



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 03-Oct-2019 | Report No: PIDC27904



BASIC INFORMATION

A. Basic Project Data

Country West Bank and Gaza	Project ID P171819	Project Name Strengthening Fiscal Stability and Financial Integrity (P171819)	Parent Project ID (if any)
Region MIDDLE EAST AND NORTH AFRICA	Estimated Board Date Dec 05, 2019	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Palestine Liberation Organization (for benefit of the Palestinian Authority)	Implementing Agency Ministry of Finance and Planning		

Proposed Development Objective(s)

The Development Objectives of the proposed operation are: (i) strengthen commitment control in line ministries and improve overall public procurement practice, (ii) improve sustainability of service provision in the water and health sectors, and (iii) strengthen the stability and integrity of the financial sector resulting in improvements in the overall business environment.

Financing (in US\$, Millions)

SUMMARY

Total Financing	40.00
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DETAILS

Total Non-World Bank Group Financing	40.00
Trust Funds	40.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

This proposed DPG, in the amount of US\$40 million, provides timely financing to the Palestinian Authority (PA) budget and is designed to continue support the PA in achieving its strategic priorities envisaged in the National Policy Agenda (NPA) (2017-2022). The DPG supports the PA’s efforts to strengthen fiscal stability – the quality and reliability of fiscal management – and financial integrity. The operation takes place in the midst of implementation of a severely curtailed

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cash budget due to a still unresolved dispute with the Government of Israel (GoI) over the transfer of revenues collected by GoI on behalf of the PA. While a “muddle through” strategy by the PA has staved off a collapse in expenditure, buffers are now very limited – while reforms need to continue. The proposed DPG provides some much-needed financing to mitigate what would otherwise be a much steeper decline in public spending. The US\$40 million grant will directly leverage other donor financing through the Palestinian Reform and Development Plan (PRDP) Trust Fund (TF). The PRDP TF is administered by the Bank and disburses funds quarterly based on satisfactory progress in reforms covered by the DPG matrix. The stand-alone operation (like all previous 9 DPGs to the PA) builds on earlier operations to reflect the Bank’s strategic shift to a stronger private sector focus and sound fiscal and financial institutions. A particular emphasis in this operation is on reforms in the financial sector, which is key for promoting dynamic and inclusive private sector growth. It is important to signal the reform direction for the financial sector given the immediate stresses on the sector due to the buildup of arrears and increased reliance of the PA on bank financing.

The West Bank and Gaza (the Palestinian territories) have faced long lasting political instability and periodic episodes of violence over the last two decades, exacerbating macroeconomic volatility. The economy has been driven by large inflows of transfers as other sources of growth have been long-hindered by the ongoing restrictions on movement and access. Inflows of transfers have significantly dropped in recent years, making it more pressing to unlock growth constrained by a difficult business environment. The trade and movement restrictions have created a high risk of disruption in projects or trade and have kept investment levels low, resulting in a bias towards non-traded services which have less potential for productivity growth.

Driven by episodes of conflict, poverty rates in the Palestinian territories have increased during 2011-17, with nearly one in three persons living in poverty, and with growing divergence between the West Bank and Gaza. Data from the Palestinian Central Bureau of Statistics (PCBS) shows that the overall share of population below the poverty line has increased from 26 percent in 2011 to 29 percent in 2017. This, however, masks a substantial divergence in trends between the West Bank and Gaza. Poverty rate in the West Bank declined from 18 to 14 percent, while poverty in Gaza increased dramatically from 39 to 53 percent leaving every second Gazan below the national poverty line.

Relationship to CPF

The proposed operation contributes to the implementation of the World Bank Group’s Assistance Strategy for the West Bank and Gaza (FY18-21). With a strong financial sector reform program, the proposed operation directly contributes to the first pillar of the assistance strategy (setting the conditions for increased private sector investments and job creation). In addition, this DPG will help strengthen the ability of public institutions in delivering citizen-centered service delivery as well as increase transparency of public finances (Pillar three of the AS).

C. Proposed Development Objective(s)

The Development Objectives of the proposed operation are:

- (i) strengthen commitment control in line ministries and improve overall public procurement practice,
- (ii) improve sustainability of service provision in the water and health sectors, and
- (iii) strengthen the stability and integrity of the financial sector resulting in improvements in the overall business environment.

Key Results

The main results expected from this operation include: (1) Changes to the Integrated Financial Management Information System of the PA to enable financial controllers to control commitments against the budget, (2) 50 entities at the central level and 40 municipalities to publish their procurement plans, procurement opportunities and contract



award notices on the single portal procurement website by December 2020, (3) 50 entities at the central level and 40 municipalities will start using Standard Bidding Documents in their procurement of goods and consultancies by 2020, (4) certified medical residencies to be established by the Palestine Medical Council in the fields of oncology, hematology, pathology and neurology and instituted in local hospitals and eventually reducing the need for outside medical referrals, (5) Publication of a performance report for water service providers, (6) improving average collection rate amongst consumers served by 15 service providers that have signed agreements with the PWA to install prepaid meters, (7) Banks regulated by the PMA must complete an AML/CFT self-assessment in accordance with circular 74/2019, (8) Banks to meet a minimum Capital Adequacy Ratio, including capital conservation buffer, of 13 percent, and (9) Instructions issued by the central sharia supervisory authority to standardize the application of Islamic financial instruments offered by bank and non-bank Islamic financial institutions.

D. Concept Description

The first pillar of the operation focuses on strengthening Public Financial Management and procurement practice with the overall aim of strengthening the quality and reliability of public spending. It does that through supporting the PA's efforts in rolling out a commitment control system in all line ministries and pushing forward public procurement reform – a key area for improved overall transparency in public finances.

The second pillar of the operation focuses on improving the sustainability of service provision in the health and water sectors – key for citizen-centered service delivery. The operation supports the PA's efforts to take a snapshot of the working health taskforce to identify areas where there are gaps and provide more comprehensive health services. In the water sector, the operation supports a stronger regulator role and lowering non payment amongst consumers for a more sustainable and financially viable sector.

The third pillar focuses on financial sector reforms that are key for the resilience, integrity and stability of the banking sector. Such reforms play a crucial role in creating a strong banking sector which is a requirement for a well-functioning private sector that can create jobs.

E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

The overall poverty and social impact of the prior actions supported by this operation is expected to be largely positive or neutral. The efforts under pillar 1 to strengthen commitment controls in line ministries and improve overall public procurement practices are administrative measures that aim to improve public financial management in the PA and thereby increase transparency and reliability of public accounts. Under pillar 2, efforts to provide more comprehensive health services through establishment of medical residencies in fields that are not currently available are expected, over time, to have a positive poverty and social impact as the Palestinian population will have some access to medical staff specializing in the fields currently not offered by the health system in West Bank and Gaza. Measures under pillar 3 that improve anti-money laundering and combating of financing of terrorism (AML/CFT) practices and raising capital adequacy of the banking sector should raise its resilience and in turn improve its ability to support private sector activity and job creation.

Environmental Impacts

Reforms supported by this operation are unlikely to have a significant negative environmental impact. The prior actions supported under pillars 1 and 2 aim to improve procurement practices and enhance service delivery in the water and



health sectors and are likely to have positive environmental impacts. Prior actions covered by pillar 3 support reforms in the financial sector through improving the resilience, stability and integrity of the sector and those are also not expected to have any negative environmental impact.

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APPROVAL

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Approved By

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