1. Operation Information

<table>
<thead>
<tr>
<th>Operation ID</th>
<th>Operation Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>P171819</td>
<td>GZ: Development Policy Grant 10</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Country</th>
<th>Practice Area (Lead)</th>
</tr>
</thead>
<tbody>
<tr>
<td>West Bank and Gaza</td>
<td>Macroeconomics, Trade and Investment</td>
</tr>
</tbody>
</table>

Non-Programmatic DPF

<table>
<thead>
<tr>
<th>L/C/TF Number(s)</th>
<th>Closing Date (Original)</th>
<th>Total Financing (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>TF-B2435,TF-B3118</td>
<td>31-Oct-2021</td>
<td>38,332,308.00</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Bank Approval Date</th>
<th>Closing Date (Actual)</th>
<th>IBRD/IDA (USD)</th>
<th>Co-financing (USD)</th>
</tr>
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<tbody>
<tr>
<td>08-May-2020</td>
<td>31-Oct-2021</td>
<td>38,332,308.00</td>
<td>38,332,308.00</td>
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</tbody>
</table>

Prepared by: Jorge Garcia-Garcia
Reviewed by: Clay Wescott
ICR Review Coordinator: Jennifer L. Keller
Group: IEGEC

2. Program Objectives and Pillars/Policy Areas

a. Objectives

The program document (PD, par. 34) states that “The PDOs of the proposed operation are to: (i) strengthen commitment control in line ministries and improve overall public procurement practice, (ii) improve sector governance in water and health service provision, and (iii) strengthen the stability and integrity of the financial sector.” The grant agreement does not define objectives for the operation.
b. Pillars/Policy Areas

The Development Policy Grant (DPG) had three policy areas: (a) commitment control in line ministries and public procurement practice; (b) governance in water and health service provision; and (c) stability and integrity of the financial sector.

Commitment control in line ministries and public procurement practice. This pillar covered setting a control system for commitments and aspects of procurement practice and management.

Governance in water and health service provision. This pillar covered aspects of human resource planning and policy, monitoring service providers and debt of service providers.

Stability and integrity of the financial sector. This pillar covered aspects of antimony laundering and combatting financing of terrorism (AML/CFT), bank capital requirements, and financial sector supervision.

c. Comments on Program Cost, Financing and Dates

The operation consisted of a development policy grant for US$38.3 million, of which US$30 million corresponded to a trust-fund grant (TF-B2435) for US$30 million and another (TF-B3118) for US$8.3 million. Therefore, the actual amount disbursed was US$38.3 million. The grant was approved on May 8, 2020, and closed on October 31, 2021, as planned.

3. Relevance of Design

a. Relevance of Objectives

The program selected relevant objectives which addressed problems that hindered the development of the territories and supported government reform and sustainable development, two of the three pillars of the government's National Policy Agenda (December 2016). Reform focused on pursuing citizen-centered and effective government. To achieve this, the central and local governments would need to be more responsive to citizens' needs and improve services, accountability and transparency would need to be strengthened, and public financial management would need to be more effective and efficient. The operation also sought to build on previous achievements supported by the Bank in PFM, procurement, fiscal resilience, financial sector stability, and providing water and health service. The objectives were realistic and achievable over the life of the DPG.

The operation builds on earlier DPG operations and several World Bank-financed projects that support a long-term development agenda in the Palestinian Territories. DPGs have consistently focused over the years on strengthening PFM and accountability of the Palestinian Authority, improving the quality and transparency of its fiscal reporting and reforming public procurement. Past DPGs also sought to improve the quality and sustainability of service delivery in the energy, health, and water sectors, on which this operation builds to enhance sector governance and improve water and health service delivery. As for investment project financing, the DPG complements the Public Financial Management Improvement (PFMI) project and the Health System Resiliency Strengthening project. The PFMI project seeks to enhance expenditure controls,
Independent Evaluation Group (IEG)  
GZ: Development Policy Grant 10 (P171819)  
Implementation Completion Report (ICR) Review

financial accountability, and procurement management, while the Health Project seeks to reduce its reliance on outside medical referrals by investing in equipment and closing gaps in areas where there is a shortage of local specialists. Pillar 3 of the DPG, which seeks to strengthen the integrity and stability of the financial sector, complements other interventions that seek to improve access to finance such as the Finance for Jobs project and the Innovative Private Sector Development project.

b. Relevance of Prior Actions

Rationale

1. Number and List of Prior Actions

Objective 1: Strengthen commitment control in line ministries and improve overall public procurement practice

- **PA#1 – Commitment control system.** The Ministry of Finance has taken the necessary actions to implement a commitment control system in all line ministries to secure budget allocations prior to the signing of a contract with service providers, excluding outside medical referrals, as evidenced by: (i) issuance of official instruction No. 2019/1602 of September 8, 2019; (ii) issuance of instructions of January 20, 2020 by MoF's accountant general to the heads of financial and administrative units at line ministries informing said ministries that MoF has been developing the IFMIS to introduce a commitment control system and ensure that financial operations are recorded according to GFS.

- **PA#2 – Procurement: plans, opportunities, and contract awards.** The Cabinet has instructed public entities to publish their procurement plans, procurement opportunities and contract award notices on the single portal procurement website which can be accessed on [www.shiraa.gov.ps](http://www.shiraa.gov.ps), as evidenced by the issuance of the Cabinet Secretariat's instruction 1553/2019 of June 20, 2019.

- **PA#3 – Procurement: Bidding documents.** The Cabinet has instructed all public entities at the central and local levels to use Standard Bidding Documents for the procurement of works, goods, and consultants' services, as evidenced by the issuance of the Cabinet decision No. 35/07 of December 16, 2019.

Objective 2: Improve sector governance in water and health service provision

- **PA#4 – Human resource planning and policy.** The MoH [Ministry of Health] has instructed the General Director of its Education in Health department to ensure that all human resource planning and policies related to postgraduate medical training in the sector, including the establishment of medical residencies, are based solely on periodic data generated by the human resources observatory, as evidenced by Directive No. 32/110/201/February 20 4, 2020.

- **PA#5 – Service providers: monitoring.** The Recipient's President has taken the necessary steps to strengthen the role of the WSRC [Water Sector Regulatory Council] in performance monitoring of service providers, as evidenced by the issuance of Presidential Decree No. 2135 of September 10, 2019.

- **PA#6 – Service providers: debt.** The Cabinet has instructed PWA [Palestinian Water Authority] to reduce the stock of debt owed by service providers that have installed prepaid meters for households under their constituency in the same amount paid to install the prepaid meters, as evidenced by: (i)
Cabinet Decree No. 17/215/August 17, 2018; and (ii) fifteen (15) Memoranda of Understanding signed between PWA and 15 service providers.

Objective 3: Strengthen the stability and integrity of the financial sector

- **PA#7 – AML/CFT.** The PMA [Palestine Monetary Authority] has instructed banks operating in West Bank and Gaza to adopt strengthened AML/CFT internal controls, in accordance with the AML/CFT strategy adopted by the Palestinian Cabinet on November 2018, as evidenced by (i) Cabinet decision No. 16/229/17 dated November 22, 2018 adopting the national strategy for AML/CFT; (ii) PMA Circular No. 74/2019 to all banks operating in the Recipient's territories dated March 26, 2019; and (iii) Cabinet decision dated November 22, 2018 establishing a national committee to supervise the implementation of the national AML/CFT strategy.

- **PA#8 – Capital requirements for banks.** The PMA has taken the necessary steps to raise the minimum regulatory capital requirements for all banks licensed by the PMA to carry on banking business in West Bank and Gaza under the strengthened definition of capital, as evidenced by PMA's instructions No. 8 and 9 of December 11, 2018, concerning the application of capital adequacy requirements for banks licensed by the PMA.

- **PA#9. – Financial sector supervision.** The PMA and the PCMA [Palestine Capital Markets Authority] have jointly reestablished the central sharia supervisory board to cover a wide segment of the financial sector, including both bank and non-bank Islamic financial institutions, as evidenced by: (i) PMA's Board Decision No. 67/21, of June 30, 2019 approving the establishment of the central sharia supervisory authority; (ii) PCMA's Board decision No. 29/2019 of May 12, 2019 approving the establishment of the central sharia supervisory board; and (iii) an Memorandum of Understanding signed between PMA and PCMA dated August 27, 2018, regulating the relationship between the two institutions.

2. Assessing Relevance of Prior Actions

**Objective 1: Strengthen commitment control in line ministries and improve overall public procurement practice**

- **PA#1 – Commitment control system.** The relevance of PA#1 is Satisfactory.

The government did not have a proper budgetary process because it did not control commitments, as line ministries contracted expenses before getting their budget. Before the DPG, a budget reservation (in most ministries) only occurred when an expense was being paid. That lack of control prevented restraining expenditure and contributed to the growth of arrears. The DPG sought to help change that situation by mandating line ministries to ask for and get a budget allocation before contracting an expense. Under the DPG, the government agreed to implement a commitment control system to help plan expenditures better and improve the transparency of public finances. The new commitment control system would enable: (i) reserving budget allocations for specific purposes; (ii) making those allocations unavailable for any other purpose; and (iii) planning for future disbursements. The system would be applied first to wages and transfers, which accounted for about 70 percent of total spending. Other spending categories (e.g., outside medical referrals) required additional sector reforms before entering the commitment system. The Ministry of Finance agreed to have the remaining 30 percent under the commitment system by 2021. The reform would be implemented through the Integrated Financial Management Information System (IFMIS) and the associated financial procedures.
• **PA#2 – Procurement: plans, opportunities, and contract awards notices.** The relevance of PA#2 is *Moderately Satisfactory.*

The operation supported operationalizing aspects of the 2014 procurement law. Specifically, the Cabinet mandated that public entities would have to publish their procurement plans, procurement opportunities, and contract award notices on the website of the single portal for procurement. The mandate created a wider net of providers of goods and services from the private sector, including female-led businesses. However, uploading this information to the website did not ensure that procurement management would be better.

• **PA#3 – Procurement: Bidding documents.** The relevance of PA#3 is *Highly Satisfactory.*

The operation also supported the government's mandate that all procuring entities at the central and local levels have to use standard bidding documents, including standard contracts for works, goods, and consultant services. This was a significant step in creating the conditions to improve procurement management.

**Objective 2: Improve sector governance in water and health service provision.**

• **PA#4 – Human resource planning and policy.** The relevance of PA#4 is *Satisfactory.*

The Palestinian health system suffers from a mismatch between the growing demand for medical care and the supply of health personnel that can serve its changing needs. The rapid growth of demand for care and the lack of specialized personnel in certain areas have increased health expenditures and strained the fiscal position of the sector. Because the Palestinian territories have a shortage of specialized health care workers in certain areas—especially in non-communicable diseases—patients have to be referred to specialists outside the health system, which are more expensive, thereby increasing health care costs. The government did not address that mismatch in the past, but it sought to do so under DPG 10. With the development of an observatory of human resources within the Ministry of Health and the Palestinian National Institute of Public Health, new the government can identify the skill gaps of specialized personnel (e.g., oncology) in the private and public sectors and begin to address it. data helps to compare the current availability of medical staff with its needs, and thus identify skill gaps in the private and public sectors. The Ministry of Health plans to train local specialists to cover the human resource gap in these four areas in association with various stakeholders to offer residency programs in the areas where there is more need for specialized personnel, such as oncology, hematology, pathology and neurosurgery.

The prior action supports the government's decision to ensure that human resource planning and policies related to postgraduate medical training are based solely on the data generated by the observatory.

• **PA#5 – Water service providers: monitoring.** The relevance of PA#5 is *Satisfactory.*

A lack of commercial focus undermines the sector's viability at multiple levels (World Bank, Securing Water for Development in West Bank and Gaza, Sector Note, 2018). Collection rates are meager, with only 68 percent of customers paying their bills on average. Tariffs barely cover the operation and maintenance (O&M) costs and make no provision for depreciation; service providers (local government units, municipalities) use part of these collections for other municipal expenditures. In the West Bank, service providers compensate for the deficit by not paying the West Bank Water Department for purchasing bulk water; in Gaza, service providers cover the deficit with donor money and non-payment of bills, primarily energy. These problems arise partly from the difficulty of implementing the 2014 Water Law, designed to clarify accountabilities and establish autonomous utilities. Its implementation has been slow because of an incomplete legal structure, lack of financing, and lack
of clear rules and responsibilities at the local level. For example, where the Palestinian Water Authority sees water services as a free-standing activity in partnership with the private sector, the Ministry of Local Government sees water services as part of the local government's allocated responsibilities.

The Law established the Water Sector Regulatory Council (WSRC) as an independent legal entity responsible for overall monitoring and regulation of all matters related to the operation of water and sanitation service providers. Its responsibilities include approving tariffs, licensing and regulating service providers, and protecting consumers, but the legal transfer of most statutory functions hasn't yet occurred. WSRC’s main activity is data gathering, which has created a time series on the performance of service providers (World Bank, Towards Water Security for Palestinians, 2018, p. 6). With that information, the WSRC publishes a summary in an annual report. In addition, WSRC has initiated a benchmarking process and leads the monitoring of service providers in cooperation with the Palestinian Water Authority. However, the WSRC lacked the resources to expand its monitoring activity and carry out its regulatory role. Therefore, the DPG supported strengthening the financial position of the WSRC to enhance its capacity to monitor the performance of water service providers.

- PA#6 – Water service providers: debt. The relevance of PA#6 is Satisfactory.

As noted above, service providers built up debt because the revenues collected from the water service fell short of the expenses incurred. One reason behind the low collection rates was the lack of metering devices to measure and control household water consumption. To induce service providers to install prepaid meters for households, the DPG supported the government's decision to instruct the Palestinian Water Authority to reduce the stock of debt of those service providers by an amount equal to that spent on installing prepaid meters for households in their constituencies.

Objective 3: Strengthen the stability and integrity of the financial sector.

- PA#7 – AML/CFT. The relevance of PA#7 is Satisfactory.

Although the Palestine State established a Financial Follow-Up Unit under the Anti-Money Laundering Law of 2007, its AML/CTF system lagged in terms of international practices addressing these activities, notwithstanding having joined the Middle East and North Africa Financial Action Task Force (MENA-FATF) in April 2015. As volatility increased in cross-border correspondent banking relationships, the authorities considered it necessary to upgrade the integrity standards across the financial sector. Therefore, in 2018 the authorities conducted their first self-assessment to enhance relevant stakeholders' ability to identify, assess, understand and mitigate the risks associated with money laundering and terrorism financing. As a result, the Palestinian Monetary Authority issued instructions to maintain adequate policies and procedures to prevent the abuse of financial services. The DPG supported this action, which constitutes a step for implementing the national AML/CFT strategy, one of whose targets was to inspect the banks in the territories systematically. The action also constitutes a step in implementing the standard conditions for the West Bank and Gaza to become a member of MENA-FATF.

- PA#8 – Capital requirements for banks. The relevance of PA#8 is Moderately Satisfactory.

The banking system provided direct credit of about US$9 billion, of which US$3 billion represents loans to the Palestinian Authority and civil servants. Its non-performing loans had increased from 2.5 to 3.5 percent, mainly because the civil servants could not repay their loans since the Palestinian Authority had not paid them their salaries in 2019. This resulted from a standoff between the Authority and the Government of Israel over the transfer of clearance revenues. Moreover, 12 of the 14 banks in the territory complied with the newly
established (higher) capital requirements, and the two remaining banks had plans to meet these requirements. The prior action supported the Monetary Authority's decision of December 2018 to raise the minimum capital adequacy requirement from 12 to 13 percent for banks licensed by the Authority, providing a much-needed buffer for the banking system to withstand shocks. It also allowed regulators (central bank) to intervene and take corrective action at an earlier stage should a shock take place that threatened to reduce capital adequacy below the new minimum. It is unclear if the prior action had any significant impact on raising the capital requirement for banks and on the stability of the financial system if most of them already met the requirement.

- PA#9. – Financial sector supervision. The relevance of PA#9 is Satisfactory.

The Palestinian financial sector comprises banking institutions that the Palestine Monetary Authority supervises and non-banking institutions that the Palestine Capital Markets Authority (PCMA) supervises. The non-banking institutions offer a wide range of Islamic financial instruments and serve a segment of the population that does not engage in conventional banking because of their religious beliefs. As a result, the two sets of institutions offer financial products and services for distinct groups of people under different conditions, making uneven the financial playing field. The two authorities agreed to reestablish the Central Sharia Supervisory Authority (CSSA) to ensure consistent treatment across new and existing products and financial institutions. This would include the institutions providing Islamic financial products and assessing the compliance with Islamic financial standards of new markets and entrants.

Rating

Satisfactory

4. Relevance of Results Indicators

Rationale

Objective 1. Strengthen commitment control in line ministries and improve overall public procurement practice.

- RI #1 from prior action #1. The relevance of RI #1 is Satisfactory.

The share of expenditures processed under the new commitment control system is a good measure of the impact of the PA on progress towards the objective. The indicator measures well the amount of commitment expenditures under control. The indicator can be measured, and the information can be obtained.

- RI #2 from prior action #2. The relevance of RI #2 is Moderately Unsatisfactory.

Share of public entities that publish their procurement plans, procurement opportunities, and contract award notices on the single portal procurement website is a good measure of the impact of the PA on progress towards the objective. The indicator measures well the participation of entities in the new system. Given the desire of the PA to improve the degree to which public procurement must be transparently advertised and reported upon, a better indicator would have measured the share of
government expenditure (in local currency) procured under the single portal procurement website. Therefore, it is not possible to conclude that overall procurement practice improved. However, the indicator can be measured, and the information can be obtained.

- RI #3 from prior action #2. The relevance of RI #3 is Unsatisfactory.

The indicator measures the participation of women-owned businesses in procurement contracts but cannot measure if procurement practice improved. The indicator can be measured, and the information can be obtained.

- RI#4 from prior action #3. The relevance of RI#4 is Moderately Satisfactory.

The indicator is the share of public entities at the central and local levels of government using the Standard Bidding Documents in their procurement. The indicator measures the extent to which central government and municipal entities use standard bidding documents but does not inform if the documents apply to a large or a small share of expenditure that goes through the procurement process. Therefore, it is not possible to conclude that overall procurement practice improved. The indicator can be measured, and the information can be obtained.

Objective 2: Improve sector governance in water and health service provision.

- RI #5 from prior action #4. The relevance of RI #5 is Satisfactory.

The indicator measures well if medical doctors enroll in the certified local medical residencies in oncology, hematology, pathology, and neurology established by the Palestine Medical Council. The indicator measures well if local hospitals recruit medical personnel with skills in the four fields. The indicator can be measured, and the information can be obtained.

- RI #6 from prior action #5. The relevance of RI #6 is Satisfactory.

Publishing a performance report for water service providers provides information about the performance of water service providers. Having that information is a necessary step in measuring the quality of service and improving governance in the water sector. The indicator can be measured, and the information can be obtained.

- RI #7 from prior action #6. The relevance of RI #7 is Satisfactory.

Having consumers pay their water bills is a sign of good governance, and the average collection rate measures well improvements in the governance of the water sector. The indicator could have been more precise on whether it refers to the percent of consumers who paid their bills or the percent of the total value of the billed water. The indicator can be measured, and the information can be obtained.

Objective 3: Strengthen the stability and integrity of the financial sector.

- RI #8 from prior action #7. The relevance of RI #8 is Moderately Satisfactory.

Conducting on-site inspections of banks' AML/CFT internal controls is an integral part of commercial bank supervision and is necessary to assess banks' risks and their potential impact on the financial
system. However, supervision alone and the number of banks inspected do not make for a stronger financial sector if the authorities do not address and solve the problems found during inspections. The indicator partially measures the achievement of the objective. The indicator can be measured, and the information can be obtained.

- RI #9 from prior action #8. The relevance of RI #8 is Satisfactory.

Increasing the minimum capital adequacy requirement for each commercial bank, including capital conservation buffer (on solo and consolidated levels), allows banks to withstand risks better. The indicator measures well the achievement of the objective. The indicator can be measured, and the information can be obtained.

- RI #10 from prior action #9. The relevance of RI #10 is Moderately Unsatisfactory.

Having the financial regulator review and amend Islamic financial instruments based on CSSA decisions contributes to eliminating any discrepancy in the treatment of Islamic banking operations between commercial banks and Islamic banks, which is akin to eliminating distortions in the financial system; the fewer the distortions, the more likely the financial system is robust, stable, and efficient. The indicator measures if the regulator follows CSSA decisions when regulating Islamic financial instruments, but doing so does not measure if there is more stability and integrity in the financial system. The indicator can be measured, and the information can be obtained.

**Summary Table on Results Indicators**

<table>
<thead>
<tr>
<th>RI description (assigning a number to each RI)</th>
<th>Associated PA(s)</th>
<th>RI relevance</th>
<th>Baseline (including units and date)</th>
<th>Target (including units and date)</th>
<th>Actual value as of target date</th>
<th>Actual change in RI relative to targeted date</th>
<th>Most recent value available (if not target date)</th>
<th>RI achievement rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective 1: Strengthen commitment control in line ministries and public procurement practice</td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>RI1 Share of expenditures processed under the new commitment control system:</td>
<td>PA1</td>
<td></td>
<td>0% in 12/2018</td>
<td>70% in 12/2020</td>
<td>66% by March 2021</td>
<td>101%</td>
<td>71% (12/2021)</td>
<td>High</td>
</tr>
<tr>
<td>RI2 Share of public entities that publish their procurement plans, procurement opportunities and contract award notices on the single portal procurement website</td>
<td>PA2</td>
<td>MU</td>
<td>0%</td>
<td>50% at the central level; 33 out of 118 municipalities (28%)</td>
<td>200% at the central level and 160% municipalities (12/31/2020)</td>
<td>90/90 at central level and 58/118 at municipal level (12/2021)</td>
<td>Substanti</td>
<td></td>
</tr>
</tbody>
</table>
RI3 Annual number of female owned businesses participating in public bids

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<tbody>
<tr>
<td>PA2</td>
<td>U</td>
<td>3 in 2018</td>
<td>6 in 2020</td>
<td>n.a.</td>
<td>5 times</td>
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RI4 Share of public entities at the central and local levels of government using the Standard Bidding Documents in their procurement

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<tbody>
<tr>
<td>PA3</td>
<td>MS</td>
<td>0%</td>
<td>8% at the central level; 7% at the municipal level (12/2020)</td>
<td>50% at the central level; 30% of municipalities (12/2020)</td>
<td>8% at the central level; 40% at the municipal level (12/2021)</td>
</tr>
</tbody>
</table>

**Objective 2: Improve sector governance in water and health service provision**

RI5 Certified local medical residencies are established by the Palestine Medical Council in the fields identified by the observatory of human resources as critical gaps including oncology, hematology, pathology and neurology:

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<tbody>
<tr>
<td>PA4</td>
<td>S</td>
<td>zero local residencies in each of the four fields in local hospitals (12/2018)</td>
<td>at least one local enrollment in each of the four fields in local hospitals (12/2020)</td>
<td>25 (12/31/2020)</td>
<td>375% for the combined total oncology: 3, hematology: 2, pathology: 4, neurosurgery: 10 (12/2021)</td>
</tr>
</tbody>
</table>

RI6 Publication of a performance report for water service providers

|   |   |   |   |   |
|---|---|---|---|
| PA5 | S | 2018 performance report published in 2019 covering 115 service providers serving 89% of the population (12/2018) | Performance report for 2019 covering 98 service providers serving 85% of the population published (12/2020) | 98 service providers serving 85% of the population (12/31/2020) | Reports of 92 service providers serving 85% of the population (12/2021) |

RI7 Average collection rate amongst consumers served by the 15 service providers that have signed MoUs [Memoranda

|   |   |   |   |   |
|---|---|---|---|
| PA6 | S | 52% (12/2018) | 85% (December 2020) | 79% (12/31/2020) | 94% (12/31/2020) | 83% (12/2021) | Substantial |
Objective 3: Strengthen the stability and integrity of the financial sector

<table>
<thead>
<tr>
<th>RI8</th>
<th>PMA conducting on-site inspections of banks’ AML/CFT internal controls, that systematically incorporate an AML/CFT risk-based approach</th>
<th>PA7</th>
<th>MS</th>
<th>PMA AML/CFT supervision manual does not systematically incorporate a risk-based approach (12/2018)</th>
<th>on-site inspections of 50% of banks covering banks’ compliance with risk-based AML/CFT requirement (12/2020)</th>
<th>All banks inspected (12/2021)</th>
<th>Significant</th>
</tr>
</thead>
<tbody>
<tr>
<td>RI9</td>
<td>Increased minimum capital adequacy requirement for each bank, including capital conservation buffer (on a solo and consolidated levels)</td>
<td>PA8</td>
<td>S</td>
<td>minimum capital adequacy requirement of 12% for each bank on a solo and consolidated levels (12/2018)</td>
<td>minimum capital adequacy requirement of 13% on a solo and consolidated levels - or is implementing timebound corrective actions (12/2020)</td>
<td>all 14 banks in compliance (12/31/2020)</td>
<td>13% (12/2021)</td>
</tr>
<tr>
<td>RI10</td>
<td>Islamic financial instruments reviewed and amended by regulator actions based on CSSA decisions</td>
<td>PA9</td>
<td>MU</td>
<td>no regulations issued based on decisions by the CSSA, 12/2018</td>
<td>one issued on credit cards and other financial products through regulator actions based on the decisions of the CSSA (12/2020)</td>
<td>100% 2</td>
<td>Modest</td>
</tr>
</tbody>
</table>

of Understanding] with the PWA to install prepaid meters
Rating

Moderately Satisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective
Strengthen commitment control in line ministries and improve overall public procurement practice

Rationale
Under this objective, the program supported interventions in two areas: systems to control commitment of expenditures and procurement practices.

Commitment control systems. The expected result was to have 70 percent of expenditures processed under the new control system by December 2020. The actual result was that line ministries processed 71 percent of expenditures under the new commitment control system by December 2021: The achievement was high. This sub-objective was covered by PA#1 and RI#1.

Procurement practice. The expected results covered plans, opportunities, and contract awards; bidding documents.

Plans, opportunities, and contract awards notices. Two results were expected. First, 50 percent of entities at the central level and 30 percent of municipalities would publish their plans, opportunities, and contract award notices by December 2020. Actual result as of December 2021: all entities at the central level (100%) and 58 out of 118 at the municipal level (49%) published their plans, opportunities, and award notices on the single portal procurement website. The results exceeded the target values; because the relevance of the indicator is moderately unsatisfactory, the results achieved are rated substantial. Second, six female-owned businesses participate in public bids in 2020. Actual result: 18 female-owned businesses participated in public bids by December 2021, exceeding the target; although the numerical result exceeded the target, it cannot be concluded from it that procurement practice strengthened. The result achieved is modest. This was covered by PA#2 and RI#2 and RI#3.

Bidding documents. The expected result was that 50 percent of entities at the central level and 30 percent of municipalities would use standard bidding documents. The actual results were that the number of entities using standard bidding documents increased by 51 percent at the central level and by 40 percent at the municipal level. The results achieved were modest. This was covered by PA#3 and RI#2 and RI#4.

While more entities used the single portal procurement website, suggesting some improvement in procurement practices, there was little progress in using standard bidding documents, a fundamental step in improving procurement practice.

The overall result for procurement is modest.
Under this objective, achievement was high for share of expenditures under the new commitment control system (RI#1), substantial for the share of public entities that publish their procurement plans (RI#2), and modest for number of female-owned businesses participating in public bids (RI#3) and for share of entities at the central and local level using the standard bidding documents (RI#4).

Rating
Moderately Satisfactory

OBJECTIVE 2
Objective
Improve sector governance in water and health service provision

Rationale
Under this objective, the program supported interventions to improve governance in two sectors: health service and water.

Health service. The expected result was at least one enrollment in local hospitals in each of the four residencies in oncology, hematology, pathology, and neurology by December 2020. Actual result: as of December 2021, there were three residents in oncology, two residents in hematology, four residents in pathology, and ten residents in neurosurgery. The achievement of the result was high. This was covered by PA#4 and RI#5.

Water. Two results were expected. First, the WSRC would publish a 2020 performance report of the activities of 115 service providers that served 90 percent of the population in 2019. Actual result: As of December 2021, WSRC had published performance reports of 92 service providers serving 85 percent of the population. The achievement of the result was modest. This was covered by PA#5 and RI#6.

Second, 15 service providers who were to install prepaid meters would increase their bill collection rates from 52 to 85 percent by December 2020. Actual result: as of December 2021, the collection rate was 83 percent. The achievement of the result was substantial. This was covered by PA#6 and RI#7.

Under this objective, achievement was high for the number of certified medical residences in four fields with critical gaps (RI#5), modest for publishing a performance report for water service providers (RI#6), and substantial for the collection rate amongst consumers serviced by 15 service providers of water that signed a MoU with the Palestine Water Authority to install prepaid meters (RI#7).

Rating
Satisfactory

OBJECTIVE 3
Objective
Strengthen the stability and integrity of the financial sector
Rationale
Under this objective, the program supported interventions in three areas: anti-money laundering and control of terrorism financing, capital requirements of commercial banks, and regulation and supervision of Islamic banking.

Anti-money laundering and control of terrorism financing. The expected result was to have the PMA conduct on-site inspections of 50 percent of banks' compliance with risk-based AML/CFT requirements. Actual result: by December 2021, the PMA had conducted inspections on all banks, covering banks' compliance with AML/CTF requirements. The number of inspections exceeded the target, and the achievement was high. However, while the number of inspections augurs well for the supervision of banks on matters of AML/CTF, without knowledge of what the inspections found, it is impossible to say if the financial sector is more robust and stable. The achievement of the result is rated substantial. This was covered by PA#7 and RI#8.

Commercial banks' capital requirements. The expected result was to have all banks with a minimum capital adequacy ratio of 13 percent by December 2020. Actual result: by December 2021, all banks had met the new requirement. The achievement of the result is rated substantial because the relevance of the prior action is considered moderately satisfactory. This was covered by PA#8 and RI#9.

Regulation and supervision of Islamic banking. The expected result was to have at least two financial instruments amended through regulator actions based on CSSA decisions. Actual result: by December 21, CSSA had published two circulars to amend financial instruments. Judging by the numbers alone, the achievement of the result was high. However, without knowing the content of the circulars and the problems they sought to address, it is impossible to say that the financial sector is more stable and stronger than before. The achievement of the result is rated modest, as the relevance of the results indicator is rated moderately unsatisfactory. This was covered by PA#9 and RI#10.

Under this objective, achievement was substantial for conducting on-site inspections of banks’ AML/CFT internal controls (RI#8) and for reaching a minimum capital requirement (RI#9), and modest for reviewing and amending Islamic financial instruments based on CSSA decisions (RI#10).

Rating
Moderately Satisfactory
Since efficacy for one objective is satisfactory and for two objectives moderately satisfactory, overall efficacy is moderately satisfactory.

**Overall Efficacy Rating**
Moderately Satisfactory

### 6. Outcome

#### Rationale

With relevance of prior actions rated as substantial and efficacy rated moderately satisfactory, the overall outcome rating is moderately satisfactory.

#### a. Rating

Moderately Satisfactory

### 7. Risk to Development Outcome

Most outcomes are likely to be sustained, but some may be harder to sustain. Macroeconomic risks, likely present in the medium term, are unlikely to derail the progress in controlling commitment expenditures and the advances in procurement. The ability to sustain gains in procurement is at risk if there is not improved capacity in the civil service. The outcomes achieved in health service provision face more risks than others because other things beyond the authorities' control affect the demand and supply of medical personnel beyond the identification of gaps and the availability of specialists. The outcomes in the water sector are at risk if considerations other than quality of service and financial sustainability of service providers influence the decisions of local government units. As for objective 3, the actions taken and the results achieved augur well for the sustainability of the results.

### 8. Assessment of Bank Performance

#### a. Bank Performance – Design

#### Rationale

The design benefited from lessons from previous development policy grants. First, selecting a standalone operation reflects the need to be flexible in a volatile context; that flexibility facilitates choosing prior actions for each operation and tailoring them to the political and security situation when implementing the program. Also, as the program document notes, flexibility does not mean neglecting specific reforms requiring more than one DPG since the next DPG can support the next stage of these reforms. The
reforms responded to the Palestine Authority’s priorities and considered the implementation capacity and the social and security risks they may trigger. The design also benefitted from (a) ASA work on public financial management and procurement reform that informed the prior actions under Pillar 1; (b) a 2016 public expenditure review, a joint study of the WHO, the Ministry of Health, and the Palestine Institute for Public Health on the Palestinian Health Workforce, and ASA work on Water Security for Palestinians that informed the prior actions for Pillar 2; and (c) World Bank TA on AML/CTF, a Financial Sector Review ASA, and economic literature on Basel III regulations, experience with sharia boards in Turkey, and evaluation of regulatory reforms on SME financing. Last, the program document identified the risks well and selected adequate mitigating measures.

Rating
Satisfactory

b. Bank Performance – Implementation

Rationale
The WBG followed program implementation closely. As a result, two implementation status reports (11/9/2020 and 3/17/2021) informed well about the fulfillment of prior actions and the results achieved. The second one reports the results by December 31, 2020, which the summary table above includes.

Rating
Satisfactory

c. Overall Bank Performance

Rationale
Bank performance was satisfactory both in the operation's design and implementation phases.

Overall Bank Performance Rating
Satisfactory

9. Other Impacts

a. Social and Poverty
The ICR does not report actual impacts.

b. Environmental

The ICR does not report actual impacts.

c. Gender

The ICR does not report actual impacts.

d. Other

None reported

10. Quality of ICR

Rationale

The ICR presents a coherent and logical narrative of the program. The adequate analysis links to evidence and interventions through a coherent results chain. The evidence supports the achievements it reports; the ICR documents its sources well, and its discussion of outcomes is clear and convincing. The ICR follows the methodology for ICR of development policy operations. Its lessons section consists of facts and findings.

The main text, 33 pages, exceeds the 20 pages recommended by the Guidance for ICR for development policy financing operations. Some of the text could have been shorter.

Paragraph 63 starts with "The DPG program document included an honest (emphasis added) discussion about the risks … ". This is odd, as the report should always be honest, making the adjective unnecessary.

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a. Rating

Substantial
## 11. Ratings

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<td>Bank Performance</td>
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<td>Relevance of Results</td>
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## 12. Lessons

The most pertinent lessons from the ICR are:

- Continued efforts on the fiscal front are critical, but institutional constraints must be acknowledged and addressed at the same time.
- The results framework needs to be outcome-focused, measuring the magnitude of the development gains and attributing them to a standalone development policy operation.
- In the Palestine territories, a fragile and conflict-affected situation, a reform program is likely to have a more consistent and durable impact if technical assistance and capacity building accompany the design and execution of the program’s prior actions.

IEG offers the following lesson derived from the points raised in the ICR:

The experience of the DPG program in Palestine suggests that single but continuous development policy operations are likelier to be more effective in achieving their objectives and results than a programmatic series in countries with volatile and changing economic and political circumstances that make it difficult to find a set of implementable prior actions in a consistent manner over the medium-term. This type of arrangements makes it possible to agree on prior actions that support feasible economic reform but which are tailored to the changes in circumstances.

## 13. Project Performance Assessment Report (PPAR) Recommended?

No