صندوق تطوير وإقراض الهيئات المحلية
Municipal Development & Lending Fund

وزارة الحكم المحلي

Concept Note

Scaling-up Emergency Support for Local Governance

Sustaining Essential Local Service Delivery
Amid a Protracted Fiscal and Economic Crisis

Submitted by MOLG and MDLF

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Disclaimer: While this Concept Note focuses on the West Bank, the proposed mechanism is intended to be scalable and may be expanded in a later phase to cover municipalities and Joint Services Councils (JSCs) in the Gaza Strip. This would support the financing of essential recurrent expenditures of local governments as part of the Palestinian Authority's efforts to restore and sustain basic service delivery under the *Gaza Recovery and Reconstruction Plan*.

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1. Introduction

Since the outbreak of the Gaza war on 7 October 2023, Palestinian Local Government Units (LGUs), including municipalities, Village Councils (VCs), and Joint Service Councils (JSCs), have been operating under exceptionally difficult economic, fiscal, and institutional conditions. What began as a humanitarian and security crisis has evolved into a prolonged economic decline and public finance crisis putting severe pressure on local governance system, infrastructure management, public service delivery, and community wellbeing across Palestine.

LGUs constitute the frontline of service delivery and remain responsible for a wide range of essential services, including solid waste management, water and sanitation, public health and environmental services, road maintenance, public lighting, and the operation of local infrastructure and public facilities. Throughout successive crises, local governments have continued to provide these services despite growing financial constraints, thereby helping preserve public health, social stability, and community resilience.

However, the prolonged crisis has significantly weakened the financial position of local governments. The combined effects of economic contraction, labor market deterioration, declining household purchasing power, growing utility-related obligations, and public finance constraints have significantly reduced the revenue collection performance of local governments while simultaneously increasing pressure on essential services.

In response, many LGUs have relied on short-term coping measures, including delaying maintenance, postponing rehabilitation works, reducing operational expenditures, delaying equipment replacement, and accumulating arrears. While these measures have enabled local governments to maintain service continuity in the short term, they are increasingly unsustainable and are contributing to the gradual deterioration of infrastructure, municipal assets, and institutional capacity.

This concept note examines the economic and fiscal conditions driving local government financial stress and presents the rationale for recurrent expenditure support as a critical intervention to sustain service delivery, protect public investments, preserve institutional resilience, and support Palestinian communities during a prolonged period of crisis.

2. Economic and Fiscal Context

2.1 Macroeconomic and Labor Market Deterioration Since October 2023

The severity of the crisis is reflected in the sharp deterioration of Palestine's economic and labor market conditions since October 2023. The combined effects of the war in Gaza, movement restrictions in the West Bank, widespread job losses, and disruptions to labor mobility have significantly weakened household incomes and economic activity across the Palestinian territories. These developments have adversely affected local government finances by weakening revenue collection performance and reducing cash flows, while increasing pressure on municipalities to maintain essential services under increasingly constrained financial conditions.

The initial economic shock was unprecedented. According to the **Palestinian Central Bureau of Statistics (PCBS) and the Palestine Monetary Authority (PMA),** ***The Performance of the Palestinian Economy during 2024 and Economic Forecasts for 2025*****, issued in December 2024**, the Palestinian economy was estimated to have contracted by approximately **28 percent in 2024**, with economic activity declining by more than **82 percent in Gaza** and by more than **19 percent in the West Bank**. More recent official data confirm that economic pressures have persisted. According to the **PCBS,** ***Preliminary Estimates of Quarterly National Accounts – First Quarter 2026*****, issued on 30 June 2026**, Palestine's GDP declined by **8 percent in Q1 2026 compared with Q4 2025**, accompanied by an **8 percent contraction in the West Bank economy** and a **9 percent decline in GDP per capita** over the same period.

Labor-market conditions remain equally challenging. According to the **PCBS,** ***Labour Force Survey – West Bank, Second Quarter (April–June) 2026*****, issued on 11 August 2026**, the unemployment rate in the West Bank stood at **27.9 percent**, representing approximately **284,000 unemployed persons**, compared with around **13 percent before October 2023**. The number of employed persons in the West Bank stood at approximately **733,000**, while only around **53,000 West Bank Palestinians were employed in Israel and Israeli settlements**, compared with approximately **172,000 before October 2023**. This represents a reduction of approximately **69 percent** in employment in Israel and Israeli settlements.

These latest official indicators are consistent with the **World Bank,** ***Economic Update on the West Bank and Gaza*****, May 2026**, which highlights the persistence of exceptionally difficult economic and fiscal conditions, continued movement and access restrictions, severely constrained access to the Israeli labor market, and deepening fiscal pressures. Together, these developments have significantly reduced household purchasing power and weakened the economic base upon which local governments depend for the collection of service fees, utility payments, local taxes, and other own-source revenues.

Table 1: Key Economic and Labor Market Indicators Before and After October 2023

Indicator	Pre-Crisis	Latest Available	Change / Situation
Palestinian GDP	2023 baseline	**-8% Q1-2026 vs Q4-2025**	Renewed contraction
West Bank GDP	2023 baseline	**-8% Q1-2026 vs Q4-2025**	Renewed contraction
West Bank unemployment	**13%**	**27.9% (Q2-2026)**	More than doubled
Unemployed persons – West Bank	**129,000**	**284,000 (Q2-2026)**	Approx. +120%
Employed persons – West Bank	**868,000**	**733,000 (Q2-2026)**	Approx. 135,000 fewer
Employment in Israel & settlements	**172,000**	**≈53,000 (Q2-2026)**	Approx. -69%

Sources: PCBS, PMA, World Bank, MAS, WAFA

These developments have substantially reduced household purchasing power and weakened the economic base upon which local governments depend for the collection of service fees, utility payments, local taxes, and other own-source revenues.

2.2 Withholding of Clearance Revenues and Fiscal Implications

The economic crisis has been accompanied by a severe fiscal crisis driven primarily by the continued withholding of Palestinian clearance revenues. Clearance revenues normally account for approximately 65-70 percent of total Palestinian public revenues and constitute the principal source of financing for public-sector salaries, operating expenditures, social protection programs, debt servicing, and transfers to local governments. By mid-2026, accumulated withheld clearance revenues had reached approximately NIS 14 billion, generating an unprecedented liquidity crisis for the Palestinian Authority.

Table 2: Clearance Revenue Withholding Since October 2023

Period	Estimated Accumulated Withholding
Pre-October 2023	Periodic deductions
End-2024	Approximately NIS 4 billion
Mid-2026	Approximately NIS 14 billion

As available fiscal resources declined, the Palestinian Authority increasingly relied on emergency measures to manage cash-flow constraints, including partial salary payments, increased borrowing, expenditure compression, and the accumulation of arrears. **These pressures significantly constrained the government's ability to support local governments. Intergovernmental transfers to local governments have declined consistently over the past five years, falling from approximately NIS 85.1 million in 2022 to NIS 68.7 million in 2023, representing a 22.8 percent decrease. Transfers continued to decline to NIS 56.1 million in 2024, a further 18.3 percent reduction compared to 2023. In 2025, transfers dropped sharply to NIS 32.5 million, marking a 42.1 percent decrease from 2024. By September 2026, transfers amounted to NIS 28.5 million, which is 12.3 percent lower than the 2025 level. Overall, intergovernmental transfers decreased by approximately 66.5 percent between 2022 and September 2026.** Consequently, local governments have been required to operate with substantially reduced external support at the same time that local revenues have come under increasing pressure. *(Source: MOLG)*

The withholding of clearance revenues has therefore become a major contributor to local government fiscal stress by simultaneously reducing central government support and limiting overall public-sector liquidity.

2.3 Implications for LGUs Revenue Performance and Service Delivery

The combined effects of economic contraction, labor market deterioration, reduced fiscal transfers, and growing utility-related liabilities have significantly weakened the financial position of Local Government Units (LGUs). While municipalities, Village Councils, and Joint Service Councils differ in size, functions, and revenue structures, all have been affected by the same underlying economic and fiscal shocks described in the preceding sections.

Prior to October 2023, LGUs already faced structural fiscal vulnerabilities, including weak collection performance, increasing utility obligations, and limited fiscal transfers. Nevertheless, local revenues remained closely linked to economic activity and household incomes through property taxes, business licensing fees, construction permits, transportation fees, service charges, utility collections, and other locally generated revenues.

The economic downturn disproportionately affected sectors that constitute important sources of local economic activity and revenue generation.

Table 3: Economic Sector Performance Since October 2023

Sector	Estimated Decline
Construction	-46%
Industry	-33%
Agriculture	-32%
Services	-27%

The combined effects of economic contraction, declining household incomes, reduced fiscal transfers, and rising utility obligations have weakened LGU liquidity and operational sustainability. The following section presents evidence of how these pressures have translated into increasing arrears, declining cash positions, and growing service delivery risks.

3. Local Government Fiscal Stress and Service Delivery Risks

3.1 A Common Fiscal Challenge Across LGUs

The economic contraction, fiscal crisis, and deterioration in household purchasing power described in the previous section have translated into growing financial stress across Palestinian Local Government Units (LGUs). While municipalities, Village Councils (VCs), and Joint Service Councils (JSCs) differ in size and mandate, they are experiencing similar challenges: weakening revenue collection performance, increasing liquidity constraints, growing liabilities, and rising risks to service continuity. These pressures are increasingly threatening the ability of local governments to sustain essential services and protect public assets.

3.2 Growing Utility-Related Liabilities Across LGUs

One of the clearest indicators of financial stress is the accumulation of utility-related arrears. Municipal electricity and water arrears increased from NIS 2.065 billion in 2023 to NIS 2.541 billion by mid-2026, representing a 23.1 percent increase.

Table 4: Municipal Arrears Trends

Category	2023	Mid-2026	Change
Electricity Arrears	NIS 1.236 bn	NIS 1.791 bn	+44.9%
Water Arrears	NIS 0.829 bn	NIS 0.750 bn	-9.5%
Total Municipal Arrears	**NIS 2.065 bn**	**NIS 2.541 bn**	**+23.1%**

The increase was driven primarily by electricity obligations, which grew by nearly NIS 555 million during the period. This trend suggests that municipalities have increasingly relied on deferred utility payments to manage liquidity shortages while maintaining essential services.

A similar pattern is observed across the wider local government sector as shown in the below table.

Table 5: LGU Arrears Trends (Municipalities and Village Councils)

Indicator	2023	Share of Total Arrears	Mid-2026	Share of Total Arrears	Change
Total Electricity Arrears	NIS 1.883 bn	54%	NIS 2.496 bn	65%	+32.5%
Total Water Arrears	NIS 1.601 bn	46%	NIS 1.332 bn	35%	-16.8%
Total Arrears	**NIS 3.485 bn**	**100%**	**NIS 3.828 bn**	**100%**	**+9.9%**

Total LGU arrears increased by almost 10 percent between 2023 and mid-2026, reaching NIS 3.83 billion. Electricity-related obligations now account for nearly two-thirds of total arrears, highlighting growing operational financing pressures across local governments. The continued accumulation of arrears indicates that many LGUs are bridging financing gaps through delayed payments rather than improved revenue performance or increased fiscal transfers.

3.3 Evidence of Municipal Financial Stress

Analysis of financial data from 137 municipalities confirms that the economic effects of the Gaza war have significantly weakened municipal financial positions. While municipalities have largely maintained service delivery, they have done so under increasing financial strain.

Revenue Performance

More than half of the municipalities experienced a decline in operating revenues during 2024. Out of 137 municipalities budgets reviewed, 71 recorded lower revenues than in the previous year, reflecting the broader deterioration in economic conditions and citizen payment capacity. Municipalities also faced increasing difficulties in meeting planned revenue targets.

Table 6: Revenue Achievement Against Budget

Type	2023	2024	Change
Cash-basis	81.4%	73.4%	-8.0 percentage points
Full-accrual	83.2%	81.6%	-1.6 percentage points

Revenue achievement declined notably among cash-basis municipalities, indicating that actual collections increasingly fell short of budget expectations. This weakened municipalities' ability to finance routine operations and maintain service levels.

Liquidity Position

A key feature of the crisis has been the growing gap between billed revenues and available cash. Receivables increased by approximately 11 percent during 2024, while cash and bank balances declined by nearly 14 percent.

Table 7: Changes in Revenue Collection and Cash Position

Indicator	2023	2024	Change
Receivables	NIS 2.46 billion	NIS 2.73 billion	+11%
Cash and Bank Balances	NIS 220.5 million	NIS 189.8 million	-13.9%

These trends indicate that municipalities are finding it increasingly difficult to convert revenues into cash, resulting in reduced financial flexibility and growing challenges in meeting day-to-day operating expenses.

Rising Liabilities and Deferred Payments

Financial pressures are also evident on the liability side of municipal balance sheets.

Table 8: Indicators of Financial Stress

Indicator	Change in 2024
Current liabilities	+19.1%
Operating payables and accrued obligations	+13.0%
Operating expenditure	+1.3%
Net working capital	-NIS 35.5 million

Current liabilities increased by more than 19 percent while working capital deteriorated significantly. At the same time, operating payables grew much faster than operating expenditures, suggesting that municipalities increasingly relied on delayed payments to manage cash-flow shortages.

The most visible manifestation of this trend is the sharp increase in supplier payables.

Table 9: Supplier Payables across Municipalities

Year	Supplier Payables
2023	NIS 506 million
2024	NIS 833 million
Increase	NIS 327 million (+64.5%)

Supplier payables increased by 64.5 percent between 2023 and 2024, despite relatively stable operating expenditures. This indicates that municipalities continued providing services but increasingly postponed payments to suppliers and contractors in order to preserve liquidity. While this strategy has helped sustain operations in the short term, continued accumulation of unpaid obligations may undermine future service delivery and increase financial risks.

In parallel, municipalities reported growing reliance on overdrafts, credit facilities, and short-term borrowing, further highlighting the liquidity pressures facing the sector.

3.4 Financial Vulnerability of Village Councils and Joint Service Councils

Financial stress is not limited to municipalities. Assessments conducted under the Village Council Support Program reveal widespread vulnerability among rural local governments.

Table 10: Financial Standing of Assessed Village Councils

Category	Number	Percentage
Sound	3	10%
Stable-Watch	7	23%
Elevated Risk	11	37%
Critical	9	30%

Overall, 67 percent of assessed Village Councils were classified as either Elevated Risk or Critical. Common challenges included declining revenue collection, growing receivables and liabilities, liquidity shortages, deferred maintenance, and reduced operational spending. These findings indicate that many Village Councils face increasing difficulties in sustaining routine service delivery and maintaining local infrastructure.

Joint Service Councils, particularly those responsible for solid waste management, face similar pressures. The assessment of 13 Solid Waste Management JSCs identified several common vulnerabilities:

- Delayed contributions from member LGUs;
- Growing receivables and cash-flow constraints;
- Ageing vehicle fleets and operational equipment;
- Limited operational reserves;
- Rising fuel, transportation, and maintenance costs; and
- Continued reliance on external financing for capital investments.

These challenges are particularly significant because services such as solid waste management require uninterrupted operations. Delays in vehicle maintenance, fuel procurement, or equipment replacement can quickly affect service delivery across multiple municipalities and villages, creating potential environmental and public health risks.

Key Message

The evidence from municipalities, Village Councils, and Joint Service Councils points to a common conclusion: Palestinian local governments are facing a systemic operational financing crisis. Stable budget indicators mask growing liquidity pressures, increasing arrears, rising net lending obligations, and expanding maintenance backlogs. Recurrent expenditure support is therefore not simply emergency financing. It is a service continuity, asset protection, and institutional resilience intervention that will help sustain essential public services, safeguard previous development investments, preserve local government capacity, and maintain the foundations for future recovery and development.

3.5 Sector-Wide Implications

The evidence from municipalities, Village Councils, and Joint Service Councils points to a common conclusion: local governments have demonstrated considerable resilience in maintaining essential services throughout the current crisis, but they have increasingly relied on delayed payments, deferred maintenance, growing arrears, and short-term financing to do so. These coping mechanisms have helped avoid immediate service disruptions but are becoming progressively less sustainable.

The financial stress affecting LGUs is therefore systemic rather than institution-specific. Without additional operational financing, continued deterioration in liquidity, asset maintenance, and financial stability is likely to increase risks to service continuity, infrastructure preservation, and local institutional resilience across the sector.

4. Progress Achieved Under Component 6 (Emergency Window)/MDP4

Component 6 demonstrates both the urgent need for recurrent expenditure support and the critical role of emergency financing in sustaining local government services during an unprecedented economic and fiscal crisis. Through partnerships with the World Bank, the Multi-Donor Trust Fund (MDTF), Agence Française de Développement (AFD), the German Federal Foreign Office (FFO) through KfW

Development Bank, and the Swiss Agency for Development and Cooperation (SDC), MDLF successfully mobilized approximately EUR 47.6 million in emergency support for municipalities under MDP4 of which EUR 1.76 million were allocated to Gaza from the German FFO, and EUR 42.4 million were allocated for West Bank municipalities.

Of the EUR 42.4 million allocated to municipalities in the West Bank, EUR 38.1 million has been either fully utilized or is currently under implementation, while EUR 4.3 million was recently communicated to municipalities and is pending implementation. The experience of the EUR 38.1 million portfolio demonstrates that recurrent expenditure financing was by far the most pressing municipal priority. Municipalities submitted 713 subprojects distributed as follows:

Table 11: MDP4-Component 6 Subproject Allocation by Category

Category	Number of Subprojects	Allocation (EUR)	Share
Recurrent Expenditure Support	665	36.1 million	95%
Labor-Intensive O&M / C4W	48	2.0 million	5%
Total	**713**	**38.1 million**	**100%**

The allocation pattern clearly demonstrates that recurrent expenditure financing constituted the most urgent municipal priority during the crisis. Of the total EUR 38.1 million allocated through approved subprojects, approximately 95 percent was directed toward recurrent expenditures, confirming that municipalities' primary challenge was sustaining day-to-day operations rather than financing new investments. Recurrent expenditure support financed critical operating costs, including solid waste management fees, electricity and utility bills, fuel and lubricants, water and wastewater service charges, spare parts, and routine maintenance. The largest share of financing supported solid waste management services, followed by electricity and fuel expenditures, helping municipalities maintain uninterrupted service delivery and alleviate immediate liquidity pressures.The remaining 5 percent of financing supported labor-intensive operation and maintenance (O&M) and Cash-for-Work (C4W) activities, which generated important complementary benefits. These interventions supported road maintenance, drainage cleaning, environmental health campaigns, waste collection activities, and other municipal services while creating temporary employment opportunities for local communities.

Key Message

The experience of Component 6 shows that recurrent expenditure support is one of the most effective mechanisms for preserving local service delivery during periods of economic and fiscal crisis. The overwhelming demand for such support, combined with near-complete utilization of available resources, demonstrates both the scale of municipal operational financing needs and the ability of municipalities to effectively absorb additional funding.

The successful mobilization and implementation of EUR 42.4 million in emergency O&M support confirms that recurrent expenditure financing can be rapidly deployed to maintain essential services, protect public assets, preserve municipal capacity, and strengthen community resilience during a prolonged crisis.

5. Sustaining Local Government Services and Protecting Public Investments: The Case for Additional Recurrent Expenditure Support

Evidence presented in the preceding sections demonstrates that Palestinian LGUs are facing a prolonged operational financing crisis characterized by liquidity shortages, increasing arrears, declining collection performance, and growing service delivery risks. While municipalities, village councils, and JSCs have maintained essential services, existing coping mechanisms are becoming unsustainable.

Without additional operational financing, the likely consequences include:

- Accelerating deterioration of infrastructure and public assets;
- Increased breakdowns of vehicles, machinery, and equipment;
- Further accumulation of utility arrears and net lending obligations;
- Reduced quality and reliability of essential public services;
- Weakening institutional and technical capacity within LGUs; and
- Significantly higher future rehabilitation and reconstruction costs.

Against this backdrop, recurrent expenditure support should not be viewed merely as emergency budget assistance. Rather, it should be understood as a **service continuity, asset protection, and institutional resilience intervention** designed to safeguard essential public services and protect previous public and donor investments during a prolonged period of economic and fiscal stress.

Additional financing would enable municipalities, Village Councils, and Joint Service Councils to cover critical operational expenditures that are increasingly difficult to finance through local revenues alone, including:

- Fuel and transportation costs;
- Electricity and utility expenditures;
- Operation of vehicles and service equipment;
- Preventive and corrective maintenance;
- Spare parts and emergency repairs;
- Technical and operational staffing;
- Environmental health and safety requirements; and
- Essential administrative and service management functions.

The experience of Component 6 and similar emergency interventions has already demonstrated strong demand from local governments, effective implementation arrangements, high absorption capacity, sound fiduciary management, and tangible service delivery impacts. Additional financing can therefore be deployed rapidly and effectively through established mechanisms to address urgent operational needs.

Beyond maintaining day-to-day operations, recurrent expenditure support would generate important development benefits by:

- Maintaining continuity of essential public services;
- Protecting previous public and donor investments in local infrastructure and assets;
- Reducing the accumulation of maintenance backlogs and arrears;
- Preserving local institutional and technical capacity;

- Strengthening community resilience during a prolonged crisis; and
- Creating the operational stability necessary for future recovery, reconstruction, and reform efforts.

Importantly, recurrent expenditure support should not be viewed as a substitute for local government reform, improved revenue mobilization, enhanced cost recovery, or stronger financial management. Rather, it provides the minimum operational space required for these reforms to succeed. Local governments cannot effectively pursue institutional strengthening and financial sustainability measures while simultaneously struggling to finance the basic costs required to keep essential services operating.

Key Message

Palestinian local governments have demonstrated exceptional resilience in maintaining essential services throughout a prolonged economic and fiscal crisis. However, declining revenues, constrained fiscal transfers, rising operating costs, growing arrears, and increasing net lending obligations indicate that many LGUs are now operating beyond their sustainable financial capacity. Additional recurrent expenditure support is therefore not simply emergency financing; it is a strategic investment in service continuity, asset preservation, institutional resilience, and community wellbeing. Supporting LGUs today will help safeguard essential public services, protect previous development investments, and preserve the institutional foundations necessary for future recovery and development.

6. Proposed Additional Financing Intervention

The proposed scale-up aims to provide additional support to municipalities while ensuring that Village Councils and Joint Service Councils responsible for critical service delivery functions are not left behind.

Objective: To sustain the delivery of essential municipal and shared services by financing critical recurrent expenditures for municipalities, JSCs, and VCs, while maintaining operational continuity, preserving public assets, and strengthening local government resilience during the ongoing fiscal crisis.

6.1 Expected Results

- Essential municipal and shared services maintained in participating municipalities, JSCs, and VCs.
- Critical recurrent expenditures financed, reducing service disruptions.
- Operational functionality of local government institutions preserved.
- Resilience and service continuity strengthened during the fiscal crisis.

6.2 Recurrent Expenditure Support

Support would finance critical non-wage operating expenditures including:

- Electricity bills.

- Water and wastewater fees.
- Solid waste management fees.
- Fuel and lubricants.
- Spare parts.
- Equipment maintenance.
- Service contracts.
- Operational supplies.

6.3 Allocation Criteria

To ensure transparency, fairness, and responsiveness to needs, allocations shall be distributed using a formula-based approach.

Table 12: Grants Allocation Criteria

LGU Category	Criterion	Weight	Allocation Basis
Municipalities (60%)	Equalization	65%	Minimum allocation for all municipalities, with the remainder distributed by population.
	Unemployment Index	35%	Based on the latest unemployment data. Higher unemployment rates receive higher allocations.
Village Councils (25%)	Population Served	70%	Higher population receives higher allocation.
	Unemployment Index	30%	Higher unemployment rates receive higher allocation.
Joint Service Councils (15%)	Population Served	70%	Higher population served receives higher allocation.
	Number of Member LGUs	30%	More member LGUs receive higher allocation.

This approach ensures that municipalities remain the primary beneficiaries while ensuring that critical service providers in rural and vulnerable areas are not left behind.

6.4 Implementation Modality

The Municipal Development and Lending Fund (MDLF) will continue to serve as the implementing agency for this intervention, building on the established implementation arrangements under Component 6. The intervention will utilize the existing fiduciary and financial management systems, procurement procedures, environmental and social safeguards, and monitoring and reporting mechanisms already in place under the Municipal Development Program. By capitalizing on these well-established and proven systems, MDLF will ensure transparent, efficient, and accountable management of resources while minimizing transaction costs, reducing implementation risks, and enabling the rapid mobilization of support.

MDLF will maintain continuous monitoring and oversight of implementation, verifying both expenditures and outputs through robust financial management systems, operational procedures, and field-based supervision. These arrangements are governed by the Operational Manual for Component 6, which remains fully applicable and will also guide the implementation of any Additional Financing (AF). The manual provides comprehensive guidance on fiduciary controls, financial management, reporting requirements, procurement procedures, and environmental and social safeguards compliance,

ensuring that resources are utilized effectively and in line with the objectives of the Municipal Development Program.

Regarding the **Financial Management (FM) arrangements**, the Additional Financing will be implemented in accordance with MDLF's Financial Management Policies and Procedures Manual. **Under the recurrent expenditure financing scheme:**

- No funds will be transferred directly to LGUs and JSCs, except through reimbursement mechanisms where applicable.
- Payments for eligible recurrent expenditures will be made directly by MDLF to suppliers on behalf of municipalities, against verified invoices and in accordance with the MDLF Financial Management Policies and Procedures Manual.
- All recurrent expenditures must be verifiable, traceable, and fully reportable.
- MDLF will be responsible for obtaining and maintaining all original supporting documentation and receipts prior to processing any subsequent payments.
- The scope of the external audit will explicitly include verification of payments financed under this sub-component, ensuring compliance with applicable agreements, supporting documentation requirements, and established financial management procedures.

These arrangements will ensure strong fiduciary oversight, accountability, and transparency, while facilitating the timely delivery of critical municipal services and operational support to municipalities.

6.5 Risk Assessment and Mitigation Measures

This Risk Matrix has been developed to maintain effective implementation of the project activities while tracking the potential risks during the project lifecycle. It is important to mention that, MDLF has an appropriate organizational structure supported by advanced financial and management systems underpinned by risk management and internal controls that make it capable of implementing the mitigation measures of the foreseen risks.

Table 13: Risk Assessment and Mitigation Measures

Risks and Risks likelihood		Expected Impact	Mitigation measures
Security and socioeconomic risks (security risks remain exceedingly high)	Medium	- Implementation delays - Tensions with Israel could escalate further, leading to a tightening of Israeli-imposed restrictions on the movement	- Effective daily supervision and follow up by MDLF and the to meet the deadlines. - Conduct monthly review meetings to re-steer the works on site to the right track. - MDLF has a long history in coping mechanism (i.e covid-19, emergency windows support with a rich working experience in challenging environments.
Loss of reform momentum.	Medium	- Poor governance among LGU's due to political and socio-economic	- Adhere to governance reforms through different programs components and the national reform agendas.

Risks and Risks likelihood		Expected Impact	Mitigation measures
		unrest decreases incentives for reform.	- With this emergency support, which will partially cover operating expenses, the development agenda will continue to be pursued with forward looking to maintain the momentum of reform at the municipal level.
Lack of ownership from municipal employees	High	Slowdown of implementation.	- Implement awareness raising activities (if needed) to enhance participation.

6.6 Implementation Plan

The implementation of the proposed intervention will follow a phased approach over an estimated 18-month period. The plan is designed to ensure timely mobilization of resources, effective communication and planning with participating municipalities, efficient implementation of approved activities, and comprehensive reporting and accountability. Table 14 presents the tentative implementation plan, including the key activities and expected timeframe for each phase.

Table 14: Tentative Implementation Plan

Phase	Timeframe	Key Activities
Phase 1: Mobilization	**Months 1-2**	○ Secure donor commitments ○ Sign financing agreements ○ Finalize allocation calculations and funding distribution methodology
Phase 2: Communication and Planning	**Months 2-4**	○ Communicate approved allocations to LGUs ○ Submit LGUs expenditure plans ○ Conduct technical, fiduciary, and eligibility appraisals
Phase 3: Implementation	**Months 4-15**	○ Finance approved recurrent expenditures activities ○ Undertake continuous monitoring, verification, and supervision of expenditures and outputs ○ Ongoing financial management, procurement oversight, and safeguards compliance
Phase 4: Completion and Reporting	**Months 15-18**	○ Prepare and submit final implementation and financial reports ○ Conduct independent external audits ○ Document lessons learned and develop recommendations for future interventions