Project Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 16-Feb-2022 | Report No: PIDA33275

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
West Bank and Gaza	P177742	Public Financial Management Improvement Project Phase 2	
Region	**Estimated Appraisal Date**	**Estimated Board Date**	**Practice Area (Lead)**
MIDDLE EAST AND NORTH AFRICA	07-Feb-2022	30-Mar-2022	Governance
Financing Instrument	**Borrower(s)**	**Implementing Agency**	
Investment Project Financing	Ministry of Finance	High Council for Public Procurement Policies	

Proposed Development Objective(s)

The Project Development Objective (PDO) is to improve public financial management, procurement management, and data use in the Palestinian Authority.

Components

Improving Budget Expenditure Management and Control
Improving Financial Accountability of the PFM System
Enhancing Revenue Mobilization and Administration
Improving Public Procurement Management
Close critical data gaps and modernize statistics production
Project Implementation Support and Management Costs

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Project Cost	8.00
Total Financing	8.00
of which IBRD/IDA	0.00
Financing Gap	0.00

DETAILS

Non-World Bank Group Financing	
Trust Funds	8.00
Special Financing	8.00

Environmental and Social Risk Classification

Low

Decision

The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

1. The West Bank and Gaza (WB&G) is a fragile economy with a gross national income per capita US $4,190 and a population of 4.6 million in 2020. It is a divided territory with limited connectedness, involving restrictions on movement and access, which pose constraints for the Palestinian economy in reaching its potential and benefiting from regional and global markets. In recent years the Palestinian economy has faced significant challenges, but its performance has been improving as COVID-19 related lockdowns were eased during the first three quarters of 2021. These improvements have resulted in a significant boost to public revenues. Domestic revenues in 2020 were 21.5 percent of GDP which is generally in line with the average of 21 percent of GDP in the previous five years. At the same time, budget support from donors has declined significantly in recent years and funds remain insufficient to close the large financing gap.
2. Public spending increased by 16 percent in the first eleven months of 2021, mainly due to reinstating wages in Gaza to regular levels, resumption of Palestinian Authority (PA) activities, and medical spending. Despite the impressive revenue performance, financing was tight in 2021 because of high public spending and very low external support. The total deficit amounted to US $1.2 billion a 10 percent increase compared to 2020. To finance this gap, the PA incurred arrears to the private sector and the pension fund and increased domestic borrowing.

Sectoral and Institutional Context

Relevance for the country economic development

3. The West Bank and Gaza have been politically divided since 2006 with the PA controlling the West Bank and a de facto power, *Hamas*, controlling the Gaza Strip. The agreements with Israel have given Israel the power to collect on behalf of the PA customs and value added tax (VAT) on goods entering the territories (so called ‘clearance revenue’). This revenue is transferred to the PA monthly with Israel deducting revenues to offset utility and medical bills to Israeli suppliers among other deductions. The PA’s situation remains fragile with the large financing gap which puts pressure on the PFM system. It

is important that the PA continues improving its Public Financial Management (PFM) system including procurement to address fiscal pressures and ensure scarce resources are used efficiently and effectively, within an overall evidence-based approach. This will enable the PA to better support the delivery of public services and restore some confidence in the public institutions.

Challenges

4. Despite the PA's progress in improving the PFM system, significant weaknesses remain. The recent 2019 PEFA assessment, suggests that the PFM system operates at an acceptable but basic level.

5. Inadequate domestic revenue mobilization, which is lagging behind other countries in the Middle East and North Africa (MENA) as well as the worldwide average, is a major constraint for sustainability of the PA's public finances.

6. A prudent monitoring and reporting on the performance of the public procurement system is not yet in place for ensuring value for money and for promoting fiduciary integrity.

7. PFM deficiencies have impacted service delivery in sectors. Due to the lack of effective commitment control and in-year cash management, payments to contractors are delayed and there is an accumulation of arrears. This leads to a discretionary cash rationing process which lacks sufficient transparency and accountability and affects service delivery. This also leads to providers charging a premium in expectation of late payments. There are three main sectors where these deficiencies should be addressed through PFM improvements: the Health sector, the Municipal sector and the Education sector.

Progress to date

8. During the last decade, the PA has made substantial efforts to develop and improve its PFM system. It has shown commitment to addressing governance challenges and capacity to implement reforms. Key achievements include: (i) developing an IFMIS functionality to devolve some of the implementation of the accounting functions to line ministries; (ii) establishing and sustaining a treasury single account (TSA); and (iii) enhancing transparency with detailed monthly fiscal reports. The PA has also enacted the Public Procurement Law in 2014, which is aligned with international good practice. The Law entered into effect in July 2016 with the adoption of its executive regulation. Since then, the PA has made significant progress in implementing the Public Procurement Law. The PA has also overseen the creation of one of the most robust and transparent statistical systems in the region. The World Bank is a key and trusted partner in these reforms, including through the PFM Improvement Project (P162850) closing in 2022, various Development Policy Grants (DPGs) and the ongoing Digital West Bank and Gaza Project (P174355).

   Since its establishment in 1993 the PCBS has developed and strengthened the Palestinian official statistical system

Solutions that the Project provides

9. Improving domestic resource mobilization will help alleviate pressures on public finances while addressing the PFM and public procurement constraints has the potential to enhance private sector investment and job creation. More effective and efficient public financial management and public procurement will contribute to making the business environment in the PA more open, enable improvements in the delivery of public services and, over time, support fiscal stability by reducing expenditure arrears. The PA's Public Financial Management Strategy 2021-2023 is aimed to improve

the effectiveness and efficiency of the PFM system. Strengthening accountability for managing public resources and providing information on the incidence of fiscal revenue collections and expenditures will help restore the trust of citizens and development partners. Accountability can be further strengthened by improving the PA's efforts to combat and prevent corruption and by equipping the PA authorities with the statistics allowing them to relate service and welfare outputs and outcomes against financial spending. Since its establishment in 1993 the PCBS has developed and strengthened the Palestinian official statistical system based on a legal basis that governs the collection and use of data for statistical purposes with the main function of PCBS being to establish a national, comprehensive and unified statistical system to serve as a tool at the disposal of Palestinian ministries and institutions. Whereas initially PCBS relied heavily on primary (survey data collection), the increasing availability of digital databases, registries and big data allows for a transformation and modernization of statistical business processes. This ambition is reflected in the National Strategy for the Development of Official Statistics (2018-2022).

C. Proposed Development Objective(s)

The Project Development Objective (PDO) is to improve public financial management, procurement management, and data use in the Palestinian Authority.

Key Results

10. The achievement of the PDO will be measured through the following PDO level results indicators:

(a) Enhanced predictability in budget execution with reliable and timely information on commitments.
(b) Strengthened cash and debt management with improved cash and debt planning.
(c) Improved efficiency of revenue collection.
(d) Increased value for money, efficiency and transparency in public procurement performance.
(e) Increased use of administrative data for evidence-based policymaking.

D. Project Description

11. **1- Component 1. Improving Budget Expenditure Management and Control (US $1.50 million).** This component will address core weaknesses in expenditure management and control mechanisms through further development of operating procedures, a legal and regulatory framework, methodologies and capacity building for budget preparation and execution. The project component includes three subcomponents:
    (a) Subcomponent 1.1. Improving Budget Expenditure Management, Financial Control and Cash Planning
    (b) Subcomponent 1.2. Improving Transparency of Intergovernmental Transfers
    (c) Subcomponent 1.3. Improving Service Delivery in Sectors

    2- Component 2. Financial Accountability (US $2.00 million). This component will address the core weaknesses with the financial accountability of the PFM system through the following activities:
    (a) Subcomponent 2.1. Improving the IFMIS system
    (b) Subcomponent 2.2. Improving Debt Management
    (c) Subcomponent 2.3. Aligning Accounting and Reporting with International Standards

    3- Component 3. Enhancing Revenue Mobilization (US $1.50 million). This component will address core weaknesses in domestic resource mobilization through strengthening revenue policy and administration and operational development of the recently created Revenue Commission under the Ministry of Finance. This project component includes three subcomponents:
    (a) Subcomponent 3.1. Strengthening Revenue Management Functions
    (b) Subcomponent 3.2. Developing Taxpayer Services
    (c) Subcomponent 3.3 Operationalization of the Revenue IT System

    4- Component 4. Improving Public Procurement Management (US $2.00 million). This component will aim to improve procurement management through scaling up activities implemented by the HCPPP and supported by the current PFMI Project (phase 1) as well as supporting new interventions in priority areas. Activities under this component will include:
    (a) Subcomponent 4.1. Professionalization of the Procurement Workforce
    (b) Subcomponent 4.2 Enhancing Procurement Practices in Specific Sectors
    (c) Subcomponent 4.3. Strengthening HCPPP Policymaking, Monitoring and Oversight Role

    5- Component 5. Closing Critical Data Gaps and Modernizing Statistics Production (US $0.25 million). This component builds on the MENA Statistics Compact and the Palestine National Statistical Development Strategy. It aims at increasing and improving the use of administrative data to produce statistics, particularly through increased collaboration with the MoF. The component will support:
    (a) Improving macro-fiscal forecasting models
    (b) Improving the measurement of informal sector activities, and the incorporation of these activities into national accounts data. A household-level survey of informal sector activity (external to this Project) has been confirmed for the first quarter of 2022
    (c) Increasing the sharing of administrative data between the MoF and PCBS

    6- Component 6. Project Implementation Support and Management (US $0.75 million). This component finances costs related to project management and capacity building at the MoF throughout the life of the Project.

12. Climate co-benefits, gender and citizen engagement in the project design. In 2016 the PA adopted a National Adaptation Plan to Climate Change that outlines the PA's mitigation and adaptation actions. The Project will support mainstreaming of climate considerations in public investment management through inclusion of climate related criteria in the screening, appraisal, and selection of public investment projects as guided by the National Adaptation Plan to Climate Change. The Project will also support integrating gender considerations in budgeting and tagging of gender expenditure using two pilots – the Ministry of Education and the Ministry of Social Development. The project design includes citizen engagement in activities on revenue management and public procurement.

Legal Operational Policies

	Triggered?
Projects on International Waterways OP 7.50	No
Projects in Disputed Areas OP 7.60	No

Summary of Assessment of Environmental and Social Risks and Impacts

13. The project activities are anticipated to have an overall positive environmental and social impact and are aimed at enhancing the PFM capacity in the country. The Project's environmental and social risk is low and there are only some minor risks explained below.

14. The project activities are expected to have minor environmental impacts, as the Project will not finance any civil works and hence there are no environmental and social (E&S) risks associated with physical infrastructure development. Potential community health and safety impact related to exposure of community to COVID-19 is anticipated to be associated with face-to-face training. The different project components support the supply of IT equipment, where potential risks related to occupational health and safety risks during minor installation activities of some equipment's, and the disposal of the equipment at the end of life are expected. On the other hand, the PMU does not have previous expertise with the Bank's Environmental and Social Framework (ESF) and does not host an environmental and social staff to prepare and follow the Project's environmental and social requirements.

15. The Project is anticipated to have overall positive social impacts. Citizens will benefit due to better economic management and governance including for purposes of domestic revenue mobilization, budget allocation and management, improved government procurement, and prevention of corruption and strengthened accountability, leading to greater trust of citizens. Project interventions primarily involve systems enhancement and capacity building of institutions and in general are not likely to cause adverse social impacts. The social risks are assessed as low and primarily pertain to potential exclusion of i. certain categories of users of improved systems who may not readily receive information, in accessible format, regarding changes/systems improvements, i.e., development of additional sector-specific standard bidding document (SBD)s under component 4. The users can include private sector firms/contractors (particularly small firms or firms owned by women or vulnerable groups such as persons with disabilities etc.); and ii. personnel within relevant ministries

and agencies who might not be able to benefit equitably from training due to IT literacy/proficiency issues or existing vulnerabilities such as physical disabilities. Additional social risks are related to insufficient information dissemination and stakeholder engagement, particularly for strengthening accountability and prevention of corruption measures (under Component 2); labor and working conditions; potential exposure of government personnel to COVID-19 during trainings; and potential exposure of personnel to sexual exploitation and abuse (SEA) and sexual harassment (SH) during trainings (both online and face-to-face).

16. The Project environmental risks will be addressed in the equipment's supply technical specifications, additionally, a project e-waste management checklist should be prepared under the Project Operation Manual (POM). The social risks for the Project will be addressed through effective information dissemination and stakeholder engagement, in accordance with the Project's Stakeholder Engagement Plan (SEP), labor management, in line with the Project's Labor Management Procedures (LMP), and access to effective grievance mechanisms (GMs, including for potential SEA/SH cases) for project beneficiaries and workers. Potential issues pertaining to access to project benefits by persons with disabilities (e.g. trainings for personnel, improved procurement systems for government contracts) will also be assessed during project design and requisite measures will be included in the design of such activities.

17. The PMU will hire a part-time social officer (SO) within one month of the Project effectiveness date, for the implementation of the project environmental and social requirements as specified under the Project's Environmental and Social Commitment Plan (ESCP). The ESCP has been prepared by the MoF/PMU, and will be finalized, cleared by the Bank and disclosed prior the project appraisal date.

E. Implementation

Institutional and Implementation Arrangements

18. The Project will be implemented and led by the MoF and HCPPP, but specific project components will involve other implementing entities. In particular, two other implementing entities will manage and implement activities: the SAACB (under Subcomponent 2.3) and PCBS for Component 5. The Project will also involve cooperation with other ministries (Ministry of Education, Ministry of Health, Ministry of Local Government) for some activities of the Project. The role of the PMU will be instrumental in ensuring good cooperation between all entities involved in the Project and MoF and handling all payments under the Project (with the exception of activities under Component 4). Recognizing the interconnected nature of the reforms the different ministries will be invited to meetings to oversee their overall implementation. The Project will be implemented over five years.

19. The assignment of four different implementing agencies for the Project raises some risks but these are considered manageable. In particular, the implementation arrangements will follow the current well-functioning architecture of the flow of budget funds and payments for all World Bank projects in place in WB&G. The fund flow arrangements will include two designated accounts (DAs) for the implementing agencies; one managed by the PMU at MoF and the other by HCPPP (SAACB and PCBS will not need a DA).

20. The PMU situated in the Directorate General of International Relations & Projects (DGIRP) at the MoF will support the implementation of the Project. The DGIRP is the best placed unit at the MoF to: (i) coordinate, monitor and report in a neutral manner on the Project activities to the Bank, especially those implemented at the MoF, and ensure their compliance with the objectives and expected results;

(ii) recruit seasoned peripatetic experts; (iii) ensure the conformity of the Project with the PFM Strategy as its main author, implementer and coordinator; and (iv) coordinate with all other TA providers to ensure complementarity and prevent duplication.

21. The role of the PMU will be instrumental given its dual function of administering the Project and promoting the PFM change expected from the Project. The large number of activities (i.e., Subcomponent 1.1) can be well-managed by the experienced PMU with supervision support from the World Bank team. Most of IT procurement will be bundled into larger procurement packages (i.e., FMIS upgrades and enhancements). The PMU will be particularly responsible for:

(a) Ensuring the general administration and management of the Project in line with the World Bank fiduciary requirements, in particular: (i) contracting with seasoned experts to address challenging technical tasks; (ii) liaising within the MoF, and with other implementing entities and externally with the World Bank; (iii) ensuring the financial management and procurement arrangements for the activities; (iv) monitoring and evaluating the budget expenditure management according to the agreed results-framework; (v) ensuring quarterly interim unaudited financial reports and an annual audit of the Project; and (vi) taking opportunities to disseminate its activities to the public and to development partners, in particular providing inputs for discussions involving the PFM donors group.

(b) Promoting the change management approach expected from the Project within the MoF and other implementing entities in line with the PFM Strategy. This will be informed by the lessons learned from the current Bank Project. In particular, the PMU will seek to identify and resolve bottlenecks of the activities and facilitate coalition-building and streamlined decision-making mechanisms. In that regard, the role of the resident-advisors placed in MoF and HCPPP will consist of three specific tasks: (i) supporting the MoF and HCPPP in managing the activities of the Project, in particular by sequencing and selecting the recruitment of seasoned peripatetic experts when needed in order to drill down some issues requiring specific expertise; (ii) following up on the implementation of the activities by the four implementing entities in order to ensure compliance with the Project and avoid bottlenecks or stalled activities; in particular, they will follow up on the training activities, workshops and learning exchanges related to the implementation of new procedures, and monitor and evaluate the results; and (iii) reporting to both the head of the implementing entity and the lead of the PMU in order for the latter to report back to the World Bank.

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