



صندوق تطوير وإقراض الهيئات المحلية
Municipal Development & Lending Fund



Municipal Development and Lending Fund Municipal Development Program – Phase 3

Terms of Reference

Consultancy Services for

“Municipal Ranking Update – end of MDP3-Cycle 02”

End-line Evaluation for MDP3-Cycle 2 & Baseline Evaluation for MDP4

Assignment # 4.3.5.CII

November 2022

1. Background:

The Palestine Liberation Organization (PLO), for the benefit of the Palestinian National Authority (PNA), has received an initial financing of EUR 183.7 Million from the World Bank (WB)-International Development Association (IDA), Federal Republic of Germany through KfW, Denmark, SDC, VNG, GIZ and AFD and EU towards the cost of the 3rd phase of the Municipal Development Program (MDP3).

The MDP 3 is aligned with the Palestinian Authority's (PA) long-term strategy to consolidate and strengthen service delivery in the Local Government (LG) sector towards financially sustainable Local Government Units (LGUs), as specified in the Ministry of Local Government (MoLG)'s Sector Strategy 2017-2022.

MDP 3 is at the center of a series of interlocking interventions by the multi donors in collaboration with the central government to strengthen the institutional development, accountability and financial sustainability of local governance and service delivery in Palestine.

The MDP3 consolidated and scaled up past gains under MDP1 and MDP2 in municipal performance and accountability enhancement and will start enabling the environment at the central level and municipal partnerships with the private sector to improve the efficiency and sustainability of municipal services.

MDP3 Components

- **Component 1: Municipal performance and Service Delivery.** MDPIII is the third municipal development project to support and incentivize improvements in the development of municipal management capacity. Previous MDPs financed municipal infrastructure and service delivery through the provision of a basic block and performance-based grants and provided demand-driven capacity development support for municipalities. This approach was very innovative at design and has shown to be highly effective. The proposed MDP III would continue this overall approach while focusing more on improving financial sustainability and accountability in municipal service provision. Like MDPI and MDPII, municipal performance will be measured through Key Performance Indicators (KPIs), yet these have been substantially revised to reflect a greater focus on the sustainability of municipal services. Performance measurements will encompass three main areas for reform: i) Financial Performance and Sustainability, ii) Institutional Performance, and iii) Transparency, Accountability, and Participation.
- **Component 2: Capacity Development.** This component of the project would continue to strengthen municipal capacity in the project's three performance areas: (i) financial sustainability, ii) institutional performance and iii) transparency, accountability and participation. Also, specific attention will be paid to higher-order needs of municipalities that will enable them to improve their financial sustainability and creditworthiness, strengthening other core municipal functions as well as strengthen their social accountability to their citizens and stakeholders. Municipal capacity development activities will continue to be identified by municipalities and MDLF to enable municipalities to achieve results and improve their performance. The performance measuring system will be applied to identify relevant capacity building activities to the municipality, which will be delivered to improve capacity and sustain results achieved. Adding to that, this component includes Technical Assistance to enhance preparedness of municipalities to respond to disasters and shocks and strengthen resilience at the local level.
- **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. The Bank will finance only the technical assistance portion under Sub-component A.

- **Sub-Component A: Private Sector Partnership Support.:** To better leverage private sector engagement, this component will support municipalities to identify, develop, and structure opportunities for private sector participation in municipal service delivery and local economic development on a demand-driven basis.
 - **Sub-Component B.** This sub-component will finance top-up payments complementary to the grant allocations under component 1 to incentivize municipal joint and/or innovative investments based on municipal demands to leverage economies of scale for municipal investments and facilitate financially sustainable municipal investments.
- **Component 4: Project Implementation Support and Management.** This component will finance goods and consultant services for monitoring and evaluation, outreach and communication and local technical consultants for the engineering supervision of Component 1 and the MDLF management fee.
 - **Component 5:** This component will finance the costs associated with the scaling-up of MDP-3 support to Gaza municipalities to enable them to expand local services provision through labor-intensive Operation and Maintenance (O&M) and municipal infrastructure development activities.
 - **Component 6:** This component will scale up MDP3 support as an emergency municipal response to the COVID-19 pandemic through carrying out temporary labor-intensive public works related to O&M and infrastructure projects, that will enable municipalities to sustain a minimum level of services and provide employment support for lost incomes. It will also provide additional grants to help municipalities with recurrent expenditures.

The (MDLF), as the delegated implementation agency, intends to use part of the grant from (German Government Fund through KFW) (window 4/M&E) to contract a team of consultants herein referred to as the (Firm) to assess their compliance with good management practices in accordance to the MDPIII ranking systems.

2. Background of the assignment

The Grant Allocation Criteria (known as Transfer Mechanism-TM) is the backbone of the MDP. The use of a performance-based formula has shown increasing compliance of municipalities with good governance principles and improved management practices.

The MDP3 allocation criteria was agreed to be (50 percent on performance, 20 percent on population and 30 percent on needs). Municipalities have to be ranked according to MDP3 ranking system with 21 KPIs. **The ranking system for MDP 3 consists of 10 categories starting from “rank D the lowest rank” to “rank A++ the highest rank”.**

This assessment will be served as an end-line evaluation for MDP3 ranking based on the 21 KPIs; in addition to be a baseline evaluation for MDP4 ranking based on the proposed 19 KPIs).

An overview of the MDP3 - 21 KPIs with verification protocol is presented in annex A and the MDP4-KPIs (proposed) is presented in annex B.

4. Scope of Work

The firm is requested to review and verify the supporting documents received from the municipalities, conduct onsite inspection of all municipalities, document the results and then **update municipal ranking based on the MDP3 ranking system with 21 KPIs. The firm will also determine baseline values for 19 suggested KPI's for MDP 4 ranking system.**

To meet the objectives of the assignment, the scope of work is described as follows:

- **Review of secondary material¹:** This includes the MDP3 Project Appraisal Document (PAD); The MDP3 Grant Allocation Manual (GAM), Strategic Development & Investment Planning (SDIP) Manual and Toolkit, Fixed Assets Registration and Valuation Methodology, Financial Policies and Procedures Manual “FPPM” for Cash Based and Accrual Based Accounting, Operation and Maintenance guiding principles, as well as the minimum standards for auditing reports, and the available documents for the proposed MDP4.
- **Analyze, and verify the supporting documents²** received from 159 municipalities (134 WB, 25 Gaza) to verify the compliance of these documents with the minimum standards in accordance to the specified methodologies and manuals adopted by MDLF and based on the agreed upon verification protocol for KPIs.
- **Conduct a field survey at the municipal level (all municipalities) (expected up to “80”³ field visit⁴)** for further verification to double check the compliance with KPIs. The auditing will be mainly based on the office work and the analysis of the supporting documents received from the municipalities, however the field visits will be conducted to verify the collected data by meeting the relevant municipal staff to check the data quality.
- **Conduct the analysis for the municipalities budgets concerning the financial KPIs (revenues collection, operational surplus,.....etc.)**
- Based on the findings from the data analysis and verification, the firm shall update the MDP3-municipal ranking based on 21 KPIs (**see annex A**). This shall include description and justification for each municipality’s rank with comparative analysis between the baseline figures FY 2019.
- Conduct MDP4 baseline survey based on the suggested 19 KPIs (**see annex B**) to determine the baseline ranking for each municipality.
- The firm shall assist MDLF in reviewing and verifying the complains from the municipalities on their ranks.

Special note:

The source of data for this assignment will be as follows:

- The municipalities’ data that will be collected by MDLF using the web application survey with all supporting documents.
- The MOLG data in relation to the submitted municipalities’ budget.
- The MOLG guidelines, toolkits in relation to the planning, financial policy reform, SA toolkits.
- The MOF for net lending figures per municipality.
- The PCBS database which has been updated for the benefit of MDLF/MDP.

¹ All the mentioned methodologies and manuals are published on MDLF website: www.mdlf.org.ps

² MDLF is currently working on conducting a survey at the municipal level, where the municipalities will be asked to fill out a questionnaire including the KPIs for both ranking systems and asking them to submit the supporting documents as well.

³ The field visits' schedule should be discussed jointly with MDLF and approved based on the results of the desk review.

⁴ Each field visit refers to "an area or group/cluster of nearby municipalities".

5. Deliverables

The Firm shall provide the following deliverable for the client approvals:

1. Inception report that presents the proposed methodology, action plan, verification methodology, etc.	1 week from the commencement date.
2. Updated ranking of municipalities ⁵ based on the verification of the supporting documents received from the municipalities, the onsite assessment including description and justification for each municipality's rank including a comparative analysis with the previous baseline ranking (2019).	8 week from the commencement date.
3. Baseline assessment results of the municipalities based on the suggested 19 KPI's for MDP4 ranking system "new suggested indicators".	10 weeks from the commencement date.
4. Final report including all the above reports in addition to lessons learned and recommendations .	12 weeks after signing the contract

6. Qualifications and Experience

The consultancy firm shall have a team of seven experts as follows:

- ❖ Planning and Public Participation Experts - (Team leader in West Bank and one expert in Gaza).
- ❖ Financial Experts - (Two expert in West Bank , one expert in Gaza)
- ❖ Civil Engineers - (one engineer in WB and one engineer in Gaza)

The needed qualifications for each expert are as follow:

Planning and public participation Experts

- A minimum of 10 years of experience in planning, community development, governance issues at the local level and public participation processes.
- Familiarity with strategic development and investment plans at the local level and local government issues.
- Experience in working with Palestinian local governments and communities.
- Excellent communication and writing skills and critical thinking.
- Demonstrated ability to approach complex problems and successfully implement similar projects.

Financial Experts

- Advanced degree in accounting and/or financial management or related field.
- A minimum of 10 years of experience in accounting, auditing, municipal/public finance management, data integration, budgeting and governance issues at the local level.
- CMA or CPA are an advantage.
- Familiarity with financial management at the local governance sector
- Excellent communication and writing skills and critical thinking.
- Demonstrated ability to approach complex problems and successfully implement similar projects.

⁵ The preliminary results of the questionnaire with supporting documents will be available at MDLF by end of Dec 2022. A questionnaire for the municipal ranking will be published on the web and the data will be aggregated and consolidated at MDLF data center.

- Previous experience in analyzing municipal budgets and financial reports will be considered a plus.

Civil Engineer

- Bachelor degree in civil Engineering, master is preferred.
- A minimum of 10 years of experience in design/construction of municipal infrastructure.
- Familiarity with operation and maintenance aspect, specifically in the Palestinian local government units.
- Excellent communication and writing skills and critical thinking.
- Demonstrated ability to approach complex problems and successfully implement similar projects.

7. Consultant Selection Method

The consultancy firm will be selected in accordance with procedures set in the MDLF procurement manual - Selection based on Consultants Qualification (CQS).

8. Time Frame of the assignment

The duration of the assignment will be **3.5** months and the expected level of effort is **160** person day. The firm shall bear all costs associated with the assignment including logistics, communications, transportation...etc.

9. Payment Schedule

The Firm will be contracted as a lump-sum contract and the will be paid upon the submission of the deliverables approved by the client as follows:

- 20% of the contract value will be paid upon the approval by MDLF of the inception report.
- 50% of the contract value will be paid upon the approval by MDLF of the updated ranking of municipalities in accordance to **both ranking** systems.
- 30% of contract value will be paid upon the approval by MDLF of the Final Report by the MDLF.

10. Project Management and Reporting Relationships

The Municipal Development and Lending Fund (MDLF) will be responsible for coordinating activities with the firm, receiving and approving invoices for payments, and for acceptance of the deliverables. The contact person is **Eng. Nizar Samhan, Manager of Strategic Planning Department / M&E Specialist**

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Annex A: Municipal Grant System under MDP III⁶

1. Basic Grant 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 Guidelines (from year 3)			
2. Performance Grant. 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 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			7. At least 10% of the budget execution for O&M a) O&M expenditure > 10% of total operational expenditure in last complete FY	1.O&M Plan in place a) Computerized plan in line with manual b) Annually updated c) Plan consistent with assets registry and new works and services d) Plan includes instit. development
		13. Year on year increase or > 50 NIS own source revenues (excluding enterprise revenues)	8. Operational Surplus achieved	2. Staff Costs <45% WB <70% GZ of Operational and Capital expenditure

⁶ Description of KPIs of MDPIII and verification protocols reflected in MDPIII GAM Manual, to be provided to the firm

		a) Own source revenues (see manual) have increased compared to previous FY or reached 50 NIS per capita	a) Operational expenditures are below operational revenues of the last complete FY	a) Total staff expenditure operational budget <45% (WB) or <70% (Gaza) of total expenditure operational budget in last complete FY
	19. Separate bank Accounts for Enterprise revenues established a) Bank statements showing that separate bank accounts are opened and in use.	14. Separate financial accounting for enterprise revenues and expenditures established a) Executed enterprise budget of last FY with income statement and bank reconciliation (if any enterprise activities)	9. No increase in net lending a) No increase in net lending according to MoF data b) Administrative reduction of net lending has not been counterbalanced by an increase in net lending	3. Cost Accounting Systems set up a) financial statement for each fund in last complete FY b) report for each cost center of enterprise fund in last complete FY c) documented and justified overhead allocation in last complete FY
Institutional Performance	20. Financial Accounting Policies and Procedures in place a) two last quarterly reports available and conforming with minimum content according to manual	15. Executed Budget Statement for the previous FY submitted to MoLG on time a) Executed budget covering complete fiscal year (January – December) available b) MoLG informs MDLF	10. Unqualified Audit Opinion from Annual external audit a) Audit report totally satisfactory with regard to items listed in the manual b) Audit follows up previous management letters and municipality has addressed issues raised adequately	4. IFMIS implemented a) system is conforming to minimum requirements (see main manual) b) timely issuance of last two quarterly reports within one month after the end of reporting period
		16. Fixed Asset Register in place and updated	11. At least 70% Budget Execution	5. Green Spaces implemented a) maintained green areas, sport areas, play grounds and parks (source PCBS) >

		<ul style="list-style-type: none"> a) Fixed asset registry set up according manual b) Fixed asset registry has been updated annually 	<ul style="list-style-type: none"> a) Operational revenues executed > 70% of budget plan b) Operational expenditure does not exceed planned operational revenues, except covered by executed revenues 	0.5 m ² per capita in WB urban and > 0.3 m ³ in WB rural and Gaza
Transparency, Accountability and Participation	21. Public Disclosure of annual budget, SDIP and MDP performance ranking <ul style="list-style-type: none"> a) Information disclosed in line with public disclosure procedures b) (second cycle) Annual budget plan disclosure done in the readable budget format 	17. Public Disclosure of executed budget and executed SDIP <ul style="list-style-type: none"> a) Council decision approving executed budgets (see manual) b) Council disclosed executed budget and executed SDIP according to disclosure procedures by March 31 of the following year c) (second cycle) Budget disclosure done in the readable budget format 	12. Audit opinion disclosed to citizens and stakeholders <ul style="list-style-type: none"> a) External Audit in the last complete FY b) Disclosure of audit opinion by foreseen means 	
		18. Municipal Complaint System established <ul style="list-style-type: none"> a) Complaint process posted on homepage / Facebook or bulletin's board 		6. Functional Municipal Complaint System following MoLG guidelines <ul style="list-style-type: none"> a) Ability to produce data on grievances by type and by level of resolution, and providing an appeals process

Performance system

The principle of the performance system is that municipalities have to fulfill more and more demanding KPIs to move from the lowest category D upwards to the highest category A. The KPIs have been categorized systematically with 3 basic KPIs in D; 6 KPIs in C and B and A. Municipalities need to fulfill all KPIs under D, C and B to graduate to the next level. Municipalities can achieve + and ++ to a category, if a certain number of KPIs are fulfilled.

Note to select KPIs (for further development):

Municipal complaint system established. This will include posting the process publicly (on their Facebook and/or on the Municipality's bulletin board).

Functional municipal complaints system will include ability to produce data on grievances by type and by level of resolution, and providing an appeals process to the MOLG grievance process as stated in the MOLG guidelines.

Public Disclosure of executed budget and SDIP: In year 3 the disclosure shall be done by the readable format from MoLG once the MOLG endorses the format at the municipal level. At that time it will be considered if at least one public meeting shall be included in the KPI.

Annex (B): Suggested 19 Key Performance Indicators (KPI) under MDP4 “still not yet finalized”

MDP4 KPIs – 1 st cycle			
KPIs – 1 st Cycle	Verification Protocol	Performance Areas	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.	Institutional Performance	A
	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.	Institutional Performance	A
	b) Financial performance statement generated from the system for the last FY.		
	c) 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 past two years) and implements an O&M plan for cleanliness and safety 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.	Services Quality	A
4. LGU's Liquidity.	a) The calculation for this ratio is: Current Ratio (Liquidity) = Current Assets/Current Liabilities.	Used to evaluate a LGU's ability to pay its short-term obligations, such as accounts payable and wages) Financial Management	A
	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 of its debts when they are due, a current ratio of “1.00” is considered as 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	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 municipality.	Transparency and Accountability	A

MDP4 KPIs – 1 st cycle			
KPIs – 1 st Cycle	Verification Protocol	Performance Areas	Rank
and marginalized areas.			
6. Electronic Services in place and functional	a) Up to date EMS portal information b) Evidence for functional EMS	Services Quality, Transparency and Accountability	A
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 last complete FY	Service Sustainability	B
	b) The calculation for the 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	Financial Management	B
	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	Service Sustainability (A large percentage of own revenues to the total revenue can mean the LGU depends too much on this source of revenue)	B
	b) This ratio must be at least 80% (WB) or 70% (Gaza) in last complete FY		
	Total revenues does not include grants & the equation will be calculated on accrual basis		
10. At least two SA tools implemented annually by the municipality and the SA committee	a) Municipal budgets and resources allocation for SA tools.	Transparency and Accountability	B
	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	Services Quality, Transparency and Accountability	B
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.	Transparency and Accountability	B

MDP4 KPIs – 1 st cycle			
KPIs – 1 st Cycle	Verification Protocol	Performance Areas	Rank
	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 previous year (if any) are addressed adequately	a) Audit report satisfactory concerning items listed in the manual and ToR. b) The audit follows up previous management letters and municipality has addressed issues raised adequately	Institutional Performance	C
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.	Transparency and Accountability	C
15. Staff Costs <40% WB <50% GZ of Operational expenditure	a) Total staff expenditure <40% (WB) or <50% (Gaza) of total operational expenditure in last complete FY. b) The calculation for the this ratio is: <u>Paid Salaries & Wages expense</u> / <u>Paid Operating expense</u> .	Financial Management: (Used to evaluate a LGU's operation efficiency. Is an appropriate amount spent on accomplishing the LGU's services)	C
16. No increase in net lending	Revision of water and electricity arrears from MOF records	Institutional Performance	C
17. Fixed asset register in place and regularly updated representing actual values	a) Fixed asset registry set up according to manual b) Fixed asset registry has been updated annually	Institutional Performance	D
18. Executed budget statement for the previous FY submitted to MoLG on time via the foreseen electronic platform.	a) An executed budget covering complete fiscal year (January – December) available b) MoLG informs MDLF	Institutional Performance	D
	a) Information disclosed in line with public disclosure procedures		D

MDP4 KPIs – 1 st cycle			
KPIs – 1 st Cycle	Verification Protocol	Performance Areas	Rank
19. Public disclosure of executed budget and executed SDIP	b) (second cycle) Annual budget plan disclosure done in the readable budget format	Transparency and Accountability	

Performance graduation

D	C	B	A
3 KPIs	4 KPIs	6 KPIs	6 KPIs
Compliance of 3 KPIs	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	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 5 In addition to the KPIs in rank D & rank C and rank B

Eligibility Criteria
Annual Budget submitted via the foreseen electronic platform. and approved by MOLG
SDIP prepared according to guidelines and updated annually.
Public disclosure of annual budget, SDIP and MDP performance ranking (two out of three)