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M&E DEVELOPMENT INITIATIVES OF THE LOCAL GOVERNMENT UNITS IN PALESTINE:

THE EXPERIENCE OF MUNICIPAL DEVELOPMENT AND LENDING FUND (MDLF) IN DEVELOPING ITS M&E SYSTEM

The Municipal Development and Lending Fund (MDLF) is a Palestinian autonomous juridical entity established by the Palestinian National Authority (PNA) to manage the flow of financial resources to Local Government Units (LGUs), assist local authorities develop their capacities in compliance with the bases of modern management practices, and develop the services offered to local authorities and to improve their credit abilities. The MDLF is currently working with various stakeholders and donors to launch a comprehensive, multi-phase national Municipal Development Program (MDP) which requires among other things building up the MDLF M&E system and the relevant staff capacities. The aim of this paper is to present the experience of the MDLF as a case study and to highlight the major challenges and issues related to building its M&E system. In addition, an overview of the upcoming MDP and the key proposed improvements of the M&E arrangements were highlighted.

1 Background

Performance targeting is critical to reaching policy outcomes. Worldwide, there are growing pressures to improve the performance of public sectors. Responding to this vision leads countries and institutions to develop performance management systems. These new systems involve reform in budgeting, human resources, and organizational culture. To assess whether public sector efforts are working, there is also a need for performance measurement. This is where the Municipal Development and Lending Fund (MDLF) is turning its attention to develop its monitoring and evaluation (M&E) system to track the results produced by the Fund's interventions in the context of the Palestinian national reform agenda.

In 2008, the MDLF has redesigned the scope of its Monitoring and Evaluation System, based on its new Med Term Strategic Plan as well as the features of on-going and planned financing agreements. The primary objective is to building up a proper and sustainable M&E system to serve as a management tool. Monitoring shall focus on results-based reporting rather than be limited to output reporting, as practiced by many municipal/social development funds around the world. MDLF's M&E shall be in harmony with the Palestine Reform Agenda, related policies of the Palestinian National Authority, and cover the core interventions of the Fund.

1.1 *Palestinian Municipalities Challenges*

The Palestinian population is largely urban and relies on municipalities for the provision of basic services. Seventy four percent of the Palestinian population, according to the 2007

population census of the Palestinian Central Bureau of Statistics (PCBS), is urban, living in a total of 132 municipalities, with 25 municipalities in Gaza and 107 municipalities in the West Bank. Municipalities predate the establishment of the PA and have historically been responsible for the provision of a variety of infrastructure and services: electricity and water, solid waste management, roads, parks and recreation, slaughter houses, markets, building schools and health clinics. Palestinian municipalities have been facing serious challenges that prevent them from providing basic services to their citizens and maintaining a development agenda. One of the major challenges facing Palestinian municipalities is ensuring adequate municipal service provision to citizens in the face of an eroding revenue base and a crippling financial and economic crisis.

The Palestinian Reform and Development Plan, 2008-2010 (PRDP) has set a national developmental agenda that (i) prioritizes an effective and accountable local government system by building the operational, administrative and financial management capacity of local government units (LGUs); and (ii) calls for new legislation to clarify and regulate the relationship between central and local government, to establish a policy framework which promotes fiscal autonomy and discipline at the local level. The Ministry of Local Government (MoLG) with support of the Municipal Development and Lending Fund (MDLF) leads these initiatives. Significant progress has been made in reforming municipal financial management and accounting systems, and practices through e.g. a unified budgetary form approved by MoLG in compliance with the municipal Chart of Accounts. These practices will enable municipalities to better manage and account for their tight budgets.

1.2 The Palestinian National Agenda

Strengthening the local government (LG) system is a firm policy of the Palestinian Authority. One of the first guiding documents in the local government sector was the Local Government Reform Action Plan of 2004, which was developed to outline a comprehensive reform of the Palestinian local government. This Action Plan identified four strategic objectives: (i) improving the level of decentralization of the LG system; (ii) strengthening fiscal, organizational and management capacity of the LG system; (iii) strengthening community participation in the LGU activities and enhancing LGU transparency and accountability; and (iv) improving efficiency and viability of utility service provision by LGUs.

At present a PNA Higher Committee is working on a Local Administration Reform Process, which includes discussions about the local, regional and national structure of the sector. One clear policy consensus is the need to reduce the number of local government units through amalgamation of small units into viable larger municipalities in addition to a new administrative structure for the local government sector institutions and LGUs. .

The Palestinian Reform and Development Plan 2008-2010 (PRDP), which was prepared by the PNA and endorsed by the international community in the Paris Conference on December 17, 2007, builds on these initiatives by embedding sector reform in a national level reform framework. The PRDP reemphasized on the PA commitment in "bringing government closer to the people by ensuring that local government is both empowered and accountable".

The PRDP 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 units. It singles out the Municipal Development and Lending Fund (MDLF) as the PNA's preferred institution for supporting municipalities and as a mechanism to promote administrative and financial management reforms. The PRDP is serving as a sector-level objective framework for the work of MDLF. The MDLF works in close collaboration with the Ministry of Local Government (MoLG), which is responsible for regulating the sector and setting policies.

1.3 The Municipal Development and Lending Fund

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, decentralised, prosperous and creditworthy local governments. The main objective of the Fund is to encourage the flow of financial resources to Local Government Units. According to Ministerial Decree No. 05/13/12 dated August 2007, the fund shall undertake the following missions (Article 1 of the Decree):

1. Management of funds received through support from the Palestinian National Authority (PNA) or provided by donor countries or any other sources in compliance with the terms and conditions specified in MDLF's internal bylaws
2. Assist local authorities develop their capacities in compliance with the bases of modern management practices to help them provide better services to the public
3. Guide assistance from donor countries and provide modern fiscal services to support and develop the services offered to local authorities and to improve their credit abilities
4. Encourage local authorities to adopt developmental projects to expand their geographic jurisdiction so as to serve their developmental plans
5. Facilitate and provide loans to local authorities and follow up on the expenditure thereof from their revenues.

Since the start of operations in 2005, MDLF has received funds from several development partners, including the World Bank, Swedish International Development Cooperation Agency (SIDA), the Netherlands Government, French Development Agency (AFD), The Government of Denmark, German Development Bank (KfW), German Technical Cooperation (GTZ), European Commission (EC), 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 categories: (i) Emergency Projects, (ii) Development Projects, (iii) Technical Assistance and (iv) Innovative Window projects.

To date, most of the funds were spent on emergency oriented projects (mainly rehabilitation and maintenance of municipal infrastructure) but development projects (e.g. new construction and larger scale projects) are expected to become more relevant in the year 2010 through the Municipal Development Program (MDP). The multi donors financed "Emergency Municipal Services Rehabilitation Project II" will be closed by the end of 2009 and a new operation – the Municipal Development Program (MDP) is expected to start late-2009 with the aim to harmonize the support of the MDLF several funding partners to municipalities.

The Municipal Development Program (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 objective of the MDP -for its first three years (phase 1) - is to improve municipal management/governance practices. MDLF has designed a performance-based formula for transferring and allocating of MDP funds to municipalities, to create incentives to improve management practices, ensure financing of essential basic services, and to catalyze implementation of policy actions for improving local governance.

2 The MDLF Monitoring and Evaluation System

In order for the Fund to assume its mandate and to be able to monitor the performance of the different initiatives, the MDLF has been working to enhance its M&E system.

2.1 The Current M&E System of MDLF

The current M&E arrangement and database at the MDLF uses simple spreadsheets (such as EXCEL sheets) and is based on inputs from the MDLF on-going operations, and data that is collected periodically and aggregated from the municipalities through grant application forms. The reporting on indicators is heavily focused on outputs of municipal services, which are categorized under the main municipal services' sectors (such as solid waste collection, water and wastewater services, electricity services attached to municipalities, etc).

The existing M&E arrangements have been heavily manual, time-consuming, and insufficient for meeting the increasing workload of MDLF and the size of its on-going and future operations. Constraints on availability and reliability of data collection and aggregation using the current arrangements have also impacted MDLF's ability to evaluate the impact of investment outputs (Kilometres of roads expanded, tons of solid waste collected, etc.) on municipal service delivery or whether and how MDLF interventions have led to improved conditions and livelihoods for citizens. In addition, data and baselines provided by municipalities were not always reliable, and MDLF often times found itself reverting to time-consuming and costly data verification efforts.

2.2 Key Stakeholders

In monitoring and evaluating the various interventions, the MDLF has to deal with different stakeholders in different levels. These stakeholders can be summarized by the following:

1- The main clients of the MDLF are the Local Government Units (LGUs) and namely municipalities. In this regard, LGUs as the target group provide data and information about the status of implementation and achievements of different activities. The data are communicated to the MDLF through progress reports and site visits. The LGUs provide output level data that feed into the MDLF M&E system for consolidation and analyses. The MDLF is also working with LGUs to build their M&E capacities by providing technical support and training to LGUs staff.

2- The Ministry of Local Government (MOLG) is the - the key PNA institution responsible for policy formulation and defining performance measurements for local governments. It is therefore the Ministries' role to supervise institutions such as the MDLF but not MDLF's mandate to monitor the Ministry, even if some funds for MOLG support were channelled via MDLF. The MDLF role as the implementation arm of the policies and directions of the PNA and mainly MoLG, requires a continuous process of providing feedback to improve interventions and redesigning policies and interventions. In order for MDLF to operationalize its mandate in supporting municipalities, it is imperative for it to develop and refine its interventions in close coordination with the MoLG. The MDLF M&E system is supporting the MoLG with feedback on a regular basis, which should be used by the ministry to formulate and redesign the policy framework which promotes fiscal autonomy and discipline at the local level, and the strategies to improve effectiveness, transparency and efficiency of municipal services, functions, and operations.

3- The Ministry of Planning (MOP) - as the lead PA institution in local development coordination - is also in the process of pooling and operationalizing efforts to monitor the PRDP indicators on the national level, which include those indicators for the local government sector. Feedback from MDLF is also anticipated to function for the MOP.

4- Other key stakeholders include financing partners and donors who provide funding to the various interventions and projects implemented by the MDLF. The MDLF is obliged in the signed agreements to comply with certain roles and procedures and to report on regular bases to the various donors. The reporting is a major part of the MDLF M&E system and includes update on the status of projects, achievements of the planned objectives and targets, and measurement of both output and outcome indicators.

Figure 1 provides a schematic overview of the MDLF M&E stakeholders:

Monitoring & Evaluation Stakeholders – MDLF Programs

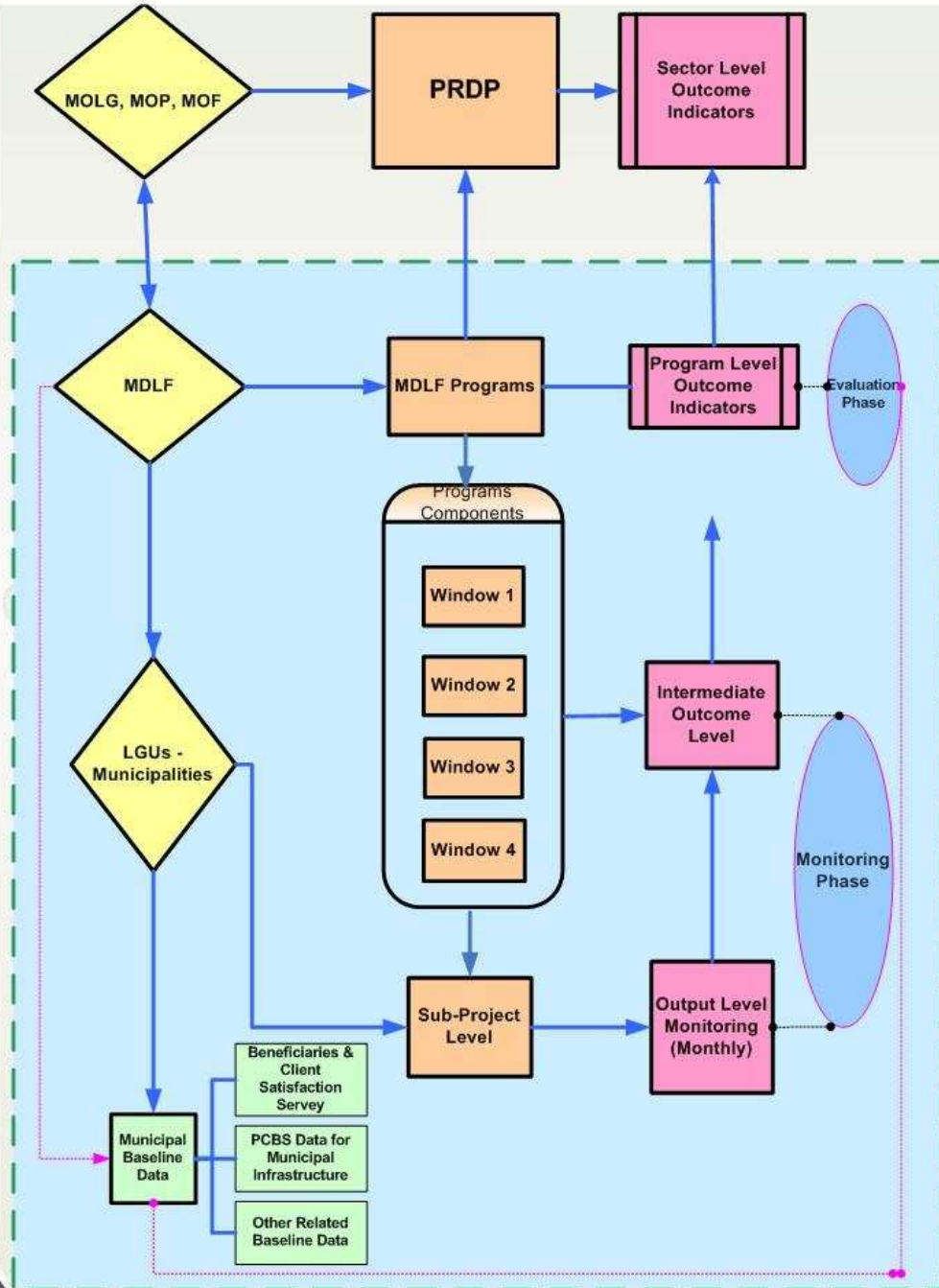


Figure 1: MDLF M&E Stakeholders

2.3 Improvements on the M&E System of MDLF

As mentioned previously, the MDLF is currently working to shift its operations from emergency towards a more developmental and performance-based approach through the upcoming Municipal Development Program (MDP). This shift requires also scaling up the MDLF M&E system and the relevant staff capacities. In this section we provide an overview of the upcoming MDP and we highlight the key areas of proposed improvements in cooperation with MDP financing partners and other stakeholders.

2.3.1 The Municipal Development Program (MDP):

To support the PRDP's goals for development at the local level, the PNA has developed the Municipal development Program (MDP). The program included four windows (components) and 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. In Window 2, it tests innovative approaches that promote efficiency and revenue generation from which successful lessons will be drawn and disseminated 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. The management of the program including the monitoring and evaluation part is covered under the fourth window. Figure 2 summarizes the four Windows of the MDP.

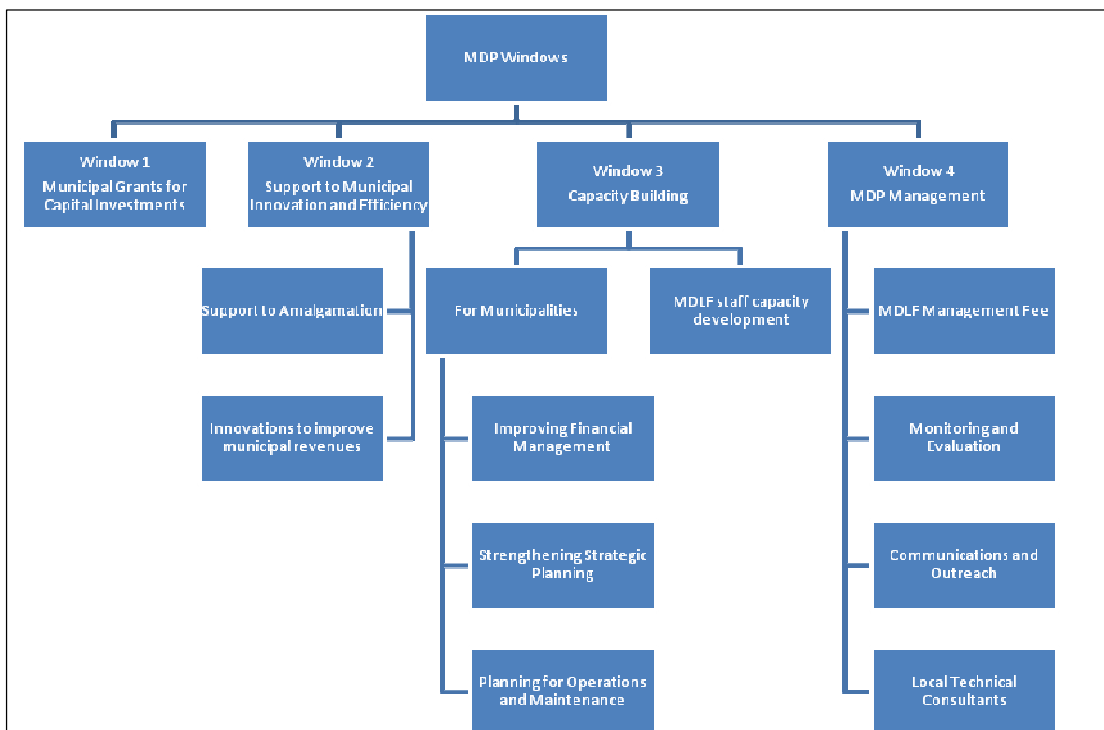


Figure 2: MDP Windows

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.

2.3.2 M&E Arrangements within the MDP

Adequate and systematic feedback on changes in the performance of municipalities and on municipal service delivery as a result of MDP interventions is essential, for enabling appropriate decisions about whether and how to adjust the designs of local government interventions or implementation arrangements. Feedback on municipal performance also feeds lessons learned from actual implementation on the ground for the PNA to formulate and redesign its policies and procedures for governing interventions in the local government sector in a manner that would eventually lead to positive outcomes on the livelihoods of citizens.

To foster this coordination it is important to enhance a knowledge-sharing and feedback system between the MDLF on the one hand, and the MoLG, MOP and other stakeholders on the other hand. The MDP, in its implementation will try to foster this coordination through carrying out of the joint donor-PA annual reviews. Another existing venue for this exchange is the MDLF Board which is headed by the Minister of Local Government and includes representatives of key PNA institutions and other stakeholders.

Moreover, the MDLF in coordination with its stakeholders is currently working to improve its M&E System and is making efforts to meet the MDLF Mandate in which MDP is imbedded. These improvements include:

1. *MIS-Based Monitoring and Evaluation System:* MDLF intends to strengthen its existing M&E system by establishing a clearer link between its inputs, outputs, Strategic Plan, and the higher national-level PRDP objectives to which the MDP should contribute. As a first step to achieve this, MDLF is rethinking its M&E objectives, arrangements, and use of outcomes and information by, enter-alia, automating its data entry and aggregation of data for use and through the design of an overall M&E manual for its operation. MDLF is in the process of developing overall indicators relating to its key interventions to enable it to monitor and evaluate its own performance as it carries out its mandate to enable it to redesign its interventions in a way that is most responsive to its clients. Standardizing indicators will also enable MDLF to fit its financing and donor support into its streamlined interventions. MDLF is installing a Project Grant Management Information System (PGMIS), which is expected to be operational by October 2009. The PGMIS is a Management Information System (MIS) software designed to automate project cycle management and administration of funds. The PGMIS will enable aggregation and production of results in table formats, which is anticipated to save time on manual work. The results framework of the MDP will be inputted into the PGMIS. The PGMIS is designed in a flexible way that also allows for periodical adjustments of indicators and reporting.

2. *Monitoring and Evaluation efforts at the MDLF will be complemented with emphasis on enhancing the capacities of municipalities* to understand the need to monitor and evaluate their interventions, how they could assist in monitoring and evaluation efforts and use transparency measurements to redesign their strategic development planning and services to become demand-driven. The MDLF will, therefore, design and conduct relevant capacity building and training activities to enhance municipalities' performance and understanding of M&E mechanisms.

3. *Monitoring and Evaluation Manual:* the MDLF is redesigning and consolidating the scope of its M&E to adequately capture its key interventions. The primary objective of this initiative is to complement the installation of the PGMIS by introducing an overall results-based monitoring system, moving away from the current output-based system of monitoring and reporting. Therefore, an overall M&E manual for MDLF is being drafted on the basis of the universal OECD M&E terminology. The M&E Manual is expected to categorize the key MDLF intervention areas and proposes performance measurements for MDLF and its clients. This overall M&E framework will be complemented by external surveys and assessments which could include gender and community-inclusion indicators.

4. *Grant Allocation Mechanism:* The Grant Allocation Mechanism (GAM) proposed for the MDP includes the indicators and baseline data to rank the 132 municipalities in accordance with their performance in three key areas (financial management, budgeting, and development planning). The GAM established a system of 6 ranking categories and 12 variables within this ranking system to determine the current rank of each municipality (Table 1). For the purpose of the first phase of the MDP, on the outcome level, the indicators addressed through the GAM will be linked to targets to be met under MDP. MDLF will track the number of municipalities that would graduate one level (or more) up this 6-level ranking by the end of phase 1 by monitoring the number of municipalities that meet the financial performance indicators checklist. An implementation manual for the Grant Allocation Mechanism has been developed which defines the processes and procedures to implement the GAM.

Table 1: MDLF Grant Allocation Mechanism Ranking

Rank	Indicators of Performance Criteria	Number of Municipalities
1-A	1. Current Account Surplus (for 2 consecutive years) 2. Unqualified External Audit 3. Integrated Financial Management System	0
2-B	4. Operational Account Surplus (in 2007); 5. Fixed Assets Register; 6. Maintenance Plan in place	0
3-C	7. Municipal Development/Investment Plan 8. Financial Accounting Policies & Procedures in place 9. External Audit	16
4-D	10. Capital Budget (approved and executed, properly submitted to MoLG)	90
5-E	11. Recurrent Budget (approved and properly submitted to MoLG)	26
6-F	12. No Budgetary Information	0

5. *Municipal Infrastructure Database:* In April 2009, the MDLF outsourced a municipal infrastructure survey to the Palestinian Central Bureau of Statistics (PCBS). The aim of the survey is to provide the MDLF with a database of municipal infrastructure baselines for the

132 municipalities. The infrastructure sectors to be surveyed to determine the baselines correspond to the list of eligible sectors included in the MDP, namely (i) Water and waste water services if provided by the municipalities; (ii) Solid Waste Management; (iii) Roads; (iv) Public Facilities and (v) and Electricity Services attached to municipalities. The database will also be shared with the MoLG, and municipalities. This PCBS survey is an attempt to resolve the problem of non-reliability of the infrastructure data provided directly by municipalities. The results of the survey will be provided in the form of a database which can be uploaded into the PGMIS.

6. *Measures of Transparency and Public Participation:* As part of the MDP preparation, analyses and consultations were carried out to gain insight into the level of community participation in key municipal decision-making (such as in the design of strategic development plans and preparation and disclosure of municipal budgets), and to suggest improvements which the MDP would support in order to promote citizen participation. Although public consultation has a tradition in the Palestinian community, it has become often ad-hoc, unsystematic, and lacking a consistent framework or legal basis. This challenges the social contract between municipalities and citizens and undermines the PRDP objective of bringing government closer to people. Therefore, MDP will adopt some arrangements to address the transparency of local governments by improving their communications and outreach capacity and by supporting community participation through ensuring that municipalities design and implement citizen-responsive sub-projects as well as municipal and citizen satisfaction assessments to measure perception of performance of the MDLF and municipalities. These assessments will enable municipalities and the MDLF to identify areas for improvement in service delivery.

2.4 Specific Challenges

Improving the M&E system of the MDLF was not an easy ride and a number of challenges have been encountered including: The absence of a national monitoring and evaluation structure that could harmonize the various development initiatives in the local government sector and track progress against national indicators; The unavailability of reliable, accurate, and comprehensive municipal data that would serve as a baseline to measure improvements in the municipal capacity and infrastructure for better monitoring and planning; More over, having multi stakeholders with different levels of capacities and interests poses a significant challenge in developing a balanced M&E system; The M&E related capacity of Palestinian institutions and in particularly the local government units needs to further developed through setting M&E standards and procedures, and providing training and exchange opportunities to Palestinian professionals; and finally, Developing and monitoring performance incentives for local governments, which operate under a changeable security environment and vague regulatory framework, is another particular challenge for Palestine.

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