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Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 07-Feb-2024 | Report No: PIDIA00470



BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Region	Operation ID	Operation Name
West Bank and Gaza	MIDDLE EAST AND NORTH AFRICA	P504704	Palestinian Emergency Financing Facility
Financing Instrument	Estimated Appraisal Date	Estimated Approval Date	Practice Area (Lead)
Investment Project Financing (IPF)	06-Feb-2024	20-Feb-2024	Governance
Borrower(s)	Implementing Agency		
Palestinian Liberation Organization	Ministry of Finance		

Proposed Development Objective(s)

To contribute to service delivery in the West Bank.

Components

Project Audit

Education Employees' Salaries

PROJECT FINANCING DATA (US\$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? No

Is this project Private Capital Enabling (PCE)? No

SUMMARY

Total Operation Cost	30.00
Total Financing	30.00
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing

Trust Funds	30.00
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Special Financing

30.00

Environmental And Social Risk Classification

Moderate

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. **The ongoing Conflict in the Middle East that erupted in early October 2023, is expected to have lasting effects on the Palestinian economy.** The impacts of the conflict have been consequential due to the unparalleled scope and scale of damages to fixed assets, loss of life, and reduction in income flows across the Palestinian territories.¹

2. **Overlapping shocks are expected to have widened the Palestinian Authority's (PA) fiscal deficit by 2.5 percent of GDP, resulting in a financing gap of US \$516 million, or 3.0 percent of GDP, in 2023.** Total revenues excluding grants are expected to have contracted by 10 percent compared to pre-conflict estimates in 2023, primarily due to the sharp decline in the transfer of clearance revenues, which has continued throughout most of Q4 2023, and a fall in domestic revenues amid depressed economic activity. The lack of sufficient clearance revenues since the outbreak of the conflict has caused the PA to further reduce salary payments during the last three months of 2023.² For the months of October³ and November, 50 and 65 percent of the total monthly salary bill was paid, respectively, on December 30th, 2023. For the month of December, 60 percent of the monthly salaries were paid on February 7th, 2024. January wage bill remains unpaid. Under the assumption that the PA would eventually pay 80 percent of the Q4 2023 committed salaries, the fiscal deficit (before grants) is expected to be at least US \$794 million in 2023. Aid received is estimated at US \$278 million, resulting in a financing gap of US \$516 million (3.0 percent of GDP) in 2023, compared to a pre-conflict baseline of US \$106 million (0.5 percent of GDP). In the absence of viable alternative financing options, the PA accumulated additional arrears to the private sector and the public pension fund, with the projected stock of arrears reaching 40.9 percent of GDP by the end of 2023, surpassing the pre-conflict baseline of 33.6 percent of GDP. To finance the latest salary payments, the PA increased its borrowing from domestic banks by US \$400 million, raising its exposure near the all-time high registered during the COVID-19 pandemic.

¹ World Bank, Impacts of the Conflict in the Middle East on the Palestinian Economy, December 2023 Update.

² According to the PA MoF, Israeli deductions in October amounted to NIS600 million resulting in a net transfer of NIS200 million that the PA felt politically compelled to reject. Deductions reached NIS525 million in November resulting in a net transfer of NIS430 million which the PA accepted. Finally, deductions reached NIS500 million in December resulting in a net transfer of NIS200 million which was rejected by the PA.

³ The October partial salary payment was initially made through direct loans from the commercial banks to the PA employees in November. Those loans were then repaid to the banks by the MoF on December 30th, 2023.



Sectoral and Institutional Context

3. **The effects of the escalation and its spillover effects in the West Bank negatively impact the PA's efforts to continue service delivery, including in the education sector.** Since the outbreak of the conflict, the PA's revenues have decreased sharply, resulting in an acute shortage of funds to pay the salaries of teachers and other education staff. As mentioned above, only partial salary payments were made for October, November and December 2023, with significant delays. All public schools in the West Bank were forced to move to distance education starting November 19 for a period of three weeks due to a combination of absence of teacher payments and of the security situation⁴ but returned to a 3-day-a-week in December. Without teachers getting paid, there is a high risk that public education service delivery will be further disrupted during the Spring semester.

4. **The PA is committed to ensuring the continuity of education employees' salary payments to enable the continued delivery of basic public education services.** Due to delayed and reduced salary payments during the last quarter of 2023, there have been periods when schools in the West Bank were not in physical operation and distance learning took place, as mentioned above. If this persists for prolonged periods, it could negatively impact social and security conditions in the West Bank. The Education Sector Development Plan (ESDP) notes the vision that schools promote citizenship and affiliation to society as well as their role in creating prosperity.

5. **The education sector's wage bill comprises a large share of the PA's total wage bill and salaries account for the bulk of education spending.** Education expenditure in the West Bank and Gaza in 2022 was ILS 3.25 billion, 20 percent of total government expenditure. The education's sector wage bill, specifically, represented 34 percent of the PA's total spending on wages -- only second to the wage bill of the Ministry of Interior. This reinforces the importance of supporting wages in the education sector during these difficult times, to ease some of the PA's fiscal stress. In 2022, salaries (including the basic salary and allowances) made up 80 percent of total education expenditure. Over the past five years, an average of 78 percent of those salaries have been for teachers, and the remaining 22 percent have covered other staff such as school principals and administrative staff. Payment of remuneration of school employees is done centrally by the MoF.

6. **The proposed Project will provide emergency support to the PA to pay education employees' salaries, through 100 percent retroactive financing in the West Bank.** The operation will finance part of the education employees' salaries for the month of November, paid on December 30th, 2023. The education employees in the West Bank amount to 44,840 individuals – 35,103 of which are teachers while the rest include other staff including school principals, janitors, administrative assistants, counselors and other support staff. The education employees' salary payment for the month of November 2023, which was disbursed at a rate of 65 percent of the committed monthly salary, amounted to ILS 131.9 million (US \$35.6 million), according to the payroll directorate at the Ministry of Finance (MoF). The proposed grant of US \$30 million will cover around 84 percent of each education employee disbursed salary.

7. **The proposed US \$30 million operation is a component of a larger US \$65 million emergency response package by the World Bank.** Within this, US \$35 million has been allocated for emergency support operations in Gaza, including for the provision of food, water, and medical supplies facilitated by the United Nations (UN) agencies to urgently support the needs of the Gazan population during the ongoing conflict. In addition to reallocations within the portfolio to the tune of US \$15 million, including using Contingent Emergency Response Components, the package is made up of a new US \$10 million grant for the Gaza Health Emergency Response Project (P503036) and a US \$10 million additional financing for the West Bank and Gaza Emergency Social Protection and Jobs COVID-19 Response Project Second

⁴ Education Finance Notes, World Bank



Additional Financing (181573), which were approved in December 2023. The remaining US \$30 million, is allocated to the proposed project.

8. **The PFM system of the West Bank and Gaza is operating at a satisfactory level as shown in the last Public Expenditure and Financial Accountability (PEFA) assessment from 2018.** Fiscal discipline is seen as reasonable, especially in the context within which the PA has to operate. On the expenditure side, aggregate estimates are reasonable. Technical aspects of the budget preparation process work well.

9. **The MoF has implemented a new payroll system with support from the World Bank and the European Union.** The system has been operational for all civil service employees since October 2023. The new system supports linkages with the General Personnel Council (GPC) and other departments and ensures faster processes of any changes to employees. It also provides better analytical capability to the MoF.

C. Proposed Development Objective(s)

Development Objective(s) (From PAD)

The Project Development Objective (PDO) is to contribute to service delivery in the West Bank.

Key Results

10. **The achievement of the PDO will be measured through the following PDO level results indicators:**
- Number of education employees paid (disaggregated by gender)
 - Percentage of school days in which public schools were operational from November 1 to November 30, 2023
11. **This project's indicators measure its contribution at input (number of education employees paid) and output (number of days schools remained open) levels.** Since the operation covers one single month of salaries, including indicators that measure outcomes such as educational achievement would be unattainable.

D. Project Description

12. **The PEFF Project is an emergency operation focused on supporting the PA financing eligible staff salaries in the education sector in the West Bank.** The project consists of two components. Component 1 provides partial financing for the salaries of 44,840 education employees in the West Bank, by covering 84 percent of the November 2023 wage bill, disbursed on the 30th of December (at a rate of 65 percent), at a cost of US \$29.99 million. Component 2 covers the cost of the audit required for the project at the rate of US \$10 thousand.

13. **The eligible expenditures will be limited to the wage bill of PA education employees as set forth in the Project Operations Manual (POM) and the audit of expenditures.** Education employees are staff that work in institutions providing basic, secondary, pre-primary, and vocational education as defined in the Education Sector Strategic Plan (ESSP). Education employees include teachers and other staff including school principals, janitors, administrative assistants, counselors, and other support staff.

14. **The Project will be implemented over a period of four months with an expected closing date of June 30, 2024.**



The proposed financing will be from the Trust Fund for Gaza and the West Bank (TFGWB). The disbursement is expected to be within a week of effectiveness due to the emergency.

Legal Operational Policies	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Area OP 7.60	No

Summary of Screening of Environmental and Social Risks and Impacts

Environmental and Social Risk Impacts:

15. **The environmental and social (E&S) risk of the project is assessed as moderate.** The project will not support any kind of physical work or envisage any other kind of activities that may cause direct or indirect environmental impacts. The project is expected to have an overall positive impact as it will provide benefits to families of approximately 44,840 education employees.

16. **Potential social impacts pertain to the management of project contracted workers;** data privacy of beneficiaries; and information disclosure/beneficiary feedback and grievance redress Management of social issues will also be examined as part of the AUP of the project, and corrective actions (if any) will be identified and implemented. The project will rely on well-established and functional mechanisms at MoF for the management of social impacts.

17. **An Environmental and Social Commitment Plan (ESCP) has been prepared for the project and will be reviewed and cleared by the Bank and disclosed by project appraisal.** Among other aspects, the ESCP lays out the principles for the management of project workers, data privacy of beneficiaries, and information disclosure and grievance redress. Risk management measures will be further elaborated, as required, in the POM.

18. **The project has engaged with stakeholders during preparation and has an appropriate mechanism for citizen and beneficiary engagement during the project's implementation.** Stakeholder consultations to obtain feedback regarding the project were conducted on January 28, 2024, and a summary is included in the project ESCP. MoF has functional mechanisms for information disclosure as well as a functional and demonstrably effective grievance redress and feedback management mechanism to address complaints and inquiries about salary payments, which will be utilized for the project. Relevant details of the said mechanisms are included in the ESCP and will also be laid out in the POM.

E. Implementation

Institutional and Implementation Arrangements

A. Institutional and Implementation Arrangements



19. **The implementing agency will be the MoF.** The Directorate General of International Relations and Projects (DGIRP) will be the Project Implementation Unit (PIU) for the PEFF and will oversee project implementation, monitor progress, and ensure prompt delivery and reporting on project indicators. They will also handle the Financial Management and Procurement in the Project as described under the fiduciary section.

20. **The Payroll Directorate at the MoF processes the monthly wage bill payments of PA employees.** The Directorate reports to the Minister of Finance. The Payroll Directorate has the monthly data on the number of education employees paid in the West Bank and will provide reports on the payments of the selected wages.

21. **The project will be implemented based on a POM which will be adopted by the MoF before project effectiveness.** The POM will include the project's overall operating, fiduciary, and eligibility criteria for education employees financed.

B. Results Monitoring and Evaluation Arrangements

22. **The MoF will monitor and report on project results including PDO indicators.** The World Bank team will review this reporting as part of its project monitoring.

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APPROVAL

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