## 1. Project Data

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- Group
- IEGEC

## 2. Project Objectives and Policy Areas

**a. Objectives**

According to the Program Document (page 15), the program development objective of the West Bank and Gaza Strengthening Fiscal Resilience and Business Environment Development Policy Grant was "to strengthen revenue and land administration and the intergovernmental revenue framework, improve the business environment and foundations for a digital economy, and enhance sustainability and creditworthiness of local service providers."

For the purpose of this ICR Review, the program development objective is restated into the following three objectives:
Objective 1 - To strengthen revenue administration, the intergovernmental revenue framework, and land administration.
Objective 2 - To improve the business environment and lay the foundations for a digital economy.
Objective 3 - To enhance the sustainability and creditworthiness of local service providers of electricity, water, and medical services.

b. Pillars/Policy Areas
The operation had three pillars.

Pillar 1 - Strengthening Revenue Administration, the Intergovernmental Revenue Framework, and Land Administration aimed to improve tax collection by linking the management information systems for domestic and border taxation to create a single unified taxpayer base, improve the intergovernmental revenue framework by delegating the collection of property taxes and related penalties to local government units, and strengthen the oversight of land administration by amending the Palestinian Land Authority Law and constituting a governing board for the agency.

Pillar 2 - Improving the Business Environment and Laying the Foundations for a Digital Economy aimed to streamline the procedures for the issuance of municipal business licenses by amending the Law on Crafts and Industries of 1953, simplify the procedures for the purchase and registration of land by businesses by issuing a circular governing land purchase permits by the Council of Ministers, and promote the creation of new electronic payments systems that would support digital economic activity by having the Palestine Monetary Authority adopt regulations for licensing digital payments providers.

Pillar 3 - Enhancing the Sustainability and Creditworthiness of Local Service Providers for Electricity, Water, and Medical Services aimed to encourage payments by consumers of electricity bills by adopting procedures by which electricity providers can cut off services due to accumulated customer debt, improve the finances of the water sector by restructuring the debt on water bills owed by at least 90 local governments to the Ministry of Finance, and contain the explosive growth in health spending by facilitating the use of the National Reference Price tool in contracting for external medical services.

c. Comments on Program Cost, Financing, and Dates

**Program Cost.** The program was US$30 million at appraisal. According to the Program Document (page 4), the operation was expected to directly leverage other donor financing in the amount of approximately US$45 million through the Palestinian Reform and Development Plan (PRDP) Trust Fund.

**Program Financing.** The program was financed with a grant of US$30 million from the Trust Fund for Gaza and the West Bank, administered by the International Development Association, to the Palestinian Liberation Organization, for the benefit of the Palestinian Authority. The operation obtained an additional
grant of US$34.227 million from the PRDP Trust Fund, administered by the Bank. Both grants were fully disbursed.

**Dates.** The program was approved on February 7, 2019, became effective on February 22, 2019, and closed four months later than its original closing date on June 1, 2020.

### 3. Relevance of Objectives & Design

#### a. Relevance of Objectives

**Relevance to Country Development Constraints.** The program objective was relevant to development constraints faced by West Bank and Gaza related to fiscal revenues, the business environment, and utility and medical service providers. These development constraints are articulated in various economic and sector analytic reports written by the Bank (the Bank does not produce a Systematic Country Diagnostic on the West Bank and Gaza that would have unified these analyses).

- Highly reliant on "clearance revenues" collected by the Government of Israel and on budget support from international donors, West Bank and Gaza faced significant domestic revenue mobilization constraints: (a) it lacked a unified taxpayer database with the bifurcation of the revenue management information system between inland and border taxes; (b) the revenue and expenditure assignments for local governments were misaligned – with revenues at a low 5 percent of GDP, half derived from sales of electricity and utility services provided by Israeli companies, four-fifths of all local governments could provide only 12 of the 27 services mandated of them, according to the "Public Expenditure Review of the Palestinian Authority" (World Bank, 2016); and (c) property taxation was weak, principally because of poor land administration – there were no property valuations in 1994-2009, and when they resumed in 2009, the valuations used the dated "replacement value" rather than the modern "area assessment" methodology, according to the "Public Expenditure Review of the Palestinian Authority" (World Bank, 2016).

- A poor business environment posed serious obstacles to private sector activity: (a) municipal business licensing was burdensome – exacerbated by the territorial, political, and administrative divisions between West Bank and Gaza, problems with business licenses and permits were tagged as a major constraint to conducting business by 27 percent of all enterprises, according to the "West Bank and Gaza Investment Climate Assessment - Fragmentation and Uncertainty" (World Bank, 2014); (b) land purchases and land registration by businesses were cumbersome and detrimental to economic activity – as much as US$35 billion of collateral value was locked in unregistered land in a financial system where only registered land could be pledged as collateral for loans, according to the "The Socio-Economic Effects of Weak Land Registration and Administration System in the West Bank" (World Bank, 2018); and (c) the economy lacked digital payments service providers and instruments to enable digital economic activity – only 14 percent of the adult population made or received a digital payment in 2014, compared to the average 33 percent in the Middle East and North Africa region, according to the "Global Findex Database 2017" (World Bank, 2017).
• Providers of electricity, water, and medical services faced financial sustainability problems: (a) customers repeatedly failed to pay their electricity bills, accumulating debts with electricity service providers. The poor condition of the electricity network, the inability of technicians to fix engineering problems, and the dearth of payment platforms discouraged customers from paying their bills, according to the “Assessment and Action Plan to Improve Payment for Electricity Services in the Palestinian Territories” (World Bank, 2014); (b) municipal water providers failed to collect on water bills or otherwise diverted water bill collections to municipal budgets, accumulating debts with the Ministry of Finance and Planning – as a result, the Palestinian Authority had to shoulder the cost of bulk water supplied to municipal water departments in the amount of US$35 million annually, according to “Toward Water Security for Palestinians: West Bank and Gaza Water Supply, Sanitation and Hygiene Poverty Diagnostic” (World Bank, 2017); and (c) "outside medical referrals" had risen sharply in number and costs, rendering government health spending unsustainable.

Relevance to Government Priorities. The program objectives were aligned with the medium-term priorities expressed in West Bank and Gaza's National Policy Agenda 2017-2022 - Putting Citizen's First (NPA).

• The first program objective was aligned with the second NPA pillar, "Government Reform," which aimed to achieve effective and efficient financial management by "mobilizing revenue by expanding the tax base, enhancing tax collection, and rationalizing expenditures;" attain responsive local governments by "expanding LGU taxation, revenue-raising and resource management mandates;" and improve services to citizens by "establishing a comprehensive approach to land administration that optimizes land use, completes land registration, and efficiently manages state lands."
• The second objective was aligned with the third NPA pillar, "Sustainable Development," which aimed to improve the business environment and promote industry by "cutting red tape for business through smart regulation" and by "supporting and promoting the digital economy."
• The third program objective was aligned with the third NPA pillar, "Sustainable Development," which aimed to deliver better health care services by "ensuring the fiscally sustainability of the health care system."

Relevance to Bank Group Strategy. The program objectives were consistent with the Bank Group strategy in West Bank and Gaza as articulated in the Assistance Strategy for FY18-21 for the West Bank and Gaza (AS).

• The first program objective was consistent with the first AS pillar, "Setting the Conditions for Increased Private Sector Investments and Job Creation," which focused among others on "public financial management of the Palestinian Authority aimed at improving the confidence of the private sector for making investments in the West Bank and Gaza."
• The second program objective was consistent with the second AS pillar, "Private Sector Enhancement Facility to Realize Private Sector Investments," which focused among others on "business environment reform" as well as "financial sector reforms for increased access to finance and markets."
The third program objective was consistent with the third AS pillar, "Addressing the Needs of the Vulnerable and Strengthening Institutions for Improved Citizen-Centered Service Delivery," which focused among others on "basic service delivery, including water and sanitation."

The program objectives were aligned with those advanced by the Support for Fiscal Stability and Public Financial Management Development Policy Grants I-VII (P111078, P113621, P118593, P123437, P129742, P147687, P152257, and P156865), implemented from 2008 to 2016, and the Fiscal Stability and Business Environment Development Policy Grant (P161525), implemented from 2017 to 2019. Like this operation, these predecessor reform programs were supported by the PRDP Trust Fund, the mechanism administered by the Bank that channels budget support funds from multiple donors to implement the policy agenda of the Palestinian Authority.

The relation of the prior actions supported by this operation to the prior actions implemented under the predecessor reform programs are traced in Section 8.A.

### Rating

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#### b. Relevance of Design

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#### Rating

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4. Achievement of Objectives (Efficacy)

**Objective 1**
Objective
To strengthen revenue administration, the intergovernmental revenue framework, and land administration.

Rationale
- The achievement of R1 is rated negligible. Gross domestic tax revenues declined from NIS2,750 in 2017 to NIS2,524 in 2020, failing to meet the target of NIS2,982. According to the ICR (page 24), domestic tax revenues were negatively affected by spillover effects from the withholding by the Government of Israel for six months in 2019 and another six months in 2020 of transfers of "clearance revenues" – the value-added tax, excise taxes, and customs revenues collected by Israel for the Palestinian Authority under the terms of the 1994 Oslo Accords and the Protocol of Economic Relations. Moreover, more work is reportedly needed to fully integrate RMIS and ASCUYDA.
- The achievement of R2 is rated modest. Only two local governments piloted the collection of property taxes (Beit Jala and Assira al Shamaliyeh), two-thirds of the lower-end of the target (three) and one-fifth of the upper-end of the target (five). According to the ICR (pages 24-25), the fiscal crisis in 2019 and 2020 and the COVID-19 outbreak in 2020 delayed the start of the capacity building program that would have equipped the local governments with the skills for property tax collection. Poor relations between the central and local governments were also a factor.
- The achievement of R3 is rated negligible. According to the ICR (page 23), the result was "not achieved," although it is not clear what result was being measured (see Section 4). Although the prior action associated with R3 – the adoption of by the Prime Minister of Decision No. 17/229/18 referring the draft amendments to the Palestine Land Authority Law for approval by the President (PA3) – was completed, the draft amendments have not yet been signed by the President.

With most (two out of three) of the pillar results indicator targets rated negligible, and the remaining rated modest, the efficacy of this pillar is rated unsatisfactory.

Rating

Objective 2
Objective
To improve the business environment and lay the foundations for a digital economy.

Rationale
• The achievement of R4 is rated high. The average number of days to issue a business license was reduced from 36 to 6 days, exceeding the target of 10 days. Additionally, according to the ICR (page 25), the cost of obtaining a municipal business license was reduced from JD 120 to JD 25.

• The achievement of R5 is rated substantial. The average number of days to obtain a land purchase permit from the Council of Minister through the Land Authority was reduced from 30 days to 15 days, meeting the target.

• The achievement of R6 is rated substantial. The number of licensing applications for mobile systems providers that were reviewed by the regulatory authority under the new framework was five, meeting the target. Although the results indicator – the number of licensing applications reviewed – is rated moderately unsatisfactory, additional evidence indicates that the licensing applications were approved and all licensees were operational. According to the ICR (page 26), the Palestine Monetary Authority has since granted licenses to the five applicants – JawwalPay, PalPay, Middle East Payments Services, MalChat, and MadfooatCom. Moreover, all five mobile payment providers are fully operational and have issued 324,083 e-wallets so far, which are in use in the Palestinian territories. Hence, the objective to lay the foundations for a digital economy was achieved.

With most (all three) of the RI targets rated substantial or higher, and no RI target is negligible, the efficacy of this pillar is rated satisfactory.

Rating
Substantial

Objective 3
Objective
To enhance the sustainability and creditworthiness of local service providers for electricity, water, and health services

Rationale

• The achievement of R7 is rated substantial. The share of electricity purchases from wholesale suppliers that was paid by local governments rose from 86 percent in 2017 to 92 percent in 2020, two-thirds of the target increase to 95 percent. According to the ICR (page 26), the economic dislocation caused by COVID-19 negatively affected the ability of consumers to make timely payments for electricity bills.

• The achievement of R8 is rated substantial. The percentage of unpaid debts for water owed by local governments to the Ministry of Finance that was restructured rose from 0 percent in 2017 to 30 percent in 2020, exceeding the target of 15 percent. The restructured debt were owed by 93 local governments and amounted to new Israeli shekel (NIS) 380 million of the total NIS 1,277 owed.
The achievement of R9 is rated modest. The number of negotiations for contracting medical services that was completed by the Ministry of Health Service Purchasing Unit with domestic private healthcare providers using the NPR tool rose from zero in 2017 to five in 2020, exceeding the target of three. Additionally, according to the ICR (page ), the Ministry of Health has since implemented the NPR pricing covering 50 medical procedures with five local medical service providers – the Najah National University Hospital, Makassed, Augusta Victoria, St. John, and Al Ahli.

With the RI targets rated modest or higher, the efficacy of this pillar is rated **moderately satisfactory**.

Rating

5. Outcome

The relevance of prior actions is rated satisfactory. The prior actions unifying the taxpayer databases, delegating property tax collection to LGUs, and strengthening oversight over the land administration agencies would make moderate to major contributions to strengthening revenue administration, the intergovernmental revenue framework, and land administration and are rated moderately satisfactory to satisfactory. The prior actions simplifying municipal business licenses and land purchase permits and setting the rules for licensing mobile payments service providers would make major contributions to improving the business environmental and laying the foundations for the digital economy and are rated satisfactory. The prior actions setting the rules for cutting electricity services, rescheduling debt on water bills, and facilitating using the pricing tool to negotiate medical referral service contracts would make major contributions to enhancing the sustainability of electricity, water, and medical service providers and are rated satisfactory.

The overall efficacy is rated moderately satisfactory. The degree of achievement of the objective to strengthen revenue administration, the intergovernmental revenue framework, and land administration is rated unsatisfactory. The degree of achievement of the objective to improve the business environmental and lay the foundations for the digital economy is rated satisfactory. The degree of achievement of the objective to improve the business environmental and lay the foundations for the digital economy is rated moderately satisfactory.

The outcome is rated moderately satisfactory

a. Outcome Rating

   Moderately Satisfactory

6. Rationale for Risk to Development Outcome Rating
The risks to the sustainability of the development outcomes are substantial across a wide range of risk categories, each of which makes the continuation of policy and structural reforms doubly difficult.

**Political Risk.** Political risk remains elevated in West Bank and Gaza, driven by the Israeli-Palestinian conflict, the Fatah and Hamas rivalry, and deepening public disillusionment with the ruling political factions. Questions about the ability of the Palestinian Authority to address the territories' critical problems, the formation of new competing party lists by former Fatah officials, and the postponement of parliamentary elections scheduled for May 2021 have added to political instability. This would likely strain the ability of the government to sustain and broaden national and intergovernmental fiscal reforms.

**Security Risk.** Security risk remains high in the Palestinian territories, as reflected in the retention of West Bank and Gaza on the Bank's FY21 List of Fragile and Conflict-Affected Situations. Protests, confrontations, and clashes arising from worsening relations with Israel in Gaza (after the 11-day conflict in May 2021) and in East Jerusalem (over incursions of holy sites) could worsen insecurity. Insecurity would make it more difficult to initiate and complete land transactions.

**Institutional Capacity Risk.** The devolution of property tax collection to local governments as well as the mandates for better collection of electricity and water tariffs would require extensive capacity building at local governments. At the local government level, institutional capacity risks are tangled with issues about the viability of the current local government finance model.

**Macroeconomic Risk.** The economy is estimated to have contracted by 11.5 percent in 2020, dragged down by the effects of the COVID-19 pandemic and the inability of the authorities to marshal traditional fiscal and monetary policy tools to mitigate the crisis – West Bank and Gaza is highly reliant on "clearance revenues" and donor budget support, has limited fiscal space, and lacks a national currency. The economic recovery might remain weak in the near-term, punctuated by the poor state of Palestinian Authority finances – the deficit reached US$182 in Q1-2021 from US$40 million in Q1-2020, while donor budget support fell to zero in Q1-2021 from US$70 million in Q1-2020. Macroeconomic risk clouds prospects for an improved business environment and a robust digital economy.

**COVID-19 Risk.** Difficulty in acquiring vaccines – only about 9 percent of the population was vaccinated by early August 2021 – imperils West Bank and Gaza’s ambition to inoculate 70 percent of the population. The social costs of the health crisis have been enormous, with the unemployment rate hitting about 23 percent in the fourth quarter of 2020 and the poverty rate reaching about 29 percent in 2020. The social and poverty impacts would worsen with a lengthy COVID-19 crisis. COVID-19 risk would exacerbate macroeconomic risk, with follow-on effects on the business environment.

### a. Risk to Development Outcome Rating

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### 7. Assessment of Bank Performance
a. Quality-at-Entry
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Quality-at-Entry Rating
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b. Quality of supervision
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Quality of Supervision Rating
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Overall Bank Performance Rating
Satisfactory

8. Assessment of Borrower Performance

a. Government Performance
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Government Performance Rating
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b. Implementing Agency Performance
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Implementing Agency Performance Rating
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Overall Borrower Performance Rating
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9. M&E Design, Implementation, & Utilization

a. M&E Design
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b. M&E Implementation
---
c. M&E Utilization

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M&E Quality Rating

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10. Other Issues

a. Environmental and Social Effects

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b. Fiduciary Compliance

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c. Unintended impacts (Positive or Negative)

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d. Other

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Note
When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

12. Lessons

Three lessons are drawn from the ICR (pages 34-35), with some adaptation. Development policy operations with a programmatic character but structured as stand-alone operations offer an effective way to implement reforms in fragile, conflict and violence settings. This operation was the ninth PRDP-funded development policy grant which supported reforms aimed at strengthening public financial management and improving the environment for private sector development in the West Bank and Gaza. An ICR had earlier rated the efficacy of the Series of Trust Fund Grants for the PRDP Multi-Donor Trust Fund to be substantial and concluded that they "deepened reforms as shown by measured results." This stand-alone operation supported prior actions that built upon earlier reforms and which, as single-action measures, were suited to the institutional constraints with the authorities.

Results frameworks and M&E designs that consider the programmatic nature of continuing reforms are more robust in their ability to measure the outcome of development policy operations. In this operation, it was difficult to disentangle the impact of the new rules on electricity cutoffs (PA7) on higher collection and payment of electricity bills by local governments (RI7) apart from the impact of the opening of dedicated accounts at local governments for the collection and payment of electricity tariffs. Periodic reporting of results indicators over time for successive operations or the use of results indicators with incremental or marginal targets would be suitable alternatives.

Person-level results indicators that are disaggregated by gender, age-group, and location, among other socio-economic characteristics of beneficiaries, provide a way of gauging the social and poverty impacts of a reform program. This operation lacked person-level indicators that would have measured the impact of business environment reforms on the employment of women or entrepreneurial activity by women. This operation also lacked person-level indicators that would have measured the impact of reforms in the electricity, water and medical service sectors on the access of poor households to these services, including those residing in Gaza compared to those residing in the West Bank. Lacking these details, the ICR could not assess the actual social and poverty impacts of the operation.

13. Assessment Recommended?

No

14. Comments on Quality of ICR

The quality of the ICR was substantial.
The assessments of both the relevance of the prior actions and the efficacy of the results indicators were candid and evidence-based. In addition to the results indicators, the ICR offered additional evidence to support its assessment that certain completed prior actions faced outcome sustainability risks if follow-up measures remained lacking – for example, the integration of RMIS and ASCUYDA needed further work (PA1), and the President had yet to sign the amendment to the Palestine Land Authority Act that was submitted by the Prime Minister (PA3). The ICR also added evidence to support its assessment that the efficacy of certain results indicators were derailed by adverse developments external to the operation – for example, the “clearance revenue” standoff with Israel in 2019 and 2020 affected the gross domestic revenue performance (RI1), and the outbreak of COVID-19 in 2020 postponed capacity-building activities for property tax collection by local governments (RI2).

The lessons drawn by the ICR were also supported by evidence and would be useful for future development policy operations in West Bank and Gaza.

The ICR did not attempt to clarify the meaning of the outcome indicator "supporting the above result" (RI3), but simply stated that the results indicator was "opaque and not easily understood by itself" and that "the target of the reform was not achieved."

a. Quality of ICR Rating
   Substantial