



# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 06-Nov-2018 | Report No: PIDC25783



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Project ID	Project Name	Parent Project ID (if any)
West Bank and Gaza	P164427	Strengthening Fiscal Resilience and Private Investment (P164427)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
MIDDLE EAST AND NORTH AFRICA	05-Dec-2018	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Ministry of Finance and Planning	Ministry of Finance and Planning		

**Proposed Development Objective(s)**

Development objectives of this operation are to support the efforts of Palestinian National Authority to:

- (i) Strengthen revenue, land administration and intergovernmental revenue framework;
- (ii) Improve the business environment and foundations for a digital economy, and
- (iii) Enhance sustainability and creditworthiness of local service providers for private investment

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

**SUMMARY**

<b>Total Financing</b>	30.00
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**DETAILS**

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

Decision



## **B. Introduction and Context**

### Country Context

The West Bank and Gaza (the Palestinian territories) have faced long lasting political instability and periodic episodes of violence over the last two decades, exacerbating macroeconomic volatility. The Palestinian territories are a small open economy with lower-middle income status with a population of 4.8 million in 2016. The Palestinian territories have experienced political instability (both regional and domestic) and a series of violent conflicts over the years. Gaza's represents 1/3 of total GDP, and its borders are subject to highly restrictive controls by Israel and Egypt.

The structure of the economy of Palestinian territories has transformed dramatically over the last two decades. The manufacturing and agriculture sectors' share to GDP contracted by around 40 percent and 75 percent, respectively, during 1994-2016. On the other hand, the share of public service sector (such as education, health, and security) in national income expanded by around 60 percent during the same period, largely financed by donors. This dramatic structural transformation in the economy has resulted in failure to generate sufficient private sector jobs to absorb the growing labor force (mainly youth and women) and revenues to provide services to a rapidly rising population.

### Relationship to CPF

The proposed operation is aligned with the Maximizing Finance for Development (MFD) approach for mobilizing private finance, which is fully reflected in the World Bank Group's (WBG) Assistance Strategy for the West Bank and Gaza (FY18-21). The proposed DPG reflects the Bank's strategic shift to a stronger private sector focus. It supports improvements to the business environment while streamlining and modernizing the legal and regulatory framework for private firms, with the aim of promoting dynamic and inclusive private sector growth and formal private sector job creation. Reforms in the electronic payments systems aim to significantly reduce costs and further financial inclusion while providing a critical enabler for e-government services. In addition, prior actions on revenue and land administrations not only contribute to larger tax collections, but they increase the availability of collateral for bank lending dramatically as only titled land can be used for collateral. Further, policy actions in the utility sectors (such as electricity and water) continue to strengthen the progress made over the previous operation in improving creditworthiness and payment discipline of service providers, which is the single most critical challenge affecting the PA's ability to mobilize private and commercial finance to support investment into these sectors. The policy actions correspond to MFD interventions, namely, upstream reforms to unlock market and institutional failures, creating more space for the private sector participation and private investment.

## **C. Proposed Development Objective(s)**

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### Key Results

Under Pillar I, expected results should increase gross domestic tax revenues and increase the number of LGUs that have piloted collection of property taxes. Under pillar II, actions are expected to lead to a shorter average time to issue a business license; shorter average to obtain a land purchase permit for businesses; and number of licenses for provision of mobile payments have been reviewed. Under pillar III, actions are expected to increase the share of electricity



purchased from wholesale suppliers is collected and paid by LGUs; share of unpaid debt for water owed by LGUs to the MoFP is rescheduled; and that a share of medical referrals to local non-MoH facilities that are done based on the National Price Reference List.

#### **D. Project Description**

The Program Development Objective (PDO) of this operation is aligned with the key PA priorities and broader development goals. The PDO of the proposed operation is to: (i) strengthen revenue and land administration and the intergovernmental revenue framework, (ii) improve the business environment and foundations for a digital economy, and (iii) enhance sustainability and creditworthiness of local service providers. Under the first objective, strengthening of the mechanisms for collection of domestic revenues will help strengthen PA's public finances at a time of continued declines in official transfers. Furthermore, improvements in land registration will not only contribute to larger tax collections, but also increase the availability of collateral for bank lending dramatically as only titled land can be used for collateral. Under the second objective, the enhanced legal and regulatory business environment will help private sector development in job creation. Finally, under the third objective, this DPG seeks further progress on increasing fiscal stability of the electricity, water and health sectors. This is critical to lay the foundation for improved private sector activity, increased confidence of potential investors, and gaining greater citizens' trust.

The design of the operation has incorporated lessons learned from previous DPGs, including those related to the focus on longer-term perspectives of reforms and follow-up steps to secure the intended results, as well as the need for clear PA commitment. The last available Implementation Completion and Results report (ICR) of the Seventh Palestinian National Development Plan DPG (P156865), highlighted that future DPGs should cover long-term perspectives of reform and focus more strongly on criticality of prior actions. The ICR also found that the authorities' strong commitment to take the critical follow-up steps is key to secure the intended results. The previous DPG operation (P161252) adopted a medium-term framework by supporting the reform implementation beyond the immediate prior actions, while it was designed as a standalone operation. This proposed operation continues this practice, sequencing the policy reform agenda with policy measures to be achieved over the medium term. This will be done by designing the policy matrix in a shadow programmatic approach.

#### **E. Implementation**

##### **Institutional and Implementation Arrangements**

The design of the monitoring and evaluation arrangements builds upon those developed under the earlier development policy grants. The results framework of the DPG was agreed with the authorities and developed in consultation with other development partners. As has been the practice, the results framework was developed not only to monitor progress under the DPG, but also to monitor the implementation of the PRDP Trust Fund, which is a major source for donor funding to the budget, aligned to the NPA. Since both the DPG and the PRDP Trust Fund support the implementation of selected key objectives of the PA's strategy and aim to provide stable and predictable financial support to the PA budget, a shared results framework for both has provided additional leverage to reform implementation. The indicators used are direct measures of development objectives, the data is collected by the statistics agency and finance and line ministries and enjoys full ownership of the authorities.

The monitoring arrangements have been institutionalized in the Palestinian MoFP. Based on the inputs from line ministries and other agencies, the PA prepares quarterly reports on a regular basis to monitor the performance under both the DPG and the PRDP Trust Fund. The same arrangement is utilized to monitor progress against the PA's medium-term program. These reports are placed on the website of the MoFP. The monitoring arrangements developed in the



context of DPGs and PRDP Trust Fund have not only been used for the purposes of those operations, but there is evidence that these arrangements have contributed to building stronger institutional arrangements for monitoring PA's broader reform efforts.

## **F. Poverty and Social Impacts and Environmental Aspects**

### Poverty and Social Impacts

The overall poverty and social impact of the prior actions supported by this operation is expected to be largely positive or neutral. The poverty and social impact of the reforms supported under pillars 1, 2, and on the health referral system under pillar 3 are expected to be positive or neutral. The prior actions supported under pillar 3 related to utility sectors could have potential poverty impacts but those are adequately mitigated and are expected to have a largely positive or neutral poverty and social impacts.

### Environmental Aspects

Reforms supported by this operation are unlikely to have significant negative environmental impact. The prior actions supported under the pillar 1 and 3 aim to improve the fiscal sustainability of the PA's finances and are unlikely to have any direct and indirect environmental impact. However, the prior actions supported under the pillar 2 could entail environmental risks. Notwithstanding, it is important to mention that the business licensing reform, specifically amending the Law of Crafts and Industries of 1953, focuses on streamlining the issuance of the municipal license by ensuring that security clearance is required only for specific activities that might pose a security threat. The rest of the procedures required for the issuance of business license, including health, safety, and environmental aspects follow the Palestinian regulatory framework, and are not subject to the proposed reform. Furthermore, these reforms will not only promote the growth in MSMEs but also encourage them to officially register rather than operate in the informal sector. Given a significant share of the informal sector in the Palestinian economy, reducing the size of the informal sector and increasing the number of formal firms will result in reduced safety, health or environmental risks, which will have a positive impact on the overall economy.

## **G. Risks and Mitigation**

The overall risk of this operation is high. Areas of concern include risks related to political and governance, macroeconomic, and fiduciary. The political and security risks are high, as the situation in the Palestinian territories remains fragile. If the security situation relapses, private sector confidence and investment will fall. However, the authorities' strong commitment to the continued implementation of structural reforms despite the highly difficult economic environment and fiscal pressures will provide a basis for continued implementation of the program. A simple design of this operation and strong PA ownership of the reform program supported by this operation, which contributes to fiscal consolidation and reduced reliance on donor assistance over the medium term, are also mitigating factors to the achievement of the PDO. system suffers from significant weaknesses which materialized in weak budget execution and the continued accumulation of arrears, delays in the production of the audited annual accounts mainly due to the lack of timely preparation of the financial statements by the MoFP and delayed implementation of the procurement law. The PA recently issued a new PFM strategy (2017-2022) with the emphasis on expenditure management and control, accounting reporting and procurement. The Bank is supporting the implementation of the strategy through the new PFMI project, which builds on the previous TA activities. The project will particularly assist the PA to improve the accuracy and timeliness in the final account preparation process, which is crucial for the accountability of the PFM system, and to accelerate the implementation of the procurement law.



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**APPROVAL**

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**Approved By**

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