Report Number: ICRR0024024

1. Project Data

Project ID	Project Name
P162850	GZ: PFM Improvement
Country	**Practice Area(Lead)**
West Bank and Gaza	Governance

L/C/TF Number(s)	Closing Date (Original)	Total Project Cost (USD)
TF-A6949,TF-A9433	30-Jun-2022	3,494,391.46
Bank Approval Date	**Closing Date (Actual)**	
01-Jun-2018	30-Jun-2023	

	IBRD/IDA (USD)	Grants (USD)
Original Commitment	3,500,000.00	3,500,000.00
Revised Commitment	3,500,000.00	3,500,000.00
Actual	3,494,391.46	3,494,391.46

Prepared by	Reviewed by	ICR Review Coordinator	Group
Habiburahman Sahibzada	Mees Daniel van der Werf	Donna Kaidou Jeffrey	IEGEC (Unit 1)

2. Project Objectives and Components

a. Objectives

The Project Development Objective (PDO), as per the Trust Fund Grant Agreement (TFGA), was to enhance the expenditure controls, financial accountability, and procurement management of the Palestinian Authority (PA) (TFGA p.5).

For the purpose of this review the PDO objectives are:

- PDO1: To enhance expenditure controls of the PA;
- PDO2: To enhance financial accountability of the PA, and;
- PDO3: To enhance procurement management of the PA.

b. Were the project objectives/key associated outcome targets revised during implementation?

No

c. Will a split evaluation be undertaken?

No

d. Components

The Public Financial Management Improvement Project (PFMIP) had four main components:

Component 1: Improving Budget Expenditure Management and Control *(Appraisal: US$1.07 million; Actual: US$1.29 million)*

This component aimed to address core weaknesses in expenditure management and control through four sub-components:

- *Subcomponent 1.1: Improving Budget Expenditure Management, Financial Control and Cash Planning:* This subcomponent aimed to design and implement a commitment control system (CCS), modernize financial controls, and operationalize annual cash planning. The activities included upgrading the existing pilot-based single commitment system to a proper CCS, operationalizing the annual cash planning held by the Accountant General at the Ministry of Finance and Planning (MoFP), setting up an ad hoc committee to determine quarterly budget allotments, and modernizing financial control in line with the new CCS and international standards.
- *Subcomponent 1.2: Establishing Medical E-Referrals System Linkages with CCS:* This sub-component aimed to develop an information exchange between the e-referral system at the Ministry of Health and the Integrated Financial Management Information System (IFMIS) at the MoFP to better manage health referral expenditures.
- *Subcomponent 1.3: Enhancing MoFP Management of Intergovernmental Fiscal Transfers:* The subcomponent aimed to build MoFP capacity to improve procedures, forecasts, and fiscal discipline related to intergovernmental transfers.
- *Subcomponent 1.4: Enhancing Wage Bill Establishment Control:* The subcomponent targeted developing tools to oversee the wage bill and link the human resource Information Technology (IT) system with the payroll system.

Component 2: Improving Financial Accountability of the Public Financial Management (PFM) System *(Appraisal: US$1.00 million, Actual: US$0.72 million)*

This component focused on addressing weaknesses in financial accountability through four subcomponents:

Subcomponent 2.1: Aligning Accounting/Reporting with International Standards: This subcomponent supported the implementation of cash-basis International Public Sector Accounting Standards (IPSAS) and

Government Finance Statistics (GFS)-aligned reporting. The main activities included issuing and implementing Accountant General's instruction in the area of mandatory cash IPSAS policies, preparation of financial statements and reports aligned with GFS standard.

- *Subcomponent 2.2: Improving Bank Reconciliation:* The subcomponent aimed to re-engineer processes and automate bank reconciliation.
- *Subcomponent 2.3: Reducing Backlog of Financial Statements:* The subcomponent aimed to reduce backlog, catch-up on delayed financial statements from 2013 onwards, and publish them.
- *Subcomponent 2.4: Enhancing State Audit and Administrative Control Bureau (SAACB) Capacity to Audit Bank Projects:* Piloted World Bank project audits by the state audit institution SAACB to build auditing capacity.

Component 3: Modernizing Public Procurement *(Appraisal: US$0.80 million, Actual: US$0.92 million)*

This component aimed to implement aspects of the 2014 procurement law reforms through:

- *Subcomponent 3.1: Institutional Strengthening of the High Council for Public Procurement Policies (HCPPP):* The sub-component supported the development of internal systems and procedures for the HCPPP Secretariat, building capacity of HCPPP staff, establishing an independent Dispute Review Unit (DRU), and developing and implementing a performance monitoring framework for the HCPPP.
- *Subcomponent 3.2: Development of Modern Procurement Tools:* supported the development and implementation of the Single Procurement Portal (SPP), developing framework agreements for procurement of common-use goods and services, and issuing sector-specific Standards Bidding Documents (SBDs).
- *Subcomponent 3.3: Capacity Building of the Procurement Workforce.* The sub-component supported the development and delivery of a sustainable training program to 300 procurement officials.

Component 4: Project Implementation Support and Management Costs *(Appraisal: US$0.63 million, Actual: US$0.56 million)*

This component financed the Project Management Unit's (PMU) functions in managing project implementation, coordination, monitoring and evaluation.

Restructuring:

Restructuring No.1: March 10, 2022. The project underwent a Level-2 restructuring to extend the closing date by one year from June 30, 2022, to June 30, 2023, to allow for the completion of the procurement of the Debt Management and Financial Analysis System (DMFAS), which was delayed due to lengthy contracting procedures with the United Nations Conference on Trade and Development (UNCTAD), (ICR, p11). The project objectives and outcome targets were not revised.

e. Comments on Project Cost, Financing, Borrower Contribution, and Dates

At appraisal, the Project's original cost was US$3.50 million from The Trust Fund for Gaza and West Bank (TFGWB) with co-financing from the Public Financial Management Improvement Project Multi Donor Trust Fund (PFMIP MDTF).

The actual disbursed at closing was US$3.49 million.

The allocations within components slightly deviated from appraised amount, however, it remained within the overall appraisal amount.

3. Relevance of Objectives

Rationale

At appraisal, economic growth had slowed, the economy was fragile, and large structural fiscal deficits persisted. GDP growth contracted from 5 percent in 2016 to 3.1 percent in 2017 and was estimated to be stagnant in per capita terms (PAD p. 7). Unemployment rates were high, averaging 27 percent, and as high as 44 percent in Gaza. The PA relied heavily on donor aid, which had been declining and monthly clearance revenues which were also volatile and unpredictable (PAD p. 7). While fiscal deficit had declined from 24.6 percent in 2008 to 7.7 percent in 2017, the PA continued to depend heavily on donor grants. A substantial financing gap persisted, which contributed to an accumulation of arrears to the private sector. The unpredictable nature of the flow of revenues collected on behalf of the PA by the Israeli authorities, and the decline of donor aid particularly from the GCC countries create additional constraints, (PAD p.19).This was further complicated by a complex monthly revenue clearance process and transfers of revenues collected monthly to the PA, known as the *monthly clearance revenues*. However, these transfers had been volatile and are subject to deductions for electricity and water supply arrears, plus a penalty for late payment, which complicated in-year cash management operations.

At appraisal, Public Financial Management (PFM) systems operated at satisfactorily basic levels, but reforms were fragmented. The PFM system was strained by the accumulation of arrears due to a large financing gap and limited ability to raise financing in an optimal manner, which manifested in weak budget execution (ICR p. 5). Constraints on the PFM system included: (a) accumulation of expenditure arrears due to weak cash commitment controls and unpredictable inflows with arrears to the private sector and across government levels (e.g., in health referrals) undermining service delivery and private sector confidence; (b) weak budget credibility and fiscal discipline due to factors like over-commitments, unrealistic revenue projections, and lack of alignment between procurement plans and available resources; (c) gaps in financial accountability, with a backlog of financial statements, lack of adherence to international accounting and reporting standards, and capacity constraints in external audit; (d) incomplete implementation of the 2014 procurement reforms, limiting competition, transparency, and efficiency in public procurement. These PFM challenges had cross-cutting impacts on government operations, service delivery and the private sector. They contributed to the accumulation of arrears, undermined strategic prioritization of resources, and eroded trust in public finances.

The World Bank Assistance Strategies (AS) further underscore the importance of strong PFM for the PA. The FY18-21 AS highlighted the need to strengthen public institutions for improved citizen-centered service delivery. It emphasized enhancing public resource management and fiscal stability as key prerequisites. The FY22-25 AS further reiterated PFM strengthening as critical for effective and accountable government operations and for creating an enabling environment for private sector development. This project sought to address several PFM reform priorities identified in the two AS, such as improving fiscal discipline through expenditure controls and cash management, enhancing the efficiency and effectiveness of public spending through modernizing PFM systems and processes, and strengthening accountability and transparency through timely financial reporting and auditing.

In this context, the project's objectives demonstrate high relevance by directly targeting the basic PFM bottlenecks:

- PDO1: *'Enhancing expenditure control*' aimed to partially address important causes of arrears and commitment controls, cash management and oversight of key spending areas.
- PDO2: '*Enhancing financial accountability of the PA*' aimed to clear the backlog of financial statements, align accounting and reporting with international standards, and strengthen external audit capacity.
- PDO3: *'Enhancing procurement management of the PA*' aimed to operationalize key aspects of the 2014 procurement law to improve competition, transparency, and efficiency in public procurement.

The objectives were highly relevant in addressing PFM constraints. The project took a phased approach focusing on basic reforms before addressing more ambitious objectives of building trust in public institutions through improvement in the fiscal environment, financial reporting, and procurement. It targeted a relevant set of issues in budget execution, accountability, and procurement that were critical to strengthening the PA and was appropriately pitched to the territory's capacity.

The project objectives were relevant to the sectoral and local context. They addressed binding PFM constraints that impacted fiscal stability, service delivery and private sector development - which were central priorities in WB's ASs of 2017-2021 and 2022-2025. The objectives were also well-calibrated to the PA's capacity and aligned with the PA's policy agenda and PFM strategy.

Rating

Substantial

4. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

To enhance expenditure controls of the PA

Rationale

Theory of Change (ToC): The project aimed to enhance expenditure controls by upgrading the CCS, improving cash planning, and modernizing financial controls. These outputs were expected to lead to better alignment of expenditure commitments with available resources and cash flows. This, in turn, was intended to result in enhanced overall expenditure control and "reduce the risk of further arrears", (ICR p. 35). . The ToC thus posited that strengthening key PFM systems and processes related to commitment recording, cash management, and financial controls would enable better fiscal discipline and expenditure management.

Key Outputs:

- CCS implemented in 13 line ministries, but for only one cost center (salaries)
- Financial control manual developed
- Cash management committee established; but cash planning procedures not fully operationalized
- Medical e-referral system linked with IFMIS
- Payroll and HR systems interconnected

Intermediate indicators and outcomes:

IRI1: A Commitment Control System (CCS) is established in line ministries: The CCS was expected to enable MoF to identify, report, and control commitments against allocations and outstanding commitments at the early incurrence stage of the expenditure. At project closure, the following had been achieved: i) development of the CCS module in consultation with key stakeholders, ii) introduction of system modifications to integrate CCS in IFMIS/Bisan, iii) development of a procedural manual for the CCS, and iv) establishment of a cash committee (2021) at MOF to help determine the quarterly budget allotments to ministries based on the new and outstanding commitments and cash forecasts, (ICR p. 14). By June 2023, the CCS had been rolled out in 13 ministries but only for operating expenditures, partially meeting the target, given it did not cover all types of costs. **Partially Achieved.**

IRI2: The role of the Financial Controllers (FC) is amended in line with the new proposed CCS and good international practices: Development of a financial control manual was completed. The manual documented the existing general legal framework for financial control, integrating the FC's procedures with IFMIS procedure-based support and streamlined the control modalities in line with the new international standards. Alignment of role of FC with the CCS and international best practices was successfully met, with a detailed manual and training provided but full adoption of the new control modalities remained largely incomplete at project closure (ICR p. 15). **Achieved.**

IRI3: The Payroll and HR systems (MoFP and GPC respectively) are interconnect: The project was expected to support MoF in developing an adequate back-office monitoring and control budgetary tool. While the payroll system was financed by the European Union, the technical specifications and design was supported by the Project, through financing of experts. Integration of the HR IT and the Payroll systems was expected to support the implementation of wage bill policies through the use of wage bill budgetary control procedures. At project closure however, the payroll system was not operationalized, but was still in the testing stage, and the back-office monitoring and control budgetary tools had not been implemented. **Not achieved.**

IRI4: E-Referrals (MoH) and IFMIS (MoFP) are interconnected for exchange of data: The project supported PA in integrating the MOH's service purchase module (E-Referral module) with IFMIS/Bisan to allow the exchange of data between the two systems to enhance the management of health e-referral expenditure (ICR p. 15). Service providers (hospitals), financial department at MoH, and service purchase department at MoH were electronically linked to the IFMIS/Bisan at MoF. The project financed hardware and software (including APIs) and targeted training for the MOH Special Purchasing Unit (SPU). Interconnectivity of the two systems facilitated monitoring, by the MoH of the trends of the health referral expenditure against the budget on a quarterly basis which would have been expected to contribute to more pro-active management of this activity. **Achieved.**

PDO Indicator and IRIs	Baseline	End Target	Actual at Closure 30 June -23	Status
PDO-1 Enhancing the expenditure controls.				
PDO indicator 1: Improved process for budget allotments established that increases predictability to line ministries based on cash forecasts	No institutionalized procedure of commitments control (CCS) and cash forecasts. Ad hoc Cash Committee has been established but will need to be strengthened for cash planning for quarterly allotments. (2017)	Quarterly budget allotments for 7 pilot line ministries are determined by a MoF and the ad hoc Committee taking into account budget affordability and cash availabilities (cash planning) in order to reduce the risk of arrears. (June 2022); Revised Target (June 2023).	The CCS was implemented in 13 ministries to establish a link between budget, expenditure, and cash availability, but it was not rolled out for all types of expenditures.	Partially Achieved
IRI 1: A Commitment Control System (CCS) is established in line ministries	No CCS in general, but a commitment recording piloted in 6 line ministries. (2017)	All line ministries implement a CCS with policy notes and manual of implementation that will serve as a guide for calibrating quarterly budget allotments of the ministries (June 2022); Revised Target (June 2023).	The CCS was rolled out in 13 line ministries but for only one cost center (salaries). A manual for implementation was developed.	Partially Achieved
IRI 2: The role of the Financial Controllers (FC) is amended in line with the new proposed CCS and good international practices	FC's function is ill-defined and not in line with (i) the new proposed CCS, and (ii) good international practices with more autonomy devolved to line ministries. (2017)	The FC's function is redefined in line with the new CCS and inspired by good international practices. Policy notes and manual of implementation of the FC are issued. (June 2022); Revised Target (June 2023).	Control modalities were redefined and documented in a new manual.	Achieved
IRI 3: The Payroll and HR systems (MoFP and GPC respectively) are interconnected	No interconnection between both systems at MoFP (Payroll) and GPC (HR system) so that shared information	Both systems are interconnected to allow exchange of data between MoFP and GPC and subsequently	The Payroll and HR systems (MoF and GPC) are interconnected, but the payroll system was not	Not Achieved

	is missing to develop a wage bill control procedure. (2017)	development of a wage bill control procedure. (June 2022); Revised Target (June 2023).	operational at project closure. The connection map was submitted by early 2023 but at project close, GPC had not yet shared its data.	
PDO indicator 2: Reduction in the gap between the budgeted and actual expenditure on referrals to less than 10 percent**.**	Gap is currently over a 100 percent. There is no forecasting and control of Referrals-related budget expenditures. (2017)	Gap between budgeted and actual expenditures is less than 10 percent. An ad-hoc Committee at the MoH conducts a quarterly review of referrals-related expenditure projections vs the available budget measured on commitment basis. (June 2022); Revised Target (June 2023).	The gap between the medical referral budget and actual expenditure for 2022 exceeded the 10% threshold, and the ad hoc committee was not established.	Not achieved
IRI 4: E-Referrals (MoH) and IFMIS (MoFP) are interconnected for exchange of data	No link between both IT systems and thus no meaningful analysis of referrals-related expenditure vs. commitments is possible. (2017)	E-Referrals (MoH) and IFMIS (MoFP) systems are interconnected enabling exchange of data for a better monitoring of the referral-related expenditure. (June 2022); Revised Target (June 2023).	The E-Referrals (MoH) and IFMIS (MoFP) are interconnected for exchange of data.	Achieved

Outcomes

PDO indicator 1: **Improved process for budget allotments established that increases predictability to line ministries based on cash forecasts:** Partial roll-out in 13 ministries out of 23, enabled the establishment of a link between budget, expenditure, and cash availability but the risk of arrears remained. While and an ad hoc committee was established, the meetings were irregular. **Partially Achieved**.

PDO indicator 2: Reduction in the gap between budgeted and actual expenditure on referrals to less than 10%: There was some variation between 2020 and 2021, as the budget fluctuated. In 2020, the gap was less than 10%, with a budget of 850 million shekels. In 2021, the budget was reduced to 700 million shekels, and the gap exceeded 10%. In 2022, the 10% threshold was also exceeded. By the end of the project, the ad hoc committee had not been established. **Not Achieved**.

Efficacy Rating: Objective 1 focusing on improving budget expenditure management and control, included two PDO indicators and four Intermediate Results Indicators (IRIs). The IRIs for PDO 1 suggest the project made partial progress, with the CCS, financial control manual, and IFMIS-referral system link as key achievements. IRI2 and IRI4 were achieved and IRI1 was partially achieved. However, gaps remained in the coverage and functionality of these PFM tools. The volatile fiscal context also posed challenges beyond the project's direct control. PDO1 was partially achieved. **Modest**

Rating
Modest

OBJECTIVE 2

Objective
To enhance financial accountability of the PA

Rationale
Theory of Change: The project sought to enhance financial accountability through a range of interventions: (a) aligning accounting and reporting with international standards; (b) improving bank reconciliation; (c) clearing the backlog of financial statements; and (d) enhancing the capacity of the SAACB. These outputs were expected to lead to more timely, credible, and transparent financial information and enhanced overall financial accountability of the PA to key stakeholders.

Key Outputs:

- 2014 to 2021 financial statements cleared and published as per international standards
- Bank reconciliation automated through IFMIS and coverage expanded
- SAACB's capacity built to conduct audits of World Bank-financed projects
- Training provided to 217 staff on Public Sector Accounting Standards and financial reporting

Intermediate indicators and outcomes:

IRI5: MOFP publicly disseminates audited financial statements and holds an event to engage the public: The project supported issuing all audited financial statements outstanding since 2014. To achieve this, the project assisted the MoF in overcoming several technical hurdles, including trial balance manual compilation, manual bank reconciliation, and consolidation of financial statements. The audited financial statements were disseminated through a public event for different stakeholders including CSOs, media, and academia. In addition to issuing the backlog of financial statements, the annual financial statements were published, providing access to financial information to the citizens interested in the performance of the PA. To institutionalize the process, the project established clear procedures for preparing the annual financial statements and ensured the knowledge was transferred to the MoF team (ICR p. 16). **Achieved.**

PDO Indicator and IRIs	**Baseline**	**End Target**	**Actual at Closure 30 June -23**	**Status**
PDO-2 Enhance financial accountability of the PA				

PDO Indicator 3: Public disclosure of audited financial statements takes place within two years of the end of reporting period	N (2017)	Y (June 2022); Revised Target: Y (June 2023)	Audited financial statements for 2021 were published in June 2023.	Achieved
IRI 5: MOFP publicly disseminates audited financial statements and holds an event to engage the public	N (2017)	Y (June 2022); Revised Target: (June 2023)	All outstanding audited financial statements up to 2021 are published on MoF website and an event was held for different stakeholders including CSOs, media, and academia.	Achieved

Outcomes:

PDO indicator 3: Public disclosure of audited financial statements takes place within two years of the end of reporting period: At project closure, all outstanding audited financial statements from 2014 until 2021 had been issued and published. In addition, the 2021 audited financial statements had been published by June 2023. **Achieved.**

Efficacy Rating: PDO2 was measured by one PDO indicator and one IRI, both achieved one year later than originally planned. The project made significant strides in improving financial accountability with the clearance and publication of financial statements. SAACB's enhanced capacity and the progress in bank reconciliation also contributed to the objective. **High**

Rating
High

OBJECTIVE 3

Objective
To enhance procurement management of the PA.

Rationale
Theory of Change: Under this PDO the project aimed to enhance the management of public procurement by strengthening the institutional capacity of the High Council for Public Procurement Policies (HCPPP), rolling out an e-procurement system, and building the capacity of the procurement workforce. These outputs were intended to lead to improved functionality, transparency, and capacity of the procurement system as an intermediate outcome. This, in turn, was expected to result in enhanced efficiency, transparency and compliance in public procurement as the final development outcome. The underlying theory of change was

that investing in the institutional structures, systems and human resources related to procurement would lead to a better-functioning and more accountable procurement regime.

Key Outputs:

- HCPPP's institutional and HR capacity significantly strengthened
- Procurement portal enhanced and rolled out to all central government entities and 100% of municipalities
- Standard bidding documents developed and adopted
- 419 staff trained on various procurement aspects
- Complaints review mechanism operationalized

Intermediate Indicators and Outcomes:

IRI6: A Dispute Review Unit (DRU) responsible for administrative review of appeals from aggrieved bidders, established in accordance with the Public Procurement Law (PPL): The project supported many activities related to the establishment and functioning of the DRU. The project supported the establishment of the DRU, and making the DRU operational, with a list of experts established by HCPPP and four permanent members appointed by the Cabinet. The DRU is responsible for reviewing appeals from aggrieved bidders concerning alleged non-compliance by procuring entities in conducting procurement proceedings. Hence, the project contributed to building the institutional capacity of the HCPPP by mobilizing local experts to work alongside HCPPP staff on operationalizing its key functions and providing targeted training and knowledge transfer to the HCPPP staff. Throughout the project, 17 appeals were received, resolved, and the decisions were published on the Single Procurement Portal (SPP). A 3-year communication strategy was also developed for HCPPP with an action plan to help promote general awareness of the innovations and benefits of the new procurement law, clarifying HCPPP mandates and responsibilities, and emphasizing the use of the single public procurement portal among the public procurement entities, the Palestinian private sector, and other stakeholders. **Achieved.**

PDO Indicator and IRIs	Baseline	End Target	Actual at Closure 30 June -23	Status
PDO - 3 Enhance procurement management of the PA				
PDO Indicator 4: Public procuring entities disclose their procurement plans, procurement notices and contract awards on the single portal procurement web	Zero (2017)	80% of procurement entities at the central level and 50% of municipalities post their procurement plans, procurement notices and contract awards on the single portal procurement website. (June 2022); Revised target (June 2023).	100% for both at the central and municipal levels.	Achieved
IRI 6: A Dispute Review Unit (DRU) responsible for	No DRU exists (2017)	Appeals from aggrieved bidders	17 appeals were received, solved, and	Achieved

administrative review of appeals from aggrieved bidders, established in accordance with the PPL		concerning alleged non-compliance by procuring entities in conducting procurement proceedings are reviewed by a robust DRU in accordance with the PPL, and decisions are publicly disclosed via the single procurement portal. (June 2022).; Revised target (June 2023).	decisions were published on SPP (2022).	

Outcomes

PDO indicator 4: Public procuring entities disclose their procurement plans, procurement notices, and contract awards on the single portal procurement web: At the end of the project, 100% of procuring entities at both the central and municipal levels were utilizing the SPP. **Achieved.**

Efficacy Rating: PDO3 was measured by one PDO indicator and one IRI, which were both achieved. The wide roll-out of the e-procurement system, development of HCPPP's capacity and complaints mechanism, and extensive training of the procurement cadre represent major progress. While comprehensive reports could not be generated from the SPP system due to incomplete data on procurement transactions, the annual reports to the Cabinet were prepared using a combination of system generated and manual reports (ICR, p47). Despite these shortcomings, , the project substantially achieved the key intended outcomes in this area. **High.**

Rating
High

OVERALL EFFICACY
Rationale
The overall efficacy is rated Substantial, considering the substantial relevance of the objectives and the substantial achievement of the majority of the PDO outcomes. Of the four PDO indicators, two achieved their targets (PDO indicators 3 and 4), one partially achieved (PDO indicator 1) and one was not achieved (PDO indicator 2). Of the seven IRIs, five were achieved (IRI6, IRI5, IRI4, IRI2), one was partially achieved (IRI1), and one was not achieved (IRI3). This performance at both the PDO and intermediate levels supports an overall efficacy rating of substantial, despite the shortcomings in a few specific indicators.

The project also supported debt management enhancements; a decision made after the MTR which also approved an extension of the closing date. The support included: (a) revising the debt law of 1966 and 2005 and (b) developing and installing a new debt management system. It was expected that establishing a proper debt management legal framework and IT solutions would improve expenditure control consistent with the PDO and would contribute to better debt management and expenditure control. In line with the project ambition, a Debt Management and Financial Analysis System (DMFAS), a debt management system, was procured. A revised law was finalized in 2022 and at project closure was awaiting endorsement of the President.

Overall Efficacy Rating

Substantial

5. Efficiency

The project achieved reasonable results within the budget in a challenging environment. It disbursed 99.8% of its total budget of $3.5 million, indicating high absorption and utilization of funds. Project management costs were reasonable at 16% of the total cost, within the original budget estimates. The project also achieved cost savings in some activities, such as rolling out the e-procurement system at a lower than budgeted cost. It leveraged existing IT systems, such as IFMIS, to achieve results efficiently.

A traditional economic analysis was not conducted at appraisal or closing due to the technical assistance nature of the project. The PAD argued that a cost-benefit analysis would not yield meaningful results for a project focused on institutional capacity building and PFM reforms (PAD, p. 21). The ICR noted that the project's benefits, such as improved fiscal discipline, enhanced transparency and accountability, and better value for money in public procurement, are largely intangible and difficult to quantify in monetary terms (ICR, p. 20). Nevertheless, the project's achievements in strengthening key PFM institutions and processes are expected to generate significant economic benefits over time through more efficient and accountable use of public resources.

While the project was completed within a reasonable timeframe and budget, the ICR lacked a robust economic analysis to demonstrate the project's impact on key issues such as arrears, MoF, and local governments financial position. The project does not provide a result indicator that effectively monitor progress on the outcome of expenditure arrears (expenditure arrears as percent of total budget). Secondly, one of the unintended outcomes of the project could be weakened local government service delivery capabilities given a tightened cash and expenditure controls by MoF. Neither the PAD nor ICR have assessed potential trade-offs and the unintended consequences of reforms in such a fragile setting.

The project faced some operational inefficiencies, particularly in the early years, as building consensus among stakeholders on key reforms such as the commitment control system took longer than expected. Coordination challenges among the multiple implementing agencies (MoF, SAACB, HCPPP) and other stakeholders sometimes led to implementation delays. While consensus building was a necessity, a more proactive approach to sensitizing government leadership to reforms could have helped reduce delays. The COVID-19 pandemic in the last year also caused some disruptions. However, the project leveraged several operational efficiencies that helped mitigate these challenges. The use of a centralized PMU in the MoF helped ensure coordinated implementation and monitoring of activities across components. The project leveraged existing World Bank-financed projects and structures, such as the Procurement Reform TA, to achieve synergies and avoid duplication. The capacity building and training of trainers approach helped ensure sustainability and continued benefits beyond the project lifetime.

Overall, the project achieved its results within the planned budget envelope, despite the challenging context. However, stronger economic analysis at appraisal and closing, even if qualitative in nature, would have helped provide a more robust evidence base for assessing efficiency.

Efficiency is rated Substantial based on the project's high budget utilization, reasonable administrative costs, cost savings realized, and satisfactory operational efficiency in a challenging environment.

Efficiency Rating

Substantial

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 ☐ Not Applicable
ICR Estimate		0	0 ☐ Not Applicable

* Refers to percent of total project cost for which ERR/FRR was calculated.

6. Outcome

The overall outcome rating for the project is assessed Satisfactory given a substantial rating for the three criteria, relevance, efficacy and efficiency, The project made notable achievements in key areas of PFM in a challenging and fragile context. The project's objectives were highly relevant given the focus on expenditure controls, financial accountability and procurement management which addressed key weaknesses in PFM systems. The project was completed within the planned budget despite a one-time extension. While the project made notable progress under PDO 2 and PDO 3, it fell short in realizing its core objective under PDO 1, representing a significant shortfall.

a. Outcome Rating

Satisfactory

7. Risk to Development Outcome

The risk to development outcome is significant given the fragile and volatile context in which the project was implemented. Political instability and governance challenges pose a substantial risk to the sustainability of the project's achievements. The West Bank and Gaza have a history of conflict, political tensions, and weak governance institutions, which could undermine the continued implementation and enforcement of the PFM reforms supported by this project. Changes in political priorities or leadership could lead to a reversal or weakening of the commitment to maintaining and building upon the project outcomes. At project appraisal, the overall governance risk and overall risk rating was considered challenging and substantial. Capacity constraints limited the PA's ability to undertake substantive reforms, (PAD p. 19). The high risk inherent to the political and governance situation was highlighted, with the proposal for close monitoring as a mitigation measure (PAD p. 19).

The fragile economic situation and fiscal constraints also present significant risks. The PA faces high budget deficits, high levels of public debt, and a heavy reliance on external aid. These financial pressures could hamper sustained investments in PFM systems, capacity building, and institutional strengthening that were supported by the project. If the PA is unable to maintain adequate resources and staffing for key PFM functions, the gains in expenditure control, financial reporting, and procurement management could be eroded over time.

The project's achievements in enhancing transparency and accountability of public finances could also be at risk if there is a lack of sustained political will and public demand for these reforms. In a context of political instability and competing priorities, there may be pressures to reduce transparency or bypass accountability mechanisms, which could undermine the long-term impact of the project.

The ICR discusses a proposed follow-up World Bank supported operation that could help sustain, and build on, some of the gains. This operation, Public Financial Management Improvement Project Phase 2 (P177742), was approved in 2022. Risk to the project's outcomes, however, remain high as the current conflict negatively impacts the PA's fiscal position. A May 2024 Economic Monitoring Report found that "the fiscal situation of the Palestinian Authority has dramatically worsened in the last three months, significantly raising the risk of a fiscal collapse," due to a "drastic reduction in clearance revenue transfers" and a "massive drop in economic activity." This is likely to impact the project's outcomes, especially under Objective 1, enhancing expenditure controls.

8. Assessment of Bank Performance

a. Quality-at-Entry

While the project was well-designed to achieve the PDO it did not address the root causes of the PA's weak PFM. The ICR identifies those as a large financing gap and an inability to optimally raise financing. The unpredictability ofclearance revenues exacerbate the challenge of applying a commitment control system and leads to delayed payments to contractors and the accumulation of arrears. This, in turn, results in a discretionary cash rationing process that lacks sufficient transparency and accountability and affects service delivery of key sectors, including health, education, and municipalities. While political economy constraints cannot be addressed by the WB operation, without their resolution, PFM challenges will remain, regardless of the success of the WB operation. Indeed, the 2017 PEFA assessed the commitment control as relatively high, yet the PA fell short of cash availability due to declining grants and volatility of the monthly clearance revenues. It is thus unlikely that the operation will have the intended 'long term impacts' identified in the theory of change to: "enhance private sector investments, job creation, and fiscal stability."

The World Bank's performance in ensuring quality at entry is rated Moderately Satisfactory. The project design incorporated lessons learned from previous PFM operations and technical assistance activities in the West Bank and Gaza. These include the need for a gradual and phased approach to PFM reforms, focusing on a few simple priorities, ensuring strong government ownership and leadership by establishing a PMU within the MoFP. The operation was well coordinated with key development partners including the International Monetary Fund and Department of International Development (UK), including for potential financing of complementary reforms/activities. Finally, the components and activities were generally well-structured to address the identified PFM weaknesses, and the results framework included measurable indicators to track progress toward the objectives.

However, there were several shortcomings in the responsiveness of the design to the local government challenges and potential unintended consequences, the realism of some objectives and targets, the articulation of the theory of change and assumptions, and the attention to institutional sustainability issues in the fragile context. While the Net Lending Portal, currently being piloted with one municipality, could help improve transparency in intergovernmental transfers, the potential unintended consequences of tightened cash management on local governments' ability to deliver services were not adequately considered. Due to further tightening of expenditure controls and growing need for revenues at the central level, local government may likely receive a reduced share of revenues. This could reduce resources for municipal provision of services such as education, health, and sanitation. Secondly, the project's TOC and assumptions about how the PFM reforms would contribute to the higher-level objectives of improving service delivery and promoting private investment in the fragile context are not well articulated. Finally, a more explicit consideration of the political economy factors and institutional constraints that could affect the achievement and sustainability of outcomes would have strengthened the project design. This includes a more proactive approach to sensitizing government leadership on the retention of capacity developed in the government.

Quality-at-Entry Rating

Moderately Satisfactory

b. Quality of supervision

The World Bank team provided regular and proactive implementation support to the PA throughout the project lifecycle. The team conducted periodic supervision missions, maintained close communication with the PMU, and provided timely technical advice and problem-solving support to address implementation challenges.

The World Bank team demonstrated flexibility and responsiveness in adapting to the changing circumstances and needs of the project. When implementation delays occurred due to political instability or institutional capacity constraints, the team worked closely with the PA to identify remedial actions and adjust the project activities and timelines as needed. The project team met PMU and relevant government officials on bi-weekly basis to address any emerging issues related to implementation. The team remained in West Bank to support the implementation and address any unforeseen disruptions. For example, the team showed flexibility during the COVID-19 crisis to support MoF's changing priorities to respond to pandemic.

Quality of Supervision Rating

Satisfactory

Overall Bank Performance Rating

Moderately Satisfactory

9. M&E Design, Implementation, & Utilization

a. M&E Design

The overall M&E design has sound elements with relevant and measurable PDO and intermediate results indicators. The overall PDO was clear and there was a mix of quantitative and qualitative indicators to track progress. However, the results framework was overly focused on establishing systems, procedures, and manuals, without sufficient indicators to assess whether these are actually being utilized and leading to the desired changes in PFM practices. There was a lack of indicators to measure the higher-level, longer-term impacts on expenditure control, financial accountability, and procurement efficiency. The results chain beyond the immediate outputs and short-term outcomes was not well articulated or measured.

The selected indicators covered the specific aspects of PFM performance, such as expenditure control, financial accountability, and procurement management. The M&E design could have been improved to measure the project's contribution to progress on higher-level objectives of improving fiscal stability, service delivery and trust in public institutions. For example, the M&E framework does not measure the in-year budget deviations or the buildup of new arrears during a fiscal year. Similarly, qualitative indicators to assess issues like citizen engagement, changes in behaviors/practices, and institutional capacity building are missing. For example, the PDO3 indicator focused on the percentage of procurement entities using the portal but did not assess the actual utilization of the portal for all procurement transactions. While this indicator was likely set based on what was deemed achievable given the project timeframe and resources available to the implementing agency (HCPPP), the ambition could have been set slightly higher.

b. M&E Implementation

The PMU within the MoFP collected, analyzed, and reported data on the project's indicators. The PMU regularly prepared progress reports, which were shared with the World Bank team and other stakeholders. The World Bank team provided regular implementation support and guidance on M&E, ensuring data quality and timely reporting reducing the need for more frequent and consistent official implementation support missions.

However, there were a few challenges in M&E implementation: a) The COVID-19 pandemic disrupted some data collection and monitoring activities; b) the focus was primarily on tracking outputs and immediate outcomes, with less attention to assessing longer-term impacts, sustainability, and utilization. For instance, the PDO2 and PDO3 indicators capture a significant aspect of transparency, however, they did not fully reflect the extent to which these reports were being utilized for comprehensive monitoring and accountability.

c. M&E Utilization

The PMU, World Bank team, and other stakeholders effectively used the M&E data and findings to inform project implementation and decision-making. The PMU used M&E data to monitor progress, identify bottlenecks, and take corrective actions. The World Bank team used M&E information to provide targeted implementation support and inform policy dialogue with the PA on PFM reforms.

M&E Quality Rating

Substantial

10. Other Issues

a. Safeguards

The ICR and project documents do not report any significant environmental or social issues during project implementation. The project was classified as Category C, indicating that no significant environmental or social impacts were anticipated. The project did not trigger any of the World Bank's safeguard policies, as it primarily focused on technical assistance, capacity building, and institutional strengthening activities related to public financial management.

b. Fiduciary Compliance

The ICR reports that the project's financial management arrangements were satisfactory throughout the implementation period. The PMU maintained adequate financial records, prepared timely financial reports, and ensured compliance with the World Bank's financial management policies and procedures. The project's financial statements were regularly audited by an independent auditor, and the audit reports were unqualified, indicating no significant issues or irregularities.

On the procurement side, the project followed the World Bank's procurement guidelines and the Palestinian Authority's procurement regulations. The ICR notes that procurement activities were carried out efficiently and transparently, with no major issues or delays reported. The PMU maintained adequate procurement records and ensured compliance with the agreed procurement plan.

c. Unintended impacts (Positive or Negative)

No positive or negative unintended impacts were documented.

d. Other

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11. Ratings

Ratings	ICR	IEG	Reason for Disagreements/Comment
Outcome	Satisfactory	Satisfactory	
Bank Performance	Satisfactory	Moderately Satisfactory	Links to higher level outcomes and lack of assessment of the unintended consequences of the project.
Quality of M&E	Substantial	Substantial	
Quality of ICR	---	Substantial	

12. Lessons

The ICRR concurs with the ICR's lessons and adds the following lessons:

1. **The need for a long-term and comprehensive approach to PFM reforms.** The project's focus on specific aspects of PFM, such as expenditure control, financial accountability, and procurement, was important and yielded positive results. However, the sustainability and impact of these reforms could be enhanced by adopting a more comprehensive and long-term approach that addresses the underlying institutional and governance challenges facing the PA. This could involve supporting broader public sector reforms, strengthening the role of oversight institutions, and promoting greater transparency and citizen engagement in PFM including of the local governments.
2. **The importance of monitoring and mitigating the unintended consequences of PFM reforms.** While the project's focus on strengthening expenditure controls and cash management was important for fiscal discipline, it may have had unintended consequences on the flexibility and responsiveness of the budget process, particularly of local governments and service delivery units. Future operations should carefully monitor and mitigate any unintended impacts of PFM reforms and ensure that they do not undermine other important objectives, such as service delivery and local governance.
3. **Sustained high-level government commitment is critical for successful PFM reform implementation, especially when facing resistance from vested interests.** The project experienced setbacks when a new political leadership intervened to stall the CCS implementation, suggesting the need for stronger political economy analysis and strategies to build durable commitment from key decision-makers. Relying solely on technical solutions is insufficient - projects should also focus on facilitating reform champions and managing resistance.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The ICR provides a comprehensive and well-structured assessment of the project's performance, covering the relevant aspects of the project's design, implementation, and outcomes. The ICR could have better documented the project's unintended impacts, both positive and negative, and provided more evidence to support the claims made about the project's broader effects on public trust, private sector competition, and public administration performance.

a. Quality of ICR Rating
Substantial