

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

September 24<sup>th</sup>, 2018  
Report No. 130848

<b>Operation Name</b>	Strengthening Fiscal Resilience and Improving Job Creation
<b>Region</b>	Middle East and North Africa
<b>Country</b>	West Bank and Gaza
<b>Sector</b>	Macroeconomic & Fiscal Management Global Practice
<b>Operation ID</b>	P164427
<b>Lending Instrument</b>	Development Policy Grant (DPG)
<b>Borrower(s)</b>	Palestine Liberation Organization (PLO) for the benefit of the Palestinian Authority
<b>Implementing Agency</b>	Ministry of Finance and Planning of the Palestinian Authority
<b>Date PID Prepared</b>	Oct 8, 2018
<b>Estimated Date of Appraisal</b>	Oct 31, 2018
<b>Estimated Date of Board Approval</b>	Dec 5, 2018
<b>Corporate Review Decision</b>	Following the concept review, the decision was taken to proceed with the preparation of the operation.

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

**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<sup>1</sup>. Gaza's share of total GDP is less than 30 percent, 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.** Curtailed access to large areas of territory, restrictions on movement and limitations on external trade have been key impediments to private sector investment and job creation in the West Bank and Gaza. As a result, 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 provision of services to a rapidly rising population.

**The proposed DPG reflects the Bank's strategic shift to focus on stimulating an environment for dynamic and inclusive private sector growth.** 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 furthering financial inclusion while providing a critical enabler for e-government services. In addition, prior actions on revenue and land

<sup>1</sup> The series of conflicts include the first and second intifada during 1987-93 and 2000-05, respectively, the Fatah-Hamas conflict in 2007-08, and wars in Gaza in 2008-09, 2012, and 2014.

administrations not only contribute to larger taxes collections, but they increase the availability of collateral for bank dramatically as only titled land be used for collateral. Further, policy actions in the utility sectors continue to strengthen the progress made over the previous operation in improving creditworthiness and payment discipline in the utility sectors (such as electricity and water), which is the single most critical challenge affecting the PA's ability to mobilize private and commercial finance to support investment into these sectors.

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

The development objective of the proposed operation is to support the efforts of the PA 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

## **III. Preliminary Description**

The proposed operation has been designed to support the implementation of key policy and institutional reforms defined in the second and third pillars of the Palestinian Authority's (PA) development strategy; the National Development Agenda (NPA). 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 proposed DPG supports reform areas in which the World Bank and other development partners have actively been engaging through technical assistance (TA) and grants. This would allow the policy reforms proposed in this DPG to be supported by multi-year ongoing and planned programs of TA and funding provided by development partners. Finally, the new design would ensure DPG support to the PA's medium-term reform agenda envisaged in the NPA for 2017-22, which provides a policy framework and sets medium-term strategic objectives. These features all aim to ensure clear PA commitment to achieve the intended results over the medium term.

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

### *Poverty and Social Impacts*

The overall poverty and social impact is expected to be either largely positive or neutral. The proposed fiscal reform focuses on improving fiscal viability of utility sectors (such as electricity and water) with the aim to increase investments in those sectors over the medium and long term. It is critical that these reforms translate into improving the quality and reliability of service delivery over the medium term in order to have a positive impact on the poor and vulnerable.

### *Environment Aspects*

The prior actions supported under the pillar 1 and 2 aim to improve the fiscal sustainability of the PA's finances and are unlikely to have any direct or indirect environmental impact. However, the prior actions supported under the pillar 3 could entail environmental risks. 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.

## **V. Tentative financing:**

US\$30 million

**VI. Contact point**

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