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Report No: ICR00005380

IMPLEMENTATION COMPLETION AND RESULTS REPORT

(TF-A9743, TF-B1405)

ON A

TRUST FUND GRANT

IN THE AMOUNT OF US$64 MILLION

TO THE
PALESTINE LIBERATION ORGANISATION
(FOR THE BENEFIT OF THE PALESTINIAN AUTHORITY)

FOR A

STRENGTHENING FISCAL RESILIENCE AND BUSINESS ENVIRONMENT

DEVELOPMENT POLICY GRANT

August 27, 2021

Public Disclosure Authorized

Macroeconomics, Trade and Investment Global Practice
Middle East and North Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of August 19, 2021)

Currency Unit: New Israeli Shekel (NIS)

US$1= NIS3.2489

FISCAL YEAR: CALENDAR YEAR

ABBREVIATIONS AND ACRONYMS

ACH	Automated Clearing House	NPA	National Policy Agenda
AHLC	Ad-hoc Liaison Committee	NPLs	Non-performing Loans
AML/CFT	Anti-Money Laundering and Combating Financing of Terrorism	NPR	National Price Reference
ASYCUDA	Automated System for Customs Data	NPS	National Payment System
DISCOs	Distribution Company	PA	Palestinian Authority
ESPIP	Electricity Sector Performance Improvement Project	PCBS	Palestinian Central Bureau of Statistics
GoI	Government of Israel	PCM	
ICR	Implementation Completion and Results	PDO	Private Capital Mobilization
ISIC	International Standard Industrial Classification		Program Development Objective
IMF	International Monetary Fund	PERC	Palestinian Electricity Regulatory Council
JDECO	Jerusalem Distribution Electricity Company	POS	Point of Sale
LGU	Local Government Unit	PRDP	Palestinian Reform and Development Plan
M&E	Monitoring and Evaluation	PSEF	Private Sector Enhancement Facility
MoF	Ministry of Finance	RMIS	Revenue Management Information System
MoH	Ministry of Health	RWU	Regional Water Utilities
MoI	Ministry of Interior	TA	Technical Assistance
MoNE	Ministry of National Economy	TF	Trust Fund
MSME	Micro, Small, and Medium Enterprises	VAT	Value-added Tax
NIS	New Israeli Shekel	WBWD	West Bank Water Department

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I. DATA SHEET

BASIC INFORMATION

Product Information

Project ID	Program Name
P164427	Strengthening Fiscal Resilience and Business Environment
Country	Financing Instrument
West Bank and Gaza	Development Policy Lending

DPF Options

Programmatic	Regular Deferred Drawdown Option	Catastrophic Deferred Drawdown Option
No	No	
Crisis or Post Conflict	Sub-National Lending	Special Development Policy Lending
No	No	No

Organizations

Borrower	Implementing Agency
Palestine Liberation Organization (for benefit of the Palestinian Authority)	Ministry of Finance

Program Development Objective (PDO)

Program Development Objective (PDO)

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

(i) Strengthen revenue and land administration and intergovernmental revenue framework.

(ii) Improve the business environment and foundations for a digital economy, and

(iii) Enhance sustainability and creditworthiness of local service providers for private investment

PROGRAM FINANCING DATA (USD)

	Approved Amount	Actual Disbursed
World Bank Administered Financing		
TF-A9743	30,000,000	30,000,000
TF-B1405	34,227,196	34,227,196
Total	**64,227,196**	**64,227,196**

KEY DATES

Concept Review	Decision Review	Approval	Effectiveness	Original Closing	Actual Closing
27-Sep-2018	30-Oct-2018	07-Feb-2019	22-Feb-2019	01-Feb-2020	01-Jun-2020

RATINGS SUMMARY

Program Performance

Overall Outcome	Relevance of Prior Actions	Achievement of Objectives (Efficacy)
Moderately Satisfactory	Satisfactory	Moderately Satisfactory
Bank Performance		
Moderately Satisfactory	Not Applicable	Not Applicable

RATINGS OF PROJECT PERFORMANCE IN ISRs

No.	Date ISR Archived	DO Rating	IP Rating	Actual Disbursements (US$M)

Not Applicable

SECTORS AND THEMES

Sectors

Major Sector/Sector	(%)	Mitigation Co-benefits (%)	Adaptation Co-benefits (%)
Public Administration	**34**	**0.00**	**0.00**
Central Government (Central Agencies)	23	0	0
Other Public Administration	11	0	0
Information and Communications Technologies	**11**	**0.00**	**0.00**
ICT Services	11	0	0
Health	**11**	**0.00**	**0.00**
Health	11	0	0
Energy and Extractives	**11**	**0.00**	**0.00**
Other Energy and Extractives	11	0	0
Water, Sanitation and Waste Management	**11**	**0.00**	**0.00**
Other Water Supply, Sanitation and Waste Management	11	0	0
Industry, Trade and Services	**22**	**0.00**	**0.00**
Other Industry, Trade and Services	22	0	0

Themes

Major Theme/ Theme (Level 2)/ Theme (Level 3)	(%)
Private Sector Development	**22**
Business Enabling Environment	22
Investment and Business Climate	22
ICT	11
ICT Solutions	11
Finance	**11**
Financial Infrastructure and Access	11
Payment & markets infrastructure	11
Public Sector Management	**22**
Public Finance Management	22
Domestic Revenue Administration	22
Human Development and Gender	**11**
Health Systems and Policies	11
Health System Strengthening	11

Urban and Rural Development	**11**
Rural Development	11
Land Administration and Management	11
Environment and Natural Resource Management	**11**
Water Resource Management	11
Water Institutions, Policies and Reform	11
Energy	11
Energy Policies & Reform	11

ACCOUNTABILITY AND DECISION MAKING

Role	At Approval	At ICR
Regional Vice President:	Ferid Belhaj	Ferid Belhaj
Country Director:	Marina Wes	Kanthan Shankar
Director:	Najy Benhassine	Nadir Mohammed
Practice Manager:	Kevin Carey	Eric Le Borgne
Task Team Leader(s):	Damir Cosic, Nur Jalal Nasser Eddin	Nur Jalal Nasser Eddin

II. PROGRAM CONTEXT AND DEVELOPMENT OBJECTIVES

1. **This Implementation Completion and Results (ICR) report assesses the achievement of the Strengthening Fiscal Resilience and Business Environment Development Policy Grant (DPG) to the West Bank and Gaza.** This standalone operation continues the practice begun under the previous operation of delineating prior actions in a medium-term reform direction in the context of an indicative programmatic approach. The nature of the World Bank engagement in the West Bank and Gaza, a non-member country, restricts ex ante commitment to multi-year operations. However, the de facto continuity of the operations enables reform momentum and aids policy dialogue. This operation, the ninth DPG (DPG9), supported the strategic priorities of the Palestinian Authority (PA) reflected in its development strategy—the National Policy Agenda (NPA) (2017-2022)—and provided financing for the PA's 2019 budget. The US$30 million grant, approved by the Board on February 7, 2019, directly leveraged other donor financing in the amount of approximately US$34 million through the Bank administered Palestinian Reform and Development Plan (PRDP) Trust Fund.

2. **The DPG supported the PA's efforts to strengthen fiscal resilience and foundations for private-sector investments, and ultimately job creation.** The program development objective (PDO) was to support the efforts of the PA to: (i) strengthen the revenue and land administration and intergovernmental revenue framework; (ii) improve the business enviroment and foundation for a digital economy; and (iii) enhance sustainability and creditworthiness of local service providers for private investment. The three pillars were supported by 9 prior actions targeting reforms focused on: a) increasing public revenue and facilitating land registration, b) improving the business environment by streamlining the procedures for issuance of business licensing, reducing land registration procedures for businesses and supporting the digital economy, and c) improving the creditworthiness of local service providers in the health, water and energy sectors.

A. Context at Appraisal

3. **The country context of the West Bank and Gaza (the Palestinian territories) continues to be characterized by protracted political instability and periodic episodes of violence as in the last two decades, which exacerbates macroeconomic volatility.** The Palestinian territories constitute a small open economy with lower-middle income status and a population of 5 million in 2020. The Palestinian territories have experienced political instability (both internal and external) and a series of violent conflicts over the years. Since 2007, the territories have become under the control of two different political parties: Fatah held control of the West Bank while de facto authority in Gaza was taken by Hamas. Following the internal divisions, routine legislative process was suspended. Instead, the Cabinet conducts necessary consultations and readings of proposed Acts and the President signs these into law. Gaza represents one-third of total GDP, and its borders are subject to highly restrictive controls by Israel and Egypt.

4. **The Israeli-Palestinian peace process has stalled, and the Oslo Accords of 1995, intended to be a five-year bridge to a permanent settlement, endure.** Moreover, 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 was envisaged. In this context, the Palestinian territories continue to face political instability and experience episodes of violence[3] that severely affect the prospects for economic growth and sustained poverty reduction.

5. **Restrictions,[1] episodes of violence, and political instability have led to a hollowing out of the productive sectors and to an economy reliant on consumption-led growth while its private sector struggles to gain traction.** The structure of the economy of the Palestinian territories transformed dramatically over the last two decades with insufficient private sector jobs being generated to absorb the growing labor force (mainly youth and women) and revenues to provide services to a rapidly increasing population. The manufacturing and agriculture sectors' share of GDP contracted by around 8 and 6 percentage points, respectively, during 1994-2019. Private investment levels remain low and most formal enterprises are micro or small enterprises with substantial levels of informality involving up to 140,000 workers. The 2020 Doing Business Report ranks West Bank and Gaza at 117 out of 190 economies. Separate interactions with several authorities are required to formally register a business in Ramallah, which increase compliance costs on the part of the business and raise the complexity of administering regulations and enforcing compliance on the part of the authority. This dynamic adversely affects resource-constrained entrepreneurs, particularly in areas where the rules are excessively burdensome. Furthermore, Palestinian women and young people who are increasingly choosing the path of entrepreneurship may not have the opportunity to realize their business ideas within a level-playing field. While there has been progress on the Doing Business front compared to previous years, there continues to be room for improvement.

6. **At the time of appraisal for DPG9, economic conditions had significantly weakened, and relations between the key stakeholders had worsened.** The economy registered just 1.2 percent growth in 2018, when the project was appraised. To break down the overall figure, Gaza's economy shrank by 3.5 percent in 2018, while growth slowed in the West Bank, registering a 2.3 percent increase compared to almost 4 percent in 2017. The decline is attributed to severe cuts in transfers, especially in Gaza, including aid for reconstruction and transfers from the PA's budget. Financial sector data suggested a marked slowing in credit and deposit growth and an increase in Non-Performing Loans (NPLs). Unemployment reached a new high of 32.4 percent in mid-2018.[2]

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[1] 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 consists 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.

[2] 53.7 percent of those in the labor force in Gaza were unemployed in the second quarter of 2018 with an unemployment rate of 70 percent among young people and 78 percent among females. The unemployment rate in the West Bank has stagnated around 18-19 percent in recent years.

7. **The PA's fiscal consolidation efforts continued in 2018 when the operation was appraised but the fiscal situation was hit hard in 2019 due to the implementation of Israeli legislation that allows further unilateral deductions from taxes collected by Israel on behalf of the PA.** Building on the achievements previously made to reduce the fiscal deficit, the PA continued with fiscal consolidation in 2018 resulting in a decline in the deficit as a percentage of GDP by one percentage point.[3] Despite these efforts, the fiscal situation remained tight and the PA faced a deficit after aid of US$400 million. To fill this, the PA resorted to domestic resources, namely arrears to the pension fund and the private sector. Even with repaying some dues from previous years, net accumulation of arrears in 2018 reached US$227 million.[4] In 2019, the implementation by the Government of Israel (GoI) of legislation to make further unilateral deductions from clearance revenues (tax revenue collected by Israel on behalf of the PA) have further strained relations between the parties and resulted in a fiscal crisis for the PA, as it refused to receive those revenue transfers for most of 2019. This further increased the deficit as a share of GDP by two percentage points.

8. **Given the constrained private sector, financing needs remain large in the West Bank and Gaza with continued reliance by the PA on grant assistance funding for recurrent and capital budgets**. Implementation by the GoI of the Palestinian Prisoners' Law has resulted in larger than expected financing gaps and donor assistance has been on the decline. The PA has attempted to offset part of the financing gap through revenue and expenditure measures, but more can be done. Scope remains for a continued expenditure-based adjustment without compromising the quality of public services that would require the PA to focus on a few key areas, some of which were supported by this operation. Reforming the distorted intergovernmental fiscal transfer system is one area in which wasteful subsidies to LGUs may be curtailed. In addition, continuing the work of reducing the cost of outside medical referrals can help to arrest the increase in public health spending.

9. **Net lending (a form of municipal finance) and a contributor to the fiscal stress is seen as a major distortion in service delivery arrangements for key infrastructure sectors**. When local government units (LGUs) and distribution companies (DISCOs) fail to make payments for electricity and water to Israeli suppliers, the GoI deducts the corresponding amount from clearance revenues. In parallel, the municipalities are diverting bill collection from these services as a local revenue base, deterring private investment. Furthermore, net lending impedes the Private Capital Mobilization (PCM) approach through its impact on creditworthiness and predictability of financial flows in infrastructure sectors. The PCM approach pursues the objectives of a better payment discipline for service provision and a strengthened revenue base for LGUs.

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[3] domestic taxes grew by 9 percent on the back of a higher collection of VAT receipts, and public spending was reduced by about 8 percent due to a drop in the wage bill (the PA's largest spending item) from a reduction in the salaries of PA employees in Gaza and a decline in the number of public servants due to early retirements executed by the PA.

[4] The total deficit amounted to US$1.08 billion, which with aid received of US$676 million left a financing gap of US$400 million.

10. **The macroeconomic policy framework was deemed adequate for DPG9 in the context of continued reform efforts by the PA and anticipated inflows of donor aid.** Despite the high risk of the operation, the authorities' strong commitment to the continued implementation of structural reforms and ownership of these reforms were deemed mitigating factors to the political and governance, macroeconomic, institutional capacity and fiduciary risks. In the Letter of Development Policy that the PA sent to the World Bank, the authorities committed to implement several reforms to strengthen fiscal resilience, improve the business environment, and eliminate the practice of net lending. Furthermore, DPG9 would send a strong signal to donors of the World Bank Group's commitment to assisting the PA in implementing its development plan. Critically, DPG9 would contribute to the reduction in the PA's fiscal deficit and was necessary to leverage resources from the PRDP Trust Fund administered by the World Bank.[5] The IMF and World Bank shared similar views on the economy. The IMF assessment highlighted a shortage of productive capital and fiscal leakages as central to a difficult economic outlook, noting that a turnaround would depend upon concerted action by the PA, Israel, and donors. It noted that increased donor financing of the budget could act to consolidate the institutions of the Palestinian administration, particularly if linked to progress on reforms and supplemented by technical assistance in specific areas.

Table 1: Palestinian territories: Key Macroeconomic Indicators, 2017-2023

				Est.	Forecast		
	2017	2018	2019	2020	2021	2022	2023
Real economy, annual percent change, unless indicated otherwise							
Nominal GDP	4.7	0.9	5.3	-12.1	2.0	4.8	5.3
Real GDP	1.4	1.2	1.4	-11.5	2.9	3.6	3.7
GDP per capita (nominal)	1.9	-1.7	2.6	-14.3	-0.2	2.0	2.5
Contributions to Real GDP Growth							
Private Consumption (growth)	-1.1	1.1	3.8	-11.0	2.0	4.0	4.0
Gross Fixed Investment (growth)	6.9	2.5	0.9	-31.8	5.6	4.6	3.4
Exports (growth)	13.9	2.5	2.0	-9.6	3.8	3.5	3.3
Imports (growth)	1.3	4.5	1.4	-12.0	5.0	4.0	3.5
Unemployment Rate (ILO Definition)	25.7	26.2	24.0	25.9	25.0	24.0	23.4
GDP Deflator	3.2	-0.3	3.8	-0.7	-1.1	1.1	1.5
CPI (year-average)	0.0	1.2	0.8	-0.7	0.7	1.5	2.0
Fiscal Account, percent of GDP unless otherwise indicated							
Expenditures	29.7	27.8	27.5	33.8	32.8	32.3	32.2
Revenues (including grants)	26.6	25.2	23.0	26.1	26.6	27.5	28.2
General Government Balance	-3.2	-2.5	-4.5	-7.7	-6.1	-4.8	-4.0

[5] In the absence of viable private sector activity, there is no feasible alternative to a macro-fiscal framework, which relies on large amounts of donor aid to cover financing gaps, and reform efforts to boost revenues and curb public expenditure growth.

General Government Debt, ex. arrears	15.8	14.5	16.3	24.2	28.2	30.4	31.8
Balance of Payments, percent of GDP unless indicated otherwise							
Current Account Balance	-13.2	-13.2	-10.4	-6.5	-8.1	-8.6	-10.0
Imports, Goods and Services	52.7	55.4	53.5	51.3	54.9	56.1	56.8
Exports, Goods and Services	15.7	16.0	15.5	15.8	16.3	16.4	16.3
Net Foreign Direct Investment	1.2	1.7	1.1	0.9	0.8	0.8	0.8
Gross Reserves	2.8	3.3	3.8	4.7	4.6	4.4	4.3
External Government Debt	6.5	6.3	7.1	8.8	11.1	12.6	13.7
Terms of Trade (growth)	-5.4	-1.6	9.9	3.3	-2.5	-1.3	-1.7

Source: PCBS, PMA, and MoF for history and World Bank staff for projections

11. **In addition to coordination with the IMF, the World Bank consulted a wide range of stakeholders on the measures supported by this operation.** The proposed operation supported the development partners' collective reform priorities. As in previous operations, the donors were expected to rely on the DPG policy and results matrix as the criteria to evaluate the PA's performance in implementing the NPA for the purpose of quarterly disbursements under the PRDP Trust Fund. The Bank held consultations with the donors on reforms supported by this DPG and incorporated their feedback prior to finalizing the results matrix. The Bank held close consultations with the European Union, which contributes to the Palestinian budget through its direct financial support mechanism – PEGASE, to ensure that the DPG-supported reforms were aligned with the EU's Results Oriented Framework (ROF). The Bank also consulted with DFID (now the Foreign, Commonwealth and Development Office) counterparts to align areas covered by the DPG with those covered by their conditional support.

Bank Rationale for Involvement

12. **There was a strong rationale for World Bank involvement in the context of this DPG.** The operation supported reforms in areas that were especially relevant, given the difficult macroeconomic context, and directly leveraged larger amounts of grant assistance. The operation was designed to support the implementation of key policy and institutional reforms defined in the second and third pillars of the PA's development strategy, NPA, and was in line with the World Bank Group's Assistance Strategy for West Bank and Gaza (FY2018-21). In addition, the operation was aligned with the PCM approach for mobilizing private finance incorporated in the Assistance Strategy. The DPG reflected the Bank's strategic shift to a stronger private sector focus and supported improvements to the business environment. Further, policy actions in the utility sectors continued to strengthen progress made during the previous operation in improving creditworthiness and payment discipline of service providers, which was the single most critical challenge affecting the PA's ability to mobilize private and commercial finance to support investment in these sectors. The Bank had also conducted relevant analytical work that was able to lead to a successful policy operation (see Section IV and Table 5 for details).

Original Program Development Objective(s) (PDO) (as approved)

13. The program development objective (PDO) was to "support the efforts of the Palestinian Authority to: (i) strengthen the revenue and land administration and intergovernmental revenue framework; (ii) improve the business enviroment and foundation for a digital economy; and (iii) enhance sustainability and creditworthiness of local service providers for private investment."

Original Policy Areas/Pillars Supported by the Program (as approved)

14. To support this PDO, the program was designed around three pillars:

Pillar 1: Strengthen revenue and land administration and intergovernmental revenue framework.

- 1.1 Deepen revenue administration and create a single tax payer base.
- 1.2 Improve institutional arrangements for the transfer of property tax collection to municipalities
- 1.3 Modernize the institutions and functions of the Land Authority.

15. This pillar supported the strengthening of intergovernmental fiscal relations between the PA and local governments by increasing domestic revenues, creating an effective property tax system at the LGU level, and improving the efficiency of land administration.[6] The designed measures aimed to address misaligned revenue and expenditure assignments and the lack of binding budget constraints that were being manifest through a proliferation of net lending. Specifically, pillar 1 included actions towards: (i) creating a single taxpayer base by connecting management information systems for domestic and border taxation (RMIS and ASYCUDA); (ii) supporting the devolution of the collection of property taxes from the Ministry of Finance (MoF) to LGUs; and (iii) supporting amendments to the Palestine Land Authority Law to establish strategic and policy oversight of institutions in land administration. These measures assist the PA to increase its gross domestic tax revenue at the central level and to pilot the collection of property taxes by the LGUs at a time of continued declines in official transfers. Furthermore, improvements in land registration were not only expected to contribute to larger tax collections but also to dramatically increase the availability of collateral for bank lending, as only titled land can be used for collateral.

Pillar 2: Improve business environment and foundations for a digital economy

- 2.1 Develop, issue, and implement timely business licenses
- 2.2 Reduce time to register property
- 2.3 Reform measures for the digital economy

16. This pillar supported the implementation of the (i) municipal business licensing reform approved under the Law of Crafts and Industries of 1953 and (ii) the reform by the Land Authority to streamline the

[6] Strengthening the mechanisms for the collection of domestic revenues will help strengthen PA's public finances at a time of continued decline in official transfers (DPG 9 Program Document 2019: 15).

process and reduce the time involved in obtaining a land-purchase permit by businesses. In addition, pillar 2 contributed to further development of the digital economy by providing support to the Palestine Monetary Authority (PMA)'s reform and modernization of the National Payment System (NPS).[7] Specifically pillar 2 contained actions to: (i) streamline procedures for the issuance of business licenses; (ii) reduce the land registration procedures for businesses; and (iii) adopt regulations to enable the establishment of new electronic payments systems. These measures to enhance the legal and regulatory business enviornment by reducing the time for getting a business licence and obtaining a land purchase permit could help private sector development and job creation. Moreover, measures to increase the use of e-payment systems could allow for a variety of providers of transaction accounts and related e-payment instruments and inclusion of friendly payment systems.

Pillar 3: Enhance sustainability and creditworthiness of local service providers for private investment in the electricity, water and health sectors

- 3.1 Strengthen enforcement of bill collection from customers with significant past debts for electricity[8]
- 3.2 Improve the financial viability of the water sector
- 3.3 Further advance policies to reduce speed of growth in health spending[9]

17. This pillar supported the financial viability and service delivery in key infrastructure sectors by: strengthening the enforcement of bill collection from customers with significant past debts for electricity; strengthening payment discipline in the water sector; and helping to stablize the growth rate of referrral costs to health service providers over time. Specifically, pillar 3 contained actions to: support procedural steps for service providers to follow for cutting off electricity after the accummulation of debt by consumers; improve the financial viability of the water sector through rescheduing the debt for unpaid water bills owed by LGUs to the MoF for at least 90 LGUs; and implement efforts to make the National Price Reference (NPR) List ready for use as an input to negotiations for medical referrals with domestic non-MoH healthcare providers. These measures seek to further progress on increasing the fiscal stability of the electricity, water, and health sectors, which is critical to lay the foundation for private sector activity, increase confidence of potential investors and gain greater citizens' trust.[10]

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[7] Since 2005, the Palestinian Authority has included e-government as a national priority in all its main policy documents and strategies (DPG 9 Program Document 2019: 20).

[8] The program document notes that "importantly, these procedures exempt households that are registered with the Ministry of Social Development as recipients of cash assistance." (DPG Program Document 2019: 22).

[9] The proposed operation supports the critical next step in key PA's reform actions to further advance the policies to reduce the speed of growth in health spending envisaged in the Medical Referral Master Plan ("Master plan"), which was approved by the Cabinet in September 2016 (DPG Program Document, 2019: 27).

[10] The lack of a stable and predictable system of intergovernmental fiscal transfers has led to insufficient capital investment while increasing fiscal leakages through net lending at the local government level. Weak subnational financing frameworks has led to underfunded LGUs using utility revenues to cover operational expenditures as well as capital investments, leaving the PA to repay some or all of the costs (these are deducted by Israel from clearance revenues transferred to the PA). This *de facto* net lending results in unplanned subsidies paid through local governments' budgets and has become a drain on the PA's finances (DPG 9 Program Document 2019: 22).

18. The pillar contributed to operations in the infrastructure sectors.[11] The Electricity Sector Performance Improvement Project (ESPIP), which supports the first link of the payment flow between consumers and service providers, focuses on enhancing the energy sectors' institutional capacity and improving the efficiency of the distribution systems leading to improvements in bill collection. The prior action under DPG 9, addressed the second link between service providers and suppliers by helping to prevent the diversion of funds.[12] Furthermore, the policy actions corresponded to PCM interventions, namely, upstream reforms to address market and institutional failures, which created more space for private sector participation and investment.

B. Significant Changes During Implementation

19. **The operation was implemented at a time of intense political tensions and a deterioration in relationships among the key stakeholders.** The major event that took place during the lifespan of the operation and which affected implementation was the Israeli decision to increase unilateral deductions from clearance revenues it collects on behalf of the PA. As a result, the PA decided to refuse these transfers altogether for 6 months in 2019. Given that clearance revenues comprise around two-thirds of the PA's income, their cessation resulted in a fiscal and economic crisis. In parallel, growth in public spending exceeded 5.4 percent in 2019, mainly driven by: (1) an increase in the wage bill--the largest spending item--due to a rise in the share of Gaza's wage bill, as some of the cuts in salaries of public employees in the Strip that started in 2017 were reversed in 2019 to align the treatment of Gaza employees with those in the West Bank; and (2) an increase in transfers by 6.7 percent due to additional pension payments to around 20,000 public servants that have joined an early-retirement plan proposed by the PA; and (3) a rise in net lending by 17.7 percent due to a one-off deduction made by the GoI in August 2019 in the amount of US$55 million to offset electricity debt owed by the Jerusalem Distribution Electricity Company (JDECO) to the Israeli supplier. Put together, the PA's total deficit amounted to US$1.4 billion in 2019 while aid received was much less, reaching US$590 million,[13] resulting in a financing gap after aid exceeding US$800 million, or 4.5 percent of GDP – up from 2.5 percent the previous year. This dampened the PA's appetite for reform as it redirected its attention to making ends meet and financing its basic spending. Naturally, this also had an impact on achieving some of the targets of the operation.

20. **The breakout of COVID-19 also had a significant impact on implementation**. A state of emergency was declared on March 5, 2020 and a strict lockdown immediately followed, stalling economic activity and workers' earnings in Israel almost immediately. The closures were slowly eased in May until, by the end of June 2020, the second wave surged. In response, by the beginning of July 2020, new measures

[11] The DPG complemented the Bank's engagements in the water sector, with the aim of making the whole value chain between suppliers, service providers and consumers sustainable (DPG 9 Program Document 2019: 25).
[12] The value chain of the electricity and water sectors comprises the following four links: (i) suppliers provide electricity/water to service providers; (ii) service providers provide service to consumers; (iii) consumers pay service providers; and (iv) service providers pay suppliers.
[13] The amount of grant assistance for 2019 has been adjusted compared to that provided by the MoF in order to present the figure on a commitment basis.

restricting movement and activity were reintroduced. Nonetheless, the number of cases continued to rise until end-September 2020 and peaked in mid-October. After having stabilized through October, new cases increased again in December 2020 and continued to be very high until April 2021. The COVID-19 pandemic has, as with all other countries in the world, affected economic activity in the Palestinian territories through multiple closures, especially in 2020 when the economy is estimated to have contracted by 11.5 percent in real terms. The economic decline has had a significant impact on the PA's finances as it struggled to meet the increasing medical needs while maintaining its basic spending. This has negatively impacted reform appetite, including the implementation of some reforms covered by this DPG.

III. ASSESSMENT OF KEY PROGRAM DESIGN AND OUTCOMES

A. Relevance of Prior Actions

21. **The design of the PDO was consistent with the WBG's Assistance Strategy (FY18-21) for West Bank and Gaza and fully relevant to the development priorities of the PA as outlined in the National Policy Agenda (NPA) (2017-2022), in particular pillar 2 and 3 of that strategy.**[14] Thus, the assessment of the prior actions' relevance to the PDO is also relevant to country priorities. The design of the PDO builds on past engagements. This approach allies with the WBG's strategy for FCV contexts to maintain a long-term engagement that can support national systems, strengthen core state functions and build institutional resilience and capacity.[15] The operation's design is also fully aligned with the PCM approach for mobilizing private finance, reflected in the Assistance Strategy. Table 2 lists all the prior actions for DPG9 while figure 1 presents a theory of change for the operation based on the anticipated inputs proposed under the prior actions leading to the outputs and outcomes.

Table 2: Prior Actions and Results Indicators

Pillar		Prior Action(s)
1	Strengthen revenue and land administration and	Prior Action 1: The Ministry of Finance and Planning[16] has taken the necessary actions to improve tax collection and operational efficiency, by connecting existing management information systems for domestic and

[14] Under pillar 2, *Government Reform,* the PA will focus on establishing better public institutions to assure that the most vulnerable are targeted and protected, while providing better services to citizens and enhancing accountability and transparency of public institutions. Under pillar 3, *Sustainable Development* emphasis is on building and enhancing an environment for dynamic and inclusive private sector growth, for better opportunities by improving the business environment and promoting the Palestinian industry.
[15] World Bank Group Strategy for Fragility, Conflict and Violence 2020-2025. https://documents1.worldbank.org/curated/en/844591582815510521/pdf/World-Bank-Group-Strategy-for-Fragility-Conflict-and-Violence-2020-2025.pdf
[16] At the time the operation was prepared, the Ministry of Finance was also responsible for the function of planning, hence its acronym was MoFP. Later, the planning function was moved to the prime minister's office and the Ministry's current acronym is MoF. To keep the language of the prior actions verbatim to what is in the PD, the MoFP acronym is kept when the prior actions are stated in the ICR.

	intergovernmental revenue framework	border taxation (RMIS and ASYCUDA), as evidenced by the issuance of official letter No. 5426, from the General Directorate of Revenue to the General Manager of the Revenue IT Department, informing the completion of the merger of RMIS and ASYCUDA.
		Prior Action 2: The President has taken the necessary actions to strengthen domestic revenue collection by LGUs by authorizing the Cabinet, in cooperation with the MoFP, to delegate the MoFP's responsibilities to collect property taxes and related penalties to LGUs, as evidenced by the enactment of Law No. 12, dated May 3, 2018, amending the 1954 property tax law.
		Prior Action 3: The Cabinet has established strategic and policy oversight mechanisms for institutions in land administration, as evidenced by the adoption of Decision No. 17/229/18 signed by the Prime Minister on November 22, 2018, referring the draft amendments to the Palestine Land Authority Law for approval by the President.
2	Improving business environment and foundations for a digital economy	Prior Action 4: The Ministry of Health has streamlined the procedures for issuance of business licensing, reflecting the amendments to the Law on Crafts and Industries of 1953, as evidenced by the issuance of: (a) Cabinet decision No. 1 for the year 2018, approving the amendments to the annexes of the Law on Crafts and Industries dated April 3, 2018; and (b) Guidelines and instructions for business licenses, issued by the MoH dated July 25, 2018.
		Prior Action 5: The Cabinet has taken the necessary steps to reduce the land registration procedures for businesses, as evidenced by the issuance of Circular 6-15 dated February 2, 2017, describing the streamlined procedures necessary for obtaining a purchase permit.
		Prior Action 6: The PMA Board of Directors has adopted regulations enabling the establishment of new electronic payments systems, fostering competition and reducing costs, as evidenced by the minutes of the PMA Board meeting signed by the Governor on July 17, 2018, approving regulations for the licensing of payment service providers.
3	Enhancing sustainability and creditworthiness of local service providers for private investment	Prior Action 7: The Cabinet has set forth procedural steps to follow before service providers can cut off electricity following the accumulation of debt, including a grievance mechanism and protection of poor and vulnerable population, as evidenced by the issuance of official instructions dated April 17, 2018, published in the Official Gazette on April 22, 2018, that include the following provisions: (a) specification of exact periods of unpaid bills (30 days to households and 60 to non-households; (b) objections from the consumer to the distributor; (c) instructions on how to file a complaint; (d) instructions on how to reconnect power back to consumers; (e) guidelines on resolving disputes between the consumer and the distributor; and (f) exemptions.

		Prior Action 8: The Intra-agency Committee has taken the necessary steps to strengthen payment discipline and improve financial viability of the water sector by rescheduling the debt for unpaid water bills owed by LGUs to the MoFP for at least 90 LGUs, as evidenced by: (a) the issuance of an Official Letter signed by the Head of the Intra-agency Committee and dated October 28, 2018 enclosing a report describing the balances of the municipalities after debt rescheduling; and (b) seven debt rescheduling agreements entered between the LGU and the Intra-agency Committee, selected on a sample basis.
		Prior Action 9: The Ministry of Health has directed its Service Purchasing Unit to plan and implement training and capacity building to make the National Price Reference List tool ready to be used for medical referrals with domestic non-MoH healthcare providers when negotiating with at least three hospitals, as evidenced by the issuance of Directive No. 32/110/1139/18, dated October 30, 2018

Pillar 1 - Strengthen revenue and land administration and intergovernmental revenue framework.

22. The first PDO of the operation is to “strengthen revenue and land administration and intergovernmental revenue framework” and is supported by three prior actions. The first prior action (prior action 1)--connecting management information systems for domestic and border taxation (RMIS and ASYCUDA) to create a single taxpayer base-- is highly relevant for the achievement of the PDO, as it inhibits payers from paying one type of tax while evading others. Prior action (1) also builds on the prior action supported under DPG7 that sought to merge the inland Income Tax and VAT departments. By creating a single taxpayer base, the prior action paved the way for an increase in tax revenues, ultimately expanding the revenue base and improving tax administration as requested by the PDO.[17]

23. The second prior action (prior action 2) supporting the devolution of the collection of property taxes from the MoF to LGUs is highly relevant for supporting a stronger revenue administration and intergovernmental revenue framework and is also highly relevant to the PA’s objective to further reduce net lending. The prior action addresses the misaligned revenues and expenditure assignments from the center that constrain the ability of LGUs to provide critical public services due to insufficient own source revenues. It also addresses the proliferation in net lending that has arisen due to deductions in fiscal transfers by the MoF to pay for arrears accumulated in the electricity and water sectors by the LGUs.[18] A more transparent, predictable funding model for LGUs would improve citizens’ livelihoods and promote private sector growth. In addition, this would provide greater macroeconomic stability with positive

[17] Despite impressive fiscal consolidation efforts by the PA over the past decade, domestic revenue collection could be further enhanced as only 30 percent of the potential tax base is currently covered.
[18] As a result, and due to a lack of binding budget constraints, LGUs accumulate these arrears to be able to use the collected user fees to cross-subsidize other services and operating expenses adding to net lending.

externalities for peace, paving the way toward more inclusive growth. The prior action does not state what this funding model would look like or how it would be rolled out to all the LGUs. However, it does seek to put in place necessary first steps to support the devolution of property taxes from the center to the LGUs by recognizing key constraints in the financing model of LGUs and is highly relevant to the PDO.

24. The third prior action (prior action 3) for this PDO reinforces the second prior action by supporting amendments to the Palestine Land Authority Law to establish strategic and policy oversight of institutions in land administration and is highly relevant for achieving the PDO.[19] Incomplete land registration and weak land administration in Areas A and B affect property tax collection. Furthermore, nearly 55 percent of the land in the West Bank is not formally registered because land administration faces both policy and institutional challenges. Reforms taken by the PA demonstrate a strong commitment to this prior action.[20] The rationale for this prior action in the broader context of more effective institutions in land administration together with a completed systemic land registration leading to a deeper revenue base for the LGUs is highly relevant for the overall PDO of DPG9. In addition to strengthened fiscal resilience, improved and wider registration of land would allow this to be leveraged as collateral by banks, thus strengthening the business environment.

<u>Pillar 2 - Improving business environment and foundations for a digital economy</u>

25. Prior action 4 on streamlining procedures for the issuance of municipal business licenses is highly relevant for improving the business environment. This prior action seeks to complement the achievements of the previous DPG that oversaw the simplification of the approval process and a reduction in the cost of licensing a business.[21] Businesses had identified the lengthy time taken to incorporate a business and begin operations as a major challenge. In assisting with the implementation of amendments adopted by the Cabinet, the prior action also directly supports the PA's reform program for private sector development under pillar 3 of the NPA.[22] The World Bank worked with relevant employees of municipalities in the West Bank to provide workshops and training on applying the new licensing system, training a total of 250 people in September 2018.

26. Prior action 5 – reducing the land registration procedures for businesses – is also highly relevant for the PDO, directly improving the business environment and further supporting the Land Authority's reform

[19] Implementation of both this and the previous prior actions is necessary to create an effective property tax system at the LGU level to ensure strengthened revenue, by recognizing the untapped potential of immovable property in Areas A and B. LGU's suffer from narrow and shallow revenue assignments that are insufficient to finance their legally mandated expenditure assignments. In general, their revenues are sufficient to deliver just 3-4 services out of the 27 assigned to them.
[20] These include approval by Cabinet of the Roadmap for Reforming the Palestinian Land Sector that outlines a comprehensive, multiphase, multi stakeholder approach addressing specific policy, legal, and institutional reform needs.
[21] These represented key reforms of the municipal business licensing under the Law of Crafts and Industries of 1953.
[22] Streamline the process of business licensing by introducing a risk-based classification system of business activities, introduction of the ISIC 4 code of business activities and the introduction of a reduced flat fee per activity licensed.

that reduced the time to register business property. Both prior actions (4) and (5) are also aligned with the first pillar of the World Bank's Assistance Strategy for West Bank and Gaza that focused on private sector investments and job creation through upstream reforms. As referenced in Figure 1, outputs under these prior actions have the potential to further develop the private sector and result in job creation.

27. Prior action 6, on adopting regulations enabling the establishment of new electronic payments systems, is also a key step toward digitization and building the foundations for a digital economy, and thus highly relevant for the PDO. The prior action aligns with the long-standing development of the digital economy objective by the PA and would further advance the reforms on electronic payments systems introduced by the PMA. Adopting regulations to enable the establishment of new electronic payments systems would open the door for a larger number of suppliers fostering innovation, private sector development and inclusion (figure 1).

Pillar 3- Enhancing sustainability and creditworthiness of local service providers for private investment

28. The third pillar is to "enhance sustainability and creditworthiness of local service providers for private investment" in the electricity, water and health sectors. The value chain of the utility sectors must be complete and sustainable for financial viability, and the prior actions under this pillar supported service providers providing utility services to consumers.[23] Prior action (7) and prior action (8) were highly relevant in addressing the PDO given that consumers did not pay fully to service providers and then service providers did not pay fully to suppliers. Prior action (7) supported procedural steps for service providers to follow for cutting off electricity after the accumulation of debt by consumers. Prior action (8) focused on improving the financial viability of the water sector through rescheduling the debt for unpaid water bills owed by LGUs to the MoF for at least 90 LGUs. This effort directly contributed to improving the financial viability and sustainability of water service providers, as reflected in the PDO, especially as the result focused on the percentage reduction of past water debts owed by LGUs to the MoF. Finally, the last prior action (9) focused on efforts to make the National Price Reference List ready for use as an input to negotiations for medical referrals with domestic non-MoH healthcare providers. This has significantly strengthened the strategic purchasing capacity of the MoH. However, the link between the prior action and the PDO is weak, as implementing an NPR tool is a necessary but not sufficient condition for achieving sustainability of local service providers. Other reforms also need to be put in place to enhance their sustainability for private investment, which weakens the theory of change for the prior action (figure 1).

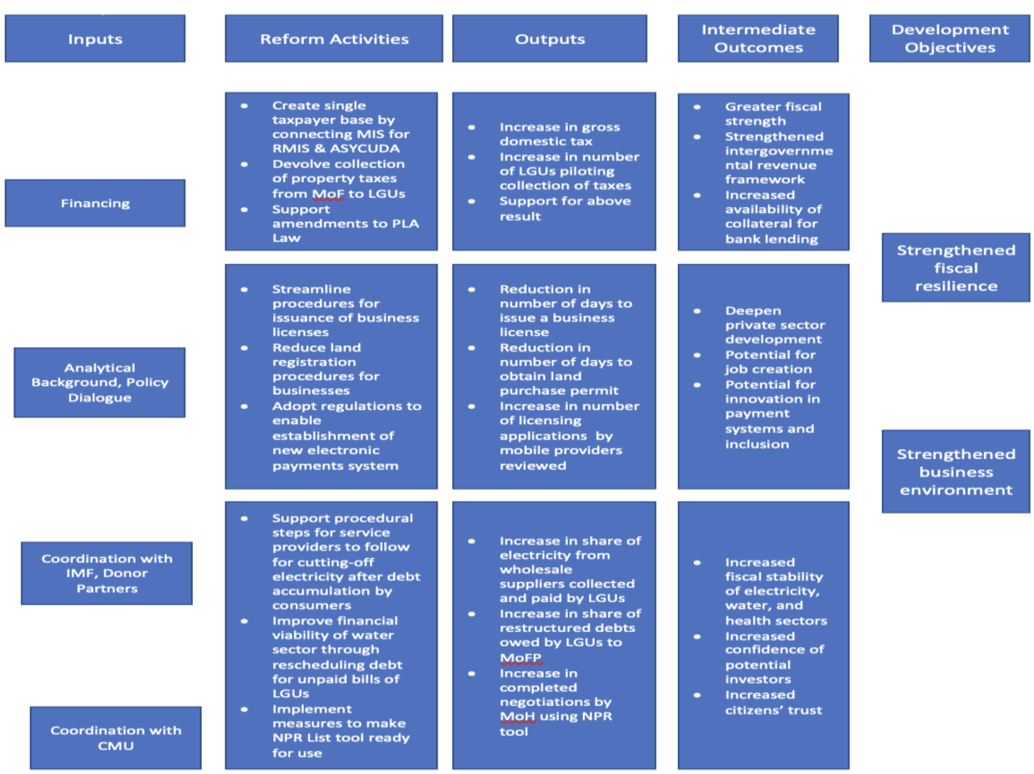
Rating: Satisfactory

29. **Except prior action 9, most prior actions had a strong and direct link to the achievement of the PDO, which in turn was relevant to the country priorities as contained in the NPA (2017-2022) and the World**

[23] The value chain of the electricity and water sectors comprises the following four links: (i) suppliers provide electricity/water to service providers; (ii) service providers provide service to consumers; (iii) consumers pay service providers; and (iv) service providers pay suppliers.

Bank Group Assistance Strategy (FY18-21). In summary, the design of the operation had to find the balance between critical reform elements that could be delivered over a one-year timeframe (and therefore tended to be incremental) and adequacy of the overall reform effort. DPG9 was highly responsive to the drivers of fragility in the West Bank and Gaza. The design of the operation aimed to build resilience in the fiscal situation through revenue reforms and also by leveraging the private sector, whilst ensuring accountability and transparency in implementation by allying closely the objectives of the operation with the NPA. Given the growing fiscal stress on the PA, the operation prioritized supporting efforts to strengthen its fiscal position by improving revenue administration and the intergovernmental revenue framework - an area that has been of growing concern in recent years. Specifically, the policy areas chosen -- enhancing sustainability and creditworthiness of local service providers in utilities, and the health sector, and local government finance--were of high priority because they have been posing growing stress on the PA's finances through involuntary transfers from the PA to LGUs in the form of deductions made by the GoI from monthly clearance revenues. Moreover, in targeting reforms that would enhance the financial viability of service providers of water and electricity, the operation set the stage for the eventual attraction of private investments in these sectors, which was a design strength. Also, given the importance of job creation in the Palestinian context and the limitations in this regard posed by the external constraints, the operation's design prioritized internal reforms that would help improve the business climate and support the private sector in creating jobs. As a result, the DPG supported several business environment related reforms.

Figure 1: DPG9 Theory of Change



B. Achievement of Objectives (Efficacy)

Relevance and Measurability of Results Indicators and Appropriateness of Targets

30. **The results framework was generally relevant with just a few cases in which the link between the prior action and its indicator was unclear and/or where the link between the pillar and the indicator was weak.** This applied mostly to the first pillar on strengthening revenue and land administration and intergovernmental revenue framework. The increase in gross domestic tax revenue indicator for prior action 1 does capture strengthened revenue. However, by itself, the indicator is not adequately telling. A stronger indicator would be the increase in tax revenue as a percent of nominal GDP. This would allow the consideration of any changes in growth. The line of sight between the first pillar and the Results Indicator for Prior Action 2, the number of LGUs that would pilot the collection of property taxes, is weak. This indicator, alone, is not enough to contribute to the PDO, as achieving the objective would depend on other factors, including the capacity of the participating LGUs in tax collection and administration. The link between the third indicator for this pillar and the prior action (3) is also rather vague. However, its wider applicability to strengthening the business environment by ensuring collateral for business to leverage is clear. The Results Indicator for Prior Action 9 about the NPR tool has a weak line of sight to the third objective as, by itself, the implementation of this tool is unlikely to achieve sustainability of local service providers.

31. **Measurability and feasibility of results indicators:** The indicators were feasible and measurable for the most part. The definition, calculation and data sources were reasonably clear although as noted, result indicator 1 would have been stronger when expressed as a share of nominal GDP. Further, result indicator 3: “supporting the above result”, was opaque and not easily understood by itself. Result indicator 5 – the number of days on average to issue a business license – was feasible given the synergy between the Ministry of the National Economy and the Ministry of Health (the stakeholder) in developing, issuing, and implementing the reform. Similarly, during 2018, the Ministry of National Economy followed up on the reform to register business property through the Business Environment Technical and Ministerial Committees to ensure its successful implementation.

32. **Appropriateness of targets:** Targets were set at reasonable levels given that critical reform efforts had to be delivered over a one-year time frame. Notably the targets related to piloting of collection of property taxes by the LGU, although only partially achieved, was set well below the total number of LGUs, which was reasonable, given the time frame and capacity constraints. Baselines were reported to allow for proper comparisons, noting the caveats surrounding the targets for the increase in domestic tax revenue and supporting amendments to the Palestine Land Authority Law mentioned above.

Table 3: Results Indicators and Actual Achievements

Pillar	Result Indicator	Actual Achieved
Pillar 1: Strengthen revenue and land administration and intergovernmental revenue framework	Increase in gross domestic tax revenues Baseline (2017) = NIS2,750 million Target (2019) = NIS2,982 million	**Not achieved:** Current status (2020) = NIS2,524 million vs. NIS2,982 million
	Number of LGUs that have piloted collection of property taxes Baseline (2017) = none Target (2019) = three to five	**Partially achieved:** Current status (2020): two vs. three to five
	Supporting the above result	**Not achieved**
Pillar 2: Improving business environment and foundations for a digital economy	Number of days on average to issue a business license Baseline (2017) = 36 days Target (2019) = 10 days	**Exceeded:** Current status (2020) = 6 days vs. 10 days
	Number of days on average to obtain a land purchase permit Baseline (2017) = 30 days Target (2019) = 15 days	**Achieved:** Current status (2020) = 15 days vs. 15 days
	Regulatory authorities have reviewed licensing applications for mobile payments providers under the new framework Baseline (2017) = none Target (2019) = five	**Achieved:** Current status (2020) = five vs. five
Pillar 3: Enhancing sustainability and creditworthiness of local service providers for private investment	Share of electricity that is purchased from wholesale suppliers is collected and paid by LGUs Baseline (2017) = 86 percent Target (2019) = 95 percent	**Mostly achieved** Current status (2020) = 92 percent vs. 95 percent
	Percentage of unpaid debts for water owed by LGUs to the MoFP is restructured Baseline (2017) = 0 percent Target (2019) = 15 percent	**Exceeded:** Current status (2020) = 30 percent vs. 15 percent
	Service Purchasing Unit of the MoH has completed negotiations for contracting medical services using the NPR tool with domestic private healthcare providers	**Exceeded:** Current status (2020) = 5 providers vs. 3 providers

	Baseline (2017) = none Target (2019) = three providers	

Efficacy of prior actions

33. **Although designed as a standalone operation, DPG9 continued the practice introduced in the previous DPG (P161252) of adopting a medium-term framework by highlighting future PA reforms beyond the immediate prior actions.** Continuing this practice supports a deeper context for continuing reforms, ensuring a line of sight and incorporation of lessons learnt between the current prior actions and those in future DPGs, where relevant. This contributes to more informed policies going forward and deepens the policy dialogue. Follow-up reform steps for each prior action are described in the Results Framework (annex 1). Briefly, these are anticipated to lead to: a sounder fiscal footing for both central and local government under pillar 1; a more effective, enabling environment for private sector development, and regulatory and institutional support for e-government under pillar 2; strengthened financial discipline and institutional changes for enhanced payments efficiency in the power sector; reforms that would underpin World Bank Group operations in the water sector, and strengthen the regulatory and institutional framework for medical referrals and for maximizing health system performance under pillar 3.

Objective 1 - Strengthen revenue and land administration and intergovernmental revenue framework

Result Indicator 1: Increase in gross domestic tax revenues

34. To improve central revenue administration, prior action 1 focused on merging the domestic (RMIS) and customs (ASYCUDA) revenue systems. This is an important reform because analysis has shown that some taxpayers pay one type of tax but not others, hence the lack of a unified database enables tax evasion. Unifying the information systems to create a single taxpayer base would address this issue. The first stage of linking both systems has been implemented by allowing the customs data to be displayed in the RMIS system, in addition to designing two reports: (i) to allow searching for customs data per declaration number, and (ii) to allow searching for customs data per importer number. However, progress has stalled, and more work is still needed to fully integrate both information systems, as required in the prior action. Also, domestic revenue generation was severely affected by the negative spillover impact on the economy of the cessation of clearance revenues for 6 months in 2019 and again for another 6 months in 2020, coupled with the impact of the COVID-19. Hence, **the target was not achieved**.

Result Indicator 2: Number of LGUs that have piloted collection of property taxes

35. This reform was supported by the DPG given its importance to better align LGU revenue with expenditure assignments and to create an effective property tax system at the LGU level. An official decision to devolve property tax responsibilities to LGUs was taken. The result indicator focused on the number of LGUs that have piloted collection of property taxes. As part of a pilot phase that should have involved three to five municipalities, steps were taken in January 2020 to implement the reform in two municipalities: Beit Jala and Assira al Shamaliyeh. The capacity-building program that was supposed to start in 2020 to equip LGUs

with the skills needed for property tax collection was delayed due to the pressures of the PA's fiscal crises in 2019 and the COVID-19 outbreak, which have shifted the PA's priorities. Power dynamics between the central and local governments have also played a role in the delay of the implementation of this reform. As a result, **the target was only partially achieved**.

Result Indicator 3: Supporting the above result.

36. The prior action focused on a Cabinet's decision to improve governance in the land sector by referring draft amendments to the Palestine Land Authority Law for approval by the President in 2018 – a much needed reform given the importance of releasing this key factor of production into the economic space. This reform supported the same result as prior action 2 about the number of LGUs that piloted collection of property taxes. After the amendments were referred by the Cabinet to the President for approval, in 2020, the President's Office sent the proposed amendments back to the Cabinet with comments in relation to the financial implications of the law. The Land Authority addressed all the comments and the text of the law was reformulated accordingly and sent back to the Cabinet. The draft law was sent to the Presidency again in April 2021 for enactment and the final approval is still pending. As a result, the reform is yet to become operational, and hence, **the target of the reform was not achieved**.

Objective 2: Improve the business environment and foundations for a digital economy

Result Indicator 4: Number of days on average to issue a business license.

37. Following the amendment of the Law of Crafts and Industries of 1953, critical steps were taken for the implementation of the reform on the ground. The Ministry of National Economy, the champion of business environment reforms, worked closely with the Ministry of Health (the stakeholder mandated by the Act of 1953 to amend the Annex of the Law of 1953) to develop, issue and implement the business licensing reform. The Minister of Health approved the instructions on July 27, 2018. In December 2018 and January 2019, Training of Trainers (ToT) took place to facilitate implementation. West Bank municipalities started implementing the reform at the beginning of 2019. Technical assistance has also been provided by the World Bank, as well as other organizations, to support the reform. The intervention focused on standardizing the activity names, introducing the International Standard Industrial Classification (ISIC) coding system, and reducing the license cost. The intervention also importantly reformed the process of needing police clearance for the license, limiting the need for such clearance to a few sensitive business activities. The results indicator chosen for this prior action focused on the average number of days needed to issue a municipal business license. As tracked by the Doing Business report, prior to this reform, it took 36 days to obtain a municipal license at a cost of JD120, while currently it takes less than a week (6 days on average) and the cost is now 25JD per business activity. Hence, **the target was exceeded**.

Result Indicator 5: Number of days on average to obtain a land purchase permit

38. On February 7, 2017, the Chairman of the Land Authority issued Circular 6-15 canceling the internal procedure of a security check as part of a requirement to obtain a purchase permit from the Cabinet through the Land Authority for the following entities: Palestinian companies, Palestinian professional associations, and Palestinian associations. During 2018, the Ministry of National Economy, as a champion

of business environment reforms, followed up on this reform through the Business Environment Technical and Ministerial Committees to ensure its successful implementation. It succeeded in doing so in 2018, and the reform was identified as the only improvement for the economy in Doing Business in 2019. The indicator chosen for this prior action is the number of days to obtain a land purchase permit - a key component of the Doing Business reform program. After the implementation of the reform, the overall time of the procedure to obtain a purchase permit from the Council of Ministers through the Land Authority was reduced to 15 days. Hence, **the target was fully achieved**.

Result Indicator 6: Regulatory authorities have reviewed licensing applications for mobile payments providers under the new framework.

39. New regulations needed for the introduction of mobile payments as well as removing restrictions for remittance services were finalized, with support from the World Bank, and adopted by the PMA. These provided the necessary legal framework for the licensing and establishment of mobile payments providers. The results indicator focused on the number of licensing applications for payment service providers reviewed by regulatory authorities. Data by the PMA shows that it has already authorized the establishment and provided licenses for five mobile payment providers, including JawwalPay, PalPay, Middle East Payments Services (MEPS), MalChat, and MadfooatCom. Hence, **the DPG target was fully achieved**. All five companies are now fully operational and have already launched their first product, e-wallets. According to recent data provided by the PMA, more than 100,000 e-wallets are already in use in the Palestinian territories.

Objective 3: Enhance sustainability and creditworthiness of local service providers for private investment

Result Indicator 7: Share of electricity that is purchased from wholesale suppliers is collected and paid for by LGUs.

40. The prior action addresses one of the main issues facing the Palestinian electricity sector that prohibits it from establishing sectoral financial viability and creditworthiness. The issue is related to some customer categories continuing to face challenges in terms of timely payments, which keeps collection rates lower than needed to make the sector financially viable. The results indicator for this prior action focuses on measuring the share of electricity that is purchased from wholesale suppliers and collected and paid by LGUs which is an appropriate measure for this reform. According to data provided by the Palestine Energy Authority (PENRA), the share stood at 92 percent in 2020, which is only slightly lower than the DPG target of 95 percent. Hence, **the target was mostly achieved**. The economic decline due to COVID-19 has affected the ability of some consumer categories to make timely payments to LGUs which explains the lower than expected achievement.

Result Indicator 8: Percentage of unpaid debts for water owed by LGUs to the MoFP is restructured.

41. Like the energy sector, restoring the financial viability of the water sector requires establishing mechanisms to prevent accumulation of new debts and settlement of old ones. Following a similar exercise for unpaid electricity bills, the prior action focused on rescheduling debt owed by LGUs to the MoF for unpaid water bills. An intra-agency committee, consisting of the Ministries of Finance and Local

Government, along with the West Bank Water Department (WBWD) and the Palestinian Water Authority (PWA), is gradually rescheduling these debts. Debt rescheduling included an agreement to pay past accumulated debt of the LGUs in monthly installments, in addition to a commitment to pay current monthly invoices on time. The results indicator chosen for this prior action measures the percentage of restructured unpaid debt. According to data provided by the WBWD, debt owed by 93 LGUs has already been restructured. In NIS terms, this represents NIS380 million out of NIS1,277 million or 30 percent, which is higher than the DPG target of 15 percent. Hence, **the target was exceeded**.

Result Indicator 9: Service Purchasing Unit of the MoH has completed negotiations for contracting medical services using the NPR tool with domestic private healthcare providers.

42. The MoH relies on purchasing highly specialized and costly services from external providers. The relationship between the MoH and external providers lacks a modern framework, tools, and skills for conducting strategic purchasing to negotiate more predictable and better prices for health services. Implementing an NPR tool, as requested by the DPG, would definitely contribute to this objective. According to data provided by the MoH, the Ministry has already implemented the NPR with five local service providers including: Najah National University hospital, Makassed, Augusta Victoria, St. John, and Al Ahli. The NPR covers around 50 procedures in the areas of cardiology, neonatology, surgery, dialysis, bone marrow transplant, haematology and oncology (most common referral cases forming around 70 percent of total referrals). NPR prices were discussed with the five hospitals separately and the needed training on the implementation was provided to the purchasing unit at MoH, referral committees' members, as well as the hospitals' staff. **The DPG target is considered exceeded** and the MoH is now conducting analysis to extract lessons on how to further refine the NPR tool to be used with a larger number of providers.

Rating: Moderately Satisfactory

43. **The overall rating for achievement of objectives is moderately satisfactory**. Encouraging progress has been made towards the achievement of the PDOs in most areas (table 4), while progress in others was slower than expected. The major shortcomings were related to the first PDO, as the results for all three prior actions were not/partially achieved. Regarding prior action 1, the lack of achievement of the targeted increase in domestic tax revenue requested by the DPG is attributed partly to an incomplete reform, but also due to exogenous factors, including the economic decline caused by the cessation of clearance revenues and the breakout of COVID-19, both of which had a significant impact on domestic revenue mobilization. While some progress was evident for prior action 2, the exogenous shocks relating to the fiscal crisis and COVID-19 which delayed training for LGUs on the devolution of property tax compounded with internal power dynamics between the local and central levels of government affected implementation of the reform. As for prior action 3 on establishing strategic and policy oversight mechanisms for institutions in land administration, the reform was implemented through a Cabinet decision, but this was not enough to operationalize it, as it still required enactment by the President to achieve results. The President's decision is still pending, which has affected the achievement of the target. Progress in improving the business environment and foundations for a digital economy (second PDO) was

notable as results under this pillar were either exceeded or achieved given an actual reduction in the number of days to issue a business license from 36 to 6 days, a decline in the number of days to obtain a land purchase permit from 30 to 15 days, and finally having the licensing applications of 5 mobile payments providers reviewed allowing them to start providing services. Finally, progress in enhancing the sustainability and creditworthiness of local service providers for private investment (third PDO) was also impressive as results were either exceeded or mostly achieved. For example, the share of electricity that is purchased from wholesale suppliers and collected and paid by LGUs increased from 86 percent to 92 percent while the percentage of restructured unpaid debts for water owed by LGUs to the MoF increased from zero to 30 percent, due to efforts supported by the DPG. Finally, the MoH managed to use the NPR tool to complete negotiations for contracting medical services with 5 healthcare providers resulting in more predictable and better prices for health services.

Table 4: Summary of Results Target Achievement

Reform Area	**Exceeded**	**Achieved**	**Mostly Achieved**	**Partially Achieved**	**Not Achieved**	**Total**
Pillar 1: Strengthen revenue and land administration and intergovernmental revenue framework						
Create single taxpayer base by connecting MIS for RMIS and ASYCUDA					1	1
Devolve collection of property taxes from MoFP to LGUs				1		1
Support ammendments to PLA Law					1	1
Pillar 2: Improve the business environment and foundations for a digital economy						
Streamline procedures for issuance of business licenses	1					1
Reduce land registration procedures for businesses		1				1
Adopt regulations to enable establishment of new electronic payments system		1				1
Pillar 3: Enhance sustainability and creditworthiness of local service providers for private investment						
Support procedural steps for service providers to follow for cutting-off electricity after debt accumulation by consumers			1			1
Improve financial viability of water sector through rescheduling debt for unpaid bills of LGUs	1					1
Implement measures to make NPR List tool ready for use	1					1
Total	3	2	1	1	2	9

C. Overall Outcome Rating and Justification

Rating: Moderately Satisfactory

44. **The overall outcome rating for the operation is moderately satisfactory.** As noted in earlier sections, the prior actions were relevant at a satisfactory level, despite the theory of change not always being clearly delineated, and efficacy was rated as moderately satisfactory resulting in an overall rating of moderately satisfactory. The operation supported reforms in areas that were especially relevant in the difficult macroeconomic context. It targeted the key objectives of the PA reform priorities relating to fiscal strengthening and private sector development expressed in the NPA, and clearly its relevance remains high given ownership of the reforms. The operation was also well aligned with the central goals of the World Bank Group FY18-21 Assistance Strategy for the West Bank and Gaza. These are the key factors underlying the judgment of Moderately Satisfactory.

IV. OTHER OUTCOMES AND IMPACTS

A. Poverty, Gender and Social Impacts

45. The DPG did not seek a major anti-poverty impact, and poverty reduction is linked to how the fiscal situation evolves in terms of revenue generation and expenditure adjustment to create fiscal space. The efforts under pillar 1 to support better tax collection and improve the land registration of property, coupled with improved intergovernmental fiscal arrangements, could contribute to increased fiscal space to supply more transfers to the poor and implement capital investments. The regulatory and business climate reforms supported under pillar 2 are critical to achieve the goal of enabling private sector growth, improving employment outcomes. Reforms under pillar 3 aimed at improving the fiscal viability of utility sectors (such as electricity and water) and to increase investments in those sectors over the medium and long term and allow LGUs to deliver quality services to citizens. These measures will help reduce poverty and aid social development, but only if adequate transfers are made to LGUs to cover the cost of essential services, and if the LGUs improve their budgeting and management practices through improved transparency of their accounts.

B. Environmental, Forests, and Natural Resource Aspects

46. Reforms under pillar two could entail environmental risks, especially as Micro, Small, and Medium Enterprises (MSME) could be a source of pollution with potentially significant cumulative impacts. This risk is mitigated, however, through the fact that the business licensing reform, specifically amending the Law of Crafts and Industries of 1953, focuses on streamlining the issuance of the municipal license while the rest of the procedures needed for the issuance of business license, including environmental licensing were not subject to the proposed reform and continue to follow the Palestinian regulatory framework. Furthermore, these reforms have not only promoted the growth in MSMEs but also encouraged them to officially register rather than remain in the informal sector. Given the significant share of the informal sector in the Palestinian economy, reducing its size and increasing the number of formal firms will result in reducing environmental risks.

C. Institutional Change/ Strengthening

47. Institutional strengthening, as in previous operations, has been at the core of this DPG, given its clear relevance for the foundation of an eventual State, as envisaged in the Oslo Accords. The operation has provided an umbrella for coalescing Bank-supported institution-building within a coherent framework (for example, in the energy and water sectors, the Ministry of Health, and in business climate work), and strengthening the core capabilities of the Ministry of Finance. The operation has continued a multiyear effort to strengthen the intergovernmental fiscal framework, promote efficiency in the health sector, and improve the business climate. As mentioned in the PRDP MDTF ICR, even though DPGs extended to the PA have been standalone operations, each operation has attempted to build on achievements of previous grants in institution-building to maintain momentum and a longer-term perspective. This DPG has continued with this approach. No significant unintended outcomes or impacts were experienced.

D. Other Unintended Outcomes and Impacts

48. None.

V. BANK PERFORMANCE

Preparation

49. **The strength of Bank performance during preparation lay in the economic, analytical, and TA work done in the areas of reform (Table 5).** For prior action 1, analytics conducted by the World Bank showed that tax evasion in the Palestinian territories is high, and that some taxpayers pay one type of tax but not others. Hence, unifying the information systems, as requested by the prior action, would help address this issue. Other analysis on the effects of weak land registration indicated that incomplete and weak land administration capacity pose large social and economic costs in addition to its negative fiscal impact given that tax collection effectiveness is significantly higher on registered land compared to unregistered land of equal value. These findings demonstrate the importance of prior actions 2 and 3. Multiple Doing Business reports have identified business licensing and permits as some of the top challenges facing businesses in the Palestinian territories. Prior actions 4 and 5 attempted to address some of these issues. A World Bank report from 2016 confirmed the need for the PA to join the digital wave and develop systems needed to support its digital economy, and prior action 6, which supports regulations enabling the establishment of new electronic payments systems, is a key step in that direction. Two reports from the World Bank, one covering energy related issues in the Palestinian territories while the other focuses on water issues, both underpin the importance of enhancing the sectors' financial value chains to enhance the sustainability and creditworthiness of service providers for private investment—efforts supported by prior actions 7 and 8. Finally, a report by the World Bank from 2013 shows that to improve the efficiency and equity of the health referral system, the referrals process needs to be reformed by putting in use modern tools such as a National Reference Price list, which is the reform supported by prior action 9. In addition to the analytical underpinnings, the operation also benefitted from related ongoing operations.

All provided a solid foundation for the objectives of the operation. The operation supported a subset of the key reforms of the NPA and was aligned with the core objectives of the Bank's Assistance Strategy.

Table 5: Selected Analytical and Related WBG Projects Underpinning the Program

Program Area	Analytical Work	Related WBG Projects
Pillar 1: Strengthen revenue and land administration and intergovernmental revenue framework		
1.1 Deepen revenue administration and create a single tax payer base.	"The Public Expenditure Review 2013-2014", World Bank, 2016; and "The Performance of Palestinian Local Governments", World Bank, 2017.	Local Government and Services Improvement Program-for-Results
1.2 Improve institutional arrangements for the transfer of property tax collection to municipalities	"The Socio-Economic Effects of Weak Land Registration and Administration System in the West Bank", World Bank, 2018.	
1.3 Modernize the institutions and functions of the Land Authority.		
Pillar 2: Improve the business environment and foundations for a digital economy		
2.1 Develop, issue, and implement timely business licenses	"Doing Business Report", World Bank, 2017; "Investment Climate Assessment in the West Bank and Gaza," World Bank, 2014.	On-going TA activities in improving business environment and reform of the electronic payments systems
2.2 Reduce time to register property		
2.3 Reform measures for the digital economy	"The Telecommunication Sector in the Palestinian Territories: A Missed Opportunity for Economic Development", World Bank, 2016.	
Pillar 3: Enhance sustainability and creditworthiness of local service providers for private investment		
3.1 Strengthen enforcement of bill collection from customers with significant past debts for electricity	"Securing Energy for Development in the West Bank and Gaza", World Bank, 2017; and "Assessment and Action Plan to Improve Payment for Electricity Services in the Palestinian territories," World Bank, 2014.	Electricity Sector and Performance Improvement Project
3.2 Improve the financial viability of the water sector	"Toward Water Security for Palestinians: West Bank and Gaza WASH Poverty Diagnostic," World Bank, May 2017.	
3.3 Further advance policies to reduce speed of growth in health spending	"Report on Policy Directions for Outside Referrals – Technical Assistance on Health Financing." World Bank, 2013; and "The Master Plan for Organizing Medical Referrals to Service Providers Outside the Public Sector," Palestinian territories, August 2016.	Health System Resiliency Strengthening Project

50. **The DPG program document included an honest discussion about the risks, especially the most relevant types, including political, macro and fiduciary.** Specifically, and given the nature of the reforms in the first pillar, the risk discussion covered the issue of capacity in local government and land administration to take on enhanced functions foreseen in the reforms, and the multi-agency nature of reforms within the PA. Where possible, the program document provided sound mitigation measures. The DPG was also built on dialogue with the principal development partners. Given that the PRDP Trust Fund relies on the DPG policy and results matrix as the criteria for evaluating the PA's performance in implementing the NPA for the purpose of quarterly disbursements, the Bank held consultations with the PRDP Trust Fund donors on reforms supported by this DPG and incorporated their feedback prior to finalizing the matrix. The operation also involved consultations with the European Union and the Foreign Commonwealth and Development Office (FCDO) counterparts to align areas covered by the DPG, as much as possible, with those of the EU's and FCDO's conditional support. Moreover, care was taken to develop adequate Monitoring and valuation (M&E) arrangements for the operation in coordination with the PA.

Table 6: Risk Ratings Summary from the Program Document

Risk Category	**DPG 9**
Political and governance	High
Macroeconomic	High
Sector strategies and policies	Moderate
Technical design of project or program	Moderate
Institutional capacity for implementation and sustainability	Substantial
Fiduciary	High
Environment and social	Low
Stakeholder	Moderate
Overall	**High**

51. **Some minor shortcomings lay in the design of the operation,** which have been discussed in detail in earlier sections. The weak theory of change linking some actions to results is mainly related to prior actions 2 and 3 in pillar one and prior action 9 in pillar three.

Implementation

52. **During implementation, supervision was facilitated by regular reporting arrangements that the recipient put in place on implementation progress that formed the basis for Bank supervision.** ISRs are not required for standalone operations. But to ensure ongoing monitoring, the Bank supervision team prepared supervision reports that analyzed ongoing developments, particularly in areas covered by prior actions in the follow-up development policy operation. In some areas, Bank supervision identified emerging problems and provided suggestions for action.

53. **The effectiveness of supervision was enhanced by economic and sector staff in the resident mission who covered all areas of the operation**. Highly qualified staff, supported by sound analytical work,

engaged in continuous dialogue with a wide array of development partners to provide support to the PA. The regular preparation of reports for the Ad Hoc Liaison Committee (AHLC) also helped to ensure that close attention was paid to economic developments and reform progress.

Rating: Moderately Satisfactory

54. **In summary**, the Bank experienced some issues related to preparation but turned in a strong performance with respect to quality of supervision during implementation, with **an overall rating for Bank performance as moderately satisfactory**.

VI. RISK TO SUSTAINABILITY OF DEVELOPMENT OUTCOMES

55. **The risk to the sustainability of development outcomes in the operation is Moderate.** At the time of completion of the operation, the risk to sustainability of the first PDO was high. The impact of the GoI's cessation of clearance revenue transfers to the PA for 6 months in 2019 and again in 2020, coupled with the COVID-19 crisis, severely constrained the flow of revenues from LGUs to the revenue administration. It also shifted the government's priorities away from land use registration. Hence, the sustainability of revenue generation and consequent macroeconomic support to the PA is compromised. Although the revenue targets were missed, the PDO of pillar 1 put in place the necessary first steps to support a stronger inter-governmental framework and stronger revenue administration. These address key drivers of macroeconomic fragility and should pave the way for greater macroeconomic stability going forward.

56. **On the other hand, the sustainability of the PDO of pillar 2 led to the expediting of business registration procedures and eased the process of obtaining a land purchase permit, which, combined, lowered the cost of doing business**. In addition, electronic payment processing was augmented by the addition of more financial transaction institutions. These steps should greatly increase private sector participation in the economy of the PA and simultaneously reduce informal sector activity and move toward the objective of creating a digital economy.

57. **The third PDO was intended to enhance the sustainability and creditworthiness of local service providers for private investment**. The sectors targeted were electricity and water plus medical services. The PDO was geared to develop mechanisms to restructure debts accumulated by water companies, to establish guidelines for service cutoff and restoration in the electricity sector, and to thereby enhance profitability and attract private sector investment in these sectors. The Ministry of Health service purchasing unit was provided with the means to contract services at competitive pricing through negotiating the lowest cost option. Overall results appear sustainable.

VII. LESSONS AND NEXT PHASE

A. Lessons Learned

58. The design of the operation incorporated lessons learned from previous DPGs, including those related to the focus on longer-term perspectives of reforms and follow-up steps to secure the intended results, as well as the critical need for PA commitment. Several lessons can be derived from this DPG.

59. **First**, continue to pursue ***fiscal and institutional viability.*** *A* viable fiscal position is critical for macro stability; hence, development policy grants should continue to focus on reforms that place budgets on the path to viability over the medium-term. This can be achieved through: A) aiming at greater fiscal consolidation tailored prior actions; and B), continuing efforts to obtain additional donor support through the PRDP TF, especially for building state and LGU capacity in essential public finance functions and accountabilities. As noted, there is no alternative in the short to medium-term to macro-fiscal stability in the West Bank and Gaza except to rely upon donor funding and continued reform efforts. Complementary reform efforts to deepen the environment for the private sector are critical going forward and this DPG continued the momentum for these, aligning its activities with those highlighted in the pillars of the Assistance Strategy and the PA's NPA.

60. **Second**, pursue ***programmatic themes across DPGs.*** DPGs are standalone operations; however, they have acquired a strong programmatic character over time in the West Bank and Gaza. They have sequentially built upon earlier reforms in the health sector on value-for-money for example, as well as discipline in utility payments and improvements in the business environment. It is important to continue with deep reforms and institution building in future DPGs. The benefits of a programmatic series pursued through a sequence of standalone operations is highlighted in the PRDP TF Implementation and Completion Results Report.

61. **Third**, employing **a theory of change** to show how the objectives of the program are intended to be achieved, by connecting the prior actions, objectives and outcomes, may be helpful in the case of West Bank and Gaza. This could serve to better engage stakeholders and those responsible for implementation. A theory of change seeks to capture as many factors in the environment of the potential program as possible that might facilitate or hinder the intended change. In a setting such as the West Bank and Gaza, this may facilitate a more candid assessment of the commitment and capacity needs required. It may also provide a framework for a programmatic approach built upon the standalone operations.

62. **Fourth**, facilitate a ***M&E framework*** for periodic reporting of progress on the results indicators over time, not just from this DPG but from previous DPGs. This will facilitate a programmatic approach. This will also ensure greater accountability by line ministries and agencies and improve effectiveness of the Ministry of Finance, the champion of the reforms. This will enable a timely response to any bottlenecks that might arise during implementation that could then be remediated.

63. **Fifth**, applying a greater ***disaggregation of selected indicators*** by gender, age group and other categories would be useful in future operations to gauge the economic and social impact of the reforms, and their impact on poverty, employment creation and growth.

64. **Sixth**, building in more ***flexibility*** particularly when implementing projects in fragile areas, or those dealing with significant macro-fiscal instability. This may be done through, for instance; a high risk areas implementation strategy; remote monitoring using geo-spatially enabled data; use of iterative analytics on various themes of the project aspects including technical quality, social inclusion, and the project's impacts on local dynamics, which can feed into the project design and implementation approach.

B. Next Phase

65. **The World Bank's Board of Directors approved a new DPG for the West Bank and Gaza entitled "Strengthening Fiscal Stability and Financial Integrity," on May 8, 2020**. This is the tenth budget support operation that the World Bank has prepared for the benefit of the Palestinian territories, and it is in the amount of US$30 million. The operation (DPG10) builds on the results of the DPG9 in its three main pillars: (I) strengthening commitment control in line ministries and improving overall public procurement practice, (ii) improving sector governance in water and health service provision, and (iii) strengthening the stability and integrity of the financial sector. Lessons learned in DPG 9 were integrated into the design of the following operation.

66. **The 11th DPG was also approved by the Bank's Board of Directors on May 28, 2021**. It is in the amount of US$30 million and it focuses on three objectives: (i) Support the digital foundations of the Palestinian economy, (ii) Strengthen recovery and resilience post COVID-19, and (iii) Improve governance and transparency in the areas of public procurement, wage bill control and the health sector.

ANNEX 1. Results Framework

Pillar 1: Strengthen revenue and land administration and intergovernmental revenue framework

DPG9 Prior Actions	***DPG9 Results***	***Anticipated Actions for 2019***	***Anticipated Actions for 2020***
Prior Action 1: The Ministry of Finance and Planning has taken the necessary actions to improve tax collection and operational efficiency, by connecting existing management information systems for domestic and border taxation (RMIS and ASYCUDA), as evidenced by the issuance of official letter No. 5426, from the General Directorate of Revenue to the General Manager of the Revenue IT Department, informing the completion of the merger of RMIS and ASYCUDA.	Increase in gross domestic tax revenues. Baseline (2017) = NIS 2,750 million; Target (2019) = NIS 2,982 million.	Complementary Step 1.1: MoFP prohibits suppliers of goods and services to the public sector from bidding on public tenders if they do not hold a no tax liability certificate.	Complementary Step 1.2: The cabinet restructures the revenue function within MoFP creating a single department for all revenue streams.
Prior Action 2: The President has taken the necessary actions to strengthen domestic revenue collection by LGUs by authorizing the Cabinet, in cooperation with the MoFP, to delegate the MoFP's responsibilities to collect property taxes and related penalties to LGUs, as evidenced by the enactment of Law No. 12, dated May 3, 2018, amending the 1954 property tax law.	Number of LGUs that have piloted collection of property taxes. Baseline (2017) = none; Target (2019) = three to five.	Complementary Step 2.1: MoFP transfers to these municipalities all related regulations, instructions, and tax files to enable them to carry out this new mandate.	Complementary Step 2.2: The Cabinet passes amendments to the property tax law revising the annual property tax rate and introducing: a) a transfer tax for land, b) a capital gains tax, c) and a tax on idle land.
Prior Action 3:	Supporting the above result.	Complementary Step 3.1:	Complementary Step 3.2:

The Cabinet has established strategic and policy oversight mechanisms for institutions in land administration, as evidenced by the adoption of Decision No. 17/229/18 signed by the Prime Minister on November 22, 2018, referring the draft amendments to the Palestine Land Authority Law for approval by the President.		To establish strategic and policy oversight of institutions in land administration, the President approves a draft Amendment to the PLA Law establishing a Board of Directors which would also supervise LWSC.	PLA adopts a national policy on state-owned land and properties.
Pillar 2: Improve business environment and foundations for a digital economy			
DPG9 Prior Actions	***DPG9 Results***	***Anticipated Actions for 2019***	***Anticipated Actions for 2020***
Prior Action 4: The Ministry of Health has streamlined the procedures for issuance of business licensing, reflecting the amendments to the Law on Crafts and Industries of 1953, as evidenced by the issuance of: (a) Cabinet decision No. 1 for the year 2018, approving the amendments to the annexes of the Law on Crafts and Industries dated April 3, 2018; and (b) Guidelines and instructions for business licenses, issued by the MoH dated July 25, 2018.	Number of days on average to issue a business license. Baseline (2017) = 36 days; Target (2019) = 10 days.	Complementary Step 4.1: The President signs into law a new Companies Act that includes simplified business registration procedures.	Complementary Step 4.2: Cabinet approves necessary By-Laws for implementation of the new Companies Act.
Prior Action 5 The Cabinet has taken the necessary steps to reduce the land registration procedures for businesses, as evidenced by the issuance of Circular 6-15 dated February 2, 2017, describing the streamlined procedures necessary for obtaining a purchase permit.	Number of days on average to obtain a land purchase permit. Baseline (2017) = 30 days; Target (2019) = 15 days.	Complementary Step 5.1: Ministry of National Economy (MoNE) develops and implements simplified licensing procedures for home-based businesses.	Complementary Step 5.2: MoNE establishes an automated company registry.
Prior Action 6:	Regulatory authorities have reviewed licensing	Complementary Step 6.1:	Complementary Step 6.2:

The PMA Board of Directors has adopted regulations enabling the establishment of new electronic payments systems, fostering competition and reducing costs, as evidenced by the minutes of the PMA Board meeting signed by the Governor on July 17, 2018, approving regulations for the licensing of payment service providers.	applications for mobile payments providers under the new framework. Baseline (2017) = none; Target (2019) = five.	PMA establishes interoperability of: i) mobile payments; ii) point of sale (POS) card transactions. Automated Clearing House (ACH) payment system is in full use and function for domestic bank transfers.	National Payments Company has been established to absorb the card and mobile payments switch and establish a modality to deal with Israeli counterpart on excess liquidity issues.
Pillar 3: Enhance sustainability and creditworthiness of local service providers for private investment			
DPG9 Prior Actions	***DPG9 Results***	***Anticipated Actions for 2019***	***Anticipated Actions for 2020***
Prior Action 7: The Cabinet has set forth procedural steps to follow before service providers can cut off electricity following the accumulation of debt, including a grievance mechanism and protection of poor and vulnerable population, as evidenced by the issuance of official instructions dated April 17, 2018, published in the Official Gazette on April 22, 2018, that include the following provisions: (a) specification of exact periods of unpaid bills (30 days to households and 60 to non-households; (b) objections from the consumer to the distributor; (c) instructions on how to file a complaint; (d) instructions on how to reconnect power back to consumers; (e) guidelines on resolving disputes between the consumer and the distributor; and (f) exemptions.	Share of electricity that is purchased from wholesale suppliers is collected and paid by LGUs. Baseline (2017) = 86 percent. Target (2019) = 95 percent.	Complementary Step 7.1: PENRA and MoFP establish a settlement mechanism for timely payment of public-sector electricity bills.	Complementary Step 7.2: PENRA and PERC issue directives mandating LGUs that have not yet joined DISCOs to merge with existing or establish new DISCOs.

Prior Action 8: The Intra-agency Committee has taken the necessary steps to strengthen payment discipline and improve financial viability of the water sector by rescheduling the debt for unpaid water bills owed by LGUs to the MoFP for at least 90 LGUs, as evidenced by: (a) the issuance of an Official Letter signed by the Head of the Intra-agency Committee and dated October 28, 2018 enclosing a report describing the balances of the municipalities after debt rescheduling; and (b) seven debt rescheduling agreements entered between the LGU and the Intra-agency Committee, selected on a sample basis.	Percentage of unpaid debt for water owed by LGUs to the MoFP is restructured. Baseline (2017) = 0 percent; Target (2019) = 15 percent.	Complementary Step 8.1: The Cabinet approves Unified Water Tariff by-law to the Water Law 2014 that would ensure that Water Service Providers cover operational costs.	Complementary Step 8.2: The Cabinet approves Regional Water Utilities (RWUs) by-law to the Water Law 2014 that would enhance the sector's efficiency through economies of scale.
Prior Action 9: The Ministry of Health has directed its Service Purchasing Unit to plan and implement training and capacity building to make the National Price Reference List tool ready to be used for medical referrals with domestic non-MoH healthcare providers when negotiating with at least three hospitals, as evidenced by the issuance of Directive No. 32/110/1139/18, dated October 30, 2018.	Service Purchasing Unit of the MoH has completed negotiations for contracting medical services using the NPR tool with domestic private healthcare providers. Baseline (2017) = none; Target (2019) = three providers.	Complementary Step 9.1: Ministry of Health introduces standard international classifications for disease and medical procedures to improve the quality of medical referral information and price negotiation.	Complementary Step 9.2: Ministry of Health implements a single database that includes comprehensive information on the volume and cost of medical referrals.

ANNEX 2. Bank Lending and Implementation Support/Supervision Processes

A. TASK TEAM MEMBERS

Name	Role
Preparation	
Damir Cosic, Nur Jalal Nasser Eddin	Task Team Leader(s)
Lina Fateh Allah Abdelmauty Rjoub	Procurement Specialist(s)
Riham Hussein	Financial Management Specialist
Maha Abdulraheem Ibrahim Bali	Team Member
Damir Cosic	Team Member
Zein Azzam Ibrahim Daqqaq	Team Member
Supervision/ICR	
Nour Jalal Nasser Eddin	Task Team Leader(s)
Lina Fateh Allah Abdelmauty Rjoub	Procurement Specialist(s)
Riham Hussein	Financial Management Specialist
Zein Azzam Ibrahim Daqqaq	Team Member

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B. STAFF TIME AND COST

Stage of Project Cycle	Staff Time and Cost	
	No. of staff weeks	US$ (including travel and consultant costs)
Preparation		

FY18	0	5,920.70
FY19	50.767	272,163.53
FY20	0	0.00
Total	**50.77**	**278,084.23**
Supervision/ICR		
FY21	11.6	78,403.00
Total	**11.6**	**78,403.00**

ANNEX 3. Borrower, Co-Financiers, and Other Development Partners'/Stakeholders' Comments

ICR	Comments
General note	**In previous ICRs there was a rating for the borrower performance while this report doesn't include and rating for the Borrower. Is this a new reporting structure?**
Page 9, Para 6: At the time of appraisal for DPG9, economic conditions had significantly weakened, and relations between the key stakeholders worsened. The economy registered just 1.2 percent growth in 2018, when the project was appraised. To break down the overall figure, Gaza's economy shrank by 3.5 percent in 2018, while growth slowed in the West Bank, registering a 2.3 percent increase compared to almost 4 percent in 2017. <u>The decline is attributed to severe cuts in transfers, especially in Gaza including aid for reconstruction and transfers from the PA's budget</u>. Financial sector data suggested a marked slowing in credit and deposit growth and an increase in Non-Performing Loans (NPLs). Unemployment reached a new high of 32.4 percent in mid-2018.	The statement is attributing part of the decline to the transfers from the PA's Budget to Gaza. Please clarify more or rephrase this
Page 9, footnote 01: According to 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 consists 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.	This position of this footnote and linking it with paragraph # 4 is misleading and shows that the violence is caused by the Palestinians. Use the terminology GOI.
Page 10, footnote 3: domestic taxes grew by 9 percent on the back of a higher collection of VAT receipts, and public spending was reduced by about 8 percent due to a drop in the wage bill (the PA's largest spending item) <u>from a reduction in the salaries of PA employees in Gaza</u> and a decline in the number of public servants due to early retirements executed by the PA.	The PA doesn't recognize that these are reduction in salaries while it is considered removing the allowances for non-active employees. It is not only the drop in the wages bill but also other austerity and reform measures.

ANNEX 4. Supporting Documents

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