



Report Number: ICRR0024746

1. Operation Information

Operation ID P179609	Operation Name DPG 13
Country West Bank and Gaza	Practice Area (Lead) Macroeconomics, Trade and Investment

Non-Programmatic DPF

L/C/TF Number(s) TF-C0764,TF-C1582,WBTF-C0764,WBTF-C1582	Closing Date (Original) 31-Dec-2024	Total Financing (USD) 62,154,520.00
Bank Approval Date 17-Mar-2023	Closing Date (Actual) 31-Dec-2024	
	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	0.00	62,154,520.00
Revised Commitment	0.00	62,154,520.00
Actual	0.00	62,154,520.00

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2. Program Objectives and Pillars/Policy Areas

a. Objectives

The program development objectives (PDO) of the operation were: (i) to improve the structural fiscal balance and strengthen the effectiveness of public procurement, and (ii) to strengthen the integrity of the financial sector and pursue digital transformation (Board Approval Package, March 17, 2023; and PD, p. 2).



For the purpose of this Implementation Completion and Results Report Review (ICRR), the PDOs of this operation (against which outcomes were assessed) were:

- **PDO1** - To improve the structural fiscal balance;
- **PDO2** - To strengthen the effectiveness of public procurement;
- **PDO3** - To strengthen the integrity of the financial sector; and
- **PDO4** - To pursue digital transformation.

b. Pillars/Policy Areas

The operation had two pillars. Pillar 1 focused on improving the structural fiscal balance by enhancing revenues via tackling tax evasion through an online portal for crosschecking Value Added Tax (VAT) submissions by businesses and adopting an attrition target for net public employment to address the unsustainable public wage bill. Pillar 1 also addressed the effectiveness of public procurement reforms by improving the professional quality of procurement staff through certification.

Development Policy Grant (DPG) 13 reforms under Pillar 2 supported three policy objectives: (i) strengthening financial sector integrity by adopting the Anti-Money Laundering and Combatting the Financing of Terrorism (AML/CFT) law, aligning with international practices; (ii) pursuing digital transformation through the adoption of the National Payments Law that advanced cashless payments and future Palestine Monetary Authority reforms to expand the national payment infrastructure; and (iii) increasing women's access to microfinance through a single definition of women-owned businesses (WOB) and a requirement for MFIs to disclose financing provided to WOB.

c. Comments on Program Cost, Financing and Dates

The total financing committed for DPG 13 was US\$62,154,420.00 of which \$30,000,000.00 was funded by the Bank-administered Palestinian Umbrella for Resilience Support to the Economy (PURSE) Multi-Donor Trust Fund. This grant, DPG 13, directly leveraged financial support from Norway and France in the amount of approximately \$32,000,000.00 through the Bank-administered PURSE Multi-Donor Trust Fund (ICR p. 1).

DPG 13 was approved on March 17, 2023, became effective on April 4, 2023, and closed as scheduled on December 31, 2024.

3. Relevance of Design

a. Relevance of Objectives

The nature of the World Bank (WBG) engagement in the West Bank and Gaza, a non-member country, restricts ex ante commitment to multi-year operations. Thus, the DPG was a standalone operation for achieving selected strategic priorities envisaged in the Palestinian Authority's National Development Plan (NDP) (2021-2023). The WBG has worked in West Bank Gaza since 2008 through twelve DPGs to support reform efforts in several areas.



By appraisal of DPG 13, the Palestinian Authority had carried out select fiscal reforms focusing on enhancing revenues, rationalizing spending, and strengthening Public Financial Management (PFM) with limited success and a growing stock of arrears which became a risk to macroeconomic stability and the banking sector. Domestic tax collection grew by 19 percent in 2022 reflecting higher growth and efforts to expand the revenue tax force which increased the number of taxpayers. VAT revenues accounted for the largest share of domestic tax revenues and stood at 1.8 percent of GDP in 2019. Aided by the electronic-VAT (e-VAT) system piloted by the Palestinian Authority and the Government of Israel since March 2022, VAT revenues increased to 2.2 percent of GDP in 2022, reflecting reduced VAT evasion (PAD, p.9). While the Palestinian Authority maintained recurrent public spending in 2022 at 2021's level in nominal terms, the wage bill increased by 4 percent while government transfers decreased. While the overall fiscal deficit dropped to 1.8 percent of GDP in 2022 from around 7.5 percent of Gross Domestic Product (GDP) in 2019, the Palestinian Authority ran large arrears to the private sector, the pension fund, and public employees, underscoring the need for redressing the structural fiscal deficit by raising additional revenues and reducing the rising wage bill.

The Palestinian Authority and public sector employees combined accounted for about 37.0 percent of total banking sector credits (US\$4.2 billion), pulling liquidity from the market, posing systemic destabilization risks for the financial sector, and threatening macroeconomic stability (ICR, para 8). Progress on a more stable arrangement for correspondent banking relationships (CBRs) was slow due to concerns about money laundering and financing of terrorism.

Despite these risks, the macroeconomic framework was deemed adequate at appraisal, subject to continued fiscal reform efforts by the Palestinian Authority anticipated inflows of development aid (PD p.14). While the banking sector was stable in capitalization, liquidity buffers and non-performing loans, weak deposit growth and asset quality deterioration posed risks. The use of the Israeli shekel minimized exchange rate risks.

The rationale for WBG involvement through DPG 13 was to support the Palestinian Authority in achieving strategic reform priorities, targeting fiscal vulnerabilities, public procurement inefficiencies, financial sector integrity and digital transformation. The financing from DPG 13 would boost the Palestinian Authority's limited financing options as it relied on grant assistance to cover financing gaps. The focus on curbing the Palestinian Authority's fiscal deficit (PDO1) helped to leverage additional direct support from Norway and France through the PURSE MDTF. The four PDOs of DPG 13 reinforced previous DPG reforms and incorporated their lessons, including flexibility in reform design to increase the likelihood of strong government ownership in a highly volatile and political context. The programmatic nature of DPG 13's reforms in the areas of public procurement, digital transformation and Anti-Money Laundering and Combatting the Financing of Terrorism (AML/CFT) in the financial sector and financial inclusion aimed to ensure government ownership because they were core part of the Palestinian Authority's reform priorities. Lessons from previous DPGs indicated that the effectiveness of individual reforms depended critically on ongoing commitment from the authorities at the highest levels.

DPG 13's reforms would support the implementation of the NDP 2021-2023: PDO1 (efficient management of public resources) and PDO2 (public procurement) would support NDP's second pillar. PDO3 (banking sector) and PDO4 (digital finance and financial inclusion of women) would contribute to the NDP's third pillar on improving the business environment and supporting gender equality and women's empowerment.

Seven months after approval of DPG 13 in October 2023, the Middle East conflict erupted, undermining program implementation. By the end of 2024, the Palestinian economy contracted by 28 percent marked by



the widespread loss of lives, destruction of infrastructure and an estimated 88 percent of private sector establishments in Gaza.

Alignment with World Bank Group's strategies and programs: DPG 13 was aligned with the WBG Corporate Goals and Strategies, WBG's Assistance Strategy for the West Bank and Gaza (FY22-25), the Fragility, Conflict and Violence (FCV) strategy, the Middle East and North Africa (MENA) Strategy on renewing the social contract, and the Global Crisis Response Framework (GCRF). DPG 13's fiscal reforms supported the Strengthening Resilience goal of the GCRF; the public procurement and use of e-money reforms supported the Strengthening Policies, Institutions and Investments for Rebuilding Better pillars of the GCRF; and the AML/CFT and financial inclusion for women reforms contributed to the Protecting People and Preserving Jobs pillars of the GCRF. Some of the DPG 13 reforms were also supported by WBG's Public Financial Management Improvement Project Phase 2 (P177742) 2022-2027 and comprised one of the stages of the procurement reform's institutional strengthening process to transform the procurement system from its administrative and compliance role to a strategic government function with qualified personnel.

Coordination with development partners: DPG 13 was designed in close collaboration with the IMF. Although the West Bank and Gaza was not a member of the IMF, since the Oslo Accords, IMF staff provided policy advice and technical assistance (TA) for economic reforms and institutional strengthening. The DPG 13 reforms also incorporated feedback from other development partners and aligned with the European Union's (EU) Results-Oriented Framework (ROF) for conditional budget support. The United Kingdom's Foreign, Commonwealth and Development Office (FCDO) was also consulted.

b. Relevance of Prior Actions

Rationale

The outcome of improving the structural fiscal balance (PDO1) would be achieved through a results chain comprised of policy reforms that sought to increase revenues by curbing tax evasion (PA1) and curtail government spending (PA2). Enhancing the efficiency of the public procurement system by strengthening the transparency of the related institutions would be achieved under PDO2. The integrity of the financial sector would be strengthened (PDO3) through reforms that would revamp the AML/CFT legal framework and align it with international best practices (PA4). PDO4 supported digital transformation by enacting a national payments law regulating the use of e-money to boost public confidence in electronic transactions (PA5), and foster financial inclusion of women by adopting a single definition for female-owned enterprises that would apply universally to all financial institutions and making it mandatory for the latter to disclose financing extended to female-owned businesses (PA6). Although PA6 was a relevant reform, it was neither aligned with the PDO of digital transformation nor reforms targeting the integrity of the banking sector.

PA1 sought to contribute to PDO1 by increasing tax revenues which was a long-standing effort with limited traction thus far. The PA aimed at reducing VAT evasion as one of the most critical reforms to reduce the fiscal deficit. It was part of the MoF's revenue strategy (2022-2025) and the taxation support from development partners to curb tax evasion. It built on DPG 7 (2016-17) (the DPO from about 6 years earlier) reforms that amended the tax law and unified the collection departments for VAT and income taxes, and DPG 9 (2019-20) (the DPO from about 4 years earlier) reforms that connected existing management information systems to improve tax collection and operational efficiency. It mandated businesses to use an online portal to submit their monthly VAT invoices for purchases and sales. As next step, this would facilitate the implementation of electronic cross-checking by the PA's revenue directorate (MoF), but this was not part of PA1 or DPG 13. The



cross-checking could in turn deter tax evasion and support the increase of VAT revenue collection in the medium term, however, depending on other basic conditions for economic activity that primarily impact VAT revenue collection. If this could advance the objective of an improved structural fiscal balance in the longer term (PDO1), would also depend on other critical factors (such as other non-VAT revenues and expenditure trends). The long and tentative results chain of the PA to the PDO—in the context of a fragile and conflict-prone environment—led to the low relevance assessment of this PA. **Relevance of PA1: Moderately Unsatisfactory (MU).**

PA2 supported PDO1 through two measures that aimed to slow the growth of the public sector wage bill. The first measure (PA2a) focused on reducing the public sector work force and halt the tendency over previous years of positive net hirings by setting an attrition target for net public employment whereby annual civil and security personnel appointments would not exceed 50 percent of the retirement-related and other kinds of departures during the same year. PA2a was aligned with the findings of the World Bank's Wage Bill Diagnostic (2022), which acknowledges that although the size of the public sector in West Bank and Gaza was slightly below the global average, it stressed that the size of the public sector needed to align with fiscal affordability, and areas of surpluses and shortages and skill gaps needed to be identified. PA2b aimed at addressing this recommendation, by requesting all government agencies to identify employee surpluses and needs, as well as skill gaps. This measure aimed at implementing reallocations within the public sectors and to improve the quality of public services over time, via the provision of targeted training. In the long term, these reforms could potentially contribute to reducing waste and streamline expenditures in the public sector wage bill. PA2a was considered a first step to halt a growing public sector wage bill owing to a rapidly increasing public sector labor force. This PA was treated as a short-term action as an effective and quality public service delivery would eventually require an increase in the Palestinian Authority's staffing levels, especially given the high population growth in the Palestinian territories. Hence, this reform was expected to be supported by additional reforms (PD, p. 19). However, PA2b was a weak complementary reform to attain PDO1. First, it does not address the main source of public sector wage growth, which have been allowances (Wage Bill and Employment Diagnostic, 2022, page 1). Second, the link of PA2b to PDO1 of improving the structural balance is not clear as redeployments within the public sector and training would not necessarily lead to reductions in the public sector wage bill. Overall, the line of sight from PA2 to PDO1 was very long and highly tentative and would depend on a comprehensive set of public sector employment reforms that linked the assessment to training/retraining requirements, hiring, attrition rules etc. These actual reforms were not addressed by DPG 13 or previous DPGs and thus reduce the relevance of PA2 to achieve PDO1. **Relevance of PA2: Unsatisfactory (U).**

PA3 sought to professionalize the procurement staff through the Cabinet-approved Procurement Capacity Building and Professionalization Strategy (2022) via two channels—a permanent procurement training program and the establishment of an independent certification mechanism for procurement staff. Over time, this would improve the professional quality of procurement staff and could in the longer term boost the effectiveness of public procurement (PDO2). Inefficiencies due to lack of competence were identified as one of the main causes of waste in government spending. It built on a decade of reforms pursued across five previous DPGs that covered the establishment of the Higher Council for Public Procurement Policies (HCPPP) (DPG 5 - 2013-14) – the DPO from about 8 years prior), the adoption of the public procurement law (DPG 6 - 2014-15)– the DPO from about 7 years prior), use of a single procurement portal and Standard Bidding Documents (DPG 10 -2020-21) – the DPO from about 3 years prior), institution of a Dispute Resolution Unit (DRU) (DPG11 – 2021-22) – the DPO from about 2 years prior), and the establishment of an end-to-end electronic Government Procurement (e-GP) system automating procurement processes (DPG 12 – 2022-23) – the previous DPO). At appraisal, most of the procurement related reforms were on track. The DRU (DPG 11) was fully operational (PD, para 50). The ICR reports that the HCPPP (DPG 5) was operating in 2024 and 2025 (ICR, para 54). However, the establishment of an end-to-end electronic Government Procurement (e-GP) system scheduled under DPG 12



was disrupted due to the outbreak of the Middle East conflict centered in Gaza (PD, para 50). PA3 contained the approval of a strategy, but the nature of its implementation activities was unclear. Also, while training and certification were necessary steps towards the professionalization of staff, the line of sight from PA3 to their impact on the effectiveness of the procurement process (PDO2) would become evident only in the longer term, lowering the relevance of PA3. **Relevance of PA3: Moderately Satisfactory (MS).**

PA4 sought to support strengthening financial integrity (PDO3) with the enactment of a new AML/CFT law and related instructions that comprised a key milestone for institutionalizing the AML/CFT strategy for beneficial ownership. This was an important policy measure for combating corruption through greater scrutiny of legal structures potentially used to conceal proceeds of corruption (PD p.6). The WBG provided technical assistance (TA) for AML/CFT over the years and partnered with the local authorities who conducted their own AML/CFT assessment of key risks every five years. With help from an IMF-provided TA, the Palestinian Authority enacted a new AML/CFT law in 2022 (No. 39/2022). PA4 built on DPG 10 (2020-21) that supported reforms related to AML/CFT. The PA also marked the implementation of the AML/CFT Financial Action Task Force (FATF) for the West Bank and Gaza's membership in the MENA-FATF and upgraded and modernized the Palestinian AML/CFT legal framework to align with international best practices, thus improving transparency. By enhancing the Palestinian Authority's technical ability to scrutinize and monitor cross-border financial flows, PA4 reforms played a critical role in volatile cross-border correspondent banking relationships, ensuring the stability of remittance flows, supporting connectivity with the primary trading corridor for the Palestinian private sector, and enhancing accountability in the financial sector. **Relevance of PA4: Highly Satisfactory (HS)**

PA5 supported PDO4 in several ways. It sought to strengthen financial integrity with the enactment of a National Payments Law regulating the use of e-money and strengthening the authority of the Palestine Monetary Authority (PMA) over business firms providing e-money services. It built on DPG 11 (2021-22) reforms (licensing and market entry of e-wallets) and sought to enhance public confidence in electronic transactions (ICR p. 11). In adopting the National Payments Law, PA5 advanced DPG 12's (2022-23) ongoing reforms for financial inclusion that promoted 'no frills' accounts for the unbanked. PA5 defined a broader range of allowable Digital Financial Services (DFS) to promote market development for digital finance by increasing the number of cashless transactions contributing to greater financial access and more efficient financial services (ICR p. 11). It aimed to close the regulatory gap between traditional financial services' providers and new non-bank entrants, potentially benefitting the vulnerable and financially excluded population segments (PD p.22). PA5's legal reforms also paved the way for more advanced payment solutions. **Relevance of PA5: Highly Satisfactory (HS).**

PA6 supported the PA's commitment to digital transformation (PDO4) and the financial inclusion of women entrepreneurs by supporting data infrastructure which enabled targeted gender outreach and evidence-based programming. The PMA adopted a single definition for women-owned businesses (WOB) that was applicable to all microfinance institutions (MFIs). The PA made it mandatory for the MFIs to disclose the number and size of financing provided to WOB on a regular basis. The supply-side data on access and use of financial services by WOB would be expected to inform the business model of the MFIs, encouraging them to increase the share of WOBs in their portfolios, thus promoting targeted gender outreach. The relevance of the PA is reduced by the absence of a clear line of sight between the objective of digital transformation and the financial inclusion of women entrepreneurs. **Relevance of PA6: Moderately Satisfactory (MS).**



Table 1: Objectives and Prior Actions (PAs): West Bank and Gaza - Development Policy Grant 13 (DPG 13)

<p>PDO1: To improve the structural fiscal balance</p> <p>PA1: To improve revenue mobilization and reduce tax evasion, the Recipient, through its revenue directorate at the Ministry of Finance, will strengthen cross checks on VAT invoices by mandating businesses to use an online portal to submit their monthly VAT invoices for purchases and sales to be reconciled with those submitted by other businesses, as evidenced by instructions by the Director General of revenues issued on October 30, 2022.</p>
<p>PA2: To renew the impetus on wage bill reform, the Recipient, through its cabinet, has: (1) adopted an attrition target for net public employment whereby yearly civil and security personnel appointments do not exceed 50 percent of retirement-related and other kinds of departures from the PA during the same year, as evidenced by Cabinet decision No. (18/181/01) dated November 14, 2022, and (2) requested all government agencies to assess their Human Resources (HR) needs and skills, on a yearly basis and submit a list to the Cabinet identifying employee surplus and shortages of skills, with the purposes of reallocating and/or training surplus employees, to enhance efficiency, as evidenced by Cabinet decision No. 18/178/19 dated October 10, 2022.</p>
<p>PDO2: To strengthen the effectiveness of public procurement</p> <p>PA3: To improve the professional quality of procurement staff in the Palestinian Authority, and enhance the effectiveness of public procurement, the Recipient, through its Cabinet, approved the “Procurement Capacity Building and Professionalization Strategy” which recognizes procurement as a distinct profession in civil service, institutes a permanent procurement training program and establishes an independent certification mechanism for procurement staff, as evidenced by cabinet decision No. (18/186/03) dated December 19, 2022.</p>
<p>PDO3: To strengthen the integrity of the financial sector</p> <p>PA4: To modernize the Anti-Money Laundering and Combating Financing of Terrorism legal framework, and to align it with international best practices, the Recipient, upon recommendation of the Council of Ministers on July 4, 2022, and through its President, enacted a new AML/CFT law No. 39 published in the official gazette No.193 on August 14, 2022, and AML/CFT instructions for financial institutions licensed to operate in the Palestinian territories, as evidenced by Instructions No. 2, issued by the National Committee for AML/CFT and published in the official gazette No. 192 of June 30, 2022.</p>
<p>PDO4: To pursue digital transformation</p> <p>PA5: The Recipient, through the Palestine Monetary Authority, further advanced the digital transformation agenda in the financial sector and enhanced public confidence in electronic transactions by enacting a national payments law regulating the use of e-money and strengthening the PMA’s authority over entities providing e-money services, as evidenced by presidential decree No. 41 dated August 8, 2022, published in the official gazette No. 193 on August 14, 2022.</p>
<p>PA6: To support women empowerment through financial inclusion, the Recipient, through the Palestine Monetary Authority, issued circular No.201/2022 dated September 6, 2022, adopting a single definition for female-owned enterprises applicable to all Microfinance Institutions, and</p>



introducing the obligation to disclose the number and size of financing provided to these businesses on a regular basis, in order to strengthen the role of MFIs in supporting women.

Rating

Moderately Satisfactory

4. Relevance of Results Indicators

Rationale

DPG 13 used a total of 6 Result Indicators (RIs), one to track each PA. The RIs of DPG 13 were marked by analytical underpinnings and, in some cases, support from ongoing IPFs. Table 2 presents the RIs, their relevance rating, the baseline, target values and actuals, and achievement ratings (ICR Table 2).

Table 2: Results Indicators (RIs) by Objective and PAs, baseline and target values, status and achievement.

Results indicator (RI)	Associated PAs	RI Relevance	Baseline	Target (2023)	Actual Value as of Target Date	Actual Change in RI Relative to Targeted Change	RI Achievement rating
PDO1: To improve the structural fiscal balance							
R1: Domestic VAT collections as a share of domestic tax revenues	PA1	S	37% (December 2022)	39% (December 2024)	43% (end-December 2024)	300%	High
RI2: Number of newly hired civil and security personnel on the PA's payroll as a share of total exits in	PA2	MS	221% (December 2022)	50% (December 2023)	Civil Sectors: 67% (overall) 49% (excluding short-term and daily)	Civil sectors: 90% (overall) 101% (excluding short-term and daily)	Civil sectors: Substantial (overall) [High] (excluding short-term and daily)



the same year					contract personnel) Security sector: 132%	contract personnel) Security sector: 52%	contract personnel) Security sector: Modest Overall: Modest
PDO2: To strengthen the effectiveness of public procurement							
RI3: Share of public procurement staff who completed the procurement certification program	PA3	A.	0% (December 2022)	80% (December 2024)	0% [Some progress was made: (i) the training modules for public procurement staff were almost complete; (ii) there was progress on assessment of HR needs and the GPC has adopted the 2021-2023 job requirement list for governmental institutions and prepared the rotation document for 2022/2023 that listed the turnover in staff between departments. (2024)	0%	Negligible
PDO3: To strengthen the integrity of the financial sector							



<p>RI4: PMA conducting on-site inspections of banks' AML/CFT internal controls, to ensure compliance with newly mandated procedures on collecting, verifying, and maintaining beneficial ownership information</p>	PA4	HS	<p>Onsite inspections controlling the collection, verification, and maintaining of beneficial account ownership information did not exist. (October 2022)</p>	<p>PMA conducted on-site inspections of licensed banks accounting for 85% of total bank assets, controlling compliance with new procedures on beneficial ownership information. (December 2024)</p>	<p>On-site inspections have covered a total of 10 out of 13 banks, collectively representing 90% of the total assets in the banking sector. (end December 2024)</p>	106%	High
PDO4: To pursue digital transformation							
<p>RI5: Number of cashless transactions</p>	PA5	HS	<p>1,965,238 (rounded off to 2 million) (June 2022)</p>	<p>Number of cashless transactions increasing by 150% (rounded off to 5 million) (December 2024)</p>	<p>The number of cashless transactions increased to 7,058,104 (rounded off to 7 million) (end December 2024)</p>	167%	High
<p>RI6: The number of women-owned businesses (WOB) accessing microfinance according to the new definition</p>	PA6	U	<p>Unmeasured (December 2022)</p>	<p>1500 WOB (December 2024)</p>	<p>PMA data suggests that 571 WOB accessed microfinance institutions (end-December 2024)</p>	38%	[Modest]

Note: RI achievement rating in brackets (e.g. [High]) reflects a downgrade in the calculation of the PDO level Efficacy rating due to low relevance (e.g. MS).

PDO1: To improve the structural fiscal balance



RI1 measured domestic VAT collections as a share of domestic tax revenues and was a clearly defined output indicator for tracking progress in PA1. The introduction of a new online portal where businesses are mandated to submit their domestic VAT invoices for verification sought to support a reduction in the fiscal deficit through increased revenues. RI1 was highly relevant as, *ceteris paribus*, a measure that increased revenues through collection efficiency was a critical channel for a sustainable reduction in the structural fiscal deficit in the longer term. However, the target appeared to be not ambitious. **Relevance of RI1: Satisfactory (S).**

RI2 measured the number of newly hired civil and security personnel on the PA's payroll as a share of total exits in the same year, helping to track progress in the wage bill reform to curb wage expenditures through attrition (PA2) to achieve PDO1. While it was a logical indicator for measuring progress in the wage bill in the short-term, it only partially measured the contribution of public sector employment to potential wage bill increases and to fiscal sustainability as wages were not part of the indicator. Moreover, the definition of the indicator did not specify whether the attrition target for the public sector included only permanent employees or all employees, i.e., permanent, short-term and employees on daily contracts. RI2 is rated Moderately Satisfactory because the lack of clarity in the definition could and did lead to conflicting results, resulting in ambiguity regarding achievement of the target. **Relevance of RI2: Moderately Satisfactory (MS).**

PDO2: To strengthen the effectiveness of public procurement

RI3 measured the share of public procurement staff who underwent training and completed the procurement certification program. It was a relevant output indicator for PA3 that sought to professionalize the public procurement staff and contribute to a more effective public procurement process (PDO1). RI3 is rated Moderately Satisfactory because its target was unrealistically high given that advancing public procurement reform is complex and lengthy. **Relevance of RI3: Moderately Satisfactory (MS).**

PDO3: To strengthen the integrity of the financial sector

RI4 measured the number of on-site inspections of banks' AML/CFT internal controls conducted by the Palestinian Monetary Authority (PMA) to ensure their compliance with the new AML/CFT Law passed (PA4) to establish beneficiary ownership transparency for account holders. RI4 was highly relevant in tracking PA4 as it tracked on-site inspections that verify and monitor banks' assets. The focus on bank assets rather than the number of individual banks inspected allowed for a more granular and comprehensive understanding of the structure of financial assets. The RI target was measurable as the PMA could conduct on-site inspections of licensed banks to cover 85 percent of total bank assets by DPG 13's closing in December 2024. An assessment of PMA performance on AML/CFT by US Treasury and HM Treasury in mid-2024 noted that PMA procedures were solid and strong. **Relevance of RI4: Highly Satisfactory (HS).**

PDO4: To pursue digital transformation

RI5 measured the number of cashless transactions and was highly relevant for tracking the impact of the National Payments Law on fostering digital transformation by promoting the population's acceptance and trust in cashless transactions (enacted under PA5). RI5 was measurable and tracked PA5's pursuit of digital transformation to move to a cashless society by covering E-Sadad (for electronic invoice payments), i-Buraq (for electronic fund wires), and direct debits. The PMA's monitoring of cashless transactions was also relevant for monitoring progress in AML/CFT, increasing acceptance of digital



payments by private companies and the public authorities, as well as promoting use of financial services by female entrepreneurs. **Relevance of RI5: Highly Satisfactory (HS).**

RI6 tracked the number of women-owned businesses (WOB) accessing microfinance in accordance with PA6's new definition of WOB designed to support female empowerment and financial inclusion. However, as it did not contribute to the digital transformation goal of PDO4, the relevance of RI6 is rated Unsatisfactory (U). Independently of PDO4, RI6 was a weak indicator as it did not measure the size of financing provided by MFIs to WOBs which PA6 covered. **Relevance of RI6: Unsatisfactory (U).**

Rating

Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

PDO1: To improve the structural fiscal balance

Rationale

RI1 which measured domestic VAT collections as a share of domestic tax revenues, exceeded its target by December 2024 by 300 percent from the baseline of 37 percent in December 2022 to 43 percent in 2024. This proved that the introduction of a new online portal for businesses to use for reporting VAT invoices under the PA1 reforms was an effective measure with potential for increasing VAT revenue collections and contributing to a reduction of the structural fiscal deficit in the longer term. **Achievement of RI1: High.**

RI2 which measured attrition (the share of newly hired civil and security personnel on the PA's payroll in total exits annually), was 221 percent in December 2022. By the end of 2023, its target of a 50 percent reduction was only partially achieved as the target was achieved for the civil sector, but not for the security sector. The economic deterioration and the decline in private sector activity forced the PA to continue playing the role of the employer of last resort, increasing the recruitment of security personnel, which was also in response to the deteriorating security situation and the outbreak of the Middle East conflict centered in Gaza (ICR, para 56). Data for December 2024 (target deadline) is unavailable. Additionally, verification of the achievement of RI2 is complicated by its unclear definition. While RI2's baseline and target are based on the total sum of public sector employment in the Civil and Security sectors, the ICR only reports actual achievements for individual sectors making comparisons tricky. If the same baseline and target are applied to both sectors, the ratio of hires to exits was 132 percent in the Security sectors in 2023 reflecting Modest achievement (52 percent of the target). This was reversed when the demand for security surged because of the conflict (ICR, para 37). The ICR does not clarify whether the Security sector data includes part-time and short-term personnel. In the Civil sectors in 2023, achievement was Substantial (90 percent of target) if part-time and short-term personnel were included but High (101 percent of target) if they were excluded. On average, RI2's achievement for the Civil sectors is High but downgraded to Substantial due to its low relevance rating. The combined achievement of the Civil and Security sectors is rated Modest. **Achievement of RI2: Modest.**



Rating

Moderately Satisfactory

OBJECTIVE 2

Objective

PDO2: To strengthen the effectiveness of public procurement.

Rationale

RI3, which measured the share of public procurement staff that completed the training and received certifications, missed the December 2024 target of 80 percent relative to the baseline of 0 percent in December 2022. Delays due to an initial lack of suitable vendors were compounded by the security situation because of the Middle East conflict and severely compromised achievement of RI3. The ICR notes persistent efforts to support the preparation for the training program during 2024. The Higher Council for Public Procurement Policies (HCPPP) signed a contract with the European Institute for Purchasing Management (EIPM) on July 31, 2024, to develop procurement training modules that were expected to be completed and begin training only in 2025 (ICR, para 40-41). **Achievement of RI3: Negligible.**

Rating

Highly Unsatisfactory

OBJECTIVE 3

Objective

PDO3: To strengthen the integrity of the financial sector

Rationale

RI4 measured the share of the total bank assets that were covered by the PMA on-site inspections of licensed banks to ensure their compliance with the new AML/CFT law. RI4's target was to cover 85 percent of total bank assets by DPG closing in December 2024. By this deadline, on-site inspections covered 10 out of 13 licensed banks, representing 90 percent of the total assets in the banking sector (106 percent of target). The PMA efforts to educate and raise awareness among the population of beneficiary ownership inspired confidence in the financial sector which was considered resilient despite the economic and security situation. **Achievement of RI4: High.**

Rating

Highly Satisfactory

OBJECTIVE 4

Objective

PDO4: To pursue digital transformation



Rationale

RI5 measured the increase in the number of cashless transactions with a target of 150 percent by December 2024 from a baseline of 1,965,238 in June 2022. RI5 exceeded its target by 166 percent. The passing of the National Payments Law fostered financial inclusion through awareness workshops for digital payments for women at local Saving and Lending Cooperatives. Follow-up discussion with World Bank staff on e-wallets, a component of cashless transactions, confirmed that these are monitored by gender with close to 31 percent of outstanding e-wallets held by women. **Achievement of RI5: High.**

RI6 measured the number of WOB with access to microfinance, with a target of 1,500 WOBs by December 2024. As of December 2024, only 38 percent of the target was achieved. The PMA reported that progress on this indicator was severely affected by the outbreak of the conflict and intervened to postpone/reschedule loan installments due to reduced economic activity. Declining active clients suggested that MFIs were reaching fewer marginalized groups, including women. Indeed, the number of WOB accessing microfinance fell from 1,120 applicants (75 percent of the target) in May 2023, prior to the outbreak of the conflict, to 571 in December 2024 after the conflict had started in October 2023. Due to its Unsatisfactory (U) achievement rating, the **Achievement of RI6 is rated Negligible.**

Rating

Moderately Unsatisfactory

Overall Achievement of Objectives (Efficacy)

Rationale

The efficacy of the operation is Moderately Satisfactory (MS). The efficacy of DPG 13 was profoundly affected by the outbreak of the Middle East conflict centered in Gaza within seven months of effectiveness. Consequently, while data on the achievement of some RIs (wage bill) was available only for December 2023 (shortly after the start of the conflict), data for other activities was delayed and/or confined to the West Bank (procurement training) due to the disruption in Gaza. The achievements across objectives were uneven. The efficacy ratings vary from Highly Satisfactory (HS) for PDO3 to Highly Unsatisfactory (HU) for PDO2 with PDO1 being rated Moderately Satisfactory (MS) and PDO4 being rated Moderately Unsatisfactory (MU). The operation made strong progress in promoting financial integrity through new AML/CFT reforms (PDO3) and the pursuit of digital transformation. Progress was also good in increasing revenues through new VAT reforms. However, the DPO did not make much progress in reducing the structural fiscal deficit through expenditure reduction. The reforms targeting the professionalization of the public procurement staff had a delayed start and an unrealistic target that compromised achievement (PDO2). Progress in improving the financial inclusion of women entrepreneurs was modest.

Overall Efficacy Rating

Moderately Satisfactory



6. Outcome

Rationale

The outcome rating for DPG 13 is Moderately Satisfactory (MS) given the Moderately Satisfactory (MS) rating for the relevance of PAs and Moderately Satisfactory (MS) rating for overall efficacy.

a. Rating

Moderately Satisfactory

7. Risk to Development Outcome

The risks to the development outcomes of DPG 13 were rated high at appraisal.

While the WBG team attempted to mitigate the risks associated with weak government institutions, capacity and paucity of resources through TA, capacity building and support from related ongoing WBG projects, the external conditions deteriorated due to the Middle East conflict centered in Gaza after seven months of the operation's effectiveness as the risks to fragility and conflict materialized. With the subsequent physical destruction due to the conflict, and the worsening fiscal crisis and deteriorating economic situation across the Palestinian territories, potential reform gains made by DPG 13 and prior operations in Gaza (and to a lesser extent, the West Bank) were either fully compromised or their sustainability is seriously threatened.

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

Like the previous 12 DPOs, this operation (DPG 13) was technically designed as a standalone operation supporting the WBG and the Palestinian Authority's strategic priorities in the West Bank and Gaza in early 2023. However, the FCV conditions of the Palestinian territories posed additional difficulties for the design of both longer-term programs and individual DPOs and were not adequately considered in the design.

The WBG team aligned DPG 13's reform agenda with the Palestinian Authority's National Development Strategy reform priorities. DPG 13's reforms incorporated lessons from previous DPGs. An important lesson learned from previous DPGs was that for individual reforms to take hold, ongoing commitment from the authorities at the highest level was critical. Accordingly, the public sector wage bill reform in DPG 13 was agreed with the MoF and the Prime Minister's Office. Project preparation was grounded in analytic work that also informed ongoing WBG projects which supported DPG 13's reform areas, for example, the Modernizing Public Procurement in the Palestinian Authority (P169263, 2023) which informed the ongoing Public Financial Management Improvement-Phase 2 Project (P177742); and the Public Sector Wage Bill



and Employment Diagnostic (2022). The WBG provided TA to support key reform areas for years across several DPOs. Examples include the WBG TA support for the AML/CFT reform agenda since the PA's first National Risk Assessment. The WBG team worked with the local authorities, who carried out their own AML/CFT assessment of key risks every five years.

Project preparation benefited from ongoing dialogue and close engagement with the development partner community. The PURSE Trust Fund (later restructured and renamed as the Palestinian Fund for Reconstruction and Development (PFRD)) supported coordination with donors and provided significant budget support for the PA's policy agenda. Collaborative effort directly leveraged financial support from Norway and France through the Bank-administered PURSE. For example, the procurement reform agenda was complemented by the EU's Public Financial Management Improvement (PFMI) MDTF and the UK's FCDO supported the new VAT law and MoF's digital transformation efforts.

However, there were significant shortcomings in the design of the operation, especially given its short time frame and FCV conditions. Several supported reforms depended on very long and tentative results chains (for example PA2 and PA3), which proved to be unrealistic given the fragile conditions.

The self-standing DPO had four broad PDOs but mostly only one PA and one RI related to each PDO, which resulted in output- or process-related RI. This made it difficult to assess progress towards the PDOs.

Risks to implementation and to achieving objectives should have been considered more frankly, especially given the short time frame of the self-standing DPO. Some outcome measures should have been incorporated which relate to continuous reforms pursued by the previous 12 and the current DPG 13, thus moving beyond the output focus and help identifying key risk related to reform ownership or other factors.

There were several weaknesses in the design:

- Follow-up interviews with the authorities suggest that the RI3 target of 80 percent for procurement staff training and certification needed to operate the modernized system and complete staff professionalization was unrealistic. It did not consider adequately the complexity of the reform process, and compromised achievement. Vendor selection to develop training materials was severely delayed by the outbreak of the conflict, dire security situation and restrictions on movement. Upfront selection of the vendor at project approval may have helped achievement.
- RI2 which tracked progress in the public sector employment reforms could have been defined with greater clarity to enable monitoring of reform implementation and strengthen the results chain for this indicator. The selection of a single baseline and target that did not differentiate between the Civil Service and Security sectors and included part-time and short-term personnel prevented a comparison with actual achievement data that was differentiated by sector and disaggregated.

Rating

Moderately Satisfactory

b. Bank Performance – Implementation

Rationale



Supervision of DPG 13 was continuous and the WBG prepared quarterly reports on the progress of the RIs based on the reports submitted by the Palestinian Authority to the resident mission as well as information sourced from the relevant ministries.

However, the short time frame of the self-standing DPO made it difficult to adequately address risks which materialized during the implementation period. The implementation of DPG 13 was severely affected by the conflict through the heightened security situation and increased restrictions on movement. For example, this directly impacted the public procurement reform activities and RI3 which tracked progress in the reform (PA3). It was extremely challenging to hire a vendor to develop the training modules, and conduct training given the restrictions on movement and the increased number of checkpoints throughout the West Bank. Moreover, due to the conflict and the worsening fiscal crisis and deteriorating economic situation, many reforms were not achieved as expected and since, potential reform gains made by DPG 13 and prior operations in Gaza were either fully compromised or proved unsustainable.

Rating

Moderately Satisfactory

c. Overall Bank Performance

Rationale

With the ratings for Bank Performance and Implementation being Moderately Satisfactory (MS), **overall Bank Performance rating is also Moderately Satisfactory (MS).**

Overall Bank Performance Rating

Moderately Satisfactory

9. Other Impacts

a. Social and Poverty

The overall social and poverty impact of DPG 13 was expected to be positive or neutral.

Under PDO4, financial sector reforms to expand digital financial services (PA5), and data on women-owned-businesses (PA6) were expected to positively impact poverty and social outcomes by increasing female entrepreneurship. However, the ongoing conflict severely impacted progress in female entrepreneurship, worsened poverty rates, and adversely impacted the number of female entrepreneurs accessing microfinance.

b. Environmental



The environmental impacts of DPG 13 were considered neutral.

c. Gender

The digital financial services reforms (PA5) enabled female entrepreneurs to send and receive payments, save, and get credit. Awareness workshops for digital payments targeted at women were run by the local Savings and Lending Cooperatives and close to one third of the outstanding e-wallets were held by women by the end of 2023. The single definition of WOB under PA6 could help the PMA and MFIs to better target and reach WOBs through policies, programs and financial services. However, the ongoing conflict adversely impacted the number of female entrepreneurs accessing microfinance.

d. Other

10. Quality of ICR

Rationale

The ICR for DPG 13 provided a substantive discussion of the impact of the Middle East conflict on the achievement of objectives, as well as a candid discussion of PAs and RIs which the WBG could have designed better to improve results on the ground despite the FCV context. The ICR provides extensive references to lessons and insights provided by previous DPOs and offers a convincing theory of change discussion to explain the rationale underlying DPG 13's reform agenda and objectives.

a. Rating

High

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Moderately Satisfactory	Moderately Satisfactory	
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	
Relevance of Results Indicators	---	Satisfactory	



Quality of ICR	---	High
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12. Lessons

IEG accepts the three lessons provided by the ICR and reiterates one of its lessons from DPG 12 given the lesson's continued relevance for DPG 13.

The use of standalone DPOs as an instrument to advance policy and institutional reforms in FCV settings, particularly where implementation capacity and institutional risks are high, needs to be carefully managed and supported by a clear multi-year vision, strategic policy, and institutional reforms, along with complementary implementation support. While cognizant of the funding requirements that limited the scope to annual DPGs and the low capacity and institutional constraints in an FCV environment, the effective repeated nature of the process allows for a stronger engagement and planning of operations only if it occurs within a credible multi-year reform engagement. For example, DPG 13, the successor DPG 12, prematurely included the institution of an electronic procurement training and certification program as a PA while the e-GP system supported by DPG 12 had not yet been implemented (i.e. it might have been better sequenced for potential DPG 14, or if that did not materialize by technical assistance or project support). As a result, achievement of related results was compromised in both DPG 12 and DPG 13. This recognizes that the annual budget cycle may be too short for supporting some policy and institutional reform measures in low capacity FCV contexts, where greater attention to sequencing and institutional strengthening is needed to complement such instruments.

13. Project Performance Assessment Report (PPAR) Recommended?

No