

## CHAPTER 5 - PALESTINIAN TERRITORY

### Enhance, Organise and Institutionalise Local Economic Development Services

# 1 Summary

Local Economic Development (LED) is considered by local governments in the Palestinian Territory to be a crucial way of creating sustainable development and reducing unemployment. However, especially smaller municipalities lack capacity to effectively facilitate LED and perform their role as catalyst and service provider.

The Local Government Capacity Programme in the Palestinian Territory in collaboration with the Municipal Development and Lending Fund (MDLF), will pilot support to a projected number of 12 municipalities in the West Bank. This is done through a competitive grant scheme for LED pilot projects under Window 2 – “Support to Municipal Innovations and Efficiency” of the Municipal Development Programme (MDP)<sup>1</sup>. The aim is to support capacity of the selected municipalities to enhance, organise and institutionalise their own LED services.

The MDP is a large grant and capacity development programme of MDLF in which all main donors active in local government harmonise their interventions and align to strategies of the Ministry of Local Government of the Palestinian Authority. In addition to the grant scheme under MDP Window 2, LGCP will develop technical support packages for MDLF, based on best practices from the municipal LED pilot projects. MDLF will make these packages available through MDP Window 3 as an on-demand service for all Palestinian municipalities. The support packages may include trainings, manuals and coaching trajectories.

Through supporting municipal capacity to stimulate economic growth and provide a conducive business climate, LGCP will contribute to the reduction of unemployment and to increased government legitimacy and food security. Thus, the Programme will contribute to combating root causes of conflict, for example through fostering livelihoods of local communities and – if politically opportune – identifying opportunities for joint interests in Israeli-Palestinian economic cooperation at municipal level.

<sup>1</sup> The MDP of MDLF operates through 4 windows. W1 – Municipal Grants for Capital Investments. W2 – Support to Municipal Innovations and Efficiency, W3 – Technical Support Packages for Capacity Building, and W4 - Program Management.

# 2 Context Analysis

## 2.1 Introduction

The Palestinian economy suffers from both political and economic restrictions. These complex and erratic circumstances have severely affected local economic development in the West Bank and its prospects for trade. Micro, small and medium-sized enterprises (MSMEs) constitute a large part of the Palestinian economy as 87% of the Palestinian workforce is employed in MSMEs<sup>2</sup>. Most of them are agricultural, which makes the capacity of local government to stimulate MSME development an important theme in ensuring food security, for example through targeting unemployment and promoting agricultural productivity.

Enhancing the prospects of growth for the Palestinian private sector is not only dependent on Israeli easing of restrictions, but would also require local governments to offer conducive services, bring together public and private sector parties to work together and harness local resources for sustainable and equitable economic growth and employment generation, and thus to develop their own specific strategy towards Local Economic Development (LED).<sup>3</sup>

The main driving force behind LED is the fact that every city, area or community is unique and has its own competitive advantages. A successful LED policy focuses on identifying and exploiting the competitive advantages of a community or an area.

In this context, the Local Government Capacity Programme in the Palestinian Territory will focus on increasing municipal capacity in the field of Local Economic Development (LED). To ensure policy dialogue and harmonisation with sector partners, LGCP will link to existing structures and work through the Municipal Development Programme (MDP) of the Municipal Development and Lending Fund (MDLF). MDLF was established by the PA in 2005 with the objective of encouraging and channelling the flow of financial resources from the Palestinian Authority and (international) donors to the local government units, for – amongst others – capacity development and revenue generation.

Through capacitating local governments to stimulate economic growth and provide a conducive business climate, LGCP contributes to the reduction of unemployment and to increased government legitimacy and food security. In doing so, root causes of conflict will be combated, e.g. through fostering livelihoods of local communities. Thus, the Programme is in line with the Multi-Annual Strategic Plan of the Netherlands Representative Office in Ramallah.

<sup>2</sup> ILO, *Improving the Quality of Employment in Palestinian Micro, Small and Medium Enterprises* (November 2010)

<sup>3</sup> Local Economic Development is defined as follows: 'LED is about building up the economic capacity of a local area to improve its economic future and to improve the quality of life for all [...] It is a process by which public, business and non-government sector partners work collectively to create better conditions for better conditions for economic growth and employment generation.' Swinburg, Goga and Murphy, *Local Economic Development: A Primer Developing and Implementing Local Economic Development Strategies and Action Plans* (2006).

## 2.2 Analysis of local government challenges

LED is acknowledged as a crucial way of creating sustainable development and reducing unemployment. But the capacities of particularly the smaller and remote municipalities to provide for a conducive business environment in liaison with the vibrant sector of micro, small and medium-sized enterprises (MSMEs), for instance through the Chambers of Commerce, is limited.

MDLF's support for municipal capacity development has so far focused on financial management (including revenue enhancement), participatory planning and technical capabilities<sup>4</sup>, but not on the role of local governments in facilitating MSMEs and LED. The large municipal grant allocation mechanism used in MDP's main channel for support Window 1 (see section 2.4), includes 12 performance criteria, but these do not measure the degree to which LED is captured. Consequently, LGCP's focus on LED will answer to demands that are currently not met in existing technical assistance.

The need for more emphasis on supporting municipalities in strengthening LED was acknowledged by the Ministry of Local Government and MDLF. With MDLF and sector partners it was agreed that within the upcoming MDP II (starting in 2013), LED should figure as the central theme for Window 2 – "Support to Municipal Innovations and Efficiency". The purpose of Window 2 is to function as breeding ground for small-scale piloting of new services for municipalities. Incorporation of LGCP in Window 2 has as advantage that LGCP can make a relevant and focused contribution, despite the relatively modest budget, compared to the budgets of MDLF's lead donors (i.e. World Bank, GIZ) that are mostly allocated through Window 1.

Based on best practices from the LED pilot projects under Window 2, LGCP will develop technical support packages that – when approved by MDLF – will be made available through Window 3 "Technical support packages". Additionally, if LED continues to be a priority theme for MDLF and PA in future, best practices from LGCP pilot projects may be upscaled through Window 1, which offers larger grants (see section 2.4 for a detailed discussion of the 4 MDP windows).

Government capacity (e.g. for service delivery) is essential for securing legitimacy and developing a resilient society in which disputes can be settled in a peaceful way without resorting to violence<sup>5</sup>. LGCP contributes to increasing government legitimacy through improving inclusive, integrated service delivery and strengthening the relationship between municipalities, civil society and citizens, especially chambers of commerce, entrepreneurs and small businesses. Local governments will endorse the activities of the programme by integrating them into their Strategic Development Investment Plans through participatory processes with their key stakeholders. This will promote accountability and prevent local government institutions from becoming empty administrative vessels. Thus, the programme contributes to "Good Governance" as in line with the policies of the Dutch government.

## 2.3 The defined target group

The Palestinian Territory covers 16 governorates comprising 132 municipalities, 237 village councils and 113 project committees – smaller ones currently being amalgamated – and 86 joint service councils. Executive councils also exist at the level of the governorates.

<sup>4</sup> MDLF, *Municipal Capacity Building, A Practical Training Manual* (2010).

<sup>5</sup> Netherlands Ministry of Foreign Affairs, *Kamerbrief over het speerpunt veiligheid en rechtsorde* (2012)

On the basis of submission of concept notes (1<sup>st</sup> stage) and full proposals (2<sup>nd</sup> stage) a projected number of 12 municipalities out of the 107 municipalities in the West Bank will be selected for implementation of a pilot project under the LGCP grant scheme<sup>6</sup>.

VNG International has a substantial worldwide track record in grant scheme development and management for a wide variety of bilateral and multilateral donors, including the Netherlands Ministry of Foreign Affairs. This experience will be applied here. Furthermore, in developing the LGCP grant scheme, VNG International will draw upon the operational procedures of the MDP's already existing Grant Allocation Mechanism in order to ensure synergy.

### **Municipal Development and Lending Fund (MDLF)**

The Municipal Development and Lending Fund (MDLF), established in 2005 by the PA as the official channel for local government support, will act as implementing partner. MDLF is mandated to provide municipalities, village councils, local councils, joint service councils, municipally-controlled institutions and other local government units with financial products, capacity development services and access to capital markets.

In addition, MDLF aims to enhance mobilisation of donor assistance, strengthen intergovernmental financial transfers and promote emergency response capacity. Through the MDLF's Municipal Development Programme (MDP), donor agencies harmonise their support, using the same fund allocation system, criteria for project selection, implementation and reporting procedures. The MDP is the only joint donor programme in the sector and for this reason is seen as central for the realisation of a more coherent support system for local governments.

The MDP group of implementing partners ensures policy dialogue and harmonisation of interventions in local government support, and consists of the World Bank, Agence Française de Développement (AFD), the Danish International Development Assistance (DANIDA), the Swedish International Development Cooperation Agency (Sida), German Development Bank (KfW), the Belgian Development Agency (BTC), and the German International Technical Cooperation (GIZ).

In consultation with MDLF, the Ministry of Local Government and MDLF's implementing sector partners, VNG International will join the MDP group on behalf of the MDP's Window 2, which will focus on support to LED through LGCP. Additionally, VNG International will align its interventions with the EU fiche for Municipal Development and Local Governance, as well as the Sector Working Group for Private Sector and Trade. This broad cooperation will ensure policy dialogue, harmonisation and alignment as promoted under point 3 of the Paris / Accra Declaration on Aid Effectiveness.<sup>7</sup>

The MDP comprises four components (windows) which are defined as follows:<sup>8</sup>

- **Window 1** - Provides municipalities with performance-based capital investment grants for municipal service delivery, using the Grant Allocation Mechanism. The Grant Allocation Mechanism is the most important element of the MDP. It is a performance-based formula used in conjunction with infrastructure grants.

<sup>6</sup> This scope has been established based on consultation with MDLF, taking into account feasibility, effectiveness and available budget.

<sup>7</sup> OECD, *The Paris Declaration on Aid Effectiveness and the Accra Agenda for Action* (2008)

<sup>8</sup> MDLF, *The Municipal Development Brochure* (2012)

- **Window 2** - Promotes learning and innovation to facilitate municipal development, including implementation of national policy directives. It establishes pilot programs with the aim of upscaling under Window 1 when proven successful. VNG International has been requested by MDLF and MDP partners to implement LGCP through this Window, with a focus on LED, since LED has not yet been targeted through MDP and assistance in this field is consequently lacking. Since Window 2 aims at small-scale piloting of support, incorporation of LGCP through a grant scheme managed by VNG International under Window 2 has as advantage that LGCP can make a relevant and focused contribution, despite the comparatively modest budget.
- **Window 3** - Helps municipalities improve their performance rankings and is designed to complement the Grants Allocation Mechanism. Window 3 provides technical assistance in the form of technical support packages to improve financial management, planning capacities and technical capabilities. LGCP will also contribute to the development of these packages on the basis of best practices from the LED pilot projects under Window 2. This provides valuable multiplier effects.
- **Window 4** - Provides funding for program management, client and citizen satisfaction assessments, technical assistance for municipalities, and outreach programs to make sure citizens and municipal leaders have a full understanding of the Grant Allocation Mechanism and the MDP development objectives.

#### Secondary target group

LGCP will also indirectly address a secondary target group. During implementation, LGCP will identify opportunities for processing LGCP best practices and developing them into technical support packages. If successful, these will be provided through Window 3 of the MDP and mainstreamed into MDLF's services portfolio. Depending on their ranking, all Palestinian municipalities can apply for these packages.

## 2.4 Analysis of other relevant actors

### 2.4.1 Policies and actions of the Palestinian National Authority:

The National Development Plan 2011-13 of the Palestinian National Authority<sup>9</sup> focuses on the private sector to induce the creation of jobs and the education system for a vibrant knowledge-based economy, in combination with a national infrastructure supporting solid and rapid deployment of social and economic initiatives. Emphasis is put on the macro-economic and fiscal framework that reduces dependence on aid while creating a conducive environment for private sector investment and growth.

By implementing jointly with the MDLF, the LGCP is aligning as closely as possible with the strategy of the Ministry of Local Government (as well as those bilateral and multinational donors active in local government), while focusing on the private sector as a core pillar of the National Development Plan 2011-13.

### 2.4.2 Policies and actions of the Dutch government / Netherlands Representative Office

The Multi-Annual Strategic Plan (MASP) for the Palestinian Territory 2012-2015 emphasises the need for cross-border cooperation and focuses on rule of law, food security, and water management, areas where the Netherlands has an international reputation and can provide long-lasting added value, exercising a positive impact on the peace process.

<sup>9</sup> Palestinian National Authority, *Establishing the State, Building our Future. National Development Plan 2011-13* (2011).

The LGCP programme contributes to food security through improving the capacity of Palestinian municipalities to develop and implement policies and services in support of a conducive local business climate and employment opportunities. Although the programme is aimed at improving the capacity of municipalities rather than directly supporting entrepreneurs and farmers, VNG International may offer technical assistance on relevant themes such as agribusiness, tourism and the streamlining of procedures for MSME registration within municipalities.

Thus, strengthened municipal capacity will contribute to creating an enabling environment for economic development and food security. Furthermore, the programme will improve government legitimacy and stimulate good governance practices through, strengthening the capacity of participating municipalities in developing inclusive policies and applying participatory methods.

## 3 Tailor-made LGCP Palestinian Territory Programme

### 3.1 Palestinian Territory specific Programme objective

Increased capacity of selected Palestinian municipalities to enhance, organise and institutionalise Local Economic Development services.

### 3.2 Programme results

The results to be achieved in the LGCP Palestinian Territory Programme are presented below.

**Result 1:** *Demonstrated commitment to improve Local Economic Development services in selected municipalities*

The willingness to establish – through LGCP – an LED grant scheme under Window 2 of the MDP, demonstrates the commitment of the Ministry of Local Government and the MDLF to improve LED services in municipalities. The selected municipalities will be supported in defining LED priorities and related services with a view to aligning these with their long-term Strategic Development and Investment Plan (SDIP). A proper focus on LED is currently lacking in most SDIPs. This result demonstrates LGCP's contribution to the capability *to act and commit*.

This leads to the following results directly attributable to LGCP:

- LED grant scheme successfully established under window 2 of MDP
- Selected municipalities have identified key LED priorities and related services in a participatory manner in alignment with their SDIPs
- Selected municipalities have incorporated self-defined LED priorities and services into successful concept notes and grant proposals for LED pilot projects

**Result 2:** *Increased capability of selected municipalities to institutionalise LED services*

The programme will increase the capacity of municipalities to fulfil their roles as a service provider, as regulator and a pro-active catalyst in creating a business enabling environment, thus promoting economic development and government legitimacy. Through trainings and on-the-job coaching municipalities will be assisted in developing, improving and operationalizing LED strategies and municipal profiles in line with their SDIPs.

In doing so, the programme will support the institutionalisation of inclusive and responsive LED services based on a constructive relationship between municipalities and their key stakeholders. Technical support packages will be developed based on the best practices of the municipal LED pilot projects. If successful, these technical support packages will be made available by MDLF to all Palestinian municipalities through Window 3 of the MDP. The best practices of the pilot projects and the support packages will be evaluated by the MDLF and the recipient municipalities.

This leads to the following results directly attributable to LGCP:

- Technical support packages on LED have been developed on the basis of best practices of pilot projects (Window 2) and made available to MDLF for replication under MDP Window 3;
- Selected municipalities successfully implemented LED pilot projects in accordance with grant scheme regulations under MDP Window 2;
- Selected municipalities have increased capacity to develop and operationalize LED strategies in line with SDIPs and on the basis of self-defined LED priorities;
- Selected municipalities have increased capacity to develop municipal profiles in line with SDIPs and on the basis of self-defined LED priorities

**Result 3:** *Increased capability of selected municipalities to promote LED through forming strategic business alliances*

A conducive environment for Local Economic Development requires municipalities to provide inclusive LED services that are rooted in effective liaison between municipal actors, private sector, civil society and local communities, and that meet the demands of the different stakeholders. LGCP will stimulate this through assisting municipalities in setting up multi-stakeholder Local Economic Development Councils that will jointly identify the potential for economic activity. This result reflects LGCP's contribution to an increased capability *to relate to external stakeholders*.

This leads to the following results directly attributable to LGCP:

- Selected municipalities have increased capacity to identify key LED stakeholders and have surveyed the service needs of local MSMEs;
- Selected municipalities have established multi-stakeholder LED councils
- Selected municipalities have increased capacity to apply stakeholder consultation and community participation methods in providing LED services;
- Selected municipalities have increased capacity to identify potential for strategic business alliances with stakeholders, e.g. public-private partnerships, inter-municipal cooperation and cross-border cooperation on LED.

### 3.3 Programme activities

The Local Government Capacity Programme draws on VNG International's colleague-to-colleague approach. This approach fosters horizontal learning, i.e. learning from peers. Expertise will be largely provided by experts coming from the same professional background as the target group, e.g. (former) (local) government officials and politicians. These experts may come from the Netherlands, but also from neighbouring countries or from the Palestinian Territory itself. This approach enables tailor-made exchange of expertise at the professional level, e.g. through benchmarking best practices, practical exchanges and shadowing. Transfer of knowledge takes place through coaching and learning by doing rather than through a 'teacher-pupil' relationship.

VNG International is well aware of the risk that external experts tend to provide advice, training courses and materials that reflect only their own knowledge and appreciation of the foreign situation, but which are insufficiently tuned to local needs and context. We will therefore *combine international, local and regional expertise* and assess methods carefully *to prevent blueprint models*.

VNG International will prepare activity work plans annually through stakeholder consultation, to be submitted to the Netherlands Ministry of Foreign Affairs for approval. These activity work plans present a concrete description of the activities foreseen as well as related outputs. The year 2012 and first months of 2013 will be marked by establishment of the project office and recruitment of the Resident Programme Manager, performance of a programme level baseline study, development of the grant scheme, and an MDP seminar to present the baseline findings and the grant scheme.

The activities under the Programme are clustered per result, as follows:

**Result 1:** *Demonstrated commitment to improve Local Economic Development services in selected municipalities*

At the start of the Programme a programme level baseline study on key LED properties will be carried out. This baseline study will provide the basis for monitoring and evaluation of programme level results. It will be reviewed annually to monitor progress by an independent evaluator. Based on the findings of the baseline study, and in close collaboration with MDLF, a tailored grant scheme for LED pilot projects under MDP's Window 2 will be developed, including the development of eligibility and selection criteria, a grant manual, application formats and evaluation grids. To ensure legitimacy the grant manual and annexes will be formally approved by MDLF.

LGCP will provide grants (with an average size of €70,000 each, at maximum duration of two years, to a projected number of 12 municipalities) to municipalities to develop capacity to enhance, organise and institutionalise LED services in alignment with their SDIP. Appraisal and shortlisting of concept notes will be carried out by independent grant assessors and will also include a risk assessment into financial and organisational capacity of the applying municipality.

Shortlisted municipalities will be assisted by LGCP to formulate a full grant proposal on the basis of a standardised application format. Furthermore, support in proposal formulation will address project cycle management, monitoring and evaluation, and stakeholder consultation. This will entail on-the-job coaching as well as workshops. As with the concept notes, appraisal of the full proposals will be carried out by multiple, independent grant assessors, on the basis of open and transparent evaluation grids.

**Result 2:** *Increased capability of selected municipalities to institutionalise LED services*

Each pilot project will start with an individual baseline study that will establish the basis for monitoring and evaluation. This baseline will be reviewed annually by independent evaluators. The municipality will implement the project with support provided through LGCP, which will include VNG International staff and associated experts, VNG International toolkits and training products, and expertise mobilised from Dutch municipalities.

Knowledge and expertise will be transferred through on-the-job coaching, seminars, workshops, study visits and tailor-made trainings. This technical assistance will emphasise the development and operationalization of LED strategies in line with the SDIPs and individual municipal priorities, including planning, budgeting and HRM.

Under Window 3 of the MDP, MDLF uses Technical Support Packages as the main vehicle to provide ad-hoc support to municipalities. The packages are developed based on experiences with pilot projects and consist of manuals, training modules and on-the-job training.<sup>10</sup> LGCP will develop Technical Support Packages on LED on the basis of best practices from the pilot projects implemented under the LGCP grant scheme. This will ensure sustainable multiplier effects as the knowledge gained and shared during the programme will become part of the MDLF's overall services portfolio available to all municipalities beyond the scope of LGCP. Apart from the development of technical support packages for MDLF, successful pilots under Window 2 may also provide the basis for future mainstreaming of LED under Window 1.

**Result 3:** *Increased capability of selected municipalities to promote LED through forming strategic alliances and reaching out to local communities*

A vital element of successful municipal LED policy is the capacity to identify and involve relevant stakeholders in services development, and to reach out to local communities and ensure government legitimacy. Selected municipalities will receive technical assistance in the form of trainings, workshops and on-the-job coaching. They will be tutored in the content and application of different methods for community involvement and stakeholder consultation.

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<sup>10</sup> MDLF, *The Municipal Development Brochure* (2012).