

Municipal Development and Lending Fund (MDLF)

Municipal Development Program “MDP”

MDP is a ground-breaking new effort in development and reform, designed by the Municipal Development and Lending Fund (MDLF) under the guidance of the Palestinian National Authority, the MDP recognizes that the first step toward improve municipal services is well managed and more accountable local government units.

The MDP is unique because it provides infrastructure grants to the Palestinian municipalities linked to their performance in relation to the institutional setup, planning capacity, financial management and good governance practices. Its cornerstone is the grant Allocation Mechanism, a formula-based method for distributing funds to municipalities for capital investments – based on need, population and improved performance.

The MDP is unique because it is an incentive-based program where the municipalities infrastructure grants are linked to their performance. The performance of municipalities is measured according to well defined criteria, the municipalities are classified on 10 ranking levels (D, C, C+, C++, B, B+, B++, A, A+, A++) based on their compliance with 19 Key Performance indicators (KPIs) reflecting the (institutional performance, financial performance and sustainability, transparency, accountability, and participation).

Over the years, the MDP has evolved to become an effective and efficient tool in the framework of local governance reform with a remarkable contribution for improved municipal performance and efficient service provision. To further improve municipal performance, MDLF has upgraded the fourth phase of the program by integrating elements such as resilience, climate adaptation and mitigation and financial sustainability; taking into consideration lessons learned through previous phases of the program.

Through MDP IV, the municipalities will be capacitated to undertake their assigned functions and improve their performance to deliver capital investments and service provision with focus on women, youth, and persons with disabilities. They will optimize their financial and fiscal revenue; and enhance investments in innovative climate adaptation projects; as well as enhance their institutional capacity with a particular focus on civic engagement.

Financial Partners:

The MDP is supported by the Central Government along with the Agence Francaise de Development (AFD), the Danish Government, the World Bank , the German Government through the German Development Bank (KfW) and the German Technical Cooperation (GIZ), the Swiss Agency for Development and Cooperation (SDC), Belgian Development Agency “Enabel”, and the European Union (EU)

Municipal Development Program – Multi-phases

Phase one	Phase two	Phase three	Phase four
٢٠١٢-٢٠٠٩	٢٠١٧-٢٠١٤	٢٠٢٢-٢٠١٨	٢٠٢٦-٢٠٢٣
59 million Euros	122million Euros	184 million Euros	١٢٦million Euros

MDP IV development objective (PDO)

To strengthen municipal capacity to deliver accountable, sustainable, inclusive and resilient services to the municipal population in the West Bank and Gaza

Project beneficiaries:

The participants of this phase are 159 municipalities in the West Bank and Gaza. The beneficiaries are the population in all the municipalities; estimated around 3.9 million representing 78 % of the total population of the West Bank and Gaza.

Through the fourth phase of the program, municipalities will be supported with sub-grants to provide high-quality services, with a special focus on involving the most vulnerable groups, including women and people who contribute to the work. In addition to that pioneering initiatives in the climate change will be implemented along with capacity support to improve municipal revenues and citizens engagement.

MDP IV Components:

01.

Performance Services Delivery Component

Through this component, the project will provide participating municipalities with the Performance-based financing needed to advance in the process of fulfilling their mandated service delivery responsibilities and will support alignment with the capacity building activities under component 2. Participating municipalities will receive grants determined based on the achievement of municipal KPIs.

02.

Capacity Development Component

Over the years, MDLF was able to support all municipalities with different capacity building packages to help them institutionalize their work and to improve their graduation on the performance ranking ladder. Municipalities will be eligible to receive support under this component to strengthen their capacities in a number of areas, including, financial management, investment planning, operations and maintenance programming, social accountability, credit worthiness and e-governance. As with the predecessor MDP3 project, the municipal capacity development activities will be identified by municipalities together with MDLF support. Activities will be aligned with key project performance indicators to facilitate their development and performance in targeted areas.

In addition, this component will target the MDLF, MOF and MOLG with specific capacity development activities in the framework of local governance reform, which includes:

- a) Developing a National-Level Municipal Finance Information System, b) Preparing an Operations Manual for the IGFT at the national level, c) Monitoring LGU Net Lending,
- d) Identifying policies to increase LGU Own-Source Revenues , e) Rationalizing LGU Functional Responsibilities and Updating LGU Classifications, f) Support for MDLF Transition

03.

Competitive Grants for Natural hazard and Climate Change

This component will cover technical assistance as well as offer financing of small-medium scale physical works. More specifically this component will cover:

Subcomponent 3.1. Natural hazard and climate change risk assessments.

Subcomponent 3.2. Natural hazard and climate change adaptation investments.

04.

Program Management

This component will finance the functioning of the teams that are part of the MDLF supporting the implementation of the project

Grant Allocation Mechanism

The Grant Allocation Mechanism is the most important element of the MDP. This mechanism is based on the following criteria:

- 55% based on performance, 10% based on population and 35% based on needs for the 1st cycle. The municipalities are ranked according to 19 key performance indicators developed by MDLF and financing partners in accordance with international standards.
- 60% based on performance, 10% based on population and 30% based on needs for the 1st cycle. The municipalities are ranked according to 19 key performance indicators developed by MDLF and financing partners in accordance with international standards.

Eligibility criteria for MDP VI (measured annually)

Eligibility Criteria
Annual Budget submitted via the foreseen electronic platform and approved by MOLG
SDIP is prepared according to guidelines and updated annually.
Public disclosure of annual budget, SDIP

Municipal Ranking Update (By the end of each cycle- Every two years)

Municipal performance is measured through Key Performance Indicators (KPI's). Based on the achievement of KPIs, the municipalities are categorized into 10 performance categories ranging from (A++, A+, A, B++, B+, B, C++, C+, C, D_). Each rank is designed to cover three performance areas, namely: i) Financial Performance and Sustainability; ii) Institutional Performance; and iii) Transparency, Accountability and Participation.

MDP4 KPIs – 1 st cycle			
KPIs – 1 st Cycle	Verification Protocol	Graduation Ladder	Rank
1. Cost Accounting Systems Set up	a) LGU is applying a costing method for setting out the needed resources for costing the major services.	A: compliance of (2) out of 6 A+: compliance of (3,4) out of 6 A++: compliance of (5,6) out of 6 In addition to the KPIs in rank D & rank C and rank B	A 6 KPIs
	b) The current system provides the structure of the applied costing method (What expenses are direct and what expenses are indirect).		
	c) The current system provides necessary reports for forecasting, planning, and ratios for the last complete FY.		
	* Eligibility Condition: The Adoption of IPSAS (Accrual Accounting) and Fund accounting.		
2. IFMIS implemented	a) financial position statement generated from the system for the last FY.		
	b) financial performance statement generated from the system for the last FY.		
	c) Cash flows statement generated from the system for the last FY.		
	d) Comparison statement between actual and planned results for the last FY.		
	* Eligibility Condition: The Adoption of IPSAS (Accrual Accounting) and Fund accounting.		
3. Green Spaces implemented	a) The municipality has expanded or rehabilitated green spaces (at least 0.1 m ² per capita in the past two years)		
	b) Availability of public green space of > 0.5 m ² per capita in West Bank urban municipalities and > 0.3 m ² per capita in Gaza and West Bank rural municipalities. The classification of municipalities (rural and urban) is based on the PCBS data at the municipal level that we previously used in MDP2 and MDP3.		
4. LGU's Liquidity.	a) The calculation for this ratio is Current Ratio (Liquidity) = Current Assets/Current Liabilities.		
	b) $1 < X < 2$. A current ratio of "2.00" is considered sufficient; but to be able to provide service to the public and to pay off its debts when they are due, a current ratio of "1.00" is considered a safety limit for the institution's payment capability.		
	c) financial position statement generated from the system for the last FY.		
	* Eligibility Condition: The Adoption of IPSAS (Accrual Accounting) and Fund accounting.		
5. At least 10% of the SDIP-identified priorities (in terms of # of projects) serve vulnerable groups and marginalized areas.	b) At least 10% of SDIP's planned projects serve vulnerable communities and groups including PWD's, the elderly, women and girls, and youth as well as the people living in marginalized areas within the boundaries of the municipality.		
6. Electronic Services in place and functional	a) Up-to-date EMS portal information		
	b) Evidence for functional EMS		

MDP4 KPIs – 1 st cycle				
KPIs – 1 st Cycle	Verification Protocol	Graduation Ladder	Rank	
7. 10%< X <15% of the operational expenditure <u>Paid</u> for Maintenance	a) Paid maintenance expenditure 10%< X <15% of Paid total operational expenditure in the last complete FY	B: compliance of (2) out of 6 B+: compliance of (3,4) out of 6 B++: compliance of (5,6) out of 6 In addition to the KPIs in rank D & rank C	B 6 KPIs	
	b) The calculation for this ratio is: <u>Paid</u> Maintenance expenditures/ <u>Paid</u> Operating expenditures			
8. Operational Surplus achieved	a) Operational revenues exceed operational expenditures for the last FY			
	b) Operational Surplus (margin) = <u>Collected</u> Operational revenues - <u>Paid</u> operational expenditures.			
9. LGU's Fiscal Autonomy	a) The calculation for this ratio is: Own Revenues /Total Revenues			
	b) This ratio must be at least 80% (WB) or 70% (Gaza) in the last complete FY			
	Total revenues do not include grants & the equation will be calculated on the accrual basis			
10. At least two SA tools implemented annually by the municipality and the SA committee	a) Municipal budgets and resource allocation for SA tools.			
	b) Reports related to implemented SA tools			
11. At least Two major SDIP projects take into account adaptation to climate change risk.	Revision of SDIP document and quantification of CC adaptation-related projects			
12. Minimum standards for the Grievance Redress Mechanism are met.	a) Municipalities have a clear and known procedure for categorization by types of grievances, their classification (Suggestion, Comment, Inquiry, and Complaint), their handling with time frames (at each level); and clarity on the types of process and outcomes.			
	b) Reports in place regarding statistics related to the complaints with proven evidence of response.			
13. Unqualified audit opinion from annual external audit executed according to standard ToR of MOLG and audit findings from the previous year (if any) are addressed adequately	a) Audit report satisfactory concerning items listed in the manual and ToR.		C: compliance of 2 out of 4 C+: compliance of (3) out of 4 C++: compliance of 4 out of 4 In addition to the KPIs in rank D	C 4 KPIs
	b) The audit follows up on previous management letters and the municipality has addressed issues raised adequately			
14. Audit opinion disclosed to citizens and stakeholders by foreseen means	a) External Audit in the last complete FY			
	b) Disclosure of audit opinion by foreseen means, such as the LGU website.			
15. Staff Costs <40% WB <50% GZ of Operational expenditure	a) Total staff expenditure <40% (WB) or <50% (Gaza) of total operational expenditure in the last complete FY.			
	b) The calculation for this ratio is: <u>Paid</u> Salaries & Wages expense / <u>Paid</u> Operating expense.			
16. No increase in net lending	a) Revision of water and electricity arrears from MOF records.			
	b) Review the outstanding liabilities for water and electricity from the financial position statement for the last FY.			

MDP4 KPIs – 1st cycle			
KPIs – 1st Cycle	Verification Protocol	Graduation Ladder	Rank
17. Fixed asset register in place and regularly updated representing actual values	a) Fixed asset registry set up according to manual	Compliance of 3 KPIs	D 3 KPIs
	b) Fixed asset registry has been updated annually		
18. Executed budget statement for the previous FY submitted to MoLG on time via the foreseen electronic platform.	a) An executed budget covering the complete fiscal year (January – December) available		
	b) The previous year's budget was generated from the Ministry of Local Government portal.		
	c) MoLG informs MDLF		
19. Public disclosure of executed budget and executed SDIP	a) Information disclosed in line with public disclosure procedures		
	b) (second cycle) Annual budget plan disclosure done in the readable budget format		