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Report No: ICR00004190

IMPLEMENTATION COMPLETION AND RESULTS REPORT  
(TF-0A1742)

ON A

TRUST FUND GRANT

IN THE AMOUNT OF USD40.0 MILLION

TO THE

PALESTINE LIBERATION ORGANIZATION

(FOR THE BENEFIT OF THE PALESTINIAN AUTHORITY)

FOR A

PALESTINIAN NATIONAL DEVELOPMENT PLAN

DEVELOPMENT POLICY GRANT VII

June 9, 2017

Macroeconomic and Fiscal Management Global Practice  
Country Management Unit - MNC04  
Middle East and North Africa Region

## CURRENCY EQUIVALENTS

(Exchange Rate Effective May 9, 2017)

Currency Unit = New Israeli Shekel (NIS)

NIS 1.00 = USD 0.277

USD 1.00 = NIS 3.606

FISCAL YEAR: Calendar year

## ABBREVIATIONS AND ACRONYMS

DPG	Development Policy Grant
GDP	Gross Domestic Product
GoI	Government of Israel
HEPCO	Hebron Electric Power Company
JDECO	Jerusalem District Electricity Company
MoF	Ministry of Finance
NEDCO	Northern Electricity Distribution Company
NDP	National Development Plan
NPA	National Policy Agenda
NIS	New Israeli Shekel
OPCS	Operations Policy Country Services
PA	Palestinian Authority
PAD	Project Appraisal Document
PDO	Program Development Objective
PENRA	Palestinian Energy and Natural Resources Authority
PFM	Public Financial Management
M&E	Monitoring and Evaluation
MoH	Ministry of Health
NDP	National Development Plan
PRDP	Palestinian Reform and Development Plan
PRDP-MDTF	Palestinian Reform and Development Plan – Multi Donor Trust Fund
TEDCO	Tulkarem Electricity Distribution Company
SELCO	Southern Electric Company
WB	The World Bank
WB&G	West Bank and Gaza

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**COUNTRY**  
**West Bank and Gaza**

**Project Name**  
**Palestinian National Development Plan DPG VII**

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A. Basic Information			
Country:	West Bank and Gaza	Program Name:	WBG - DPG VII
Program ID:	P156865	L/C/TF Number(s):	TF-A1742
ICR Date:	04/12/2017	ICR Type:	Core ICR
Lending Instrument:	DPL	Borrower:	PALESTINE LIBERATION ORGANIZATION (PLO)
Original Total Commitment:	USD 40.00M	Disbursed Amount:	USD 40.00M
Revised Amount:	USD 40.00M		
<b>Implementing Agencies:</b>			
<b>Cofinanciers and Other External Partners:</b>			

B. Key Dates				
Process	Date	Process	Original Date	Revised / Actual Date(s)
Concept Review:	09/21/2015	Effectiveness:		
Appraisal:	10/22/2015	Restructuring(s):		
Approval:	02/11/2016	Mid-term Review:		
		Closing:	06/30/2016	06/30/2016

C. Ratings Summary	
<b>C.1 Performance Rating by ICR</b>	
Outcomes:	Moderately Satisfactory
Risk to Development Outcome:	High
Bank Performance:	Moderately Satisfactory
Borrower Performance:	Moderately Unsatisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)			
Bank	Ratings	Borrower	Ratings
Quality at Entry:	Moderately Satisfactory	Government:	Not Applicable
Quality of Supervision:	Satisfactory	Implementing Agency/Agencies:	Not Applicable
<b>Overall Bank Performance:</b>	Moderately Satisfactory	<b>Overall Borrower Performance:</b>	Moderately Unsatisfactory

**C.3 Quality at Entry and Implementation Performance Indicators**

Implementation Performance	Indicators	QAG Assessments (if any)	Rating:
Potential Problem Program at any time (Yes/No):	No	Quality at Entry (QEA):	None
Problem Program at any time (Yes/No):	No	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:			

**D. Sector and Theme Codes**

	Original	Actual
<b>Major Sector/Sector</b>		
Public Administration		
Sub-National Government	6	6
Central Government (Central Agencies)	44	44
Health		
Health	25	25
Energy and Extractives		
Other Energy and Extractives	13	13
Industry, Trade and Services		
Other Industry, Trade and Services	12	12
<b>Major Theme/Theme/Sub Theme</b>		
Economic Policy		
Fiscal Policy	13	13
Tax policy	13	13
Human Development and Gender		
Health Systems and Policies	25	25
Health System Strengthening	25	25
Private Sector Development		
Business Enabling Environment	12	12
Regulation and Competition Policy	12	12
Public Sector Management		
Public Administration	19	19
Transparency, Accountability and Good Governance	19	19
Public Finance Management	19	19

Domestic Revenue Administration	13	13
Public Expenditure Management	19	19

### E. Bank Staff

Positions	At ICR	At Approval
Vice President:	Hafez M. H. Ghanem	Inger Andersen
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### F. Results Framework Analysis

#### Program Development Objectives (from Project Appraisal Document)

I) Improve public revenue performance and improve sustainability of public expenditures; II) Improve transparency of public finances; and III) Facilitate the land registration process.

#### Revised Program Development Objectives (if any, as approved by original approving authority)

There have been no revisions.

#### (a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
<b>Indicator 1:</b>	The stock of income tax debt estimated based upon official income tax filings that have been verified through MoF audits			
Value (quantitative or Qualitative)	The stock of income tax debt estimated based upon official income tax filings that have been verified through MoF audits in October 2015 amounted to NIS 100 million	The stock of income tax debt estimated based upon official income tax filings that have been verified through MoF audits is 15 percent lower in		The Stock of income tax debt as of December 2016 was NIS55 million

		2016 than it was in October 2015		
Date achieved	October 2015	December 2016		December 2016
Comments (incl. % achievement)	Target achieved. The stock of income tax debt was reduced to NIS55 million. This is a 45 percent decline from the October 2015 baseline, which is a bigger achievement compared to the target set in the DPG. However, this achievement cannot be attributed to prior actions 1 and 2 because it was not followed up by measures to operationalize it.			
<b>Indicator 2:</b>	The ratio of annual wholesale electricity bill payments to the Israel Electric Corporation made by JDECO, NEDCO, SELCO, HEPSCO and TEDCO electricity distribution companies to amount collected by these DISCOs from end customers.			
Value (quantitative or Qualitative)	Ratio of annual wholesale electricity bill payments to the Israel Electric Corporation made by JDECO, NEDCO, SELCO, HEPSCO&TEDCO electricity distribution companies to amount collected by these DISCOs from end customers was equal to 65 percent in 2014	Ratio of annual wholesale electricity bill payments to the Israel Electric Corp made by JDECO, NEDCO, SELCO, HEPSCO&TEDCO electricity distrib. companies to amount collected by these DISCOs from end customers in the WB amounts to at least 80 percent in 2016		The ratio of payments made to the Israel Electric Corp made by JDECO, NEDCO, SELCO, HEPSCO&TEDCO electricity distrib. companies to amount collected by these DISCOs from end customers in the WB amounted to 90 percent in 2016.
Date achieved	December 2014	December 2016		December 2016
Comments (incl. % achievement)	Target achieved. The 2016 ratio was 12.5 percent higher than the original target.			
<b>Indicator 3:</b>	The cost of health referrals to health service providers outside of the Palestinian public healthcare system as a percentage of GDP.			
Value (quantitative or Qualitative)	The cost of health referrals to health service providers outside of the Palestinian public healthcare system was NIS569.9 million in 2014 (1.2 percent of GDP)	The cost of health referrals to health service providers outside of the Palestinian public healthcare system is lower than 1.2 percent of GDP in 2016.	Due to updated data on the 2014 cost of outside medical referrals, the target was revised to lower than	The cost of health referrals to health service providers outside of the Palestinian public healthcare system was 1.48 percent of GDP in 2016



	Note: the original baseline was revised from 1.2 to 1.88 percent of GDP as the 2014 cost of outside medical referrals was revised upwards from NIS569.6 million to NIS853 million.		1.88 percent of GDP in 2016	
Date achieved	December 2014	December 2016		December 2016
Comments (incl. % achievement)	Target achieved. The baseline for 2014 was revised upwards as updated data received by the MoH indicates that the actual cost of outside medical referrals for 2014 was NIS853 million, and not NIS569.6 million. As a result, the baseline was revised upwards from 1.2 to 1.88 percent of GDP. The actual result for 2016 surpassed the target as the cost of referrals as a share of GDP stood at 1.48 percent -- 21 percent lower than the 2014 baseline.			
<b>Indicator 4:</b>	Information on the amount of transportation tax collected by the MoF on behalf of municipalities			
Value (quantitative or Qualitative)	No information on the amount of transportation tax collected by the MoF on behalf of municipalities is available online	Annual info is available online on amount of: 1) the transportation tax collected by MoF on behalf of each LGU; 2) the service fee charged; 3) any deductions/intercepts for each LGU; and 4) the transportation tax paid to each LGU in 1st quarter of 2016.		The MoF has placed on its website annual information on the amount of transportation tax collected by it on behalf of the municipalities, the service fee it charges, and other deductions or intercepts for the municipality, and the amount transferred to each municipality.
Date achieved	August 2014	December 2016		December 2016
Comments (incl. % achievement)	The target was achieved as the data is now available online.			
<b>Indicator 5:</b>	Information on commitments in the pipeline in the Integrated Financial Management System (IFMIS) by the MoH, MoT, MoI, MoPW and MoLG.			
Value (quantitative or Qualitative)	Information on commitments in the pipeline is not available by the MoH, MoT,	Starting January 2016, access to info on commitments in the pipeline is		Information on commitments in the pipeline has been made available by the ministries of

	MoI, MoPW and MoLG	provided by the MoH, MoT, MoI, MoPW and MoLG in the IFMIS at the time a commitment is made		transportation, interior, public works and local government. However, the ministry of health has not yet implemented the system.
Date achieved	October 2015	January 2016		January 2016
Comments (incl. % achievement)	The target was only 80 percent achieved as one of the five pilot ministries (the MoH) has not yet implemented the commitment recording system partly because some technical problems relating to data entry of medical referrals are still to be resolved.			
<b>Indicator 6:</b>	The number of land titles picked up out of 5,000 issued in the pilot area (monitored through the land registration project).			
Value (quantitative or Qualitative)	188 land titles out of 5,000 issued have been picked up in the pilot area (monitored through information collected from the PLA) up until October 2015	The no. of land titles picked up in 2016 in the pilot area (monitored through the land registration project) is at least 100% higher than what it was in October 2015 (i.e at least 376 land titles have been picked up by Dec 31, 2016)		The target of 376 titles to be picked up in the pilot area around Hebron in 2016 was comfortably exceeded with a result of 2950 land titles picked up.
Date achieved	October 2015	December 2016		December 2016
Comments (incl. % achievement)	The target was fully achieved and the actual result has significantly surpassed it by close to 700 percent.			

**(b) Intermediate Outcome Indicator(s)**

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
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### G. Ratings of Program Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
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No ISR was prepared as it is not required for a standalone DPG.

### H. Restructuring (if any)

Not Applicable



# 1. Program Context, Development Objectives and Design

## 1.1 Context at Appraisal

### Political background

There has been no progress in recent years in the Israeli-Palestinian peace process and the Oslo Accords of 1995 that were supposed to be for an interim period of five years continue to be in place. Also, the Paris Protocol -- the economic annex to the peace agreement -- still regulates the economic relationship between the parties even though it has become outdated and is not fully implemented as envisaged by the agreement. This operation was appraised in late 2015 at a time of high political uncertainty as the American brokered peace talks that were resumed in 2013 had already stalled due to major disagreement between the Palestinian Authority (PA) and the Government of Israel (GoI) over borders, settlements and the final status of East Jerusalem. The latest international conference on the Israeli-Palestinian conflict in January 2017 did not succeed in formulating a strategy for restarting the peace talks.

Notably, cooperation between the GoI and the PA has improved on a number of issues recently, mainly the transfer of fiscal revenues owed to the PA as well as an increase in permits for Palestinian workers seeking employment in Israel. Nonetheless, intensified settlement activities in the West Bank and East Jerusalem and ongoing restrictions<sup>1</sup> on trade, movement, and access (particularly to Area C) continue to constitute the main impediment to economic activity and job creation in Palestine.

On the domestic side, the internal division continues. Reconciliation efforts between Fatah in the West Bank and Hamas in Gaza have made little progress as the technocratic consensus government that has been in place since 2015 has not been followed by a unity government nor presidential and parliamentary elections as stipulated by multiple reconciliation agreements. With little progress in internal reconciliation, the environment for much-needed economic reforms remains difficult.

### Macroeconomic environment

Economic growth significantly weakened after the outbreak of the second Intifada in early 2000 when the GoI imposed a multi-layered system of physical, institutional, and administrative restrictions that fragmented the Palestinian territories into small enclaves lacking most forms of economic cohesion. In mid-2007 and after the internal divide between Gaza and the West Bank, a new PA caretaker government took office. This

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<sup>1</sup> According to the Government of Israel these restrictions are imposed to protect the security of Israeli citizens. The territory of the West Bank is subdivided into three areas: Area A consists of large towns under PA control, Area B of small towns under PA administration but Israeli security control and Area C, the only contiguous territory in the West Bank which makes up about 61 percent of the West Bank territory, and in which the PA exercises no administrative or security control.

government was supported by the international community and undertook fiscal stabilization and reforms, with the Palestinian Reform and Development Plan (PRDP) 2008-10 serving as a road map to strengthen the institutions necessary for a future Palestinian state.

PA-led reforms supported by donor aid and some easing of Israeli restrictions enabled the Palestinian economy to recover. During 2008-2011, GDP growth averaged 9 percent, or a rise of 5 percent in income per head, led by an expansion of the public sector and non-tradables largely financed by donor aid. However, high growth was not sustained. Output expansion fell to 6.3 percent in 2012, largely reflecting a withdrawal of demand due to a halving of aid compared to its peak in 2008.

**Table 1: Key Macroeconomic Indicators and Projections, Palestinian territories 2014-2020**

	2014	2015	2016	----Projections----			
				2017	2018	2019	2020
<b>Output and prices</b>							
Real GDP (2004 market prices)	-0.2	3.5	4.1	3.4	3.4	3.3	3.3
West Bank	5.3	2.5	3.0	2.7	2.7	2.7	2.7
Gaza	-15.1	6.8	7.7	5.5	5.5	5.0	5.0
CPI inflation (end of period)	1.2	1	-1	1.5	2	2.1	2.1
<b>Investment and saving</b>							
Gross capital formation, of which:	19.0	21.2	21.0	20.3	19.8	19.8	19.7
Public	3.6	4.7	5.2	4.6	4.7	4.6	4.7
Private	15.4	16.5	15.8	15.7	15.1	15.1	15.0
Gross national savings, of which:	11.6	7.7	9.4	7.0	7.0	7.2	7.2
Public	-2.3	-4.0	-1.1	-4.2	-3.7	-3.5	-3.3
Private	14.0	11.7	10.5	11.2	10.7	10.7	10.5
Saving-investment balance	-7.4	-13.5	-11.6	-13.3	-12.8	-12.6	-12.5
<b>Monetary sector (annual percentage change)</b>							
Credit to the private sector	17.3	19.2	20.0	15.0	14.0	13.0	13.0
Private sector deposits	7.2	7.3	6.8	8.1	8.3	7.8	8.6
<b>External sector</b>							
Exports of goods and nonfactor services	17.1	18.3	18.2	18.3	18.3	18.3	18.3
Imports of goods and nonfactor services	56.8	59.2	57.0	56.5	55.6	55.1	54.9
Net factor income	10.9	10.9	10.9	11.0	11.0	10.9	10.8
Net current transfers	21.4	16.4	16.4	13.9	13.5	13.4	13.3
Private transfers	13.3	10.8	10.1	10.2	10.2	10.1	10.2
Official transfers	8.1	5.6	6.3	3.6	3.2	3.3	3.1
Current account balance (including official transfers)	7.4	13.6	11.5	13.3	12.8	12.5	12.5
<b>Memorandum items:</b>							
Nominal GDP (in millions of USD)	12697	12673	13397	13826	14516	15251	15996
Per Capita nominal GDP (USD)	2790	2708	2781	2795	2849	2911	2969
Unemployment rate	27	26	26	28	29	30	30

Sources: MoF, IMF and World Bank staff calculations.

The deceleration in growth worsened in 2013 as GDP expanded by only 1.5 percent, equivalent to a fall in output per head. Economic activity weakened in both the West Bank and in Gaza as fiscal strains were translated into wage arrears and political uncertainty affected private and foreign investor confidence. The war in Gaza plunged the economy

into recession in 2014, when overall output fell by 0.2 percent, driven by a 15 percent contraction in Gaza while the West Bank economy grew by 5.3 percent.

The economy has been on a recovering trend since the 2014 recession, but driven by unsustainable factors. Growth in the Gaza Strip is estimated to have reached 7.7 percent in 2016 driven by a surge in construction activity, while the West Bank economy expanded by 3.0 percent mainly due to an increase in household consumption financed by bank loans.

Externally-imposed restrictions, particularly in Area C, have a strong impact on activity, wages and employment. Private investment has averaged around 15 percent of GDP over the past seven years, as compared with rates of over 25 percent in fast-growing middle income economies and has largely been directed towards non-tradeable activities. A Bank report<sup>2</sup> suggests that a one-time expansion in GDP of 35 percent would occur should restrictions on Area C alone be removed, with the dynamic effects being highly significant over the long run.

In the absence of an autonomous monetary policy, inflation is largely determined by that in Israel. 2016 witnessed a slight deflation in Palestine with the Consumer Price Index declining by 0.2 percent due to deflation in Israel and a fall in global fuel and food prices. Unemployment continues to be high mainly owing to low private investment. Despite high public employment (almost a quarter of the workforce is employed by the PA), unemployment stands at around 27 percent: 42 percent in Gaza and 18 percent in the West bank. The external current account deficit at 12 percent of GDP (including large official transfers) is associated with large positive errors and omissions and financed by use of cash and foreign deposits.<sup>3</sup>

The macroeconomic framework in 2016 was adequate to secure the objectives of the DPG-VII- supported reforms as fiscal consolidation proceeded - even though large financing gaps were addressed through an accumulation of domestic arrears. Revenue performance, particularly in customs and VAT receipts, was strong in 2016 with a rise in total revenues of 4.1 percentage points of GDP (Table 2). Revenues grew by an impressive 25 percent in nominal dollar terms, mainly reflecting one-off factors such as a transfer of more than USD300 million by the GoI to settle clearance revenue accounts in addition to advance receipts of telecom license fees. High revenue growth offset the higher than budgeted increase in public expenditure, which reached 31.4 percent of GDP in 2016 mainly driven by a rise in transfers in Gaza and wage increases for teachers, engineers and security personnel. In fact, even though the PA's wage bill as a percentage GDP has significantly declined by close to 10 percentage points over the last ten years, at its current share of 15 percent, it remains amongst the highest in the world.

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<sup>2</sup> Area C and the Future of the Palestinian Economy (World Bank, October 2013)

<sup>3</sup> Reliability of the balance of payments statistics is questionable. Large positive errors and omissions on the current account side are likely, due to informal trade, in particular purchases of goods and services by Israeli citizens in the West Bank and unrecorded private transfer inflows.

As a result of strong revenues, the overall fiscal deficit (before external support) has shrunk impressively in 2016. In fact, since 2013, the overall deficit in relation to GDP has fallen by 4.5 percentage points to stand at 8.1 percent of GDP in 2016. This period has also seen a significant fall in aid inflows, from nearly 11 percent of GDP in 2013 (USD1.3 billion) to 5.7 percent of GDP (USD761 million) in 2016.

**Table 2: Central Government Fiscal Operations, 2014-2017**

	2014	2015	2016	Budget 2017	Projections 2017
<b>USD million</b>					
Total revenues	2744	2754	3452	3503	3297
Total expenditure	4068	3973	4202	4205	4351
Wage expenditure	2050	1912	2052	2108	2108
Nonwage	1732	1760	1881	1850	1983
Net lending	286	301	269	247	260
Recurrent balance	-1324	-1219	-750	-702	-1055
Development expenditure	262	230	337	427	335
total balance	-1586	-1449	-1087	-1129	-1390
Financing	1586	1449	1087	1129	1390
Budgetary support	1027	709	607	508	508
Development financing	203	89	154	142	153
Net domestic bank borrowing	-142	163	-5	0	200
Domestic arrears	504	491	327	-300	572*
Other	0	0	-2	0	-43
Residual	-6	-3	6	779	0
<b>In percent of GDP</b>					
Total revenues	21.6	21.7	25.8	25.3	23.8
Total expenditure	32.0	31.4	31.4	30.4	31.5
Wage expenditures to GDP	16.1	15.1	15.3	15.2	15.2
Nonwage	13.6	13.9	14.0	13.4	14.3
Net lending	2.3	2.4	2.0	1.8	1.9
Current balance	-10.4	-9.6	-5.6	-5.1	-7.6
Development expenditure	2.1	1.8	2.5	3.1	2.4
Total fiscal balance	-12.5	-11.4	-8.1	-8.2	-10.1
Donor support	9.7	6.3	5.7	4.7	4.8
Financing gap	0.0	0.0	0.0	5.6	0.0
Nominal GDP (in USD million)	12697	12673	13397	13826	13826

Sources: MoF, IMF and World Bank staff calculations

Note \*: Out of the USD572 million domestic arrears projected for 2017, USD136 million will be to the public pension fund while the rest (USD436 million) to private sector suppliers.

Nevertheless, the fiscal position remained highly fragile in 2016. Even though the PA has been making payments on its past stock of arrears and limited its borrowing from local banks, accumulation of fresh arrears to local suppliers and municipalities in both 2015 and 2016 has continued, though at a considerably reduced pace than in earlier years.

Over the medium term, fiscal risks are expected to remain high. First, certain conditions affecting the fiscal performance will remain beyond the PA's control such as the fact that the PA's import taxes (which constitute 70 percent of its revenues) will continue to be



collected by the GoI and may be frozen as happened on multiple occasions throughout the years. Also, lack of Palestinian economic activity on more than 60 percent of the West Bank land (Area C) continues to constrain the PA's tax base. Further, spending restraint may have run its course as it has relied largely on a hiring freeze and some improvement in the medical referral system. More sustained and fundamental reforms are needed to improve the quality of expenditures and revenue collection. Particular attention should be given to making the pay and pension systems for government employees sustainable and fair to the rest of society, as further gains are limited without these far reaching and politically difficult reforms. Policy efforts to improve collections in the electricity sector need to be reinforced and extended to water and sewerage as well, with the ultimate aim of eliminating net lending spending. Second, revenue reforms can go much further to minimize tax evasion, with greater unity of approaches in tax collection, information-sharing, and minimizing tax exemptions. Third, efforts are also needed to strengthen the PA's Public Financial Management (PFM) systems and operationalize the Higher Council for Public procurement. Fourth, arrears cannot continue to be a major source of deficit financing given their adverse effects on private sector liquidity and investment. Hence, a scheme has to be developed to gradually eliminate the stock of arrears and prevent further accumulation.

In summary, fiscal risks are mounting. A medium-term fiscal framework has to be developed that is adequate to address the risks identified above and which can be used as a basis for adjustments as well as a request for external support.

#### Rationale for Bank assistance and Relevance of the Operation

The seventh development policy operation supported the reform efforts of the PA in strengthening its fiscal position through actions on both revenues and expenditures, and it furthered the goal of improved governance and transparency standards in the public sector. In addition, the operation aimed at strengthening the prospects for private sector investment through facilitating reforms in the land registration process. In these respects, the operation was aligned with the development priorities of the authorities as expressed in the National Development Plan 2014-2016: the priority on growth, competitiveness and job creation was supported through actions on land registration; the priority on improved governance in public institutions was supported through revenue and expenditure reforms and enhanced fiscal transparency.

This operation was also the key instrument to advance the central objectives of the Bank's Assistance Strategy for the West Bank and Gaza<sup>4</sup>, which focuses on strengthening fiscal management and transparency; and supporting private sector-led growth for job creation.

This rationale remains even more relevant at project closure in view of the urgency to build upon the fiscal actions taken and improve the climate for private investments, given the mounting fiscal risks and deteriorating outlook for external budget support.

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<sup>4</sup> Bank Assistance Strategy for the West Bank and Gaza: FY 15-16, (World Bank, October 2014)

Policy reforms supported by the DPG have also been in line with the Bank's work in other areas. For example, a 2016 *Public Expenditure Review* provided advice on raising the quality and efficiency in public spending, including tough reforms in areas such as public employment and pensions.<sup>5</sup> A 2014 Bank report covering main issues in the electricity sector and net lending has provided clear recommendations on improving cost recovery to the benefit of the budget and the management of the sector.<sup>6</sup> Health sector studies have informed improvements in the management of health referrals.<sup>7</sup> Work under a land administration project also helped identify reforms in land registration.<sup>8</sup>

A further critical rationale of the operation lay in providing a platform for donor budget support. Given the still-narrow domestic fiscal base, lack of access to international capital markets, and constrained domestic borrowing capacity, the budget remains highly dependent on donor funds. Volatility in donor aid is disruptive to the conduct of fiscal policy and to predictability in essential payments for wages and supplies. Thus, the DPG-VII provided USD40 million in grant resources but leveraged up a further USD60 million in donor budget support from a multi donor trust fund established in 2008. Crucially, it bolstered the predictability of resources available to the budget for essential public spending. The seven development policy grants have provided close to USD300 million from the Bank and an additional USD1.5 billion from the trust fund between 2008 and today.

## **1.2 Original Program Development Objectives (PDO) and Key Indicators (as approved)**

The Program Appraisal Document (PAD) defined the PDOs as follows:

The PDOs of this operation are the following: (I) Improve public revenue performance and improve sustainability of public expenditures; (II) Improve transparency of public finances; (III) Facilitate the land registration process.

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<sup>5</sup> Public Expenditure Review of the Palestinian Authority: Towards Enhanced Public Finance Management and Improved Fiscal Sustainability, (The World Bank, September 2016). Available at: <http://documents.worldbank.org/curated/en/320891473688227759/pdf/ACS18454-REVISED-FINAL-PER-SEPTEMBER-2016-FOR-PUBLIC-DISCLOSURE-PDF.pdf>

<sup>6</sup> West Bank and Gaza - Assessment and action plan to improve payment for electricity services in the Palestinian territories: study on electricity sector contribution to net lending, (The World Bank, November 2014). Available at: <http://documents.worldbank.org/curated/en/120271468317065014/pdf/ACS93930WP0P1469990Box385388B00UO090.pdf>

<sup>7</sup> Project Document for the Health System Resiliency Strengthening Project, (The World Bank, January 2015). Available at: <http://documents.worldbank.org/curated/en/228791468119057716/pdf/PAD10690P15048010Box385399B00UO090.pdf>

<sup>8</sup> Project Document for the Second Land Administration Project, (The World Bank, April 2012). Available at: <http://documents.worldbank.org/curated/en/717131468143396252/pdf/666710PAD0P1050C0disclosed040300120.pdf>

Key indicators were developed in the framework of results expected. They related to the stock of income tax debt (revenue indicator); the ratio of electricity charges paid to the Israeli supplier in relation to amounts collected from final consumers by distribution companies; and cost of health referrals as a ratio of GDP (expenditure indicators); data on transportation tax collected by the PA on behalf of municipalities; and data on commitments of expenditures in the integrated financial management system by five ministries (transparency indicators); and the number of land titles picked up (private sector development indicator).

### **1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and Reasons/Justification**

There have been no revisions.

### **1.4 Original Policy Areas Supported by the Program (as approved)**

The DPG VII operation was designed to support the PA selectively in its implementation of the National Development Plan (NDP) 2014-2016. It focused on two policy areas identified in the NDP as high priorities: (i) growth, competitiveness and job creation; and (ii) improving governance within the public sector.

A critical medium-term priority for the PA rightly continues to be bolstering public finances through reform measures on revenues and expenditures. A future Palestinian state can attain stability and advance development goals only on the basis of a strong budget. Thus, measures to widen the tax base, improve tax administration, and improve the predictability of tax receipts, *inter alia*, by reducing overdue income tax payments are important. Equally so, are improvements in the efficiency of spending on outside health referrals and a greater proportion of electricity charges collected from final consumers used to pay the charges of the Israeli supplier.

Moreover, improvements in the public financial management system that have been taking place albeit in a protracted fashion over many years, exemplified in this operation by the institution of a commitment recording system, will help to raise the quality of public spending. Finally, fiscal transparency will be enhanced by the publication of information on transportation taxes collected on behalf of municipalities by the PA. These actions will also help to counter in part aid volatility and declining aid inflows.

The priority of private sector growth and jobs in the NDP is addressed by reforms in land registration that will lead to greater credit flows to the private sector, facilitate doing business in the West Bank, and hence higher production and more employment.

### **1.5 Revised Policy Areas (if applicable)**

Not applicable.

### **1.6 Other significant changes**

No other changes.

## **2. Key Factors Affecting Implementation and Outcomes**

### **2.1 Program Performance**

In summary, the authorities maintained the path of fiscal consolidation with improvements in revenue performance and in containing net lending related to electricity subsidies and improving the efficiency of spending in health. Nevertheless, the macroeconomic outlook is fragile with the accumulation of arrears, and substantial risks have emerged that require deep-seated reforms. Improvements in transparency in public finances were achieved through the initiation of a commitment recording system for expenditures and by provision of web-based information on transportation tax collected on behalf of municipalities. Finally, improvements in property registration are expected to have contributed to a better business climate in general as well as improved access to finance.

A detailed account of program performance in terms of prior actions is given in the table below. All prior actions were met.

**Table 3: Program Implementation**

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Prior Action 1: The Council of Ministers has agreed upon and referred the draft amendments to the Income Tax Law to the President for issuance in order to improve income tax collection by allowing income tax payment violations to be settled through the Recipient's execution court system.

**Met.** The draft amendments have been provided to the President, but they have not been issued. It appears that there may not be sufficient political consensus behind this measure that envisages the use of the execution court system to speed up collection of over-due income tax. Hence, the mere formal satisfaction of the prior action will not lead to the intended final outcome.

Prior Action 2: The Ministry of Finance has issued an instruction to merge its existing value-added tax collection department and the income tax collection department into a single collection department to improve operational efficiency.

**Met.** The merger of these two tax collection departments is in progress together with a geographic decentralization of tax administration offices. Staff are being re-trained to work across types of tax in a unified approach. Merging tax files from the two departments has also started and once it is finalized the unit will start operating based on a "single file window" approach. Work is also underway to produce a procedures manual for the new merged unit. The authorities also plan to merge the customs unit with the new collection department but this will take more time to materialize.

Prior Action 3: The Palestinian Energy and Natural Resources Authority has entered into and commenced the implementation of the memoranda of understanding with at least two (2) electricity distribution companies and at least one (1) municipality in order to coordinate and facilitate the payment of electricity bills to the Israel Electric Corporation by electricity distribution companies and municipalities.

**Met.** The Palestine Energy and Natural Resources Authority has commenced the implementation of memoranda of understanding with all five distribution companies and almost all of the 128 municipalities to facilitate the payment of electricity bills to the Israel Electric Company, the sole generator. Thus, performance exceeds the action by a wide margin.

Prior Action 4: The Ministry of Health has entered into and commenced the implementation of the memoranda of understanding with at least three (3) Israeli hospitals to facilitate the health referral process between the Ministry of Health and Israeli hospitals.

**Met.** The ministry of health has satisfied this action with respect to six Israeli hospitals with clear criteria, including treatment protocols and prices, governing health referrals; the implementation experience is encouraging.

Prior Action 5: The Minister of Health has issued an instruction mandating the health referral committees within the Ministry of Health to use a new Referral Manual for patient referrals outside the public health system.

**Met.** The manual is being used by all health referral committees and has been re-engineered in the light of implementation experience to embody lessons learned.

Prior Action 6: The Ministry of Finance has issued an instruction mandating its relevant units to produce yearly reports that include information on: (i) the amount of transportation taxes collected by the Ministry of Finance on behalf of each local government unit; (b) the amount of service fees charged by the Ministry of Finance and deducted from the transportation taxes collected on behalf of each local government unit; (c) the amount of any other deductions or intercepts on transportation taxes collected by the Ministry of Finance on behalf of each local government unit; and (d) the amount of transportation taxes transferred by the Ministry of Finance to each local government unit.

**Met.** The instruction by the ministry of finance has been issued and data for 2014 and 2015 have been placed on its website, but with some delay. The 2016 data will be published in July 2017.

Prior Action 7: The Ministry of Finance has issued an instruction mandating the ministries responsible for health, transportation, interior, public works and local government to implement a Commitment Recording System.

**Met.** The instruction by the ministry of finance has been issued. The Commitment Recording System is being used by all ministries except the Ministry of Health. Issues related to data entry of referral bills continue to stand in the way of the MoH implementing the commitment recording system.

Prior Action 8: The Palestinian Cabinet of Ministers has approved a waiver for first time land registration fees and charges.

**Met.** The Cabinet has approved a waiver for first-time land registration fees. This waiver is being implemented by the Land Authority.

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## **2.2 Major Factors Affecting Implementation:**

**Political factors.** The ability to pursue macro-economic stability and reforms is hindered by external and internal constraints. The reform program supported by DPG-VII was implemented against the backdrop of heightened political uncertainty arising from a stalled peace process and a war in Gaza in the summer of 2014 that had severe social and economic consequences. The security situation has also deteriorated in the West Bank and East Jerusalem since late 2016 and there has been little progress in the political dialogue over the implementation period.

Internally, the reconciliation efforts between Hamas and Fatah led to a technocratic government endorsed by both parties, but unity efforts stalled and no unified political government was established. Economic management by the PA is greatly complicated by the existence of two distinct public services in Gaza – one paid and managed by the PA; the other by Hamas – resulting in varying conditions and standards for services and regulations. The long delays in the implementation of the reconstruction program in Gaza has led to a prolongation of a severe humanitarian crisis. The internal divide in the Palestinian polity has precluded presidential and parliamentary elections for years.

**External restrictions stifle economic development.** As noted, restrictions imposed by the GoI prevent free movement of goods and services, and labor and investment throughout the West Bank and Gaza and prohibit a range of essential imports necessary for investment and growth. They also impact the tax base by hampering private sector activity.

2016 witnessed some cooperation by the GoI to make timely revenue transfers to the PA, clear a large portion of over-due clearance revenues, allow an increase in labor permits, and enhance cooperation on energy issues. But the development of Area C continues to be heavily constrained by the Israeli restrictions and sustainable growth in Gaza remains impossible under a blockade that has been in place for ten years now.

**Volatility in donor support.** Weakening donor budget support added to the burden of macroeconomic adjustment. External financing declined sharply from an annual average of USD1.1 billion in 2013-14 to around USD700 million in 2015 and 2016. This sharp fall has forced the PA into domestic bank borrowing and into running up domestic arrears to suppliers and employees. It has also raised overall fiscal risks (discussed earlier) and added to the burden of medium-term fiscal adjustment. The case for an early start to key reforms in pensions and the civil service, amongst others, has become even more compelling.

**Commitment to reforms.** Though the operation addressed an important sub-set of the priorities of the NDP, the commitment of the authorities to the reforms proved to be uncertain, particularly in public finances. Attempts to bolster income tax revenues by speeding up payments of amounts overdue through the use of the execution court faltered as the PA did not follow through on the process for lack of commitment. This reform was in no sense imposed from outside: the analysis carried out by the PA in the development of its own revenue strategy showed the legal weaknesses of the tax collection process and associated inefficiencies and the role the execution court could play.

Similarly, the merger of the income tax, VAT and customs departments in tax administration has proven to be a prolonged process. In the current operation, the use of the commitment recording system is not as complete across the ministries as was planned as it is yet to be implemented by the Ministry of Health, constituting further evidence of chronic weak commitment to overall PFM reforms.

In contrast, the success of actions in three areas, health, electricity reforms and land registration, shows the difference that commitment can make. In health, after many years of half-hearted efforts to realize efficiency gains in health referral spending with few results, a determined effort in 2015 consisting of a development of a health referral manual that specified in detail the treatments to be permitted and criteria to be used and negotiations with a number of Israeli hospitals to agree on contracting practices, treatment protocols and costs led to success in controlling costs. In the electricity sector, commitment shown by the PA in negotiating agreements with distribution companies and municipalities with penalties for non-compliance has raised the proportion of collections remitted to the Israeli supplier – again after several years of unsuccessful efforts. In land registration, commitment to reforms was renewed by the formation of a new commission on land and water responsible for policy matters on land titling and registration that will hopefully give fresh impetus to reforms after years of stagnation.

**Capacity constraints.** The DPG-VII-supported reform program faced constraints from inadequate local capacity, a further cause of the pace being slower than planned. The ministry of finance appears to have lost capacity over the past two years. It has played an important role as the key implementer of the DPGs, but in some cases it lacks the capacity and authority to hold line ministries to their reform undertakings. This function may be better performed in cooperation with the Prime Minister's Office: a conclusion with which both the Prime Minister's Office and the Ministry of Finance agree. Similarly, the institutional achievements in revenue administration aimed for will be realized only if the

staff are properly equipped and trained and learn to function with modern techniques – this is the critical task for the future.

**Analytical foundations for reforms.** The reforms contained in the DPG-VII arose out of sound analytical work carried out by the PA (as in revenue reforms) or by the Bank, principally through the *Public Expenditure Review* that was being researched, but also particular policy research products on net lending, health spending, and inter-governmental fiscal relations. *The Public Expenditure and Financial Accountability* report, 2016, identified important weaknesses related to commitment recording and control. Reforms in land registration relied on extensive international experience, including with Bank-financed land administration projects in the Europe and Central Asia (ECA) region as well as with knowledge developed in the course of supervising the land project.<sup>9</sup>

**Design aspects.** The operation had eight prior actions, and, apart from the ministry of finance (the key counterpart), actions involved the cabinet of ministers as well as the ministries of health and energy. Thus, in both the set of prior actions and the principle ministries responsible for actions, the operation was parsimonious and manageable.

Despite the solid analytical foundations of the DPG-VII-supported reforms, there were some shortcomings in the design. The principal weakness in the design of some prior actions lays in their *pro forma* nature. For example, some prior actions required decisions to be taken or instructions to be issued or an agreement to be reached by an executive body (the cabinet of ministers, the ministry of finance, the ministry of energy or the ministry of health), and even though this had the merit of simplicity and made formal compliance with prior actions easy, in some cases it did not provide any incentives for the vital successor steps necessary to achieve the intended result of the reforms to be taken.

Thus, even though the prior action on the use of the execution courts was satisfied, follow up measures to operationalize it were not implemented, and hence any progress made in reducing the stock of income debt cannot be attributed to the DPG. Second, the prior action regarding merger in tax administration was satisfied by the issuance of the instruction from the ministry of finance, but there was limited progress related to the critical reform steps concerning the performance of the unified approach. Subject to available time, the design of the operation would have benefitted greatly had these prior actions been framed in terms of the *critical* as opposed to merely the *first* step that was necessary to achieve the intended result of the reform.

**Treatment of risks.** The operation contained a candid discussion of political, macroeconomic and fiduciary risks, but in some areas failed to draw the implications of these risks for the ability and willingness of the PA to undertake the reforms supported by the operation. In particular, the risks of commitment failure and of the management and technical capacity to direct and implement reforms were left undiscussed. As noted

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<sup>9</sup> West Bank and Gaza, The Second and Administration Project (The World Bank, 2012).



weakness in commitment has been a major factor in the implementation experience in a couple of areas.

The document is clearly right in stating that mitigating political and security risks lay well beyond the scope of the operation. However, the macroeconomic risk would have benefitted from more vigorous mitigation measures than pursued in the operation. Resorting to arrears financing is a major threat to macro-stability and this should have been more forcefully recognized.

### **2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization:**

The design of the M&E arrangements built upon those developed under the earlier six development policy grants. The results framework of the DPG was agreed with the authorities and developed in consultation with other development partners. It embodies good practice. As has been the practice, the results framework was developed not only to monitor progress under the DPG, but also for disbursements from the Multi-Donor Trust Fund (the source for donor funding to the budget). Since both the DPG and the PRDP TF 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 the two operations has provided additional leverage to reform implementation. The indicators used were direct measures of project objectives, the data was collected by the statistics agency and finance and line ministries, and enjoyed full ownership across the government.

The monitoring arrangements have been institutionalized in the ministry of finance. Based on the inputs from line ministries and other government agencies, the PA prepares quarterly reports on a regular basis to monitor the performance under the DPG. The same arrangement is utilized to monitor progress against the PA's medium term program.

The functioning of the M&E system has strengthened the strategic dialogue between the ministry of finance, on the one hand, and the line ministries (particularly in energy and health) on the other, based on exchange of data and monitoring of performance under the operation.

These practices are indicative of good use of M&E data. In practice, the validity of the choice of M&E indicators as reflective of the causality linking policy measures to outcomes and final development goals was validated, particularly as the indicators were entirely outcome-based. Moreover, developments in the indicators are being used to redesign subsequent interventions, such as the re-design of the health referral manual that took place; this is indicative of the use of the M&E systems to guide future policies.

The result indicators used in the operation were aligned with the objectives of the Bank's Assistance, specifically with those of improving fiscal management with a focus on health and electricity sectors, and increased transparency in governance.

### **2.4 Expected Next Phase/Follow-up Operation (if any):**

At the request of the PA, the Bank is preparing a follow up DPG operation intended to support the National Policy Agenda 2017-2022 (NPA), the successor to the NDP that ended in 2016. The results matrix for DPG-VIII will provide a platform for donor budget support disbursements through the PRDP TF. The content of the operation and the program of actions are currently being developed as discussions with the authorities are underway.

The DPG-VIII operation is essential to maintaining the reform momentum and to provide a vehicle for Bank and donor support for the budget. It would be advisable to build this operation on a strong fiscal base such that macroeconomic sustainability can be strengthened and resort to arrears financing avoided. The prior actions should cover a small number of key reform areas that are of central importance to sustainability.

### **3. Assessment of Outcomes**

#### **3.1 Relevance of Objectives, Design and Implementation**

The objectives of the DPG remain highly relevant today; just as much at the time of preparation of this ICR as at DPG-VII preparation. These objectives rested on thorough diagnostic work on development priorities. The NPA 2017-22 has three pillars: path to independence; government reform; and sustainable development. The PDOs of the operation -- improve public revenue performance and improve sustainability of public expenditures; improve the transparency of public finances; and facilitate the land registration process – are highly relevant to the national development strategy. Effective public finances are a prerequisite for an independent state, and central to government reforms. Even though the private sector agenda is broad and many actions are being taken, albeit slowly, land registration reforms were chosen to be covered by the DPG because this is a critical step towards releasing this factor of production into the economy to enable sustainable development and improve doing business in Palestine through promoting the flow of credit to the private sector. Moreover, improvements in governance and transparency respond to public demand. Thus, the operation supported selected key elements of the NDP 2014-16 and also supports the NPA, 2017-22. As noted, it was fully aligned with the Bank's Assistance Strategy. Finally, it served as the vehicle for donor financing of the PA budget in the aggregate amount of USD60 million.

The design of the operation had to find the balance between critical reform elements and the art of the possible. The policy areas chosen were high priority in focusing on revenues and expenditures, promoting transparency in government accounts, and improving the business climate through better property registration, and hence access to finance. This affirms the relevance of the design. However, the design of some prior actions could have been improved to focus on criticality and leverage policy actions that lead to the intended results of the reforms.

The operation was designed as the seventh in a series of standalone operations, with a programmatic approach being precluded since the Bank's financing for Palestine is replenished annually and not in a multiyear framework. Nevertheless, the design of the operation embodied programmatic characteristics in ensuring continuity of reform themes

(e.g., public finance management, health and energy reforms) from past DPGs. With the development of a six year NPA by the authorities, the design of the forthcoming DPG VIII may have programmatic aspects to ensure optimal coherence in support for reforms.

Implementation arrangements were tailored to local conditions and were highly relevant. The Bank's implementation assistance was responsive to changing needs as shown by the Bank's quarterly supervision reports;<sup>10</sup> thus, dialogue and assistance were focused on emerging difficulties in implementation such as in revenue measures, energy and health spending control efforts. Dialogue was intense and near-continuous. The operation remained important to achieving the development objectives of the country as well as to the Assistance Strategy of the Bank.

### **3.2 Achievement of Program Development Objectives**

The specific objectives laid out in the results framework were closely related to PDOs. The actions supported by the operation were chosen to lead to the outcomes that would advance the PDOs. In the area of revenues (prior actions 1 and 2), using the execution court system to collect income tax arrears and the merger of the collection departments of both VAT and income tax administrations were expected to lead to a rise in taxes collected directly by the PA. However, the execution court reform was not implemented for lack of commitment and possibly the prevalence of vested interests benefitting from current arrangements, and so could not yield results. Also, the merger is at too early a stage to have resulted in revenue gains.

In the areas of expenditure efficiency (prior actions 3 to 5), notable results have been achieved. Payments to the Israeli electricity supplier as a share of the collections from final consumers by distribution companies has increased. The spending on health referrals has fallen in relation to GDP.

In the area of transparency in public finances, information on transportation taxes and deductions made from them has been made available to the municipalities by the ministry of finance. Information on the commitment recording system is entered into the integrated financial management system by all ministries covered by the prior action, except the Ministry of Health.

Finally, the sharp rise in the number of land titles issued and picked up by title-holders are expected to have led to a better functioning land market and access to finance, which are key for private sector development.

**In summary, the PDO achievement success can be rated as moderately satisfactory.**

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<sup>10</sup> These reports are publically available at: <http://www.worldbank.org/en/programs/palestinian-recovery-and-development-program-trust-fund#4>

**Table 4: Outcome and Results Framework**

Prior Actions	Results Indicators	Baseline	Target	Achievements	Comments
<b>Pillar I: (I.1) Improving Public Revenue Performance; (I.2) Improving Sustainability of Public Expenditures</b>					
<p><b>Prior action 1:</b> The Council of Ministers has agreed upon and referred the draft amendments to the Income Tax Law to the President for issuance in order to improve income tax collection by allowing income tax payment violations to be settled through the Recipient’s execution court system.</p> <p><b>Prior action 2:</b> The Ministry of Finance has issued an instruction to merge its existing value-added tax collection department and the income tax collection department into a single collection department to improve operational efficiency.</p>	<p>The stock of income tax debt estimated based upon official income tax filings that have been verified through MoF audits.</p>	<p>The stock of income tax debt estimated based upon official income tax filings that have been verified through MoF audits in October 2015 amounted to NIS100 million.</p>	<p>The stock of income tax debt estimated based upon official income tax filings that have been verified through MoF audits is 15 percent lower in 2016 than it was in October 2015.</p>	<p><b>Result Achieved but not attributed to the prior action.</b> The prior action on the use of the execution court was not followed up by the critical steps necessary to operationalize it. Also, the merger of the collection departments of VAT and income tax is at too early a stage to produce results. Thus, even though the stock of income tax was reduced to NIS55 million, as of December 2016, this achievement cannot be attributed to the prior action.</p>	<p>It is important that the authorities take follow-up action to make the executive court effective in this area. Currently, the execution court acts in a small fraction of income tax cases while this reform will enable it to widen its coverage. It is also key that efforts are accelerated to finalize the merger of the collection departments of VAT and income tax.</p>

<p><b>Prior action 3:</b> The Palestinian Energy and Natural Resources Authority has entered into and commenced the implementation of the memoranda of understanding with at least two (2) electricity distribution companies and at least one (1) municipality in order to coordinate and facilitate the payment of electricity bills to the Israel Electric Corporation by electricity distribution companies and municipalities.</p>	<p>The ratio of annual wholesale electricity bill payments to the Israel Electric Corporation made by —JDECO, NEDCO, SELCO, HEPCO and TEDCO electricity distribution companies to amount collected by these DISCOs from end customers.</p>	<p>The ratio of annual wholesale electricity bill payments to the Israel Electric Corporation made by —JDECO, NEDCO, SELCO, HEPCO and TEDCO electricity distribution companies to amount collected by these DISCOs from end customers was equal to 65 percent in 2014.</p>	<p>The ratio of annual wholesale electricity bill payments to the Israel Electric Corporation made by JDECO, NEDCO, SELCO, HEPCO and TEDCO electricity distribution companies to amount collected by these DISCOs from end customers in the West Bank amounts to at least 80 percent in 2016.</p>	<p><b>Result Achieved</b> The Palestinian Energy and Natural Resources Authority entered into memoranda of understanding with all five distribution companies as well as almost all municipalities (112 out of 128) to facilitate the payment of electricity bills to the supplier, the Israel Electric Company (IEC). The ratio of payments made to the IEC to the amounts collected from end-users by the distribution company – the results indicator – has risen markedly from 65 percent in 2014 to 90 percent in 2016, with the collection amounting to NIS 1.14 billion and the payment to NIS 1.03 billion.</p>	<p>The prior action was surpassed by a wide margin and the PENRA has transformed the picture of collections and payments after many years of indifferent progress in this area by focused management, forging payment agreements using remedies for non-performance as leverage, and more generally, signing an agreement with Israel regulating some aspects of the relationship between the two parties with the aim of giving more sovereignty to the PENRA. These achievements will result in efficiency gains and discipline in the electricity sector, and hopefully in improvements in “net lending” from the reduced need for electricity subsidies,</p>
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<p><b>Prior action 4:</b> The Ministry of Health has entered into and commenced the implementation of the memoranda of understanding with at least three (3) Israeli hospitals to facilitate the health referral process between the Ministry of Health and Israeli hospitals.</p> <p><b>Prior action 5:</b> The Minister of Health has issued an instruction mandating the health referral committees within the Ministry of Health to use a new Referral Manual for patient referrals outside the public health system.</p>	<p>The cost of health referrals to health service providers outside of the Palestinian public healthcare system as a percentage of GDP.</p>	<p>The cost of health referrals to health service providers outside of the Palestinian public healthcare system was NIS569.6 million in 2014 (1.2 percent of GDP).</p> <p>Note: the original baseline was revised from 1.2 to 1.88 percent of GDP as the 2014 cost of outside medical referrals was revised upwards from NIS569.6 million to NIS853 million. The revision is explained by the fact that the MoH had just initiated efforts to collect comprehensive data on the cost of referrals when the DPG was being prepared and the computerized system was just being put in place. Hence, the data quality suffered from inaccuracies, but this has significantly improved over time.</p>	<p>The cost of health referrals to health service providers outside of the Palestinian public healthcare system is lower than 1.88 percent of GDP in 2016.</p>	<p><b>Result Achieved</b> The ministry of health has been implementing agreements with six Israeli hospitals regulating medical referrals and has also ensured the use of the health referral manual by all health referral committees within the ministry. The agreements went into effect in 2015, when the manual also began to be used. Medical referral spending in Israeli hospitals fell by 31 percent in 2015 and a further 5 percent in 2016, largely as a result of a sharp drop in the unit cost of treatment.</p> <p>Based on the new baseline, the cost of health referrals outside the Palestinian public health care system fell from 1.88 percent of GDP in 2014 to 1.48 percent in 2016.</p>	<p>and hence greater expenditure control.</p> <p>Further efficiency improvements in health spending can be expected in the years to come as the ministry of health is negotiating arrangements on health referrals with private Palestinian hospitals similar to those achieved with Israeli hospitals</p>
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Prior Actions	Results Indicators	Baseline	Target	Achievements	Comments
<b>Pillar II: Improving Transparency of Public Finances</b>					
<p><b>Prior action 6:</b> The Ministry of Finance has issued an instruction mandating its relevant units to produce yearly reports that include information on: (i) the amount of transportation taxes collected by the Ministry of Finance on behalf of each local government unit; (b) the amount of service fees charged by the Ministry of Finance and deducted from the transportation taxes collected on behalf of each local government unit; (c) the amount of any other deductions or intercepts on transportation taxes collected by the Ministry of Finance on behalf of each local government unit; and (d) the amount of transportation taxes transferred by the Ministry of Finance to each local government unit.</p>	<p>Information on the amount of transportation tax collected by the PA on behalf of municipalities.</p>	<p>No information on the amount of transportation tax collected by the PA on behalf of municipalities is available online (August 2014).</p>	<p>Annual information is available online on the amount of: 1) the transportation tax collected by the PA on behalf of each LGU; 2) the service fees charged; 3) any deductions/intercepts for each LGU specifically; and 4) the transportation tax paid to each LGU in 2015 in the first quarter of 2016.</p>	<p><b>Result achieved</b> The ministry of finance has placed on its website annual information on the amount of transportation tax collected by it on behalf of the municipalities, the service fee it charges, and other deductions or intercepts for the municipality, and the amount transferred to each municipality. This follows similar reforms to advance transparency in property taxes collected by the ministry on behalf of the municipalities. At present, aggregate figures with regard to these four</p>	<p>As a next step, it would be desirable to present a breakdown of these variables so that municipalities are better informed and able to carry out verifications of their own. Furthermore, it is recommended that the MoF speeds up the time required to upload this information online as there currently is some delay.</p>

<p><b>Prior action 7:</b> The Ministry of Finance has issued an instruction mandating the ministries responsible for health, transportation, interior, public works and local government to implement a Commitment Recording System.</p>	<p>Information on commitments in the pipeline in the Integrated Financial Management System (IFMIS) by the Ministry of Health, Ministry of Transportation, Ministry of Interior, Ministry of Public Works and the Ministry of Local Government.</p>	<p>Information on commitments in the pipeline is not available by the Ministry of Health, Ministry of Transportation, Ministry of Interior, Ministry of Public Works and the Ministry of Local Government (October 2015).</p>	<p>Access to information on commitments in the pipeline is provided by the Ministry of Health, Ministry of Transportation, Ministry of Interior, Ministry of Public Works and the Ministry of Local Government (starting January 2016) in the Integrated Financial Management System (IFMIS) at the time a commitment is made.</p>	<p>variables are made available, and the latest data are for 2015.</p> <p><b>Result partially achieved.</b> The ministry of finance has issued instructions mandating the use of the commitment recording system as an initial step towards improved commitment and expenditure surveillance and controls in the ministries of health, transportation, interior, public works and local government. The results indicator of information being provided by these ministries on the IFMIS is partly satisfied. The ministries of transportation, interior, public works and local government use the</p>	<p>Commitment discipline has improved in the ministry of transport, for example, as a result of this reform; and the finance unit of the ministry is better able to carry out surveillance of commitments being undertaken by spending units in the ministry and to intervene if necessary.</p>
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				system. However, the ministry of health has not yet implemented it partly because some technical problems relating to data entry of medical referrals are still to be resolved.	
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Prior Actions	Results Indicators	Baseline	Target	Achievements	Comments
<b>Pillar III: Facilitating the Land Registration Process</b>					
<p><b>Prior action 8:</b> The Cabinet of Ministers has approved a waiver for land titling registration fees and charges for first time land purchasers.</p>	<p>The cost of first time land registration and the number of land titles picked up out of 5,000 issued in the pilot area (monitored through the land registration project).</p>	<p>First time land registration costs 1 percent of property value and 188 land titles out of 5,000 issued have been picked up in the pilot area (monitored through the land registration project) up until October 2015.</p>	<p>First time land registration is free and the number of land titles picked up in 2016 in the pilot area (monitored through the land registration project) is at least 100 percent higher than what it was in October 2015 (i.e. at least 376 land titles have been picked up by December 31, 2016).</p>	<p><b>Result achieved.</b> The waiver of land titling registration fees and charges for first-time land purchasers was issued by the cabinet of ministers. As a result, land registrations have risen, markedly more titles are being issued and are being picked up by title holders. The target of 376 titles to be picked up in a pilot area around Hebron in 2016 was comfortably exceeded with a result of 2950 land titles being picked up.</p>	<p>Efforts should continue to also increase land registration as this continues to be an issue in the West Bank.</p>

## **Pillar 1 Strengthen Revenues and Expenditures**

### 1.1 Improving public revenue performance

**[Results Achieved.]** The prior action on the use of the execution court was not followed up by the critical steps necessary to permit income tax violations to be pursued by the execution court system. Also, the merger of the collection departments of income tax and VAT is at too early a stage to show results. Thus, even though the stock of income tax debt was reduced to NIS55 million, as of December 2016, this achievement cannot be attributed to the prior action, but to collection of arrears from some of the big corporations.

**Comment.** It is important that the authorities take follow-up action to make the executive court effective in this area. Currently, the execution court acts in a small fraction of income tax cases while this reform will enable it to widen its coverage. The merger of the two tax collection departments is in progress together with a geographic decentralization of tax administration offices. Staff are being re-trained to work across types of tax in a unified approach. Merging tax files from the two departments has also started and once it is finalized the unit will start operating based on a “single file window” approach. Work is also underway to produce a procedures manual for the new merged unit. The authorities also plan to merge the customs unit with the new collection department but this will take more time to materialize.

### 1.2 Improving sustainability of public expenditures

**Results achieved.** The Palestinian Energy and Natural Resources Authority entered into memoranda of understanding with all five distribution companies as well as almost all municipalities (112 out of 128) to facilitate the payment of electricity bills to the supplier, the Israel Electric Company (IEC). The ratio of payments made to the IEC to the amounts collected from end-users by the distribution company – the results indicator – has risen markedly from 65 per cent in 2014 to 90 per cent in 2016, with the collection amounting to NIS1.14 billion and the payment to NIS1.03 billion.

**Comment.** The prior action was surpassed by a wide margin and the PENRA has transformed the picture of collections and payments after many years of indifferent progress in this area by focused management, forging payment agreements using remedies for non-performance as leverage, and more generally, signing an agreement with Israel regulating some aspects of the relationship between the two parties with the aim of giving more sovereignty to the PENRA. These achievements will result in efficiency gains and discipline in the electricity sector, and hopefully in improvements in “net lending” from the reduced need for electricity subsidies, and hence greater expenditure control.

**Result achieved.** The ministry of health has been implementing agreements with six Israeli hospitals regulating medical referrals and has also ensured the use of the health referral manual by all health referral committees within the ministry. The agreements went into effect in 2015, when the manual also began to be used. Medical referral spending in

Israeli hospitals fell by 31 percent in 2015 and a further 5 percent in 2016, largely as a result of a sharp drop in the unit cost of treatment.

Notably, the original 2014 baseline that was included in the operations results framework was revised from 1.2 percent to 1.88 percent of GDP as the 2014 cost of medical referrals was revised upwards by the MoH from NIS569.6 million to NIS853 million. Based on the new baseline, the result was fully achieved as the share of referrals to GDP dropped from 1.88 percent in 2014 to 1.48 percent in 2016. Further efficiency improvements in health spending can be expected in the years to come as the ministry of health is negotiating arrangements on health referrals with private Palestinian hospitals similar to those achieved with Israeli hospitals.

## **Pillar 2**

Improving transparency of public finances

**Result achieved.** The ministry of finance has placed on its website annual information on the amount of transportation tax collected by it on behalf of the municipalities, the service fee it charges, and other deductions or intercepts for the municipality, and the amount transferred to each municipality. This follows similar reforms to advance transparency in property taxes collected by the ministry on behalf of the municipalities. At present, aggregate figures with regard to these four variables are made available, and the latest data are for 2015.

Comment. As a next step, it would be desirable to present a breakdown of these variables so that municipalities are better informed and able to carry out verifications of their own. Also, the MoF should aim to reduce the time lag so far witnessed in publishing the information online.

**Result partially achieved.** The ministry of finance has issued instructions mandating the use of the commitment recording system as an initial step towards improved commitment and expenditure surveillance and controls in the ministries of health, transportation, interior, public works and local government. The results indicator of information being provided by these ministries on the IFMIS is partly satisfied. The ministries of transportation, interior, public works and local government use the system. However, the ministry of health has not yet implemented it partly because some technical problems relating to data entry of medical referrals are still to be resolved.

Comment. Commitment discipline has improved in the ministry of transport, for example, as a result of this reform; and the finance unit of the ministry is better able to carry out surveillance of commitments being undertaken by spending units in the ministry and to intervene if necessary.

## **Pillar 3**

Facilitating the land registration process

**Result achieved.** The waiver of land titling registration fees and charges for first-time land purchasers was issued by the cabinet of ministers. As a result, markedly more titles are being issued and are being picked up by title holders. The target of 376 titles to be picked up in a pilot area around Hebron in 2016 was comfortably exceeded with a result of 2950 land titles being picked up.

### 3.4 Justification of Overall Outcome Rating

Rating: **Moderately Satisfactory**

As noted in earlier sections, the operation is judged to be highly relevant in its objectives. DPG-VII targeted the key objectives of the PA reform priorities as expressed in the NDP, and it is clear that this relevance remains high as measured by the successor to the NPD, the NPA. The operation was also well aligned with the central goals of the Bank Assistance Strategy. Judgements as to relevance in design are more complex: on the one hand, the design addressed policies that were central to achieving the objectives, policy actions were parsimonious and involved a small number of ministries and agencies; on the other hand, the prior actions in some areas were *pro forma* in nature, requiring an initial decision or agreement, rather than focusing on the *critical* actions necessary for the reforms to yield results. Thus, the mere satisfaction of prior actions did not lead to intended results in a few areas discussed in earlier sections of this report. The selectivity of reform areas and actors responsible for them helped ensure ease of implementation.

The operation fully achieved two outcomes: (i) facilitating private sector development through land registration reforms and (ii) raising the efficiency and quality of public spending in energy and health. One outcome on improving transparency in public finances was partially achieved: information on transportation tax is being published but the commitment recording system is starting to be used in all the pilot ministries but one. The outcome relating to revenues was not achieved because the prior action – rather weak in its formulation – was not followed up with the further steps necessary to tackle income tax overdues.

### 3.5 Overarching Themes, Other Outcomes and Impacts

DPG-VII was structured as a standalone operation that, despite a difficult context, stimulated reform on multiple fronts and managed to leverage much needed additional support from other donors. Looking at the seven DPGs thus far, a programmatic character to these operations emerges, with the underlying theme being preparing Palestine for statehood through strengthening the PA fiscal position and increasing government transparency. Stimulating private sector development has been an additional theme. With the formation of an NPA with a six-year perspective (2016-2022), the programmatic element of future operations can be further reinforced, and bolder reforms embraced.

Though this ICR evaluates DPG-VII only, it is worth noting the impressive progress made against the broad development objectives as a result of a *de facto* programmatic, yet flexible, form of engagement through DPGs I-VII. The DPG series helped stimulate reforms in a number of key areas over the years including wage restraint, inefficient outside medical referrals, net lending, and many others. A clear indicator of fiscal strengthening is the reduction in recurrent expenditures as a share of GDP from nearly half in 2009 to around 31 percent in 2016, without jeopardizing the quality of social and other services;

indeed, with some improvements.<sup>11</sup> While the PA continues to substantially rely on external financing for recurrent expenditures, it has made some improvements in the efficiency of public spending and in conditions for private sector growth, supported by the Bank's DPG operations.

The fiscal consolidation and efficiency improvements have benefited from efforts aimed at improving government transparency and accountability, though public financial management improvements have proven very hard to entrench.

An important overarching theme is inadequacy of PA commitment to reforms in certain areas, particularly PFM, revenues, and the public pay and pension systems. The case for deep-seated set of reforms, particularly in civil service and pensions, is now compelling, but it remains to be seen whether the PA can show the determination and whether political economy constraints will ease to enable it to undertake such reforms.

#### **(a) Poverty Impacts, Gender Aspects, and Social Development**

The operation has significant implications for poverty and social development, principally by enlarging the fiscal space. Fiscal stability will lead to improved quality of public services with greater predictability and assurance of social spending. The development objectives of the operation, through specific policy actions, also indirectly address both poverty and welfare through the strengthening of public revenues, improving the quality of governance, and of public expenditures. These reforms are important prerequisites for sustainable economic growth, the most important tool for poverty alleviation and broader social development. None of the actions supported in DPG-VII were expected to have adverse impacts on poverty or gender.

#### **(b) Institutional Change/Strengthening**

Institutional strengthening has been at the core of this operation, given its clear importance for an eventual successful state. The operation has provided an umbrella for pulling Bank-supported institution-building together in a coherent way and adding to the capabilities of the ministry of finance. The operation has continued a multi-year effort in strengthening fiscal institutions in revenue administration reforms, the ministries of energy and health in spending efficiency, the ministry of finance and several line ministries in improving public financial management, and agencies such as the Commission on Land and Water and the Land Authority in land registration policies and practices.

No significant unintended outcomes or impacts were experienced.

### **3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops**

Not applicable.

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<sup>11</sup> For instance, the PA operates one of the best targeted cash transfer programs globally, with rising coverage of the poor.

#### **4. Assessment of Risk to Development Outcome**

Rating: High

The operation was implemented in an environment of high overall risk – political, social, economic and institutional. The current *Assistance Strategy* notes that the volatility in the operating environment places a security risk on the Bank’s program, with implementation being affected by the political stalemate, and the uncertainty of the peace process reducing ownership of the reforms.

The overall political risk is largely exogenous to the PA and beyond the control of the authorities as they relate to the tight externally-imposed restrictions on economic activity. A further major source of exogenous risk is the amount and volatility in donor aid flows, particularly budget support, in a highly aid-dependent economy. Internal social risks stem from the political fracture within the Palestinian political establishment as noted, and hence poor cooperation between the West Bank and Gaza. Internal risks – within the control of the authorities – are associated with the pace of the reconciliation process between the political authorities in West Bank and Gaza. Internal risks also stem from lack of a firm vision on high priority reforms and uncertain willingness to implement them and lack of resolution on ownership.

Social risks arise from a palpable sense of frustration with the political deadlock and with deteriorating governance. Palestinians have also been frustrated by the decade-long failure to hold elections. Appallingly high rates of youth unemployment and the continuing humanitarian crisis in Gaza add to social risks.

Looming economic risks arise from the unsustainability of macroeconomic policies that have relied to an important degree on *ad hoc* measures (such as employment freezes) rather than adopting the necessary long-term reforms. The fall in external budget assistance has exposed the unviability of the current macroeconomic path. The resort to arrears financing is clearly unsustainable, highly detrimental to private sector growth, and a source of fiscal instability.

The risks to development outcomes are heightened by inadequate commitment to reforms as discussed earlier in this report. This risk is particularly evident in revenue raising reforms and public financial management.

Some of the key risks were taken into account in the operation’s design and mitigation mechanisms to the extent possible were put in place. Simplicity in reform design and alignment with the PA’s own strategy helped to mitigate risks. In supporting actions to raise tax revenues and control spending, the operation attempted to mitigate fiscal risk and donor support risk.

#### **5. Assessment of Bank and Borrower Performance**

##### **5.1 Bank Performance**



### **(a) Bank Performance in Ensuring Quality at Entry**

Rating: Moderately Satisfactory

DPG-VII was designed to address a sub-set of the key reform priorities of NDP, was strategically aligned with the Assistance Strategy, and had solid foundations in the economic and analytical work done in all reform areas. The macroeconomic framework reflected close dialogue with the PA and was well coordinated with the IMF. Particular care was taken to develop a quality M&E set of arrangements in close work with the authorities.

The principal shortcoming lay in the design of some prior actions which did not focus on the critical actions necessary to leverage reforms but rather on an initial first step, often of a *pro forma* nature. Moreover, the design did not adequately reflect possible risks associated with the implementation of some prior actions such as weak ownership and commitment, lack of consensus, and capacity shortcomings within the PA. This is particularly true for the prior action on the use of the execution court to collect income tax arrears which was not operationalized mainly due to lack of commitment by the MoF. These issues have been extensively discussed in section 2.2 of this report.

### **(b) Quality of Supervision**

Rating: Satisfactory

Supervision was facilitated by strong M&E and regular reporting arrangements that the borrower had put in place. The authorities prepared regular reports on implementation progress which formed the basis for Bank supervision. ISRs are not required for standalone operations. But to ensure ongoing monitoring, the Bank supervision team prepared quarterly detailed supervision reports that analyzed developments, highlighted delays in implementation and provided guidance as to future actions. These reports drill down into developments and pro-actively identify emerging problems and provide suggestions for action.

The effectiveness of supervision was greatly enhanced by its continuous nature, using the strong presence of economic and sector staff in the resident mission that covered all the areas of the operation. Bank staff were continuously in touch with the authorities to monitor progress in achieving the DPG objectives and provide suggestions to resolve experienced delays. Highly qualified staff supported by quality AAA engaged in a continuous dialogue with a range of partners to provide support to the PA.

The overall supervision of the operation was conducted by the WB's economic staff resident in the West Bank and Gaza Office in Jerusalem, as well as the team of sector and thematic specialists, resident in Jerusalem. The long-term reform perspective was preserved by the fact that the preparation of the upcoming DPG-VIII was initiated at the same time and lessons are being incorporated into its design. This permits a sharp focus on development impact and how best to maximize it. The candor of the dialogue and of the written reporting also assisted in improving project implementation.

### **(c) Justification of Rating for Overall Bank Performance**

Rating: Moderately satisfactory

The Bank devoted much efforts and attention to both quality at entry (rated as moderately satisfactory) and quality of supervision (rated as satisfactory); with an overall rating for Bank performance as moderately satisfactory.

## **5.2 Borrower Performance**

### **(a) Government Performance**

Rating: Moderately Unsatisfactory

The performance of the government as the borrower and the implementer of DPG-VII is rated as moderately unsatisfactory. The government failed to assert commitment and ownership in the critical area of improving tax administration through the use of the execution court, and was slow in implementing the effective merger of the collection units of the income tax and VAT departments. When it comes to rolling out the Commitment Recording System, it is yet to be implemented by the MoH, one of the pilot ministries covered by this prior action.

As these implementation problems became evident in the course of the operation in 2016, the authorities failed to take corrective actions so that timely resolutions could be developed. This was documented by the Bank's supervision report for the first quarter of 2016.<sup>12</sup>

Macroeconomic performance has been unsatisfactory even if one recognizes the tough external environment (restrictions imposed on economic activities) and falling donor budget support. The unsustainable fiscal position has not been supportive of stability, nor of the volume of capital spending necessary for steady growth. In particular, the use of domestic arrears as a source of financing has been damaging for the economy and is indicative of the fundamental unsustainability of fiscal policies.

Strong points in government performance can be found in the area of raising the efficiency and reducing waste in spending on energy and health. In both sectors, after years of fitful efforts that yielded little gains, in 2015-16 the authorities showed determined leadership and technical capability to find impressive solutions and to implement them effectively. The land registration prior action of waiving the land-titling fee may not have been challenging to implement, but has led to commendable results, and opens the way for far more ambitious actions to create efficient land markets. Similarly, the initial steps on

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<sup>12</sup> The report is available at:  
<http://wbdocs.worldbank.org/wbdocs/viewer/docViewer/indexEx.jsp?objectId=090224b084b096b3&responsitoryId=WBDocs&standalone=false>

transparency need to be followed up by further actions to realize the true purpose of the intended reforms.

The authorities maintained a cooperative dialogue with the Bank and other development partners, and with other stakeholders such as users of health services and energy companies. They operated the M&E system effectively, in particular with the use of data gathered to ensure effective implementation and to influence design of future policies.

Taking the factors discussed above into account, a rating of Moderately Unsatisfactory for the Borrower is justified.

**(b) Implementing Agency or Agencies Performance**

Rating: Not Applicable

**(c) Justification of Rating for Overall Borrower Performance**

Rating: Moderately Unsatisfactory

## **6. Lessons Learned**

First, the future series of development policy grants should be infused with long-term perspectives of reform, even if they continue to be standalone operations, because successful institutional reforms require continuity of effort and greater perseverance across a number of years. The long-term orientation of the NPA provides the basis for a “conceptually” programmatic approach.

Second, challenging reforms in key policy areas such as civil service reforms, pensions reforms, governance and anti-corruption reforms, and improvements in the business climate need to be addressed as essential building blocks of a Palestinian state. The future DPGs will of course have to balance ambitions in reforms with realism. Even so, some of these difficult reform areas will *need* to be tackled on the basis of quality political economy and technical analysis.

Third, noting that a viable fiscal position is essential to macro-stability, development policy grants should be extended only when budgets are adequately financed with low risk of running arrears. In this regard, the Bank may find itself in a challenging position as it faces strong pressures to provide budget grants, thereby unlocking budget support from other donors. Lessons are two-fold: first, aim at greater fiscal consolidation through suitable prior actions that could reduce the risk of arrears; and second, continue efforts to leverage additional donor support through the PRDP TF.

Fourth, the above lessons will be effective only with clear commitment from the authorities. The experience with DPG-VII and earlier operations shows that lack of commitment in critical areas has led to missed results.

Fifth, the design of prior actions needs to address the critical actions that have to be taken to ensure the purpose of the reforms and secure the intended results. Prior actions crafted

so that only the first policy action is taken have failed on occasions when the authorities lacked the commitment or the incentives to take the critical follow-up steps.

Sixth, a candid assessment of commitment and capacity risks should be undertaken together with proposals for mitigation. Supervision efforts should focus to a greater degree on such risks, and mitigation proposals should be a part of the dialogue.

## **7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners**

### **(a) Borrower/Implementing agencies**

The borrower comments were provided by the MoF and focused on four main areas. First, the MoF argued that the proposed rating for the borrower's performance, which is Moderately Unsatisfactory, is "unfair" given that the proposed rating for the overall outcome of the operation is "Moderately Satisfactory." Second, in regards to political factors affecting implementation, the government highlighted details of specific actions by the GoI that have led to a deterioration in the overall political and security environment under which the operation was implemented. Third, the borrower argued against reasons mentioned in the ICRR (including lack of commitment by the MoF) that prevented the Prior Action on the use of the execution court to be operationalized. That said, the government did not provide alternative reasons explaining why this action was not followed through. Fourth, the MoF argued against a suggestion made in the ICRR that the Prime Minister's Office may be better positioned to follow up on some DPG actions that involve line ministries. It is important to note, though, that this suggestion was agreed upon by the MoF and the Prime Minister's Office during the ICRR mission.

### **(b) Co-financiers**

Not applicable

### **(c) Other partners and stakeholders**

Not applicable

## Annex 1 Bank Lending and Implementation Support/Supervision Processes

### (a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
<b>Lending</b>			
Orhan Niksic	Senior Economist	GFM05	TTL
Nur Nasser Eddin	Economist	GMF05	Fiscal policy
Pierre Prosper Messali	Senior Public Sector Specialist	GGO17	PFM
Muna Abeid Salim	Senior Program Assistant	GFM05	Administration
Nadi Yosef Mashni	Financial Management Specialist	GGO23	FM
Samira Hillis	Program Leader	MNC04	HD
Lina Abdallah	Senior Urban Specialist	GSU11	Land
Roger Coma Cunill	Senior Energy Specialist	GEE05	Energy
Maha Muhammad Bali	Senior Program Assistant	MNCGZ	Administration
<b>Supervision</b>			
Nur Nasser Eddin	Economist	GFM05	TTL
Pierre Prosper Messali	Senior Public Sector Specialist	GGO17	PFM
Maha Muhammad Bali	Senior Program Assistant	MNCO4	Administration
Lina Abdallah	Senior Urban Specialist	GSU11	Land
Samira Hillis	Program Leader	MNC04	HD
Sara Badiei	Energy Specialist	GEE05	Energy

### (b) Staff Time and Cost

Stage	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
<b>Lending</b>		
<b>Total:</b>	12.69	56018
<b>Supervision/ICR</b>		
<b>Total:</b>	3.84	33764

## **Annex 2. Beneficiary Survey Results**

Not applicable

### **Annex 3. Stakeholder Workshop Report and Results**

Not applicable

#### Annex 4. Summary of Borrower's ICR and/or Comments on Draft ICR

ICR	Comments
<p><b>Page 4, Para : C.1 C. Ratings Summary:</b></p> <p>Borrower Performance: <b><u>Moderately Unsatisfactory</u></b></p>	<p>Since the outcomes are rated Moderately Satisfactory, then why the Borrower performance is rated Unsatisfactory.</p>
<p><b>Page 11, Para 4:</b></p> <p><b>Commitment to reforms.</b> Though the operation addressed an important sub-set of the priorities of the NDP, the commitment of the authorities to the reforms proved to be uncertain, particularly in public finances. Attempts to bolster income tax revenues by speeding up payments of amounts overdue through the use of the execution court faltered <b><u>as the PA did not follow through on the process for lack of commitment and vested interests.</u></b> This reform was in no sense imposed from outside: the analysis carried out by the PA in the development of its own revenue strategy showed the legal weaknesses of the tax collection process and associated inefficiencies and the role the execution court could play</p>	<ul style="list-style-type: none"> <li>• Does the Bank has clear evidence that there is resistance from vested interests??</li> <li>• I don't think that the Minister will agree that the PA has lack of commitment.</li> </ul> <p>Therefore, the underlined reasons should either be replaced or deleted.</p> <ul style="list-style-type: none"> <li>• The same information has been repeated in Page 15 para 3.2</li> <li>• The same information has been repeated in Page 30 para (a) specifically for MOF</li> <li>•</li> </ul>
<p><b>Page 12, Para 1:</b></p> <p><b>Capacity constraints.</b> The DPG-VII-supported reform program faced constraints from inadequate local capacity, a further cause of the pace being slower than planned. <u>The ministry of finance appears to have lost capacity over the past two years. It has played an important role as the key implementer of the DPGs, but lacks the capacity and authority to hold line ministries to their reform undertakings. This function may be better performed by the Prime Minister's Office: a conclusion with which both the Prime Minister's Office and the Ministry of Finance agree.</u> Similarly, the institutional achievements in revenue administration aimed for will be realized only if the staff are properly equipped and trained and learn to function</p>	<p>DPG is a financing tool used by the bank to support the MOFP in implementing the necessary agreed on prior actions in order to achieve the anticipated reform in the public financial management and fiscal policy. MoFP has fair capacity to work with other ministries to achieve results in the PFM reform process especially that MOFP is the guardian for public financial resources. Thus, MOFP has to be the lead counter part of deciding about and implement DPGs. Nonetheless, PMO would <b>play vital supportive role in the form of policy directives, the DPG implementation mechanism can be sour it out between MOFP and PMO.</b></p>



with modern techniques – this is the critical task for the future.	
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## **Annex 5. Comments of Co-financiers and Other Partners/Stakeholders**

Not applicable

## **Annex 6. List of Supporting Documents**

Not applicable