The Municipal Development and Lending Fund (MDLF)

Toward Better Quality of Life for Citizens
Municipal Development & Lending Fund / Palestine

“Developing the New Regional Urban Agenda: Focus on Municipal Finance”

MARCH 18-19, 2013 – RABAT, MOROCCO
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Background: Figures

Population: 4.2 million
- West Bank: 2.6 million; Gaza: 1.6 million

Palestinian Population Density (Capita/km$^2$), End 2011
- 703 Capita/km$^2$ (462 WB, 4,429 GS)

Total GDP: 6,257.9 (Million US $)
- GDP (4,572.3 WB, 1,685.6 G)
- GDP per capita $: 1,593.5 (1,955.3 WB, 1,061.0 G)

Poverty: 25.7% (18.3% WB; 38% GS)

Unemployment: 20.9% (17.3 WB; 28.7 GS)
# Background: Local Public Financial System

## Municipal Revenues & Local Revenue Mobilization

### Main Revenue Sources

1. **Local Taxes**: Mainly the Property Tax, Business tax, Agricultural Land Tax etc.
2. Licenses and Permits
3. Fees

*The property tax represents about 2.5% of the operational budget.*

LG units receive 90% of revenues while 10% for the central government (Ministry of Finance).

## Municipal Expenditures

### Main Functions

1. Electricity Distribution and Public Water Distribution
2. Public Health/Solid Waste Collection and Disposal
3. Streets construction, development, and maintenance
4. Slaughterhouses
5. Food and Fish markets
6. Cultural Services
7. Safety and Public Health
8. Maintenance of Public Buildings and Facilities
9. Local Planning and Development
Development Challenges:

**Challenges and Constrains:**
- Inadequate fiscal base for LGUs.
- Limited intergovernmental fiscal Transfer.
- Discipline of tax-payment undermined by occupation.
- Limited experience at LGUs, both officials and staff.
- Capacity Gap between Municipalities.
- High operation cost.

**Urban challenges:**
- Extensive infrastructure damage
- **Israeli occupation** - Lack of sovereignty over land and Lack of territorial contiguity
- One of the world’s fastest growing populations
- Population density in Gaza
MDLF is a development mechanism...

**Before 2005**
- Project Coordination Unit (PCU)
- EMSRPI, MDP1
- World Bank and EC.

**2005**
- Through EMSRPI: MDLF initials systems, manuals was developed
- MDLF created by the Council of Ministers Decree on October 20, 2005.
- As a semi governmental organization aimed at developing local authorities’ economic, social and cultural wise by providing grants and loans to developmental projects of the local authorities;

**2013**
- MDLF is recognized as the PNA’s preferred mechanism for channelling reform and development assistance to local government (NDP).
- Portfolio of more than 208 USD million of projects

Trusted institution by PNA, and many donors (World Bank, France, Germany, Netherlands, Sweden, Denmark, EU, Sweserlan and Belgium)

MDP is the core business of MDLF together with other satellite programs
Municipal Development and Lending Fund (MDLF)

- **The National Government vision of the MDLF:** “The Municipal Development and Lending Fund (MDLF) is expected to be the primary source of development-linked assistance to municipalities, and to support essential administrative and financial management reforms”

- “The MDLF is the PNA’s preferred mechanism for channelling reform and development assistance to local government and disbursements must be coordinated with the Ministry of Finance”

- MDLF portfolio includes more than USD 208 million of interventions at the local level.

- **Three main themes of support:**
  1. Capital Investments (Infrastructure)
     - Both emergency and development support
  2. Innovations
  3. Capacity Building and Technical Assistance
The Municipal Development Program (MDP)

Development Objective (PDO):
Enable municipalities to improve management practices and sustain service delivery

The MDP Long term strategic goal is to achieve effective municipal management and credit worthiness

Program Objectives

Program Components

Guiding Principles

National-Goals and Priorities

MDLF Strategic Plan

LG Policies

LG Action Plan

SWAp-Pooling of Fund

Municipalities Needs Assessment

Transfer Mechanism

Challenges

Local Development

Local Development

National Goals and Priorities
Municipal Development & Lending Fund (MDLF)

Municipal Development Program (MDP)

Window 1: Capital investments for service provision, based on (Rank)

Window 2: Incentive grants to municipalities to pilot innovations

Window 3: Capacity building to municipalities to enhance their performance

Window 4: Program Management
**Assumptions:**
1. The number of municipalities in West Bank and Gaza is 134.
2. The population of municipalities was calculated based on growth projections provided by PCBS and the annexation of projects committees to municipalities.
3. The allocation related to the needs criteria was based on population as done in the first ranking of 2008.
4. Ranking of municipalities related to performance was simulated taking into consideration the current capacity building packages of the MDP, the strategic plans developed through ChF support, and the assumption that all municipalities have submitted their 2010 budgets to MoLG.
Expected municipal ranking and allocation for window 1

<table>
<thead>
<tr>
<th></th>
<th>1st Cycle</th>
<th>2nd Cycle</th>
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</thead>
<tbody>
<tr>
<td>Total No. of Municipalities</td>
<td>132</td>
<td>134</td>
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<tr>
<td>Rank A</td>
<td>0</td>
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<tr>
<td>Rank B</td>
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<tr>
<td>Rank C</td>
<td>16</td>
<td>102</td>
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<tr>
<td><strong>Rank D</strong></td>
<td><strong>90</strong></td>
<td></td>
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<tr>
<td>Rank E</td>
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<td>26</td>
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<tr>
<td>Rank F</td>
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<tr>
<td>Population</td>
<td>2,681,299</td>
<td>2,951,739</td>
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<tr>
<td>Total Allocated Fund (EURO) (VAT included)</td>
<td>25,485,517</td>
<td>31,487,500</td>
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</tbody>
</table>

Scenario 1 – Optimal Scenario
Scenario 2 “Basic”- Flat 25000 for needs
Municipal Development Program (MDP): the Transfer Mechanism

- **grant allocation formula:**
  50% Performance, 30% Populations, 20% Needs

<table>
<thead>
<tr>
<th>Municipal Rank</th>
<th>Incentive Factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>A++</td>
<td>5</td>
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<tr>
<td>A+</td>
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<tr>
<td>A</td>
<td>3</td>
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<td>E</td>
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</table>
Transfer Mechanism
(Performance Criteria)

1. Substantial Operation and Enterprise Account Surplus.
2. Unqualified External Audit
3. Use of an Integrated Financial Management System IFMIS
4. Satisfactory Service Quality
5. Good Collection Efficiency and own Revenue Generation

Rank A
1. Substantial Operation and Enterprise Account Surplus
2. Fixed Assets Register in place and updated
3. Operation and Maintenance Plan in place and updated
4. Public disclosure of all municipal investments, SDIP execution, and external audit reports
5. Satisfactory Collection Efficiency and own Revenue Generation

Rank B
1. Substantial Operation and Enterprise Account Surplus
2. Financial Accounting Procedures and Reports in place.
3. External Audit according to minimum standards
4. Public disclosure of budgets, SDIP plan and ranking
5. Basic collection efficiency and own revenue generation

Rank C
1. Municipal Strategic Development and Investment Plan SDIP in place and updated.
2. Financial Accounting Procedures and Reports in place.
3. External Audit according to minimum standards
4. Public disclosure of budgets, SDIP plan and ranking
5. Basic collection efficiency and own revenue generation

Rank D
1. Budget forecast and executed properly submitted to MoLG

Rank E
1. Minimum requirements not fulfilled
Thanks for your kind attention