	Denmark (Through the World Bank)	9.9	Financial and physical planning capacity building for the local sector	Signed in March 2005 Extended until the end of 2010	On-going
SWMP	Japan (Through The World Bank)	0.385	Feasibility Study of solid waste situation in the Southern West Bank area.	Signed in December, 2007 Will end in March 2009	On-going (in the final stage)
PHRD	Japan (Through The World Bank)	0.495	Capacity building and institutional support to the MDLF to prepare for the upcoming MDP	Signed in December, 2008 Ended in September, 2009	Completed
Innovative Window Scheme Support					
Jenin Pilot Project	Denmark	1.30	Support to the municipal development in Northern WB (pilot project)	Signed in December 2006 Completed in December 2008	Completed
LGCDP	Germany (GTZ)	0.84	LGUs-NGOs collaboration and MDLF capacity building	Signed in August 2007 Ended in March 2009	Completed



Municipal Development and Lending Fund
Semi Annual Progress Report-2009

LDP-Phase 1	Denmark	6.0	Support the amalgamation of two areas in Jenin Governorates through capacity building and infrastructure projects.	Signed on June 25, 2008 Will end in 2010	Agreement signed Implementation of the first phase started in August 2008, and the implementation of the second phase will start after the completion of the first phase.
Community Development Stability Fund (MDP)	Netherlands	7.0	Strengthen the positive role and visibility of the Government and local government at crucial junctures, where the PA has to react rapidly and/or show positive presence in order to forge closer links with the local population.	Signed in December 2008 Will end in September 2009	Ongoing
Total		120.67			



Table 20: Distribution of Fund Allocations (Emergency and Development Infrastructure) by Donor Per Governorate

West Bank Governorates										
Governorate	World Bank (\$)	Dutch 2007 (\$)	Dutch 2008 (\$)	AFD (Euro) 08&09	Dutch 07&08 (\$)	AFD (\$) 08&09	KFW (Euro) 08&09	KFW (\$) 08&09	Sida (\$)	Total (\$)
Bethlehem	404,243	207,918	0	635,000	207,918	895,350	682,240	961,958	0	2,469,469
Hebron	1,555,612	645,219	0	1,740,000	645,219	2,453,400	3,376,887	4,761,411	0	9,415,642
Jenin	683,051	264,355	1,296,550	685,000	1,560,905	965,850	0	0	0	3,209,806
Jericho	38,163	9,624	59,773	560,000	69,397	789,600	0	0	0	897,160
Jerusalem	583,658	235,132	42,036	0	277,168	0	735,200	1,036,632	0	1,897,458
Nablus	435,838	135,856	0	1,475,000	135,856	2,079,750	1,422,868	2,006,244	0	4,657,688
Qalqilia	164,534	53,002	0	755,000	53,002	1,064,550	314,877	443,977	0	1,726,063
Ramallah	564,089	227,233	0	1,320,000	227,233	1,861,200	831,631	1,172,600	0	3,825,122
Salfeet	199,719	88,022	403,803	475,000	491,825	669,750		0	0	1,361,294
Tubas	91,719	39,631	0	530,000	39,631	747,300	128,941	181,807	0	1,060,457
Tulkarm	449,631	155,252	1,070,970	825,000	1,226,222	1,163,250		0	0	2,839,103
JSCs				1,600,000		2,256,000				2,256,000
Total	5,170,256	2,061,244	2,873,132	10,600,000	4,934,376	14,946,000	7,492,644	10,564,628	0	35,615,261



Table 21: Distribution of Fund Allocations (Emergency and Development Infrastructure) by Donor Per Governorate (2007 & 2008)

Gaza Governorates										
Governorate	World Bank (\$)	Dutch 2007 (\$)	Dutch 2008 (\$)	AFD (Euro) 08&09	Dutch 07&08 (\$)	AFD (\$)08&09	KFW (Euro) 08&09	KFW (\$) 08&09	Sida (\$) 08&09	Total (\$)
Deir Al Balah	806,278	352,709	0	0	352,709	0	735,818	1,037,503	933,016	3,129,507
Gaza	548,794	28,815	0	0	28,815	0	2,364,531	3,333,989	2,000,072	5,911,670
Khan Younis	614,807	210,590	0	0	210,590	0	966,727	1,363,085	1,035,658	3,224,140
North Gaza	768,983	282,728	0	0	282,728	0	656,143	925,162	841,144	2,818,017
Rafah	192,278	32,981	0	0	32,981	0	237,017	334,194	401,949	961,402
Total	2,931,140	907,823	0	0	907,823	0	4,960,236	6,993,933	5,211,840	16,044,736

Chart 10: Total Allocations Per Donor– West Bank & Gaza

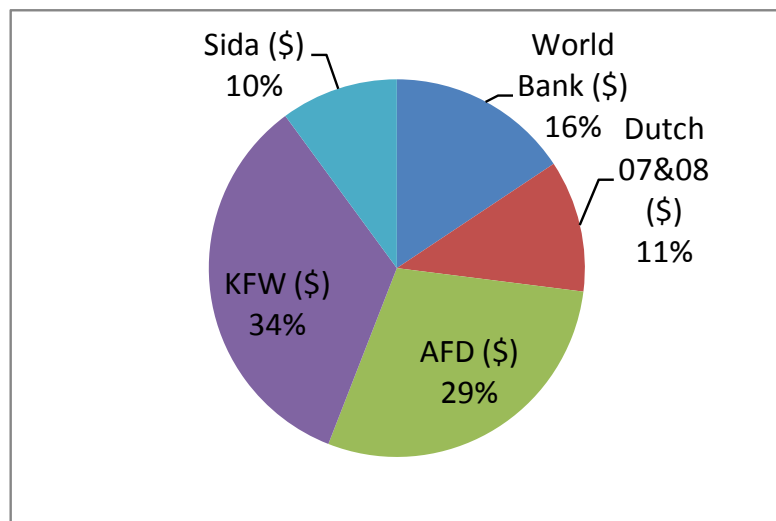


Chart 11: Distribution of Fund Allocations by Donor Per Governorate– West Bank & Gaza

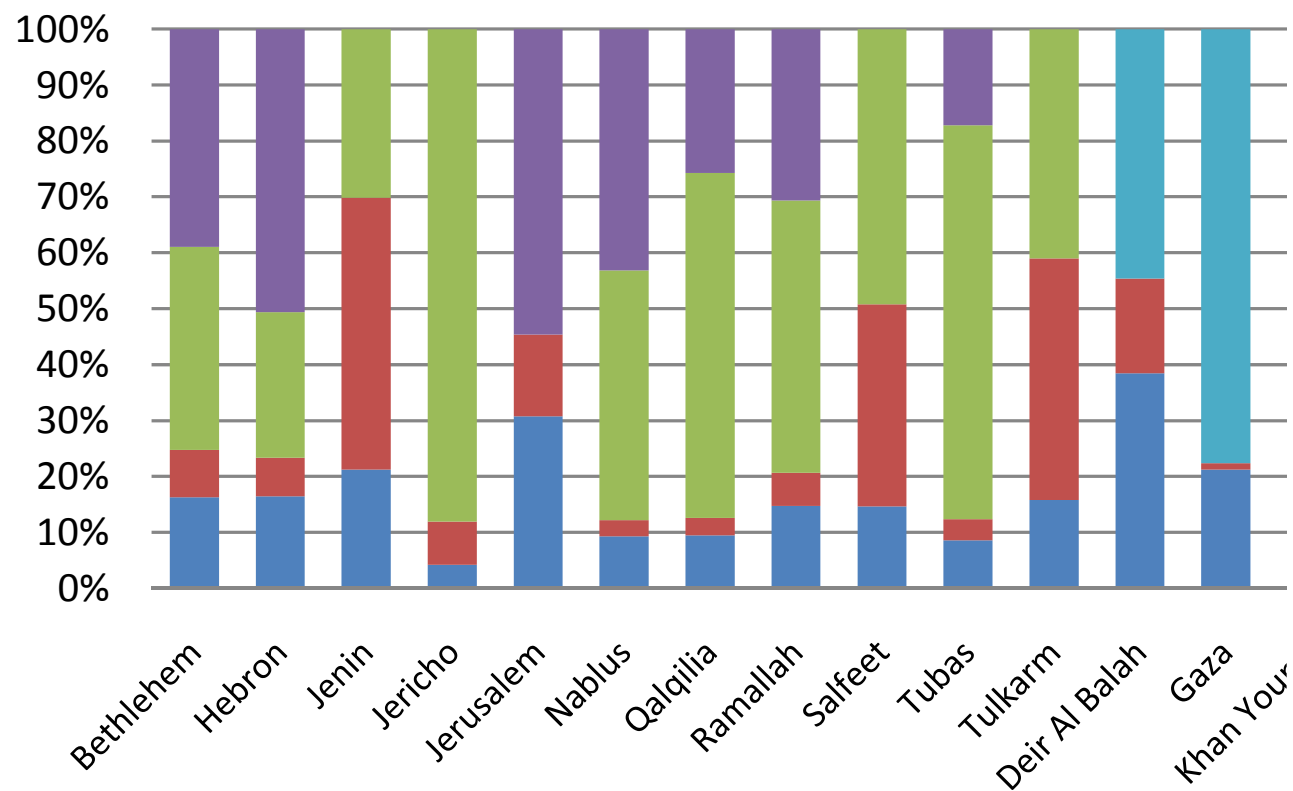




Table 22: Distribution of Fund Allocations (Emergency and Development Infrastructure) by Sector Per Donor

Donor / Sector	Roads	Water	Wastewater	Electricity	Solid Waste	Public Facilities	Health	Others	Not Appraised Yet	Total (\$)
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$
World Bank	3,223,231	438,110	193,443	564,791	1,355,084	425,467	0	1,901,270	0	8,101,396
Dutch	4,017,004	296,606	116,076	841,336	115,394	378,648		77,136	0	5,842,199
AFD	10,278,676	208,401	1,389,114	569,880	0	2,499,930	0	0	0	14,946,000
KFW	9,148,847	181,274	0	395,731	0	312,291	0	526,486	6,993,933	17,558,561
Sida	207,079	333,674	321,211	231,934	1,735,285	146,975	166,175	2,069,507	0	5,211,840
Total	26,874,837	1,458,064	2,019,844	2,603,671	3,205,763	3,763,311	166,175	4,574,399	6,993,933	51,659,997
Percentage	52.0%	2.8%	3.9%	5.0%	6.2%	7.3%	0.3%	8.9%	13.5%	100.0%

Chart 12: Distribution of Fund Allocations Per Sector– West Bank & Gaza

