

**PROGRAM INFORMATION DOCUMENT (PID)**  
**CONCEPT STAGE**

September 24, 2014

Report No.: AB7634

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<b>Operation Name</b>	GZ Emergency Budget Support Supplemental
<b>Region</b>	MIDDLE EAST AND NORTH AFRICA
<b>Country</b>	West Bank and Gaza
<b>Sector</b>	Other social services (100%)
<b>Operation ID</b>	P152527
<b>Lending Instrument</b>	Development Policy Lending
<b>Borrower(s)</b>	PALESTINE LIBERATION ORGANIZATION (PLO)
<b>Implementing Agency</b>	Ministry of Finance
<b>Date PID Prepared</b>	September 16, 2014
<b>Estimated Date of Appraisal</b>	September 25, 2014
<b>Estimated Date of Board Approval</b>	October 30, 2014
<b>Corporate Review Decision</b>	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

**I. Key development issues and rationale for Bank involvement**

The Palestinian Authority (PA) has been implementing reforms for the past six years, which have been successfully supported through Bank development policy grants despite numerous political and economic constraints. Among other things, for instance, the PA managed an impressive degree of fiscal consolidation, reducing its recurrent fiscal deficit from 24 percent of GDP in 2009 to 11 percent in 2013.

However, due to shocks beyond the PA's control, economic performance indicators in Palestinian territories have been weakening significantly since 2012. Following a period of strong economic growth that lasted for five years between 2007 and 2011 and peaked in 2011 at 12 percent, growth in the Palestinian territories started deteriorating in 2012, dropping to 6 percent and then further to 2 percent in 2013. At this low rate of growth in 2013, real income per capita shrank.

Furthermore, with the recent stoppage of the US-backed peace talks, the political and economic outlook has become even more uncertain, and the situation was particularly difficult in Gaza. Following the failure [idem] of the peace process, Israeli and Palestinian relations deteriorated, culminating in a large scale military conflict between Israel and Hamas in Gaza that started in July 2014.

The armed conflict in Gaza has caused a large loss of human life and a much larger number of those injured. The damages to Gaza's infrastructure and economy are enormous. The social and poverty impact associated with the loss of human lives, injuries, destruction of houses, displacement, and the loss of employment is severe. The conflict in Gaza has, thus, created an unexpected and urgent financing requirement for the PA's 2014 budget. Without additional

donor support, not only would this urgent need to address immediate humanitarian and service delivery needs in Gaza remain unmet, but it could also jeopardize the PA's reform program, which is important not only as the crucial instrument for socioeconomic recovery in Gaza, but also as the crucial instrument for driving the reforms and development programs that the World Bank is supporting in West Bank and Gaza.

The rationale for the proposed Supplemental Financing for DPG VI satisfies the operational requirements for a supplemental development policy operation. Given the urgency, the proposed supplemental financing allows the Bank to provide support in a timely manner so that the authorities can deal rapidly and decisively with the aftermath of the Gaza conflict, while also ensuring that reforms supported under DPG VI continue to be implemented.

## **II. Proposed Objective(s)**

In addition to supporting the PA's effort to alleviate the social, economic, and fiscal impact of the recent conflict in Gaza, this Emergency DPG VI has the same objectives as DPGVI and that is to support the achievement of the following development objectives in the context of the PA's National Development Plan (NDP): (1) reducing relative size of the PA's fiscal; (2) building public procurement systems and strengthening budget management; (3) improving regulatory aspects of the business climate.

## **III. Preliminary Description**

This supplemental grant has been designed to alleviate the impact of the recent conflict in Gaza on PA's finances and to enable it to continue implementing the reform program that was supported by DPG VI. The operation will help the PA address [the immediate needs of Gaza] while keeping on track its efforts in: a) strengthening the PA's fiscal position b) enhancing public finance management, including the design of a modern public procurement system, c) improving access to finance to support private sector development through the introduction of a sound legal framework for leasing. These policy areas are aligned with the priorities indicated in the governance and institution section of the PA's NDP 2014-2016.

## **IV. Poverty and Social Impacts and Environment Aspects**

### *Poverty and Social Impacts*

The actions supported by this supplemental financing operation are not expected to have any negative impact in the short-term and are expected to have a positive social and poverty impact over the medium term. In fact, this Supplemental Financing is expected to have a positive poverty and social impact even in the short-term as it will enable the PA to implement welfare enhancing programs, in particular its plan to temporarily expand financial assistance to additional 20,000 poor people in Gaza, as well as to provide additional assistance and services to restore livelihoods for the people in Gaza.

### *Environment Aspects*

Like the original DPG VI, this supplemental grant operation will provide additional funding for PA's recurrent expenditures and it will not have significant effects on the country's environment, forests and other natural resources. None of the DPG VI prior actions have environmental impacts or risks. PA and donor activities that may pose environmental risks in Gaza will be channeled through investment operations and relevant safeguard policies will apply as appropriate.

### **V. Tentative financing**

Source:	(\$m.)
Borrower	0
Special Financing	41
Borrower/Recipient	
IBRD	
Others (specify)	
	Total

### **VI. Contact point**

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