



# Program Information Document (PID)

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Appraisal Stage | Date Prepared/Updated: 26-Apr-2022 | Report No: PIDA33857



**BASIC INFORMATION**

**A. Basic Project Data**

Country	Project ID	Project Name	Parent Project ID (if any)
West Bank and Gaza	P177848	Supporting Transparency, Inclusiveness and the Green Economy (P177848)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
MIDDLE EAST AND NORTH AFRICA	07-Jun-2022	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Palestine Liberation Organization (for the benefit of the Palestinian Authority)	Ministry of Finance		

**Proposed Development Objective(s)**

The Development Objectives of the proposed operation are to: (i) improve public resource management and support inclusiveness, and (ii) strengthen governance in the water sector and accelerate the greening of the economy.

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	30.00
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**DETAILS**

<b>Total Non-World Bank Group Financing</b>	30.00
Trust Funds	30.00

**Decision**

The review did authorize the team to appraise and negotiate

**B. Introduction and Context**

**Country Context**

1. The proposed “Supporting Transparency, Inclusiveness, and the Green Economy Development Policy Grant” (DPG) is a standalone operation in the amount of US\$30 million designed to support the Palestinian Authority (PA) in achieving selected strategic priorities envisaged in the National Development Plan (NDP) 2021-2023. The proposed operation includes two pillars, namely to: (i) improve public resource management and support inclusiveness, and (ii) strengthen governance in the water sector and accelerate the greening of the economy. The operation is taking place at a time when the PA is dealing with heightened fiscal stress paying partial salaries to its employees and dealing with the COVID-19



pandemic. The proposed DPG provides some much-needed financing to relieve some of the fiscal stress and it will also directly leverage around US\$24 million from other donors through the Bank administered “Palestinian Umbrella for Resilience Support to the Economy” (PURSE) Multi-Donor Trust Fund. The operation underpins efforts that the PA has taken to build back better post COVID-19 in line with the World Bank’s (WB) Green, Resilient, and Inclusive Development (GRID) approach. To maintain a long-term perspective, the proposed DPG focuses on the continuum of reforms and builds upon efforts supported by previous operations, with both pillars serving the governance and transparency agenda.

2. The Palestinian territories have faced long lasting political instability and periodic episodes of violence over the last two decades, exacerbating macroeconomic volatility. Aid inflows have significantly dropped in recent years, making it more pressing to unlock growth constrained by a challenging business environment. The trade and movement restrictions have created a high risk of disruption in projects and trade and have kept investment levels low, resulting in a bias towards non-traded services which have less potential for productivity growth. The economy witnessed one of its largest contractions on record in 2020 (minus 11.3 percent in real terms) due to the pandemic, and even though economic activity has started its recovery in 2021, sources of growth going forward remain highly limited, especially as the low base effect post COVID-19 is expected to wane after 2022.

3. Poverty has been adversely affected by slow growth over the past few years and the pandemic during 2020. Data from the Palestinian Central Bureau of Statistics (PCBS) show that 22 percent of Palestinians lived below the US\$5.5 2011 PPP a day poverty line in 2016 – latest actual available data. This, however, masks a substantial divergence in trends between the West Bank and Gaza. The poverty rate in the West Bank declined from 15 to 8 percent between 2010 and 2016, while poverty in Gaza increased dramatically from 34 to 43 percent during the same period – almost leaving every second Gazan below the US\$5.5 a day poverty line.<sup>1</sup> Estimates based on GDP per capita growth suggest that in 2020 the poverty rate spiked to 29.7 percent, an increase of nearly 8 percentage points from 2016 (latest available official data). At the peak of the lockdown around 110,000 Palestinians entered poverty because of the pandemic. Their characteristics differ significantly from the population that was poor before the pandemic in that they are more concentrated in the West Bank, are in rural areas, are more likely to have tertiary education, and are more likely to be living in female-headed households. Also, there is a broad vulnerability to food insecurity, which was a feature of the pandemic, even in relatively better-off households in the West Bank. As the impact of the pandemic receded, the poverty rate is estimated to have declined to 27.3 percent in 2021. Current poverty rates represent a poor population of approximately 1.5 million people.

#### Relationship to CPF

4. This operation contributes to the implementation of the World Bank Group’s Assistance Strategy for the West Bank and Gaza (FY22-25). Procurement reform supported by pillar 1 of this DPG will enhance resource management and transparency in the public sector. This links to the first focus area of the Assistance Strategy, “Strengthening Institutions for Economic and Social Prosperity”, especially through objective 1.1 which aims at strengthening Institutions’ accountability and transparency. Reforms to enhance public procurement practice and increase transparency will promote stronger controls over spending and will eventually create the fiscal space needed for productive investments. The prior action focused on establishing Regional Water Utilities (RWU) to provide water services, replacing hundreds of Local Government Units, would eventually result in making the operations of service providers financially viable attracting private investment, contributing to objective 1.2 of the strategy aiming to support service providers to become financially sustainable. The prior action supporting the financial inclusion accounts is directly related to objective 2.1 under the second focus area of the strategy that aims to diversify financial products to benefit financial inclusion. Actions supported by the DPG on gender budgeting and the greening of the economy contribute to the Assistance Strategy’s cross cutting themes that include narrowing the gender gaps and maximizing climate resilience

<sup>1</sup> According to Atamanov and Palaniswamy (2018), *Measuring Poverty in West Bank and Gaza*, there is no statistical significance in the difference between poverty in female-headed and male-headed households (as per consumption-based index).



### **C. Proposed Development Objective(s)**

5. The Development Objectives of the proposed operation are to: (i) improve public resource management and support inclusiveness, and (ii) strengthen governance in the water sector and accelerate the greening of the economy.

#### Key Results

6. The main results expected from this operation and that are to be achieved by December 2023 are: 1) 8 high spending procuring entities targeted in phase 1 of electronic government procurement (e-GP) start executing procurement transactions through the electronic system, 2) 10,080 financial inclusion accounts are issued since the new regulations were published, 3) two key line ministries, MoSD and MoE, prepare gender responsive budgets informed by a gender impact appraisal, 4) Two Regional Water Utilities established, and 5) A Measurement, Reporting and Verification (MRV) software is customized according to the Palestinian context, housed at the Environment Quality Authority (EQA) and already fully functional and generating statistical summaries and analytics to track greenhouse gas emissions.

### **D. Project Description**

7. The first pillar of the operation focuses on improving public resource management and supporting inclusiveness. Under this pillar, the operation supports reforms to institute e-GP by automating all steps of the procurement process including planning, tendering, contract monitoring and eventually payment to increase the efficiency and transparency of the overall system. In addition, the first pillar supports efforts that the PA has adopted to enhance inclusiveness for the unbanked population through simplifying the requirements for financial inclusion accounts by canceling the proof of work and requiring zero fees. The last prior action under pillar 1 also supports the inclusiveness agenda by requesting line ministries to prepare gender responsive budgets.

8. The second pillar of the operation focuses on strengthening governance in the water sector and accelerating the greening of the economy. It ventures into an area that has not been previously covered by DPGs and which focuses on the green economy through amendments to the environment protection law to include articles related to climate change. The other prior action under this pillar supports reforms to enhance governance and service provision in the water sector by creating RWUs that will take on the role of water service provision from hundreds of Local Government Units, reducing fragmentation, improving governance and eventually achieving economies of scale in the sector. Both prior actions contribute to the resilience of the Palestinian territories.

### **E. Implementation**

#### Institutional and Implementation Arrangements

9. The design of the M&E approach adopted under this DPG builds upon practice from earlier operations. The proposed results framework was discussed and agreed to with the authorities and developed in consultation with other development partners. In line with previous operations, the results framework was designed to account for progress achieved under both the DPG and the implementation of the PURSE Trust Fund, which is another source for donor funding to the budget, aligned to the National Policy Agenda. Since both the DPG and the PURSE Trust Fund support the implementation of selected key objectives of the PA's strategy and aim to provide stable and predictable financial support to the PA's budget, complementarities in the results frameworks for both has provided additional leverage to reform implementation. The indicators used are direct measures of development objectives, the data is collected by the statistics agency, finance and line ministries, and the monetary authority, and enjoys full ownership of the authorities.

10. The monitoring arrangements have been institutionalized in the Palestinian MoF. Based on the inputs from line ministries and other agencies, the PA prepares quarterly reports on a regular basis to monitor the performance under both the DPG and the PURSE Trust Fund. The same arrangement is utilized to monitor progress against the PA's medium-



term program. The monitoring arrangements developed in the context of DPGs and the PURSE Trust Fund have not only been used for the purposes of those operations, but there is evidence that these arrangements have contributed to building stronger institutional arrangements for monitoring the PA's broader reform efforts.

## **F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects**

### Poverty and Social Impacts

11. The overall poverty and social impact of the prior actions supported by this operation is expected to be largely positive or neutral. Efforts under pillar 1 to improve public resource management through implementing e-GP aim to improve public financial management in the PA and thereby increase transparency and reliability of public accounts. Enhancing transparency while applying stronger controls over spending may increase the PA's fiscal buffers, which in turn would enable it to increase financing for social assistance programs. This would potentially have a positive impact on poverty. Prior action 2 supporting the operationalization of financial inclusion accounts under pillar 1 is expected to have a positive poverty and social impact. This reform is expected to improve financial inclusion for the vulnerable, unbanked segments, especially self-entrepreneurs and women. This is especially true as financial inclusion accounts often serve as a gateway to other financial services, which is why ensuring that the unbanked population in the Palestinian territories has access to this type of account is a key step towards broader financial inclusion. According to the literature, financial inclusion may alleviate poverty and inequality by facilitating the use of financial services such as loans, deposits, and the access to credit. The last prior action under pillar 1, supporting gender responsive budgets, is also expected to have a positive poverty and social impact in the long term. This type of budgeting, when implemented properly, may go beyond just laws and policies to focus on resources necessary for their implementation, and resulting in programs that respond to women's needs. This may have the potential to impact women's poverty and enhance their social inclusion. The poverty and social impact of reforms supported under pillar 2 is expected to be neutral or positive. The measure that improves governance and eventually service provision in the water sector is not expected to have negative poverty and social impacts. The reform aims at enhancing economies of scale and service provision and is not expected to result in increased costs for consumers. The last prior action focusing on the greening of the economy and climate change may have a positive social and poverty impact. Given that climate change affects everything from where a person can live to their access to health care, more people in the Palestinian territories could be plunged further into poverty as environmental conditions worsen, especially in Gaza. Therefore, actions supported by the operation that aim to enhance national capacity to adapt to the negative consequences of climate change and to minimize its effects may have a positive impact on poverty and, in particular, on vulnerable groups.

### Environmental, Forests, and Other Natural Resource Aspects

12. Reforms supported by this operation are likely to either have a neutral or positive environmental impact. Prior actions supported under pillar 1 that aim to improve resource management, transparency and support inclusiveness are not expected to have any negative environmental impacts. The prior action covered by pillar 2 that aims to improve governance and service provision in the water sector has a positive impact on the sustainability and quality of the water resources. Prior action 5 supporting the integration of climate change into the environmental law is a vital step towards adapting to adverse climate effects and mitigating greenhouse emissions to prevent interference with the climate system, and to avoid or mitigate damage. The amendment to the law sets forward the enabling environment to enforce climate adaptation and mitigation through institutionalizing the national climate committee and introducing relevant guidelines and standards needed to implement adaptation and mitigation actions set out in the Nationally Determined Contribution (NDC) plans submitted to the United Nations Framework Convention on Climate Change (UNFCCC).

## **G. Risks and Mitigation**

13. The overall risk of this operation is high. The political and security risks are heightened. In Israel, in June 2021 an Israeli coalition government was finally sworn in after four elections in the span of two years. The government, however,



continues to face internal challenges creating high political uncertainty. On the Palestinian front, the president has issued a decree in January 2021 setting the timeline for legislative and presidential elections but those were eventually cancelled, keeping the legislative council inactive for more than 15 years and undermining checks and balances. The recent months have seen sporadic clashes in the West Bank and the last conflict in Gaza took place in May 2021. Political instability and the long-lasting restrictions on movement, access, and trade continue to be major impediments to development. The volatility may affect the PA's ability to enhance resource management and if the situation escalates, the budget may be utilized to address emerging needs, which could derail efforts away from gender budgeting. In general, heightened political and governance risks may hamper the PA's reform appetite and thus the achievement of the PDO. As part of risk mitigation, political and security developments are monitored routinely by the World Bank Group to remain alert to any situation that may require adjustments to its operation. Despite the challenging context, the PA remains committed to the implementation of structural reforms --many of which are within the PA's control and less affected by external factors. The Bank's financing and technical assistance sends a critical signal to all development donors on the need to maintain assistance to Palestinians. Finally, ongoing dialogue and close engagement by the donor community at the overarching level as well as at the sector level is also key. These measures mitigate the risks to the achievement of the PDO. The macroeconomic risks are also high. Despite good growth in 2021 following a recession in 2020, economic activity in 2022 is expected to slow down as sources of growth remain limited. Fiscal demands remain very high as the PA has depleted its financial buffers to finance its deficit in 2021 relying on borrowing from domestic commercial banks and the accumulation of arrears. Also, given that donor support has been continuously declining in recent years, this could result in larger than expected financing gaps and a large drop in public consumption. Given the lack of options for additional financing, the PA may resort again to the accumulation of arrears to the pension fund and to the private sector which may result in liquidity shortages in the economy. Slower growth and mounting fiscal stress may distract the PA from reform implementation, especially reforms supported by the DPG that would have a less immediate fiscal impact including those focused on climate change, which may negatively impact the achievement of the PDO. The proposed DPG sends a strong signal to donors that the World Bank places great importance on progress in implementing the PA's development plan. Moreover, the operation will leverage additional resources through the PURSE Trust Fund, which the Bank administers. This will mitigate the risk of reduced donor assistance on the PA's finances. Business environment reforms supported by recent operations would encourage additional private investment and eventually lead to better economic outcomes. A simple design of this operation and strong PA ownership of the reform program supported by this DPG, which contributes to fiscal consolidation and reduced reliance on donor assistance over the medium term, are also mitigating factors for the risks to achievement of the PDO. The fiduciary risk is substantial. It has improved compared to what it was in previous operations when it was high due to the large backlog of financial statements and slow Public Financial Management (PFM) reforms. This has recently changed as the issuance of financial statements, while delayed, is slowly getting up to date. PFM reforms have also recently accelerated. That said, there is ample room for improvement in the PFM system particularly in areas such as budget execution and the recourse to arrears. The shortfalls in these areas may all stand in the way of the PA's ability to achieve results supported by the operation and the overall PDO. To help mitigate these risks, the Bank and other donors have been providing technical assistance to the MoF over recent years, aiming at strengthening the accountability of the PFM system.

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## CONTACT POINT

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**APPROVAL**

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**Approved By**

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