

**URBAN GOVERNANCE:
Innovation, Insecurity and the Power of Religion**

Tenth Berlin Roundtables on Transnationality

**Social Science Research Center Berlin (WZB)/ Irmgard Coninx Foundation/ Humboldt
University Berlin
Conference at the occasion of the 40th anniversary of the WZB; 18-23 March 2009**

**Promoting Urban Governance within a Context of Crisis:
Innovative approaches in response to urban challenges and promotion of local
governance in the Palestinian Territory**

**The Focal Point
'Urban Innovation'**

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December, 2008

ABSTRACT

Despite all political and economical limitations, the Palestinian national government has made worthy efforts in enabling local governments to respond effectively to socio-economic challenges of urbanization and in promoting good local governance under severe crisis conditions. This paper demonstrates selected examples of such efforts. On one hand, it introduces the establishment and design of the Municipal Development and Lending Fund (MDLF) as an innovative mechanism for enabling and driving local governments toward self-sustained and creditworthy conditions. On the other hand, it presents a new local planning approach that revolves around the principles of strategic planning and good governance.

INTRODUCTION

The jeopardy of urbanization has increased tremendously in the Palestinian Territory¹. Urbanization rate (63%) is one of the highest rates in the world. This is mainly due to high productivity rates (3.3%) and internal migration to urban areas. It is also due to Israeli policies and practices of limiting border expansion of cities and towns which have led to an increase of built-up areas, population densities, urban sprawl, and internal migration (PCBS 2005, World Bank 2005; Ministry of Planning 1998). The effects have been reflected negatively on all aspects; socially, economically, and environmentally.

Palestinian local governments have been struggling to respond to the evolving challenges in their cities and towns. With their modest capacities and resources, many local governments have managed to react reasonably to the increasing challenges in the country. Nevertheless, without proper mechanisms and tools, Palestinian local governments might not be able to continue their struggle against urbanization and political challenges. Thus, their journey toward sustainable development is exigent.

Despite all political and economical limitations, the Palestinian national government has made some worthy efforts in enabling local governments to respond effectively to socio-economic challenges of urbanization and in promoting good local governance under severe crisis conditions in an innovative approach. This paper aims at demonstrating selected examples of such efforts.

THE ESTABLISHMENT OF THE MUNICIPAL DEVELOPMENT AND LENDING FUND

Since September 2000, the Palestinian-Israeli conflict continued to have a severe impact on the Palestinian economy and society at all levels, especially the local one. In addition, increased urbanization rates have had even more negative impacts. Unemployment rates as well as people living under the poverty line escalated. Infrastructure has suffered significant damage. The revenues of local governments have also been severely impacted. The decline in local governments' revenues was attributed to the weak commitment of the municipal services beneficiaries in terms of paying their dues because of job losses and the overall recession. Local governments were forced to react by cutting expenses causing reductions in the delivery of services. This affected basic water and electricity services, environmental health services, road and infrastructure maintenance, as well as cultural and civic activities (MDLF 2007a, MDLF 2007b).

The national government represented by the Ministry of Local Government (MOLG) and Ministry of Planning (MOP) realized that in order to meet the growing challenges at the local level, local governments have to be empowered and equipped with necessary capacities and financial resources. Therefore, with support from the international community, the government has established the Municipal Development and Lending Fund (MDLF).

The MDLF has been established by a Ministerial Cabinet Decree in October 2005 as an autonomous entity. It has been mandated to accelerate Palestine's drive toward self-sustained, decentralised, prosperous and creditworthy local governments. It has also been mandated to be the implementation arm of the MOLG. The following responsibilities have been assigned to the MDLF:

- Manage and channel capital finances and technical assistance for local governments;
- Expand local governments' access to financial resources;
- Support local governments to develop their financial, administrative, and management capacities;
- Lead local governments toward an exemplary level of transparency and draw the citizenry into active participation in municipal/town planning; and

¹ West Bank and Gaza Strip or Palestine

- Encourage co-operation, joint planning and service delivery.

To be able to pursue the assigned responsibilities, the MDLF has designed a performance-based transfer mechanism for allocating funds to local governments. The main objective of the transfer mechanism is to channel financial resources to improve municipal services and local infrastructure in a manner that is: (i) Equitable; (ii) Efficient; (iii) Accountable; (iv) Sustainable. It also aims at creating incentives to improve management practices, as well as, to promote improved local governance.

In accordance to the transfer mechanism, the MDLF resources are distributed to support capital infrastructure projects, capacity development projects, and innovative projects that aim at promoting urban governance. The *per cent* distribution of the resources is 80%, 10%, and 10% respectively. The allocation of the capital infrastructure finances is based on three criteria; population, needs², and performance capacity. The *per cent* relative weights of the criteria are 40%, 20%, and 40% respectively. Figure 1 illustrates the distribution and allocation of the MDLF resources.

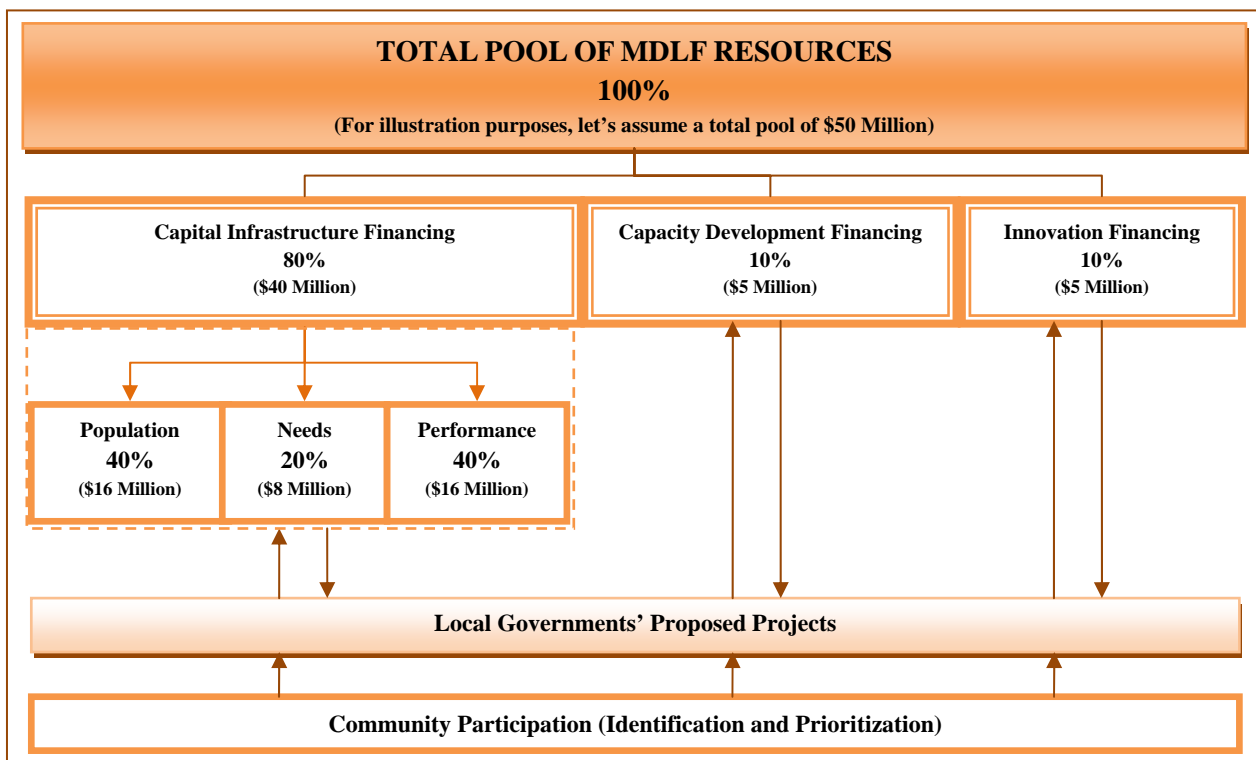


Figure 1 Graphical representation of the MDLF financial transfer mechanism

Source: MDLF, 2008. *Assessment of Proposed MDLF Financial Transfer Mechanism and Recommendations. Unpublished Report*

Performance capacity of local governments (which comprises 40% of the capital infrastructure financing) is measured based on a ranking system that classifies local governments into six categories using, in principle, twelve variables, that are:

- Approved operational budget
- Actual operational budget
- Approved development budget
- Actual development budget
- External audit

² Although needs are generally correlated with population, additional needs, particularly in Palestine, would be reflected in the Municipal Development Plan and, in principle, measured by the capital budget.

- vi. Compliance with the Ministry’s budgetary norms and procedures
- vii. Local development plan
- viii. Inventory of municipal assets / Fixed assets register
- ix. Actual maintenance expenditures
- x. Local maintenance plan
- xi. Relative magnitudes of operational budgetary surpluses, and operational deficits
- xii. Unqualified audit

Table 1 presents the categories of the ranking system along with their respective criteria. The underlined bold criteria of each category are mandatory for a local government to be classified within that particular category.

Table 1 Performance ranking system in accordance to the MDLF’s transfer mechanism

Ranks/Categories	Monitoring of progress in performance
1-A Excellent	<ul style="list-style-type: none"> ▪ <u>Current Account Surplus for the last two (2) consecutive years</u> ▪ <u>Unqualified External Audit</u> ▪ Fixed Assets register ▪ Maintenance Expenditures/Plan of infrastructure, and execution equal or greater than 90% and no less than 15% of operational budget ▪ Investment Planning based on MOLG’s standards ▪ FMIS based on MOLG’s norms and procedures, or others. ▪ Approved and Executed Budgets for Operations/Recurrent and Development/Capital Budgets properly submitted to MOLG.
2-B Good	<ul style="list-style-type: none"> ▪ <u>Fixed Assets register</u> ▪ <u>Maintenance Expenditures: equal or greater than 90% execution and no less than 15% of Operational Budget.</u> ▪ Investment / Development Plan based on MOLG’s standards ▪ FMIS based on MOLG’s norms and procedures, or others ▪ External Audit ▪ Approved and Actual Budgets for Operations/Recurrent and Development/Capital Budgets properly submitted to MOLG.
3-C Moderate	<ul style="list-style-type: none"> ▪ <u>Investment / Development Plan based on MOLG’s standards</u> ▪ <u>FMIS based on MOLG’s norms and procedures, or others</u> ▪ <u>External Audit</u> ▪ Approved and Executed Budgets for Operational/Recurrent and Development/Capital Budgets properly submitted to MOLG.
4-D Poor	<ul style="list-style-type: none"> ▪ Approved <u>and</u> Executed Budgets for Operational and Development properly submitted to MOLG.
5-E Very Low	<ul style="list-style-type: none"> ▪ Approved and Executed Operational Budget properly submitted to MOLG for latest two (2) years, respectively.
6-F WORSE	<ul style="list-style-type: none"> ▪ No budgetary information submitted to MOLG following current norms and procedures on a timely basis.
<p><i>MOLG: Ministry of Local Government</i> <i>FMIS: Financial Management Information System</i></p>	

Source: MDLF, 2008. *The Transfer Mechanism: The Ranking of Municipalities Based On Financial Management Performance. An Implementation Manual.*

According to this system, each local government is entitled to get 60% of the capital infrastructure financing based on the number of its population and needs of that local government. However, the remaining 40% is dependent on its classification in the performance ranking system. Local governments classified in category (F) are not entitled to access the 40% of the performance allocation while those in category (A) are. This means that with increased performance capacities, local governments are able to move up within the system; hence, they are entitled to access more finances. In order to avoid the dilemma of “the rich gets richer and the poor gets poorer”, the MDLF has ensured that those local governments with poor performance capacity, or those ones willing to

increase their performance, are able to access another line of financing for capacity development which comprise 10% of the MDLF total pool of resources.

Local governments' performance classification is done on an annual basis. A recent classification of Palestinian local governments is presented in Table 2.

Table 2 Results of empirical classification of local governments according to the MDLF ranking system

SIMULATION OF ALLOCATION BY RANKS						
	Performance Ranking	Main Features	# of Municipalities	Population (1000)	Per Capita Allocation	Allocation per Rank
1-A	Excellent	Operational Surplus	0	0	\$25.00	0
2-B	Good	Audit	4	83	\$20.92	1,742,944
3-C	Moderate	Assets Registration	9	256	\$13.95	3,570,117
4-D	Poor	Dev. Plan	93	1,662	\$6.97	11,584,248
5-E	Very low	Budgets only	24	527	\$2.09	1,102,692
6-F	Worse	No Budgets	2	9	\$0.00	0
	TOTAL		132	2,537	Av. \$7.09	16,000,000

Source: MDLF, 2008. *The Transfer Mechanism: The Ranking of Municipalities Based On Financial Management Performance. An Implementation Manual.*

Results show that most local governments are in poor conditions in terms of performance capacities. The MDLF has been aware that improving local governance requires extensive capacity development in different areas; planning, financial management, and operations and maintenance. Therefore, the MDLF has been heavily engaged in supporting the MOLG in the development of modern municipal financial and planning systems and introducing these systems to local governments.

To date, the MDLF has been providing financial grants to local governments of more than USD 60 Millions. These finances have come from several development partners, including the Swedish, Dutch, French, German, Danish, and Italian governments, as well as, the World Bank and EU. However, once local governments reach a reasonable stage of performance capacity, the granting mechanism will be replaced by a lending mechanism.

INTRODUCING STRATEGIC PARTICIPATORY PLANNING FOR LOCAL GOVERNMENTS

Rather than providing solutions, the ongoing Palestinian urban planning practice escalates the crisis and does not provide the required flexibility and tools to cope with recent urban, political, and economical changes. The underlying factor is that urban planning practices in Palestine are based on the master-planning paradigm which has been introduced by the successive colonial regimes that governed Palestine during the last centuries (MOLG 2005). This rigid, colonial based, 'master-planning' approach has been used as a control tool to minimize local Palestinian development during all colonial periods; British, Jordanian, and Israeli. Until recently, it was never refurbished to be a 'development' tool.

The Palestinian national government has realized that the traditional practice of planning has to be changed and a new one has to revolve. A new approach to planning that is integrative, inclusive, and responsive must replace the ongoing one. Within this context, the Directorate for Planning at the MOLG – together with Ministry for Planning (MOP), MDLF, and other key stakeholders – has developed a framework for Strategic Development Planning, referred to as "Strategic Development and Investment Planning for Palestinian Local Government Units" or SDIP.

The objectives of the new planning approach are to:

- Advance decentralization through providing a practical and workable tool without any major legislative changes;
- Improve governance and decision-making processes at the local level by providing a mechanism that would involve community stakeholders in the development process;
- Improve responsiveness to emerging community needs by providing a mechanism that ensures priority setting vis-à-vis available resources and capacities;
- Enhance services delivery at the local level by providing a mechanism that ensures integrated and coordinated management approach of service delivery;
- Advance local economic and social development by providing a framework for community stakeholders' participation and action; and
- Set the basis of an integrated development approach that ensures integrated development among different levels (local, regional, and national) and better inter-governmental integration.

Table 3 provides an overview of the users and uses of the plans that resulted from introducing this approach.

Table 3 Users and uses of the local development plans

User		How to use it?
<i>Local government</i>		<ul style="list-style-type: none"> ▪ Reference point for the definition of development priorities and projects as well as decision-making; ▪ Tool for coordinating the various departments and performance measurement to these local government's departments; ▪ Development of a better basis for preparing annual capital budgets; ▪ Mobilization of resources and funding; ▪ Tool for coordination and participation of local civil society and private sector actors; and ▪ Tool for translating strategic orientation into physical planning
<i>Line ministries and their regional branches:</i>	<i>MOLG</i>	<ul style="list-style-type: none"> ▪ Tool for monitoring and supervising the performance of municipal governments and their budgets; and ▪ Improved information on development and investment priorities of municipalities, as an input for developing a policy framework for the local government sector.
	<i>MOP</i>	<ul style="list-style-type: none"> ▪ Improved basis for preparing development and regional plans ▪ Improved basis and inputs to guide investment and sector funding
	<i>MOF</i>	<ul style="list-style-type: none"> ▪ Reference tool and inputs for preparing national budget and allocation for the local government sector
	<i>Other line sectoral ministries</i>	<ul style="list-style-type: none"> ▪ A reference for drafting national sectoral policies and plans in addition to coordinating development efforts at the local level
<i>MDLF</i>		<ul style="list-style-type: none"> ▪ Tool for better development of funding criteria through the transfer mechanism for LGUS ▪ Tool for developing performance-oriented funding ▪ Tool for the better assessment of project proposals submitted by the local governments and approvals for funding
<i>Private sector</i>		<ul style="list-style-type: none"> ▪ Reference for indentifying local economic and investment activities ▪ Reference for initiating and maintaining partnerships with local governments
<i>Civil society and public</i>		<ul style="list-style-type: none"> ▪ Accountability tool for elected council members ▪ Tool for harmonizing civic programs in accordance to development priorities
<i>Donor and international organizations</i>		<ul style="list-style-type: none"> ▪ Tool for designing support and funding programs

Source: MOLG, 2008. *Concept Paper: Strategic Development and Investment Planning for Palestinian Local Government Units.*

In terms of planning process, the SDIP has certain characteristics in order to be viable within the Palestinian context. The process is:

- Practical in terms of applicability;
- Simple in terms of steps and tools;
- Achievable in terms of resources, capacities, and processes of implementation;
- Relatively quick in terms of duration and planning timeframe; and
- Open for wide consultation and focused public participation.

The SDIP is still being tested and will be formally adopted as a national standard by midyear 2009.

CONCLUSION

The increasing urban and political challenges in the Palestinian Territory have led the Palestinian national government to initiate new innovative approaches enabling local governments in responding to the former.

This paper has demonstrated the efforts of the Palestinian national government in promoting good urban governance despite all challenges of the crisis in the country. The establishment of the MDLF and the introduction of the strategic participatory planning for local governments are two innovative examples of these efforts.

However, both of the aforementioned mechanisms are still at an early stage of operation. Their impact on local governance improvement and responsiveness to urban challenges is therefore still to be testified.

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