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## Diagnostic Solution: Taking action to improve fiscal abilities with “MFAT”

The Municipal Finance Assessment Tool (MFAT) is a web-based tool to be used by Local Government Units (LGUs). It supports them by conducting an analysis of the financial situation and by identifying the aspects influenceable by the LGUs that contribute to weak fiscal ability. Based on the findings, the MFAT automatically creates an action plan advising the LGUs on how to improve their fiscal ability. MFAT has been applied in 30 municipalities and 46 Village Councils (VCs) in the West Bank. One of those locations is the municipality of Khalet al-Maya, located in the Hebron Governorate in the southern West Bank.

Mohammad is the financial manager of the municipality. He is responsible to take action and advise on policies that ensure good fiscal ability of the municipality, which would allow it to have enough financial resources to finance the different services provided to the town’s citizens. Therefore, a large part of his daily work centres around the question: **“What can be done to ensure we have enough money to provide the services, pay the salaries, and pay the commitments?”**

The information available to Mohammad without the application of the MFAT are only abstract financial data describing the commitments and the available cash. He would look at the huge financial deficit and feel the need for advice and guidance. He reports: **“Before applying the MFAT, we used to improvise about what can we do in order to have a better fiscal ability. It was mostly a trial-and-error approach. We tried many things hoping that the situation would become better.”**

To fill this gap and to respond to the financial managers’ needs when it comes to data analysis, MFAT was created by the Local Governance Reform Programme II (LGRP II) in cooperation with the Ministry of Local Government (MoLG) and the Municipal Development and Lending Fund (MDLF). LGRP II provided technical advice and process steering and brought financial experts on board to develop and fine-tune the tool.

### MFAT at a glance

The MFAT is a web-based software application that helps LGUs to analyse their annual financial situation, identify gaps in fiscal ability and provide a detailed action plan.

Based on a set of systematic forms, the MFAT identifies the weaknesses inside the LGU under three broad capacity categories: the capacity to collect revenues, the capacity to optimize expenditures, and the capacity in financial management.

The tool automatically creates an action plan to improve the fiscal ability of the LGU associated with a priority rating.



*Khalet al-Maya Municipality*

## Development

The MFAT faced significant challenges in development related to the difficulty of various stakeholders to understand the innovative concept of the tool. It took several trials and significant time to reach a situation where all stakeholders had the same level of understanding.

The initial draft tool was developed and tested in the selected municipalities. After the first revisions, the tool was programmed as a web-based solution.

In an intensive review and consultation process amongst the relevant partners, the draft tool was assessed and evaluated several times. Indicators and assessment criteria have been fine-tuned both to provide an effective picture of the fiscal abilities and its weaknesses and to match with data available and used in existing financial management and monitoring tools.

Particular emphasis was given to the integration of certain functions for benchmarking amongst LGUs and for monitoring by LGU officials and on the national level.

The rights of the tool are with the MoLG.

## Application

Together with the help of a financial expert involved in the development of MFAT, the tool was applied at Khalet al-Maya Municipality.

The application of the tool includes two basic steps:

- 1) Upload relevant financial and operational data from the previous three years. The tool then extracts the required figures to calculate the various financial ratios.
- 2) Answer assessment forms with regard to the LGU's ability in financial management, expenditure optimisation and governance.

Based on this data entry, MFAT produces a detailed short report that shows all the financial and ability indicators and a corresponding action plan.

Mohammad is impressed: **“The tool assisted our municipality to identify some problems that we did not know about. We did not think that these problems might minimise our revenues. It also provided us with a financial analysis to understand our financial position. It provided us with an action plan to improve our fiscal ability.”**

Ideally, in the short term, the MFAT should be applied by all local authorities once every year through an external consultant. This approach would ensure a neutral and unified analysis of the situation and would provide capacity development for the financial managers in using the tool and in deploying it to create action plans to improve not only the fiscal abilities but also, in the medium and long run, the organisational development.

**“Before the tool, we were astray on how to ensure enough financial resources to provide the services. Now, after we applied the tool, we have a systematic approach with clear priorities and detailed actions,”** says Mohammad.



## Relevance

Palestinian LGUs are facing a challenging situation when it comes to financial resources. MFAT allows local governments to have a clearer picture of their fiscal ability, the weaknesses that need to be handled, and how to handle them. This large-scale application is providing an annual sustainable process that allows local authorities to compare their performance on a year-on-year basis, and benchmarking between localities. Also, as more local authorities apply the tool, the national institutions will have a better aggregation of information describing the causes of poor fiscal ability in local authorities. This will allow them to shape better policies and strategies that enhance fiscal abilities and consequently improve service delivery.

The MFAT can be used to serve local authorities in any country in the world if adapted to the institutional and legal framework in the country. The application shows significant results. However, to implement the tool in an LGU and to unfold its full potential certainly takes some time and requires a relatively high capacity of personnel and sensitisation of the decision-makers.



MFAT calculating financial indicators



Published by **Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH**

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<https://www.giz.de/en/worldwide/18104.html>

As of **February 2023**

Photo credits **GGIZ (2022), Khalet al-Maya Municipality (2022)**

Text **GIZ/LGRP II Team**

GIZ is responsible for the content of this publication.

On behalf of **Federal Ministry for Economic Cooperation and Development (BMZ)**