



# Program Information Document (PID)

---

Concept Stage | Date Prepared/Updated: 23-Nov-2022 | Report No: PIDC35085



**BASIC INFORMATION**

**A. Basic Project Data**

Country West Bank and Gaza	Project ID P179609	Project Name Development Policy Grant 13 (P179609)	Parent Project ID (if any)
Region MIDDLE EAST AND NORTH AFRICA	Estimated Board Date Mar 22, 2023	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Palestine Liberation Organization (for benefit of the Palestinian Authority)	Implementing Agency Ministry of Finance		

**Proposed Development Objective(s)**

The Development Objectives of the proposed operation are: (i) to improve the structural fiscal balance and strengthen the effectiveness of public procurement, and (ii) to strengthen the integrity of the financial sector and pursue digital transformation.

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	30.00
------------------------	-------

**DETAILS**

<b>Total Non-World Bank Group Financing</b>	30.00
Trust Funds	30.00

**Decision**

The review did authorize the preparation to continue

**B. Introduction and Context**

**Country Context**

1. The proposed DPG, in the amount of US\$30 million, is a standalone operation that provides timely financing to the Palestinian Authority (PA) to deal with the current fiscal stress, while also maintaining a medium-term focus on strategic priorities envisaged in the National Development Plan (NDP) 2021-2023. The proposed operation includes two pillars, namely (i) to improve the structural fiscal balance and strengthen the effectiveness of public procurement, and (ii) to strengthen the integrity of the financial sector and pursue digital transformation. The DPG is taking place at a challenging time for the PA as it deals with a very tough fiscal position that has forced it to accumulate large arrears to the



private sector and pay partial salaries to its employees since November 2021. The US\$30 million grant will provide some much-needed financing to help the PA address the fiscal needs and will also directly leverage other donor financing through the Palestinian Umbrella for Resilience Support to the Economy (PURSE) Multi-Donor Trust Fund. The MDTF is administered by the Bank and disburses funds quarterly based on satisfactory progress in reforms covered by the DPG matrix. To maintain a long-term perspective, the proposed DPG focuses on the continuum of reforms and builds upon efforts supported by previous operations, with both pillars serving the governance and transparency agenda.

2. The Palestinian territories have faced long lasting political instability and periodic episodes of violence over the last two decades, exacerbating macroeconomic volatility. Inflows of transfers have significantly dropped in recent years, making it more pressing to unlock growth constrained by a challenging business environment. The trade and movement restrictions have created a high risk of disruption in projects and trade and have kept investment levels low, resulting in a bias towards non-traded services which have less potential for productivity growth. Even though in 2022 the economy has continued to rebound from the COVID-19 shock, growth has slowed down compared to 2021 and the economy is yet to rebound to pre-pandemic levels.

3. Latest estimates suggest that poverty slightly dropped in 2021, after peaking in 2020. Based on the latest available official data, 22 percent of Palestinians lived below the US\$5.5 2011 purchasing power parity (PPP) a day poverty line in 2016/17. In the West Bank, poverty rates are lower but sensitive to shocks in household expenditures, while in Gaza any change in social assistance flows can significantly affect the population's wellbeing. World Bank estimates based on GDP per capita growth suggest that in 2020 the poverty rate spiked to 29.7 percent - an increase of nearly 8 percentage points from 2016. As the impact of the pandemic receded, the poverty rate is estimated to have declined to 27.3 percent in 2021. This represents a poor population of about 1.5 million people.

#### Relationship to CPF

4. The operation contributes to the implementation of the World Bank Group's Assistance Strategy for the West Bank and Gaza (FY22-25). Procurement reform supported by this DPG will enhance resource management and transparency in the public sector. This links to the first focus area of the Assistance Strategy, "Strengthening Institutions for Economic and Social Prosperity", especially through objective 1.1 which aims at strengthening Institutions' accountability and transparency. The prior action focused on updating the AML/CFT laws and instructions is expected to eventually contribute to an overall improved operating environment for the private sector contributing to Objective 2.1 of the Assistance Strategy which aims to "Stimulate Inclusive Private Sector Development". Under pillar 2, the prior action supporting the payments law and the use of e-money and the one aimed at better financial inclusion for women contribute to the Assistance Strategy's cross cutting themes, including "Leveraging Digital Technology" and "Narrowing the Gender Gaps".

### C. Proposed Development Objective(s)

5. The Development Objectives of the proposed operation are: (i) to improve the structural fiscal balance and strengthen the effectiveness of public procurement, and (ii) to strengthen the integrity of the financial sector and pursue digital transformation.

#### Key Results

6. The main results expected from this operation include: 1) an increase in domestic Value Added Tax (VAT) collections, in nominal NIS terms, by December 2024 compared to the December 2022 baseline, 2) number of civil and security personnel on the PA's payroll in 2023, on a net basis, equal to the December 2022 figure, 3) 80 percent of procurement staff completed the procurement training program, 4) the Palestine Monetary Authority conducted on-site inspections of 70 percent of licensed banks covering compliance with new procedures on beneficial ownership transparency, 5) an increase in the volume of cashless transactions and 6) the total value of new microfinance, extended



to women-owned businesses, reported since the adoption of the gender disaggregated data requirements equals US\$3 million, by December 2024.

#### **D. Concept Description**

7. The first pillar of the operation supports efforts to enhance domestic revenues through the establishment of an online portal that crosschecks VAT submissions by businesses and introduce a zero net hiring policy for 2023 to maintain spending on the wage bill. Pillar one also aims to remedy the lack of certification of the public procurement workforce in the PA by introducing a permanent procurement training program and an independent certification mechanism to strengthen the effectiveness of the public procurement function and, hence, accountability.

8. Pillar two focuses on the financial sector and supports efforts to upgrade the Anti Money Laundering and Combating Financing of Terrorism (AML/CFT) legal framework in the Palestinian territories through the enactment of a modern AML/CFT law, aligned with international best practice. Pillar two also supports the PA's efforts in advancing the digital transformation agenda through the enactment of a national payments law regulating the use of e-money. It also supports efforts to improve financial inclusion by requesting all Microfinance Institutions (MFIs) to adopt a single definition for female owned enterprises and to start reporting on the number and size of financing provided to these enterprises on a regular basis.

#### **E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects**

##### Poverty and Social Impacts

9. The overall poverty and social impact of the prior actions supported by this operation is expected to be largely positive or neutral. Efforts under pillar one aim to improve the fiscal balance and strengthen the effectiveness of public procurement. Applying stronger controls over spending and increasing revenues while enhancing the accountability of the public system may increase the PA's fiscal buffers which in turn would enable it to increase financing for social assistance programs. This would potentially have a positive impact on poverty. When implementing prior action two, focused on the reallocations of public staff, it is recommended that an information sharing or communication mechanism regarding the scheme is put in place to ensure transparency and avoid resistance due to misinformation or misunderstanding. Given the risk of certain staff disagreeing with the choice of sector they are reassigned to, it is also recommended that a grievance redress mechanism is in place to mitigate this risk. Under the same pillar, improved procurement increases value for money, which disproportionately benefits the poor, since lower quintiles rely more on public spending. The poverty and social impact of reforms supported under pillar two is expected to be neutral or positive. Measures to strengthen the integrity of the financial system are expected to have a neutral poverty and social impact. Prior action five aimed at pursuing digital transformation and the use of e-money is expected to have a positive poverty and social impact as digital technologies are making it possible to bring these services to people who lack access. These technologies are increasing the speed, security and transparency of transactions and allowing for development of sustainable financial products tailored to the needs of people with very low, erratic incomes. Prior action 6 which supports financial inclusion for women is expected to have a positive poverty and social impact. According to the literature, financial inclusion may alleviate poverty and inequality by facilitating the use of financial services such as loans, deposits, and the access to credit. This may result in investments in health, education and even new businesses, which is expected to have a positive poverty and social impact.

##### Environmental, Forests, and Other Natural Resource Aspects

10. Reforms supported by this operation are unlikely to have a significant negative environmental impact. The prior actions supported under pillar 1 aim to strengthen the fiscal position and enhance the effectiveness of public procurement and are not expected to have any negative environmental impacts. The prior actions covered by pillar 2 supporting the



integrity of the financial sector and supporting financial inclusion for women are also not expected to have any negative environmental impact. The prior action supporting digital transformation and the use of e-money makes it possible to transfer funds without the need to open bank accounts, or the need to have a brick-and-mortar branches, thereby contributing to lower carbon emissions which could have a positive environmental impact.

## CONTACT POINT

### World Bank

Nur Nasser Eddin, Abdalwahab Khatib  
Senior Economist

### Borrower/Client/Recipient

Palestine Liberation Organization (for benefit of the Palestinian Authority)  
Leila Sbaih Ghreib  
DG International Relations  
mofirdg@palnet.com

### Implementing Agencies

Ministry of Finance  
Leila Sbaih Ghreib  
DG International relations  
mofirdg@palnet.com

## FOR MORE INFORMATION CONTACT

The World Bank  
1818 H Street, NW  
Washington, D.C. 20433  
Telephone: (202) 473-1000  
Web: <http://www.worldbank.org/projects>

## APPROVAL

Task Team Leader(s):

Nur Nasser Eddin, Abdalwahab Khatib

### Approved By

Country Director:

Stefan W. Emblad

24-Nov-2022