



Municipal Development Program- Phase 3 (MDP III)

What is 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, but also it improves performance by building operational, planning and financial capacity of the Municipalities. 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 tools and activities.

Who benefits from MDP?

All municipalities in West Bank and Gaza Strip.

How Does (MDP) Work?

The MDP is a multi-phase program distinguished by its transfer Mechanism aimed to enhance the capacity of municipalities through four Components as follows:

Component 1: Municipal Performance and Service Delivery.

1. The project will finance municipal infrastructure for improved service delivery in accordance to the LGUs' law 1997.
2. Block Grant Eligibility (50%- comprised of 20% population, 30% needs). Municipalities should fulfill the basic eligibility criteria to receive the project's block grant.
3. Performance Grants (50%): Municipal performance is measured through 21 KPIs that are designed to cover three performance areas, namely: i) Financial Performance and Sustainability; ii) Institutional Performance; and iii) Transparency
4. Municipalities with higher rankings will be eligible for more funding than those with lower rankings. The MDP works closely with municipal leaders to help those in the lower levels move up to a higher ranking.

Component 2: Capacity Development.

1. This component will provide capacity support to municipalities and national level institutions, namely the MDLF and the MoLG.
2. Development of Municipal Management Systems (IFMIS, O&M, CSC,...etc.).

Component 3. Municipal Partnership Projects.

This component will provide technical assistance and project financing to municipalities to: a) engage more effectively with the private sector, and b) work across administrative boundaries to develop joint and/or innovative investments for municipal service delivery and local economic development.

Component 4: Project Implementation Support and Management Costs.

This component will finance goods and consultants' services for monitoring and evaluation, outreach and communication and local technical consultants for the engineering supervision of Component 1.

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 Development Bank (KfW) , the German Technical Cooperation (GIZ), the Swiss Agency for Development and Cooperation (SDC), and the International Cooperation Agency of the Association of Netherlands Municipalities (VNG).

Municipal Development and Lending Fund (MDLF)

MDLF is a semi-governmental institution established in 2005 by the Palestinian National Authority (PNA) to be the main and favorite channel to support the process of reform and development of the local government units. Since 2016, Mahmoud Abbas, President of the State of Palestine, endorsed the LGUs' Development and Lending Fund Law. The decision enhances the legal environment for the MDLF to carry out duties entrusted to it for the development of the local government sector in line with the National Policy in this regard.

The MDLF work is completely consistent with the national policy agenda and has been established as part of the initiative of the central government to support the effectiveness, reform, and transparency towards building the independent Palestinian state. MDLF is working on translating the national policies and strategies into implementable programs and projects.



The Grant Allocation Mechanism

The Grant Allocation Mechanism is the most important element of the MDP. This is the first time a performance-based formula has been used in conjunction with infrastructure grants in Palestine. The allocated fund under component 1 will be distributed among all municipalities based on this criteria. The grants are divided as the following: 50 percent based on performance, 20 percent based on population and 30 percent based on needs. Municipalities are ranked according to 21 performance proxy indicators which were developed by MDLF in accordance to the international standards taking into consideration the following:

- The feedback received from the municipalities on the MDP2 ranking system.
- The feedback received throughout the meetings with MDLF Board of Directors, Development Partners, Mayors, MoLG and other related national institutions.
- In depth analysis of the MDPII performance indicators and how the municipalities had complied with the KPI 16 performance indicators.

Accordingly, MDLF developed the MDP3 allocation mechanism and the performance criteria to be fully aligned with the national policy agenda concerning the local government sector development.

The grant allocation criteria will be allocated as follows:

▪ First: Basic Block Grant (50% of Component 1 Allocation)

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

The basic block grant will be distributed as follows:

- 20% on population according to the PCBS official figures,
- 30 % on needs according to a specific proxy indicators collected by PCBS for the benefit of the program including: (access to roads, solid waste, water, green areas and sport facilities, and the availability of premise owned by the municipality), where the needs allocation will be distributed among the municipalities proportionally.

▪ Performance Grant (50% of Component 1 Allocation)

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



Table 1: Municipal Grant System under the proposed MDP 3

1. Basic Grant (50%) allocated based on population and needs				
Eligibility Conditions	i. Annual Budget approved by the Municipal Council and submitted to MoLG on a timely basis ii. SDIP prepared according to new SDIP Guidelines (from year 3)			
2. Performance Grant (50%). Grant allocated to municipalities based on performance according to KPIs				
Categories	D	C	B	A
No. of KPIs	3 KPIs	6 KPIs	6 KPIs	6 KPIs
Graduation	Compliance of all 3 KPIs	C: compliance of 2 out of 6 C+: compliance of (3,4) out of 6 C++: compliance of 5,6 out of 6 In addition to the KPIs in rank D	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	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
Performance Areas	Key Performance Indicators Matrix			
Financial Performance and Sustainability			At least 10% of the budget execution for O&M	O&M Plan in place
		Year on Year Increase or more than 50 NIS municipally collected revenue per capita	Operational Surplus achieved	Staff Costs <45% WB or <70% GZ) of Operational and Capital expenditure
	Separate banks Accounts for Enterprise revenues established	Separate financial accounting for enterprise revenues and expenditures established	No increase in net lending	Cost Accounting Systems set up
Institutional Performance	Financial Accounting Policies and Procedures in place	Executed Budget Statement for the previous FY submitted to MoLG on time	Unqualified Audit Opinion from Annual external audit	IFMIS implemented
		Fixed Asset Register in place and updated	At least 70% Budget Execution	Green Spaces implemented ¹
Transparency, Accountability and Participation	Public Disclosure of annual budget, SDIP and MDP performance ranking	Public Disclosure of executed budget and executed SDIP	Audit opinion disclosed to citizens and stakeholders	
		Municipal Complaint System established		Functional Municipal Complaint System following MoLG guidelines

¹ The indicator is related to the quality of urban livelihood and defined as follows: the municipality provides and maintains public green space (green areas, sport areas, play grounds, parks) of > 0.5 m² per capita in West Bank urban municipalities and > 0.3 m² per capita in Gaza and West Bank rural municipalities.