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MULTILATERAL INVESTMENT GUARANTEE AGENCY

ASSISTANCE STRATEGY

FOR

THE WEST BANK AND GAZA

FOR THE PERIOD FY22-25

West Bank and Gaza Country Management Unit
Middle East and North Africa Region
The World Bank

Middle East and North Africa Strategy Unit
International Finance Corporation

Multilateral Investment Guarantee Agency

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Currency Equivalents (As of March 31, 2021)

Currency Unit = New Israeli Shekel

US\$1.00 = 3.34 New Israeli Shekel

ABBREVIATIONS AND ACRONYMS

AFD	<i>Agence Française de Développement</i> (French Development Agency)	MoH	Ministry of Health
AHLC	Ad Hoc Liaison Committee	MPA	Multi-phase Programmatic Approach
AS	Assistance Strategy	MSME	Micro, Small and Medium Enterprises
ASA	Advisory Services and Analytics	NCDs	Non-communicable Diseases
ASPIRE	Advancing Sustainability in Performance Infrastructure Reliability of the Energy Sector	NDCs	Nationally Determined Contributions
AWP-I	Water Security Development – Gaza Central Desalination Program: Associated Works Project	NDP	National Development Plan
CMS	Case Management System	NGO	Non-Governmental Organization
COGAT	Coordinator of Government Activities in the Territories	O&M	Operations and Maintenance
CTP	Cash Transfer Program	PA	Palestinian Authority
DIB	Development Impact Bond	PCBS	Palestinian Central Bureau of Statistics
ECD	Early Childhood Development	PENRA	Palestine Energy and Natural Resources Authority
EU	European Union	PFM	Public Financial Management
FCV	Fragility, Conflict, and Violence	PID (MDTF)	Partnership in Infrastructure Development
F4J	Finance for Jobs	PMA	Palestine Monetary Authority
GDP	Gross Domestic Product	PPL	Public Procurement Law
GoI	Government of Israel	PPP	Public-Private Partnership
HCI	Human Capital Index	PRDP (MDTF)	Palestinian Recovery and Development Plan
IBRD	International Bank for Reconstruction and Development	SME	Small and Medium Enterprise
ICF	Investment Co-financing Facility	SWM	Solid Waste Management
IDA	International Development Association	SR	Social Registry
IPF	Investment Project Financing	TA	Technical Assistance
IPP	Independent Power Producers	TechStart	Technology for Youth and Jobs
IPSD	Innovative Private Sector Development	TFGWB	Trust Fund for Gaza and the West Bank
LGU	Local Government Unit	UN	United Nations
MDTF	Multi-Donor Trust Fund	UNRWA	United Nations Relief and Works Agency
MENA	Middle East and North Africa	WMS	Wastewater Management Sustainability
MIGA	Multilateral Investment Guarantee Agency	WB & G	The West Bank and Gaza
MoE	Ministry of Education	WBG	World Bank Group
MoF	Ministry of Finance		

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TABLE OF CONTENTS

I.	INTRODUCTION	3
II.	CONTEXT	4
	A. Political Context.....	4
	B. Social Context.....	5
	COVID-19 Impact.....	5
	Situation in Gaza	6
	C. Recent Economic Developments and Prospects	6
III.	ASSISTANCE STRATEGY FRAMEWORK	10
	A. Selecting Focus Areas and Objectives	10
	Filter 1. Lessons from Implementing the Ongoing Strategy (FY18-21).....	10
	Filter 2. Alignment with the PA’s National Development Plan.....	12
	Filter 3. Pathways to “a Well-Connected Palestine”	13
	Filter 4. Alignment with the World Bank Group’s Corporate and Regional Strategies.....	15
	B. Consultations.....	16
	C. Description of Focus Areas and Objectives.	17
	Objective 1.1: Strengthen Institutions’ Accountability and Transparency	18
	Objective 1.2: Support Service Providers to Become Financially Sustainable.....	20
	Objective 1.3: Achieve Better Human Development Outcomes.....	22
	Objective 1.4: Strengthen Social Protection Systems to Address Multi-Dimensional Poverty	23
	Objective 2.1: Stimulate Inclusive Private Sector Development and Diversify Financial Products	25
	Objective 2.2: Connect the Palestinian Economy to Regional and Global Economy	27
	Objective 2.3: Improve Infrastructure through World Bank Investment that Leverages Donor Resources and by Attracting Private Investment	29
IV.	IMPLEMENTING THE ASSISTANCE STRATEGY	30
	A. Arrangements for Assisting the West Bank and Gaza	30
	B. Attracting Donors’ Resources Channeled through the World Bank	32
	C. Fiduciary Systems	32
	D. Indicative Program of World Bank Grants	33
	E. Program Monitoring.....	34
	F. Cross-Cutting Themes	34
	Addressing and Narrowing Gender Gaps.....	34
	Maximizing Climate Resilience	35

Leveraging Digital Technology	36
Promoting Citizen Engagement	37
G. Communication.....	37
V. RISKS AND MITIGATION MEASURES	37

TABLES:

Table 1: Palestinian Territories: Selected Macroeconomic Indicators	7
Table 2: List of Focus Areas and Objectives	18
Table 3: Indicative Program of World Bank Grants	33
Table 4: Risk Categories and Ratings	39

ANNEXES:

Annex 1: Indicative Benchmarks for the West Bank and Gaza Assistance Strategy FY22-25	40
Annex 2: List of Donor Partners’ Participation in Sector Working Groups	43
Annex 3: Donor Funds that Complement the World Bank Grants and	44
Annex 4: West Bank and Gaza Active Portfolio and ASAs	48
Annex 5: IFC Committed and Disbursed Outstanding Investment Portfolio	51
Annex 6: MIGA West Bank & Gaza Active Portfolio	52

FIGURES:

Figure 1: Alignment with the PA’s NDP 2021 - 2023	13
Figure 2: Typology of Program Interventions	15
Figure 3: Alignment with the World Bank Group’s COVID-19 Crisis Response Approach Paper	16

BOXES:

Box 1: In Pursuit of a “well-connected Palestine” – from Building Institutions to Developing Creditworthiness in the Energy Sector.....	11
Box 2. A Bottom-Up Approach: Local Solutions for Women.....	35

I. INTRODUCTION

1. This document outlines the World Bank Group’s (WBG) Assistance Strategy (AS) for the West Bank and Gaza (WB & G) for the period FY22-25, developed jointly by the World Bank, the International Finance Corporation (IFC), and the Multilateral Investment Guarantee Agency (MIGA). It reports on the program’s implementation experience during the previous Assistance Strategy period (FY18-21). The proposed period for this new strategy is four years which will allow the program to maintain sight of a medium-term horizon to achieve development goals. This would also be consistent with the institution strengthening agenda that has been a central plank of the WBG’s assistance since the 1990s. The program guided by this Assistance Strategy is flexible to reflect the needs of operating within a fragile environment and allow adapting interventions to respond to evolving development priorities. Further, WBG support will continue to be selective focusing on achieving greater inclusion and sustainability, improving growth, and consistent with WBG twin goals of eliminating extreme poverty and promoting shared prosperity in a sustainable manner.

2. While only a final status agreement would bring rapid and sustained economic growth to the WB & G, World Bank analytical work has identified a multidimensional connectivity deficit as a crucial barrier to the Palestinian economy’s achieving its potential and generating jobs. The lack of connectedness is pervasive – emanating both from restrictions on movement and access¹ that are *outside* the control of the Palestinian Authority (PA). These are, for example, access to Area C², mobile spectrum, infrastructure and trade policy. Equally, there are weak connections between areas that are *within* the control of the PA, e.g., the isolation of the Gaza and the West Bank, disconnects between policies and reform agenda, between policies for public service provision and financial sustainability principles, and weak connections within the education system that leave a gap between Palestinian youth and the future of work. Furthermore, there is no Palestinian monetary policy and the PA is dependent on the New Israeli Shekel. These impede the Palestinian economy’s connectedness to domestic, regional, and global markets. The Palestinian territories, Israel, and Jordan share a common economic space, especially for water, transport, and energy. A regional approach by the WBG would benefit the Palestinians while also providing incentives to neighbors.

3. Helping create “a well-connected Palestine” by reducing these connectivity gaps is one of the main focus areas of this AS. Its starting line is economic and social resilience strengthening as the Palestinian economy recovers from the COVID-19 pandemic. Progress on peace talks could open up new opportunities for the WBG to help minimize and remove the connection gaps and achieve the full potential of the Palestinian economy. Thus, interventions guided by this AS will move the program along the continuum from the starting line of economic and social resilience strengthening towards the finish line of a well-connected Palestine. The ambition of the program will help realize innovation and diversification in the economy. The timing and choice of interventions will depend on the prevailing operating environment

¹ According to the Government of Israel, these restrictions are for the purpose of enhancing the security of Israel and Israeli citizens.

² The Palestinian Authority was established in the West Bank and Gaza shortly after the 1993 Oslo Accords. The PA assumed civilian responsibility for most of the Palestinian residents, but its security powers were limited to the major urban centers, as the Government of Israel continued to control large land areas in the West Bank. The so-called Area C represents 61 percent of the West Bank and is outside of the PA’s reach.

determined by where the economy is with respect to external constraints (“high” constraints on movement and access as in the status quo, or “low” as in easing restrictions) as well as on the Palestinian capacity for commitment, coordination, and co-operation.

4. While the program confronts many development challenges that deserve support, focus areas for this proposed AS were identified by applying filters. These filters were: (i) lessons learnt from implementing the ongoing Assistance Strategy (FY18-21), (ii) alignment with the PA’s National Development Plan (NDP), (iii) pathways from the current urgent need to strengthen economic and social resilience to “a well-connected Palestine,” and (iv) alignment with the WBG’s corporate and regional strategies. The World Bank coordinates closely with donor partners. Donors’ funds channeled through the World Bank contribute significantly to the World Bank’s ability to finance priority projects and are therefore, essential to the success of the program.

5. The remainder of this document details the WBG’s strategic engagement approach for the WB & G during FY22-25 and how it has been developed. Section II describes the recent political, social, and economic developments, including as they relate to COVID-19 crisis. In this operating environment, Section III details the AS framework, underlining the filters used and takeaways of consultations that helped to define the focus areas and objectives of the program. Then, Section IV explains the implementation arrangement and approach, while presenting indicative aspects of the future program. Finally, Section V identifies systematically the key risks to the program during FY22-25—and identifies pertinent measures for mitigation. Other relevant information, including indicative benchmarks, related Trust Funds (TF), and lists of ongoing operations and analytics, has been annexed.

II. CONTEXT

A. Political Context

6. Peace talks between the Palestinians and Israelis have been stalled for several years, and a 2019 peace plan presented by the U.S. did not gain traction at the time. Regional and global dynamics have seen major shifts recently. Bahrain, the United Arab Emirates, Morocco, and Sudan signed bilateral agreements with Israel to begin normalizing relations. Alongside these regional shifts, there is a possibility for diplomatic reengagements and some key donor relations with the Palestinians to be greatly improved. This could have a positive impact on the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) which had seen drastic funding cuts in recent years.

7. The Palestinian polity is divided. Since June 2007, the *Fatah*-led PA in Ramallah governs the West Bank while *Hamas* constitutes the *de facto* authority in Gaza. During this time, restrictions on Gaza’s movement and trade have left the isolated strip in dire circumstances. Despite several attempts at reconciliation facilitated by Arab partners, the divide persists. According to a decree by President Abbas in January, legislative elections that have not happened since 2006 will be held in May, presidential elections in July, and the Palestinian National Council elections in August of 2021.

8. There has been mixed coordination on COVID-19 response by the PA and the Government of Israel (GoI). Shortly after the pandemic began in Spring 2020, there was a well-coordinated approach between the Israeli and Palestinian ministries of health. Systematic

coordination between the PA's health care system and the GoI's Coordinator of Government Activities in the Territories (COGAT) has helped facilitate the entry of needed supplies both into Gaza and the West Bank. Over the months of the pandemic, there have been significant slowdowns in delivering humanitarian assistance and materials intended for the COVID-19 response to Gaza due to political tensions.

B. Social Context

COVID-19 IMPACT

9. Palestinian living standards have been affected as households struggle with income loss resulting from prolonged spells of lockdowns and multiple waves of infections.

- Lockdowns that imposed restrictions on mobility and trade led to both lower remittances by Palestinian workers employed in Israel, and to production bottlenecks. These restrictions resulted in firms reducing working hours or dismissing workers.
- The PA is facing a significant financial gap in its budget, reducing its ability to deliver public services.
- Local Government Units (LGUs) are responsible for managing local public services and facilities which are essential in the COVID-19 crisis such as water and sanitation, public health, solid waste collection, transport, and disposal, mandating social distancing and rudimentary contact tracing, and in some localities hosting quarantine facilities. Municipalities have been challenged to finance needs emerging from the pandemic. Municipal revenues have been impacted – the issue of building licenses the most.
- The water sector faces supply chain disruptions, reduction in revenue collection and lack of consumables -- particularly chlorine. The virus' spread is controlled - among other measures - by good hygienic practices, especially frequent handwashing with soap. That, along with other hygienic practices, have increased water consumption between 5 percent and 16 percent in different areas.
- Uninterrupted electricity supply to health facilities has been largely managed. While the efforts of the PA and the GoI to reach agreements on electricity supply are still in progress, interim arrangements have allowed all the high voltage sub-stations in the West Bank to be energized, increasing electricity supply. But this comes at a time of economic crisis when consumers are less able to pay their bills thus increasing the PA's and municipalities' electricity debt.
- Access to education has worsened, threatening continuity of learning for all 1.3 million Palestinian students. The Ministry of Education (MOE) reopened schools for all grades in September 2020, however the situation remains volatile. E-learning channels leave behind the most vulnerable children, and therefore the ministry adopted the cohort system dividing students into two small groups to receive face-to-face instruction at school at least 3 times per week.

10. As COVID-19 evolved from an emergency into a prolonged pandemic, it has disrupted health system financing and service delivery for other essential health services, such as maternal, newborn, and child health, and non-communicable diseases (NCDs) health care units. Significant amounts of the existing health budget are being allocated to COVID-19-specific expenditures of commodity procurement and infrastructure investments, constraining the delivery of other essential services.

SITUATION IN GAZA

11. With the continued internal divide and restrictions on movement, Gaza continues to experience especially challenging living conditions. The PA currently spends 33 percent of its budget in Gaza while collecting less than 10 percent of its revenues there. Transfers and aid have been the only source of external inflows that have financed consumption and sustained the livelihood of almost 80 percent of Gaza's population.

12. Clean drinking water is in short supply. More than 97 percent of Gaza households rely on private vendors delivering desalinated water—even though most houses have a piped water connection. Overexploitation, seawater intrusion, and sewage infiltration into the aquifer have led to the pollution of groundwater resources. Poor wastewater treatment facilities have been creating an environmental disaster. Efforts of the donor community to remedy this situation through the construction of treatment plants are hampered by the lack of spare parts and consumables, but most importantly electricity shortages, as current electricity availability constitutes only third of Gaza's needs.

13. The overburdened school system is challenged further by the COVID-19 outbreak. Approximately 282,360 students attend UNRWA schools, which also runs 22 health centers, 16 relief and social services offices and 11 food distribution centers. Public schools are also finding it challenging to deliver student learning. More than two-thirds of schools in Gaza operate double shifts with an average capacity of 39 students per class, compared to 27 students in the West Bank.

14. The situation has further worsened with the COVID-19 outbreak which has been growing both in the West Bank and in Gaza. Of the 23,791 active cases as of March 20, 2,607 are in Gaza. Thirteen hospitals in the West Bank and three in Gaza were dedicated to COVID-19 treatment. Quarantine facilities were also established in both the WB & G and more than 500 health workers were trained in COVID-19 case management. Laboratory capacity was expanded, and community engagement campaigns were implemented. An Inter-Agency COVID-19 Task Force, led by the UN Resident/Humanitarian Coordinator, as well as the Inter-Cluster Coordination Group, were established to ensure coordination at all levels.

C. Recent Economic Developments and Prospects

15. The Palestinian economy continues to suffer from unsustainability and volatile conditions. The long-lasting political instability, the restrictions on movement and access and the internal divide remain key factors constraining the potential of the Palestinian economy. The constraints have been hollowing out the productive sectors and left the economy reliant on consumption-driven growth. In 2020, the COVID-19 crisis hit an economy already weakened by three years of low economic growth, high unemployment, and persistent fiscal deficits. It is estimated that the real gross domestic product (GDP) contracted in 2020 by 11.5 percent with respect to 2019.

16. Unemployment continues to constitute a chronic crisis for Palestinians. The COVID-19 outbreak has had its toll on the sectors affected by social distancing measures, such as tourism, restaurants, and construction. Around 121,000 people lost their jobs in the second quarter of 2020, including Palestinian workers working in Israel. But the number significantly dropped in the third and fourth quarters as economic activity started to slowly improve. According to the latest data for the fourth quarter of 2020, the number of unemployed is 303,800—of which 168,200 persons

are in Gaza and 135,600 in the West Bank. There is a regional divergence in unemployment between the Gaza and the West Bank. In Gaza, 43 percent of those in the labor force were unemployed in the fourth quarter of 2020, while the West Bank recorded an unemployment rate of 15 percent during the same period. Male versus female unemployment in the territories was at 20 percent and 37 percent, respectively. In Gaza, the numbers are quite alarming particularly among young women (15-29 years) with 91 percent unemployed females compared to 47 percent in the West Bank.

Table 1: Palestinian Territories: Selected Macroeconomic Indicators

	2017	2018	2019	Est. 2020	Forecast		
					2021	2022	2023
Real economy, annual percent change, unless indicated otherwise							
Nominal GDP	4.7	0.9	5.3	-12.1	2.3	3.1	3.0
Real GDP	1.4	1.2	1.4	-11.5	3.5	3.2	3.0
GDP per capita (nominal)	1.9	-1.7	2.6	-14.3	-0.3	0.3	0.3
Contributions to Real GDP Growth							
Private Consumption (growth)	-1.1	1.1	3.8	-11.0	2.4	2.5	2.5
Gross Fixed Investment (growth)	6.9	2.5	0.9	-31.8	22.8	9.2	5.7
Exports (growth)	13.9	2.5	2.0	-9.6	3.8	3.0	3.0
Imports (growth)	1.3	4.5	1.4	-12.0	5.0	4.0	3.0
Unemployment Rate (ILO Definition)							
	25.7	26.2	24.0	25.9	24.9	24.0	23.5
GDP Deflator							
	3.2	-0.3	3.8	-0.7	-1.2	-0.1	0.0
CPI (year-average)							
	0.0	1.2	0.8	-0.7	0.7	0.9	0.9
Fiscal Account, percent of GDP unless otherwise indicated							
Expenditures	29.7	27.8	27.5	33.8	30.8	30.1	29.5
Revenues (including grants)	26.6	25.2	23.0	26.1	25.9	25.9	25.8
General Government Balance	-3.2	-2.5	-4.5	-7.6	-4.9	-4.2	-3.7
General Government Debt, ex. arrears	15.8	14.5	16.3	24.2	24.8	25.1	25.4
Balance of Payments, percent of GDP unless indicated otherwise							
Current Account Balance	-13.2	-13.2	-10.4	-6.5	-8.1	-8.3	-8.9
Imports, Goods and Services	52.7	55.4	53.5	51.3	54.9	56.5	57.4
Exports, Goods and Services	15.7	16.0	15.5	15.8	16.3	16.6	16.8
Net Foreign Direct Investment	1.2	1.7	1.1	0.9	0.8	0.8	0.8
Gross Reserves	2.8	3.3	3.8	4.7	4.6	4.4	4.5
External Government Debt	6.5	6.3	7.1	8.8	8.6	8.3	8.1
Terms of Trade (growth)	-5.4	-1.6	9.9	3.3	-2.5	-0.3	-0.4
Memorandum items:							
GDP nominal (US\$ million)	16,128	16,277	17,137	15,061	15,408	15,883	16,365

Source: PCBS, MoF, and PMA for history and WB Staff for Estimates and Forecasts.

17. The economic decline is likely to increase poverty levels and hence negatively impact the standard of living. Based on the latest available data, 22 percent of Palestinians lived below the US\$5.5 (2011 purchasing power parity) a day poverty line in 2016-2017. In the West Bank, poverty rates are lower but sensitive to shocks in household expenditures, while in Gaza any change in social assistance flows would significantly affect the population's wellbeing. The latest available official numbers show that poverty in the WB & G increased from 25.8 to 29.2 percent between 2011 and 2016-2017. Projections based on GDP per capita growth suggest that the poverty rate has been constantly increasing since 2016, reaching 28.9 percent in 2020, a significant increase of 7 percentage points in the last four years. This represents approximately 1.4 million people living in poverty in 2020. However, national estimates hide significant spatial differences and the divergence of trends between Gaza and the West Bank. With 53 percent of the population in the Gaza Strip living in poverty in 2016-2017, the poverty rate for the Gaza Strip was more than four times higher than the rate of the West Bank (13.9 percent). In addition, despite Gaza having fewer habitants than the West Bank, 71.2 percent of all poor live in Gaza, compared to 28.8 percent in the West Bank. While the West Bank saw a slight improvement from 2011 to 2016-2017 with poverty declining from 17.8 to 13.9 percent during this period, poverty in Gaza rose from 38.8 to 53.0 percent, leaving every second Gazan poor.

18. The clearance revenue³ crisis and the impact of COVID-19 outbreak on the PA's finances forced the PA to deplete its fiscal buffers in 2020 and to start 2021 with a weak fiscal position. Clearance revenues comprise more than two-thirds of the PA's total revenue and cover more than 50 percent of its spending including the wage bill and other recurrent spending. A Presidential decision was made on May 19, 2020 to stop all coordination with the GoI, which includes coordination efforts on clearance revenues, as a response to a potential annexation of parts of the West Bank. This situation extended for a period of six months and has compounded the impact of the COVID-19 crisis on public finances, especially since the PA's spending increased by about 6 percent in 2020 to address the growing social and medical needs. Net lending⁴ also grew in 2020. Some progress was made in previous years to control this category of spending, but it increased in 2020 as LGUs struggled to collect enough revenues to cover utility bills amid the economic crisis. Aid to the PA's budget has significantly plummeted in recent years and reached US\$488 million, 20 percent less than what was received in 2019 and the lowest in over a decade. While lockdowns were limited during the second half of the year and clearance revenue transfers were resumed in November 2020, the PA's financing gap reached about US\$1.1 billion in 2020, forcing the PA to deplete its financial buffers and to start 2021 with a tough fiscal position.

19. COVID-19 crisis has weighed heavily on the health budget. While the Ministry of Health (MoH) budget for 2020 was planned to be at US\$700.8 million, the budget has decreased by more than a quarter to US\$527.8 million due to the adverse fiscal impact of COVID-19 crisis, as well as the suspension of coordination with Israel. In addition, significant amounts of the existing health budget are being allocated to COVID-19-specific expenditures constraining the delivery of other essential services.

20. Private investment levels remain low amidst the political and economic instability. Most formal enterprises are at the micro or small end of the firm size spectrum with a significant

³ These are VAT and import duties that are collected by the GoI on behalf of the PA and transferred monthly.

⁴ Net lending represents deductions made by the GoI from clearance revenues to offset utility bills owed by LGUs and distribution companies to Israeli suppliers.

level of informality involving up to an estimated 140,000 workers. The 2020 Doing Business Report focusing on business regulations and their enforcement, ranks WB & G 117th out of 190 economies. While there has been progress compared to earlier years, there is still ample room for improvement to encourage efficiency and support freedom to do business. The 2014 Investment Climate Assessment “Fragmentation and Uncertainty” lists political instability, access to electricity, informal sector practices, tax rates, and access to finance as the persistently highest obstacles to private sector investment. According to 2019 Bank estimates, only six percent of businesses have majority female ownership, with many of them facing additional barriers given women’s limited access to financial services and immobile assets. The effects of COVID-19 crisis have been particularly challenging with more than a quarter of female-led business having to close since the start of the crisis.

21. The stability of the financial sector is prone to significant risks resulting from the economic decline and the PA’s heavy reliance on domestic debt. To face the dire economic situation in 2020, the PA had no choice but to borrow from domestic banks and to accrue large arrears resulting in further liquidity constraints. According to data provided by the Ministry of Finance (MoF), the total stock of arrears accrued to the private sector over the years now exceeds US\$750 million, creating large liquidity challenges. Additional borrowing from the domestic banking sector, raised the PA’s stock of debt from US\$1.6 billion as of end-2019 to US\$2.3 billion as of end-2020. With declining revenues due to COVID-19 implications and clearance revenue transfer issues, the PA has increased borrowing from domestic banks, exceeding the Palestinian Monetary Authority exposure limit by 10 percent. Bank loans to PA employees (backed by future salaries) also represents an indirect channel of exposure to the public sector, standing at US\$1.7 billion by December 2020. When combined, PA and public employees account for US\$3.9 billion, or 40 percent of total banking sector credits. Amidst such a turbulent environment, the sector requires system-wide efforts to strengthen the financial infrastructure and develop financial diversification.

22. The Palestinian economic outlook is reliant on political developments among other equally significant factors. Regional dynamics, the forthcoming Israeli and Palestinian elections, the status of movement restrictions and the rollout of the COVID-19 vaccinations are among the vital aspects that will draw the features of the Palestinian economy going forward. Any positive development, particularly at the political level, would play a key role in unlocking the potential of the Palestinian economy, whereas a downside scenario would further worsen the situation. The COVID-19 crisis has had its toll on an already weakened economy. Persistent unemployment rates and fiscal deficits have led to a sharp decline in economic activity during 2020. For 2020, the GDP for the entire year is estimated to have contracted by about 11.5 percent. Uncertainty about the rollout of COVID-19 vaccinations implies that the ongoing “lockdown-open-surge-lockdown” dynamic will disrupt the economic activity until enough population is vaccinated to achieve herd immunity. The outlook in the 2021-2023 period assumes gradual control of the COVID-19 outbreak through rollout of vaccines and return to growth trend of around 3 percent. However, this growth is still not sufficient to return to the pre-pandemic level of GDP. Growth in the three years prior to 2020 was exceptionally weak at 1.3 percent on average due to several fiscal shocks. The outlook assumes resolution of these fiscal shocks and return of investment growth to its longer-term trend of about 7 percent (7.6 percent average in the 2021-23 period).

III. ASSISTANCE STRATEGY FRAMEWORK

A. Selecting Focus Areas and Objectives

23. The following filters were applied to select and to define the objectives within each focus area of the AS: (1) lessons learnt from implementing the ongoing AS over the past four years (FY18-21); (2) alignment with the PA's NDP 2021-2023); (3) pathways to a well-connected Palestine, while urgently strengthening resilience; and (4) alignment with the WBG's corporate and regional strategies. The WBG has been an active development partner since the early 1990s, so in many sectors the WBG has the comparative advantages of technical expertise, history of the program's engagement, and presence on the ground. Equally, in the PA's priority areas such as agriculture, in justice, transport, and marine economy, the Bank will follow the lead of donor partners that have had longstanding engagements.

FILTER 1. LESSONS FROM IMPLEMENTING THE ONGOING STRATEGY (FY18-21)

24. The AS for FY18-21 put in place a longer-term approach, as the Bank moved beyond two-year Interim Strategy Notes that had previously steered the program, with a sharp focus on private sector development to create jobs.

- **The AS identified institutional strengthening as a central plank of the program.** While private sector focus areas under the FY18-21 AS progressed steadily and a majority of objectives were met, it was evident that private sector investment and growth will not materialize at a significant level without key upstream reforms and institutional strengthening—alongside a reduction in the external restrictions imposed upon the WB & G. Even with use of mobilization instruments, large-scale private investment in infrastructure will not take place without establishing predictability for operations, interconnectivity and creditworthiness of sector institutions, giving private sector confidence that the public sector would honor obligations and offer some protection over revenue streams. Further, implementation of the program during FY18-21 revealed that the PA's operation and maintenance (O&M) of infrastructure was unsustainable without targeted capacity building. The budget impact, cost-effectiveness, and cost-benefit analysis, where the costs of an intervention are compared against the potential benefits, as well as the existing resource envelope, have not been sound. Similarly, for the Palestinians to become more resilient to shocks and pandemics, being able to protect the vulnerable and deliver essential services, meaningful improvement in institutions' financial sustainability and operational capability is needed. Program responses to hostilities in Gaza (including in 2008-2009, 2014, and 2018) emphasized the need to be prepared to help address the immediate and short-term social protection needs, of injecting cash into the economy and expanding coverage of social assistance to include the new poor who lost their livelihoods.

Box 1: In Pursuit of a “Well-Connected Palestine” – from Building Institutions to Developing Creditworthiness in the Energy Sector

The Bank has supported the Palestinian energy sector since 1999. Bank support and technical assistance has helped establish and strengthen key institutions over the years, starting with the energy authority shortly after Oslo Accords, consolidation through new distribution companies in late 1990s and 2000s, an independent energy regulator in 2010, and the Palestinian single-buyer of electricity 2013. These efforts have led to improved access to power for consumers, separation of policy and regulatory bodies, and vast improvement in cost recovery.

In Gaza, the energy crisis is caused by limited energy supply and repeated damage to power infrastructure. The sector faced further setbacks due to the 2014 war. The Bank has supported rehabilitation of key energy infrastructure, yet due to the lack of supply Gaza continues to suffer an energy crisis and experiences electricity blackouts daily.

The energy sector continues to struggle with financial sustainability. Electricity payments, while improved, continue to involve deductions from the clearance revenue mechanism. The resulting lack of creditworthiness of energy sector institutions reduces access to capital, which deters investment in energy sector infrastructure preventing the possibility of diversifying power supply options which is key to Palestinian energy security and independence.

Improvements in the sector during the past two decades have been remarkable considering the difficult circumstances. Financial sustainability and diversification of energy sources are inter-linked. As the energy sector enhances its connectivity to Jordan and Egypt, it would not only improve the financial management but also enhance technical reliability, allowing more clean energy and enable greater regional cooperation on energy. Dedicated and focused efforts will lead to continued progress in these areas, and creditworthiness will eventually be developed. It is the ambition of this Assistance Strategy that by FY25 a significant reduction in net lending would occur, enabling private sector engagement and energy trade across borders.

- **The program will benefit from moving from short to long-term engagement, even as flexibility remains key.** The FY18-21 implementation period—a longer period than the two-year interim strategy periods that had previously framed the WB & G program—allowed for a timeframe to prioritize medium-term objectives, such as private capital mobilization where important results were achieved. While this AS aims at institution strengthening for post-pandemic economic and social resilience in the immediate term, the larger ambition for “a well-connected Palestine” justifies the four-year approach (same as in the previous AS FY18-21). Areas of the program have demonstrated readiness for interventions that take a longer view. For example, in the energy sector, the Bank’s first multi-phase programmatic approach (MPA) in the Middle East and North Africa (MENA) Region was approved. The MPA aims to kickstart large-scale electricity infrastructure projects in the WB & G that would not be feasible under a project with a shorter implementation period. Toward a “well-connected Palestine,” the program will continue to pursue priorities that would benefit from a long-term engagement. The education sector, for example, needs an extended engagement to fulfill the promise of human capital. The World Bank Human Capital Index indicates that investing in early childhood education and improved quality of education are critical for better human capital outcomes. This requires a long-term and programmatic engagement to achieve results on the ground.

- **The WBG will continue to engage with a diverse range of stakeholders.** The FY18-21 AS positioned the Bank Group to work more closely with the private sector, Non-Governmental Organizations (NGOs), and municipalities to ensure development progress. While it has become clear that longer-term outcomes require the apex-level Palestinian public sector as the central actor, engagement with these other stakeholders is also critical for success. Private sector implementation of private sector and financial sector-focused projects was utilized consistently during FY18-21 and the results have been notably better. The Bank will, thus, continue with this approach, and will maintain options for implementation through NGOs. The Bank-financed emergency cash-for-work operation in Gaza has been NGO-implemented, and this modality has worked well. Citizen engagement will be a major area of focus in all projects to ensure that projects benefit the Bank’s main client—the Palestinian population.
- **Analytical work continues to be a major comparative advantage of the World Bank, highly valued by the PA and by donors who channel support through the Bank.** During the consultations on this proposed AS with the PA, with donor partners and civil society, all stakeholders emphasized that they looked to the World Bank to lead on this critical area. The Bank’s twice-yearly reports to the Ad Hoc Liaison Committee (AHLC) of development partners, form the basis of discussions between Israel, the PA, and development partners and help set the reform priorities. While donors have given less budget support in recent years, generally and through Bank-administered channels, record pledges came into the Bank’s WB & G Partnership for Infrastructure Development Multi-Donor Trust Fund (PID MDTF), signaling that donors are willing to support the Palestinians through project co-financing. Towards private sector development, donors wanted to channel funds not only for projects but also for the Bank’s analytical work.

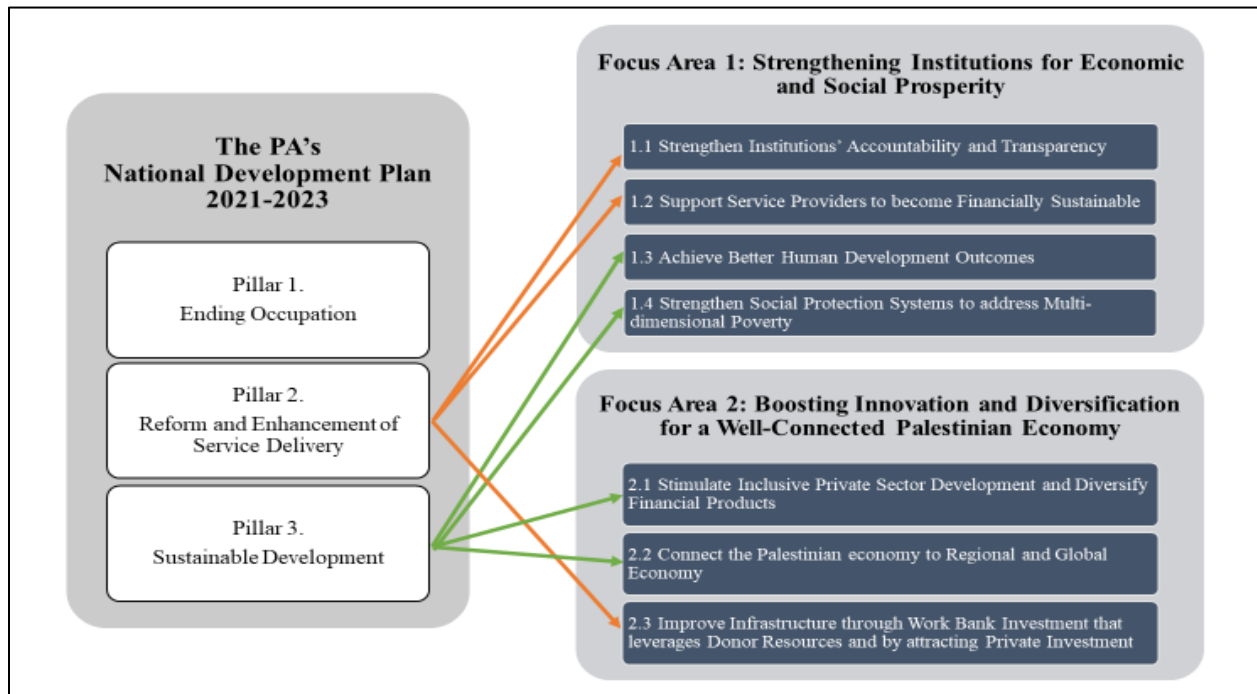
FILTER 2. ALIGNMENT WITH THE PA’S NATIONAL DEVELOPMENT PLAN

25. The PA’s NDP 2021-2023 places the economy and human capital in the core of its strategy. It responds to the COVID-19 pandemic by stressing the importance of the institutions’ resilience going forward. The NDP is described in three pillars: (a) ending occupation, (b) reform and enhancement of service delivery, and (c) sustainable development. Figure 1 below illustrates the alignment between the NDP pillars and the AS objectives.

- Within the pillar of reform and enhancement of service delivery, the PA describes strategies for strengthening institutions to provide more effective and quality citizen-centered public services. Strengthening governance and public institutions efficiency, partnering with the private sector and NGOs for effective service delivery, introducing e-government, securing rights to access to information and advancing land reform are among the PA’s key strategic priorities.
- The PA’s sustainable development pillar is geared towards achieving economic growth through adopting a cluster development approach and improving the business environment. It also aims at investing in human capital by providing quality education and health for all, addressing multi-dimensional poverty and creating jobs among others. It contains strategies for creating and supporting regional economic clusters within the WB & G, attracting domestic and foreign direct investment, expanding international trade, investing in infrastructure including digital, strengthening the financial sector, enhancing learning outcomes, advancing universal health coverage and developing job creation programs. Empowering women and youth and promoting the effectiveness, coherence and inclusion of the social systems are equally among the national priorities leading to sustainable development.

- The AS responds to the NDP’s vision. Through giving priority to strengthening institutions, developing human capital and building a more resilient economy, the Bank’s program is in complete harmony with the NDP’s priorities. Equally, there are parts of the PA’s NDP which are supported more prominently by other donor partners, including sectors such as the rule of law and justice, agriculture (as part of the cluster development agenda), tourism, and culture

Figure 1: Alignment with the PA’s NDP 2021 – 2023



FILTER 3. PATHWAYS TO “A WELL-CONNECTED PALESTINE”

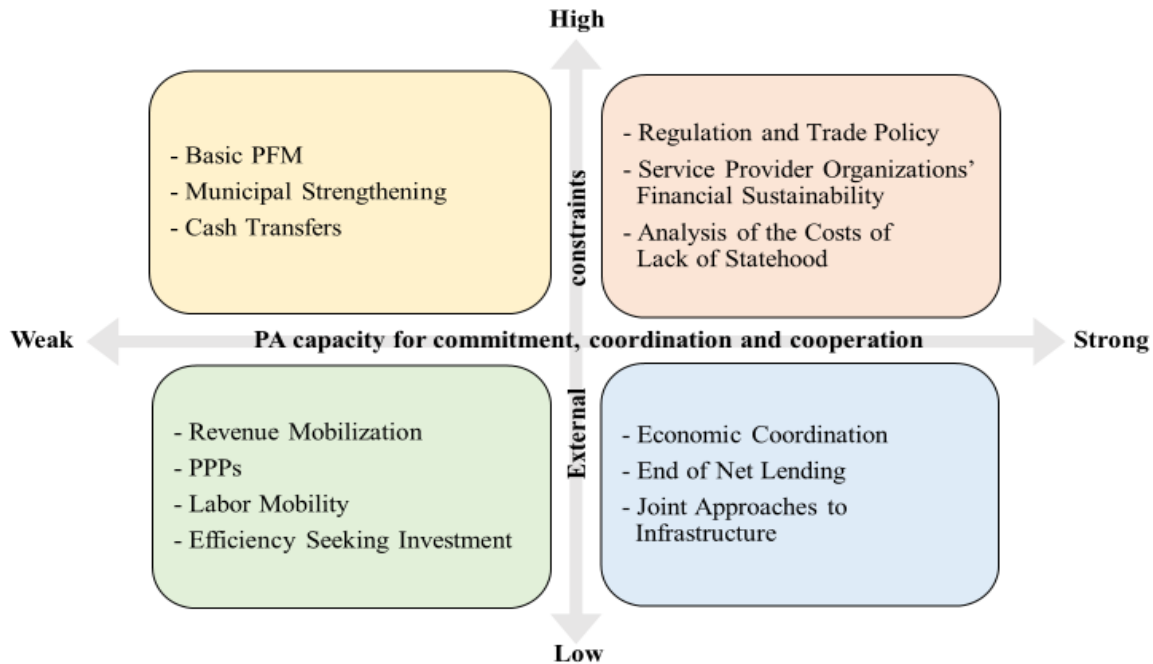
26. The ability of Palestinian institutions to meet national development objectives depends on: (a) *the constraints arising from restrictions on Palestinians’ movement and access.* These constraints include the mobility of Palestinians within the territories, into Israel, and abroad; access to Area C; trade policy and non-tariff barriers (e.g., dual use); access to water, mobile spectrum, infrastructure, and land. Taken together, they constitute a multi-dimensional connectivity deficit. Road transport, which remains, by far, the most important mode of transportation, is partially under control of the PA. Existing restrictions have also limited access and movement of goods and people between Gaza and the West Bank. In addition to hard physical barriers, soft barriers such as trade formalities, procedures and customs requirements, are cumbersome for the Palestinian private sector. A poor digital connectivity infrastructure limits seizing the new opportunities created by the information and communication technologies revolution. Underpinning the digital infrastructure requires a modern, reliable, diversified and regionally connected energy sector, to guarantee the reliability and operation of the digital infrastructure. In Figure 2 below, constraints are depicted along the y axis. A higher level of constraints is that of the status quo and an easing of constraints fits the ambition of the Bank Group’s program. As the pathways are developed, external constraints may be lowered (a positive development illustrated on the negative y axis) or remain high (an unwelcome possibility shown along the positive y axis).

(b) *the Palestinian capacity for commitment, coordination, and cooperation (the “three Cs” as defined in the World Development Report 2017).* On the one hand, strong institutions would manifest through Palestinian accountability and capacity in the areas under Palestinian control. On the other hand, fragile public institutions have emerged as binding constraints to the Palestinian economy’s connectedness to domestic, regional and global markets. With regard to public institutions, for example, some public financial management (PFM) practices do not line up with the PA’s goal of macro-fiscal stability, increasing economic risks, including financial risks. Also, the provision of public services is misaligned from practices that will allow for financial sustainability of service providers. The public education system is not conducive to achieving learning outcomes and preparing the younger generations to participate in and connect to labour markets and the technological challenges of the future of work. Finally, the focus on providing cash transfer support through the existing social protection arrangements is inadequate to address the multi-dimensional aspects of poverty and enable the poor to benefit from a stronger economy. In Figure 2 below, Palestinian capacity for the three Cs is depicted along the x axis. A weaker level of that capacity is closer to the current status and a stronger capacity fits the ambition of the program.

27. Resilience strengthening is needed immediately, and it will also support the pathways to a “well-connected Palestine.” For example, municipal strengthening (as shown in Figure 2 below), would be an immediate priority for the Bank Group and would support resiliency through continued essential service provision during the pandemic and its aftermath. Municipal strengthening would also help foster commitment, coordination, and cooperation—and would help position the Palestinians for Public-Private Partnership (PPP) opportunities if the external constraints are lowered.

28. The type of program interventions under this proposed strategy will depend on where the economy is with respect to constraints (high as in the status quo, or low as in easing restrictions) as well as on the Palestinian capacity for commitment, coordination and co-operation (low denoting a weakness in this area or high denoting strength). This is represented schematically below in Figure 2.

Figure 2: Typology of Program Interventions

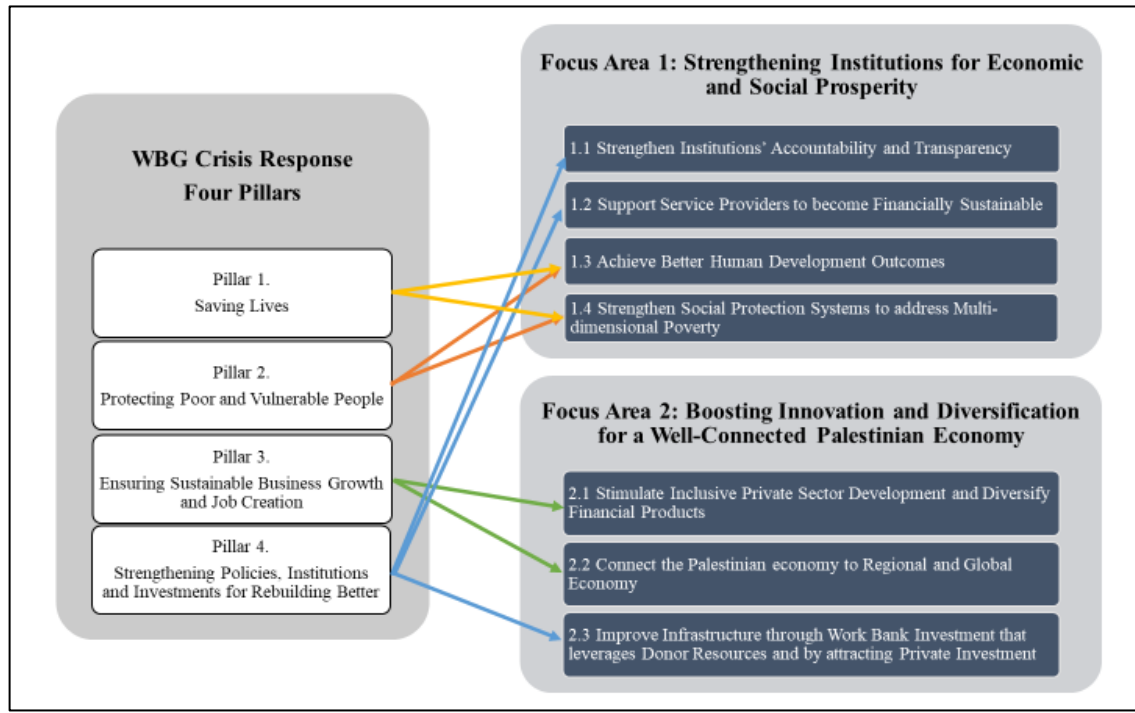


Note on Figure 2. Areas of intervention shown within the box are indicative only. The lower right box depicts the ideal situation when PA capacity for commitment, coordination, and cooperation is strongest and external constraints inhibiting the Palestinians are lowest. The upper left box depicts the least desirable situation when PA capacity for commitment, coordination, and cooperation is weakest and external constraints inhibiting the Palestinians are highest.

FILTER 4. ALIGNMENT WITH THE WORLD BANK GROUP’S CORPORATE AND REGIONAL STRATEGIES

29. The comparative advantages for World Bank Group engagement outlined in the WBG Strategy for Fragility, Conflict and Violence (FCV) 2020-2025 resonate with the approach taken to develop this proposed strategy. The WBG in the Palestinian territories has the role as a development actor committed to sustained and long-term engagement that supports national systems, strengthens core state functions, and builds institutional resilience and capacity. The AS closely follows the overall FCV strategy’s guiding principles of inclusion, transparency, and accountability in its support to institutions and approach to private and financial sector development. Toward achieving ambitious objectives in a fragile context, the AS draws on lessons learnt from FY18-21 implementation and FCV strategy guidance to engage with a wide array of clients from the public and private sectors and a diversification of stakeholders. Aid coordination is an example of how the Bank has collaborated with the development community, and the AS will enhance this guidance, including the Bank’s role in the humanitarian – development – peace nexus. In line with the FCV strategy’s operationalization measures, security considerations are taken into account throughout the project cycle, including factoring security issues into project design and documentation, implementation, supervision, and monitoring and evaluation.

Figure 3: Alignment with the World Bank Group’s COVID-19 Crisis Response Approach Paper



30. This strategy has been prepared as the Palestinian GDP contracted by 11.5 percent in 2020 in the midst of COVID-19 pandemic. The AS fits well with the WBG’s COVID-19 Crisis Response Approach Paper as it supports Palestinian resilience today, while laying the building blocks of a well-connected Palestine tomorrow. As seen in Figure 3, in accordance with the Bank Group’s health and social responses (Pillars 1 and 2), the program keeps its focus on strengthening the Palestinians’ resilience—including through the ongoing Emergency Social Protection COVID-19 Response Project and cash-for-work programs. In particular, the social response will aim to enhance workforce resilience and capability for better employment through improving quality of education and health outcomes in Focus Area 1. For the economic response (Pillar 3), the Bank Group’s program will promote sustainable business growth and job creation, driven by economic diversification leading to a “well-connected Palestine.” For Rebuilding Better (Pillar 4), the strategy will help the PA achieve a resilient, inclusive, and sustainable recovery in a world transformed by COVID-19 through Objectives 1.1, 1.2, and 2.4. The key long-term interventions will include strengthening service providers’ financial sustainability and operational capability and building creditworthiness of public sector institutions—leading to bankable investments.

B. Consultations

31. As during the preparation of previous Assistance Strategies for the WB & G, a range of stakeholders were consulted on the direction set by this one. A round of discussions with the Prime Minister’s office, the MoF, donor partners and civil society were undertaken during February and March 2021. The proposed approach of moving along the continuum of resilience strengthening to increasing connectedness was welcomed by all. Three key takeaways were echoed in all three

group discussions: (1) maintain the World Bank’s comparative advantage in analytical work for setting the reform agenda; (2) maintain selectivity in intervention areas in coordination with donor partners; (3) strengthen institutions that would help improve the business environment and build skills that fit industry needs for graduates of universities and of Technical and Vocational Education and Training (TVET).

32. The PA counterparts welcomed the Bank’s efforts to coordinate closely with other development partners; and to maintain focus on ongoing areas such as municipal development and land administration. The Bank’s analytical work helps set the direction of reforms of the PA and support provided by donor partners, and the development policy grants emphasize critical reform items in addition to the needed budget support.

33. Donors appreciated the approach of the AS to draw upon lessons from the previous period, including that this AS maintains selectivity in interventions, while continuing a longer-term engagement that has demonstrated success. Donors encouraged the Bank to continue supporting systems. Many donors were keen on the human development agenda and support to youth and agreed with concentrating on a programmatic approach in education—along with continued support for social protection systems. Donors suggested the nexus of human development and peace, including as it relates to refugees and cooperation with UNRWA. Some donors focused on the reform agenda, while others were keen to see continued engagement in the water and energy sectors.

34. Civil society welcomed this AS, while suggesting some new areas of focus—such as enhancing the new Palestinian Legislative Council’s economic oversight and providing support for trade infrastructure. Education, social protection, governance, support for firm capability and entrepreneurship, and infrastructure were areas that civil society suggested as priorities for the WBG to continue and scale up its engagement. Gender gaps in the labor force was stressed as an area of focus. In social protection and beyond, it was proposed to link the Bank Group’s strategy with the 2030 Sustainable Development Goals. In support to firms and entrepreneurs, support to rejuvenate trade associations for stronger links between the PA and private sector was suggested and use of first loss grants was recommended following their success internationally. For infrastructure, a long-term approach that would crowd-in private investment was advised, while the critical need for support to digital development was noted. It was also emphasized that civil society places a high value on the Bank’s knowledge products and suggested that the Bank continues to use this platform to identify restrictions on Palestinian development.

C. Description of Focus Areas and Objectives.

35. The two focus areas of the proposed strategy emerged from the lessons learnt while implementing the current AS - what worked and did not (Filter 1), the PA’s NDP (Filter 2), and the Bank’s assessment of the pathways to realize a “well-connected Palestine” while urgently strengthening resilience (Filter 3). These two focus areas concentrate on what paths of reaching a “well-connected Palestine” are under the PA’s control and prepares for a moment when external constraints are lowered. The focus areas are:

- Focus Area 1: Strengthening Institutions for Economic and Social Prosperity, and
- Focus Area 2: Boosting Innovation and Diversification for a Well-Connected Palestinian Economy.

Objectives to be achieved within each of these focus areas, along with their sequencing – now or later, to strengthen resilience or help establish a well-connected Palestinian economy – were identified from the pathways to a well-connected Palestine (Filter 3). Focus areas and objectives were matched against the filter on alignment with the WBG corporate and regional priorities (Filter 4) to identify cross-cutting themes of this AS.

Table 2: List of Focus Areas and Objectives

Focus Area 1: Strengthening Institutions for Economic and Social Prosperity	
Objectives	1.1 Strengthen Institutions’ Accountability and Transparency
	1.2 Support Service Providers to Become Financially Sustainable
	1.3 Achieve Better Human Development Outcomes
	1.4 Strengthen Social Protection Systems to Address Multi-dimensional Poverty
Focus Area 2: Boosting Innovation and Diversification for a Well-Connected Palestinian Economy	
Objectives	2.1 Stimulate Inclusive Private Sector Development and Diversify Financial Products
	2.2 Connect the Palestinian Economy to Regional and Global Economy
	2.3 Improve Infrastructure through World Bank Investment that Leverages Donor Resources and by Attracting Private Investment
Across the Focus Areas	
Cross-cutting themes	Addressing and Narrowing Gender Gaps
	Maximizing Climate Resilience
	Leveraging Digital Technology
	Promoting Citizen Engagement

OBJECTIVE 1.1: STRENGTHEN INSTITUTIONS’ ACCOUNTABILITY AND TRANSPARENCY

36. Strengthening governance, accountability, and transparency is a high priority for the program as identified in Filters 1, 2, and 3.

- From Filter 1 (lessons learnt): strengthening institutions and upstream reforms are critical ingredients for unlocking the economies potential. The program during FY18-21 did not realize significant gains in private sector development and job creation, in part because institutional capacity and credibility was not prioritized.
- From Filter 2 (links with the PA’s NDP): strengthening the PFM sector and renewing the social contract through enhanced accountability and transparency are among the NDP top national priorities. The NDP holds the PA accountable to its citizens and commits to securing access to information and empowering the role of independent audit entities.
- From Filter 3 (pathways to a “well-connected Palestine”): accountability and transparency strengthening is a reform action that is within the Palestinian span of control and capacity for commitment. Improving public governance is key to building private sector confidence and citizens’ trust.

37. There are apparent disconnects in the accountability and transparency of institutions.

- Current *PFM and procurement practices* are a barrier to growth. The limitations in expenditure control—combined with unpredictable revenues—have led to the accumulation of arrears and adversely affected performance in key sectors such as health and municipalities. While there has been good progress in procurement reform with the passing of the Public Procurement

Law (PPL), several provisions of the law remain unimplemented. There are few avenues for civil society to monitor the financial performance of the PA.

- The *regulation of the financial sector* to combat money laundering and financing of terrorism is vulnerable to instability. This could potentially disrupt correspondent banking relationships between Israeli and Palestinian banking systems—whose smooth functioning is critical to the domestic private sector.
- While growth can only be fully unleashed through a lessening of external restrictions, *institutional factors, including governance*, constrain inclusive private sector growth. These factors include weak contestability, as well as some lack of transparency in policymaking, regulation and licensing in selected areas.
- As the legislature has been absent for many years, *public oversight* of the PA's PFM has not been institutionalized.

38. The Bank Group plans to undertake the following interventions to strengthen institutions' accountability and transparency.

- The program will build on the ongoing Public Financial Management Improvement Project and recent analytical work with a focus on budget execution credibility through a sound PFM and procurement framework. Interventions will address domestic revenue mobilization, institutional capacity for budget allocation and execution, management and access to financial resources among LGUs. Developing an e-government procurement system and implementing a procurement professionalization strategy will be in the core of the Program. The Bank will continue preparing twice-yearly AHLC Economic Monitoring Reports to shed light on the PA's economic and fiscal status and to provide reform recommendations.
- On *financial integrity*, the Bank will continue to monitor the implementation of anti-money laundering and financing of terrorism (AML/FT) risk mitigation measures as well as the Palestine Monetary Authority's (PMA) and Bank of Israel's efforts to maintain correspondent banking relationships. Support will be extended in the form of technical assistance (TA) to the regulatory bodies. It will include capacity building activities, and advisory services on technical, policy, and legal framework issues - to help align with international best practices. The Bank would play a convening power to bring relevant parties to the discussion table.
- On *financial stability*, IFC will support the PMA on non-performing loan resolution mechanisms, which will help release capital that is tied up in distressed assets—thus providing liquidity to banks that would be circulated into the economy through new loans. IFC will leverage its extensive experience in this space through its Distressed Assets Recovery Program.
- To help renew the social contract between the PA and the citizens and between the PA and the private sector, interventions will include the provision and access of e-government services that would increase transparency, accountability, quality, and predictability of PA decisions and functions at all levels reducing territorial and economic fragmentation. Strengthening the institutional capacity of the Palestinian anti-corruption commission will also be an area of engagement for *enhanced governance and transparency*. In the future, the Bank will support oversight capacity of parliamentary committees.
- Through annual budget support operations, the program will help strengthen *PFM reforms* at the apex-level of the PA and in different sectors of the economy.
- Going forward, the Bank will support the PA in addressing key objectives under its NDP, *institutional factors* and constraints that will encourage investment, private sector growth, and job

creation, also making it easier for the WB & G to strengthen regional and global market linkages (see more in objective 2.2).

OBJECTIVE 1.2: SUPPORT SERVICE PROVIDERS TO BECOME FINANCIALLY SUSTAINABLE

39. This objective to strengthen the operational capability and financial sustainability of service providers is a prerequisite for resiliency in the short term, and for economic and social prosperity in the longer term. Arrangements for O&M of infrastructure in key sectors lack a sound commercial approach, with limited cost recovery adding to the spiraling net-lending tab (see paragraph 18 under Recent Economic Developments and Prospects for more detail). Beyond the fiscal challenges, the quality of services suffers, and coverage expansion is compromised by lack of capacity to invest on the part of service providers. So long as service providers are not financially sustainable, it will be unrealistic to attract private capital into needed infrastructure investment, leaving the burden on the PA and donors (see objective 2.3). Filters 1, 2, and 3 informed this objective:

- From Filter 1 (lessons learnt): while the program supported upstream reforms and building creditworthiness of institutions during FY18-21, the program neglected to prioritize underlying challenges to financial sustainability. One of the lessons from FY18-21 implementation was that improved O&M of infrastructure was a key barrier to financial sustainability of institutions that deserved a sharp focus by the program.
- From Filter 2 (links with the PA’s NDP): this objective follows the PA’s NDP Pillar of Reform and Enhancement of Service Delivery to strengthen institutional efficiency.
- From Filter 3 (pathways to a “well-connected Palestine”): this objective also follows the logic of supporting objectives under the PA’s control that will also help improve the Palestinian capacity for the three Cs toward a “well-connected Palestine.” In this case, improved financial sustainability of service providers would decrease the financial burdens on the PA and increase PA capacity for managing longer-term projects and yield confidence in the PA by international partners and private investors.

40. There are apparent disconnects in the financial sustainability of service providers.

- As infrastructure investment is needed to diffuse the Gaza energy crisis and diversify resources for *energy security*, there is an opportunity for private sector investment and participation if creditworthiness of service providers is improved. This principle also factors into objectives 2.2 and 2.3 later in the document.
- *Local government’s capacity* to delivery services suffers from fragmentation of LGUs and recurring financial and capacity constraints. Because so many LGUs represent small populations, there are no economies of scale to efficiently address a high number of critical functions—especially when combined with an eroding revenue base.
- While investment in infrastructure is important, reform of *waste management* policies and improvement in service cost recovery are needed to enhance the effectiveness of the sector and address the PA’s needs. In wastewater, critical treatment infrastructure lacks sufficient O&M, creating risks to the integrity of the investment, as well as to health of the population and to the surrounding environment.
- Alongside challenging external restrictions, the *water sector* faces underlying financial vulnerabilities, and there are gaps in institutional capacity and incentive structure of the sector. Operational capacity of sector service providers is weak, compromising their ability to operate and

maintain infrastructure and to improve service delivery. Net lending is a major hurdle for sector sustainability.

- Alongside O&M issues, there is a need for *resiliency support* during the COVID-19 pandemic, where service providers have struggled to deliver basic and essential services.

41. The Bank Group plans to undertake the following interventions to help improve the financial sustainability of service providers.

- The Bank plans to support an operation that will build upon an ongoing *cross-sectoral* study that will produce recommendations for both the PA and local governments. Many of the Bank-financed ongoing and forthcoming projects will help foster private sector-led development over the long term and contribute to laying the foundations for private investment and private sector participation in infrastructure and service delivery.

- Phase I of the Bank-supported Advancing Sustainability in Performance, Infrastructure, and Reliability of the Energy Sector MPA (ASPIRE) is helping *energy sector* institutions lay the groundwork for creditworthiness in the sector. The MPA will further this through a donor-supported liquidity support account to facilitate the entry of independent power producers (IPPs) into the Palestinian market. IFC will continue supporting the Palestinian Energy and National Resources Authority (PENRA) to pave the way for competitively procured solar IPPs. This would decrease the cost of electricity purchased by the Palestinian Energy Transmission Company Limited—the single buyer of electricity—and would further creditworthiness of the sector.

- The Bank and donor partners, through the ongoing Third Municipal Development Project (MDP-3) and the Local Governance and Services Improvement Program-for-Results (LGSIP) have been supporting the *LGUs* to enhance the streams and transparency of their revenues. The Bank will continue to support LGU consolidation through incentive-based grant schemes, helping to mitigate the sector fragmentation and improve cost recovery. As the ongoing operations close, the Bank plans to support a longer-term, consolidated urban sector operation to continue consolidation and further the financial sustainability of service providers. Detailed under objective 2.3, creditworthiness of LGUs is expected to open opportunities for private sector participation, which IFC and MIGA can potentially support.

- In terms of *resilience to pandemic and other shocks*, the Bank-financed projects, including through an additional financing (AF) to the MDP-3, are also supporting LGUs resilience to COVID-19 crisis, with funding mechanisms to support essential services during the pandemic. The MDP-3 AF is also ensuring that 15 percent of the grant’s proceeds benefit women. The Bank will continue to support Palestinian disaster risk management and response at both the apex and local levels for improving resilience to natural and man-made shocks like the ongoing pandemic.

- The Bank-financed ongoing Wastewater Management Sustainability (WMS) Project is supporting sustainability of the Northern Gaza Wastewater Treatment Plant and laying the groundwork for long-term financial sustainability in the *wastewater sector*. During project implementation, local communities are being engaged to improve the customers’ willingness to pay for wastewater services and to ensure children’s safety while rehabilitating the North Gaza Wastewater Management Facilities. Climate adaptation and mitigation measures—such as enabling the reuse of recovered water for agriculture purposes and reducing greenhouse gas emissions—are part of the implementation plan. In the area of *solid waste management* (SWM), planned analytical work will assess policy options that look at the entire value-chain of SWM, based on 3Rs (reuse, reduce, recycle) and circular economy approach.

- The Bank will continue supporting *water sector* institutions, encouraging a robust reform agenda and providing targeted technical support for improved management of O&M of

infrastructure toward financial sustainability of the sector. Ongoing support will continue to the Palestinian Water Authority, to help establish the National Water Company (including the Bulk Water Supply Unit in Gaza), to support establishing regional water utilities, and to support a strong regulator of the sector (the Water Sector Regulatory Council).

OBJECTIVE 1.3: ACHIEVE BETTER HUMAN DEVELOPMENT OUTCOMES

42. Better human development outcomes are a high priority for this Strategy. Filters 2, 3 and 4 informed this objective.

- Filter 2 (links with the PA's NDP): investing in human capital is a core NDP vision to achieve sustainable development. The ambition is to modernize and improve the quality of education, achieve universal health coverage and enhance the capacity of the workforce with particular focus on youth and women for better job opportunities.
- Filter 3 (pathways to "a well-connected Palestine"): advancing the human development agenda receives high priority from the PA. The PA is also keen at introducing critical reforms into the relevant sectors, particularly the education sector. The *Tawjihi*⁵ reform is one example.
- Filter 4 (WBG corporate and regional priorities): enhancing the resilience of both health and education to better respond to shocks like COVID-19 has become critical and is in line with the MENA Regional Strategy calling for building human capital and resilience to shocks.

43. There are apparent disconnects that are deterring Palestinian human development.

- According to the World Bank's Human Capital Index (HCI), a child born in the W B & G today will be 58 percent as productive when she grows up as she could be if she enjoyed complete education and good health. While the HCI recognizes the steady progress achieved in key *human development outcomes*, it points to the need for increased access to early childhood education and improved quality of education and health as key drivers to increase human capital.
- While the PA has made strong investments in access to *education* (access to primary and lower secondary education is almost universal - 94% and 90% respectively), quality remains a challenge. Learning poverty needs to be reduced by strengthening early literacy and increasing share of 10-year-old children that can read and understand a simple text. Equally, the system falls short at equipping a competent workforce to match the skills' requirements of the 21st century labor market needs, especially in ICT.
- The COVID-19 pandemic has exposed the fragility of the *health sector*. The pandemic has disrupted the provision of primary health care services, in a context where NCDs pose a significant burden on the system.

44. The Bank Group plans to undertake the following interventions to promote better human development outcomes.

- The ongoing multi-sector Early Childhood Development (ECD) operation will enhance the *ECD sector* through improving coverage and quality of early childhood services from gestation until age 5.
- Going forward, supporting the *resilience of the education system* through digitalization to secure effective continued learning in the face of COVID-19 pandemic or other emergencies will be a fundamental aspect of the program. Forthcoming support will constitute a MPA focusing on basic to secondary education for improved learning outcomes but will also connect to higher

⁵ *Tawjihi* is the general secondary examination conducted in Jordan and the West Bank and Gaza. It determines a student's choice of university and major.

education for improved employability. Areas of engagement will include improving foundational abilities and digital skills while establishing quality assurances to effectively evaluate and accredit service providers and teaching personnel. The *Tawjihi* reform will aim to unleash students' critical thinking and knowledge application.

- Investing in *skills development* for graduates' employment including that of females will be prioritized, along with vocational training to respond to national priorities and labor market needs.
- The Bank will scale up the ongoing emergency *health* operation to strengthen the PA's COVID-19 pandemic outbreak response and its resilience to future shocks. The Bank will also prioritize programs to achieve UHC through public health preparedness, family medicine and primary health care.
- *Analytical work* will help design interventions:
 - A human capital review will identify key issues facing the sector since 2007, including the learning losses resulting from COVID-19 crisis.
 - A programmatic Advisory Services and Analytics (ASA) will cover student assessment reform for all phases, and high school examination (*Tawjihi*).
 - To address learning poverty, enhancing the capacity of the PA on data quality assurance processes including the use of International Large-Scale Assessments will be provided through TA.
 - An analysis of the graduates' employability skills and a diagnostic on the importance of TVET and on-the-job training tools are equally envisaged.
 - Potential areas of TA include a health sector review to update the last Public Expenditure Review/health financing analysis conducted in 2014-15, with an eye on NCDs, for their significant burden on the health system.

OBJECTIVE 1.4: STRENGTHEN SOCIAL PROTECTION SYSTEMS TO ADDRESS MULTI-DIMENSIONAL POVERTY

45. Protecting the poor and the most vulnerable remains a critical area of engagement, as informed by filters 1, 2 and 4.

- Filter 1 (lessons learnt): while the previous strategy invested mostly in private sector development, social protection remained a significant area of engagement due to the persisting fragile context of the WB & G.
- Filter 2 (links with the PA's NDP): reducing multi-dimensional poverty and safeguarding the poor and the most marginalized are recognized as core priorities for achieving sustainable development.
- Filter 4 (WBG corporate and regional priorities): the WBG COVID-19 Crisis Response Approach Paper places the protection of the poor and vulnerable as one of its core pillars to restore human capital and promote job creation in the recovery.

46. There are apparent disconnects in the social protection system.

- Existing *social systems* respond primarily to cash transfers and overlook the multi-dimensional aspects of poverty comprising both monetary and non-monetary dimensions such as social vulnerabilities related to health, education, housing, etc.
- There is a gap in the coordination, coverage and targeting of the social development program which is primarily based on the National Cash Transfer Program (CTP). The CTP has a

robust information system to support its management and implementation. But its registry does not go beyond the “beneficiary registry” which would ideally expand to all extreme poor and vulnerable population, including the new poor emerging from COVID-19 (and any potential future crisis) thus promoting *inclusion and access to social policies*.

47. The Bank Group plans to undertake the following interventions to help strengthen social protection systems and address multi-dimensional poverty.

- While support for cash transfers may be needed in the event of an economic downturn, aligning the PA’s National Cash Transfer Program with the newly endorsed *multi-dimensional poverty approach* by the Cabinet will be a key feature of the Program.
- Two aspects of the *social safety net system* will receive institutional strengthening support. First, the development of a unified and inter-operable Social Registry (SR) that will be linked to key public institutions like the MoH, Ministry of Interior (among others) and private sector/NGO service providers. Second, the institutionalization of the Case Management System (CMS) that will expand the SR through outreach. It will also use the SR to refer the poor households to programs and services that meet their needs and conditions. These two aspects will strengthen the resilience of the social safety net system and will contribute to forming a well-connected system that effectively reaches out to the poor. Covering women and female-headed households will be a priority in the program and will be tracked and monitored during implementation. A Gender-Based Violence Prevention intervention will be embedded into the CMS and more specifically into the home visits program.
- To respond to the immediate challenges resulting from COVID-19 outbreak, the Bank will continue its ongoing engagement to strengthen the resilience of the vulnerable through *cash-for-work programs*.
- *Analytical work* will help inform the Program:
 - A recent ASA on “Monitoring the Welfare Impact of COVID-19 on Households in Palestine” will provide data on the impact of COVID-19 and will assess its long-lasting economic and social impacts.
 - A social safety net diagnostic would analyze the main challenges encountered by the social protection sector, thus informing new interventions.
 - The Bank will also join the EU leadership in conducting an impact evaluation of the CTP.
- Building on the successful experience, the program will continue to engage with NGOs to bridge gaps and complement services offered by public institutions. Social protection reforms will be supported through development policy grants to help reduce the system fragmentation and develop a solid shock-responsive social protection system.
- Increasing *social inclusion* will be a critical aspect of the program, as it will build on the already solid citizen engagement aspect of the CTP but will further enhance the inclusion of the poor and the new poor with focus on females.

Focus Area 2: Boosting Innovation and Diversification for a Well-Connected Palestinian Economy	
Objectives	2.1 Stimulate Inclusive Private Sector Development and Diversify Financial Products
	2.2 Connect the Palestinian Economy to Regional and Global Economy
	2.3 Improve Infrastructure through World Bank Investment that Leverages Donor Resources and by Attracting Private Investment

OBJECTIVE 2.1: STIMULATE INCLUSIVE PRIVATE SECTOR DEVELOPMENT
AND DIVERSIFY FINANCIAL PRODUCTS

48. Building on the focus of the FY18-21 AS, continued demand, and recommended pathways to a “well-connected Palestine,” the Bank Group will support targeted business environment reforms, improved firm capability and competitiveness, and modernized financial products that are well-diversified to benefit financial inclusion. The WB & G is suffering from multi-dimensional connectivity deficit, and the complex business environment is an underlying constraint. This objective is important as a standalone objective, as well as for its role in laying the groundwork for objective 2.2 to “Connect the Palestinian Economy to Regional and Global Economy.” A path toward Palestinian connectedness within the WB & G and across borders depends in part on upstream reforms and downstream support to firms and modernization of financial instruments. This objective followed from filters 1, 2, and 3:

- From Filter 1 (lessons learnt). Following implementation challenges (including project cancelation) for private and financial sector-focused operations prior to FY18, the Bank altered its implementation strategy. Cooperating closely with the PA, private sector implementation agencies have been made responsible for implementing these types of operations during the FY18-21 period. This successful modality will be continued under the forthcoming period, and it gives a strong rationale for the Bank to continue to scale up successful operations in the private and financial sectors. As the Bank has made progress here, donors have begun to channel resources through Bank-administered MDTFs.
- From Filter 2 (links with the PA’s NDP). Aligned with the Palestinian NDP’s Sustainable Development Pillar that aims to improve business environment, create jobs, and strengthen the financial sector, this objective will support resilience of micro, small and medium enterprises (MSMEs) and employment in the wake of the COVID-19 crisis.
- From Filter 3 (pathways to a “well-connected Palestine”). In the longer term, this objective will support Palestinian capacity for commitment, coordination, and cooperation that would help improve the business environment.

49. There are apparent disconnects that are impeding private sector development and leaving financial sector instruments outdated.

- The complex *business environment*—as key aspect adding to multi-dimensional connectivity deficit of the WB & G—increases transaction costs and reduces the competitiveness and opportunity for diversification of the private sector and discourages private investment. Access to land in the WB & G remains one of the largest impediments to economic growth and is a priority of the PA that will help improve the business environment.
- Due to the external restrictions and complexity of the business environment, the overwhelming majority of Palestinian firms across numerous key sectors have not developed to their potential, leaving a small global footprint. *Firm capability and entrepreneurship* are also

hampered by instances of elite capture and anti-competitive realities that stem partly from the operating environment and need for reform.

- COVID-19 crisis is stunting innovation and growth while threatening jobs.
- Inclusive *access to finance* remains an issue for firms and entrepreneurs with COVID-19 worsening the situation.
 - Lack of *digital payments* systems has created a gap in the diversification of financial products. It also leaves remittances and social protection programs with inefficient and costly mechanisms.

50. The Bank Group plan to undertake the following interventions to stimulate inclusive private sector development and help to diversify and modernize financial products.

- To modernize regulation of the *business environment* in line with best international practice, the Bank will continue to provide TA to the PA—and going forward will leverage support from the European Union (EU) and other partners. IFC has begun providing advisory services to the Ministry of National Economy including a *Doing Business Memo*, and over the next four years, this engagement will support business regulatory reform and investment policy and promotion. In the area of land management, the Bank-financed ongoing project will help enhance tenure security and improve real estate registration services, as well as utilizing development policy grants to support key reforms in the sector.

- In addition to urgent firm support for resilience in the wake of COVID-19 crisis, the Bank is supporting *firm capability enhancement and competitiveness* in the Information Technology (IT) services sector through the ongoing Technology for Youth and Jobs (TechStart) and the Innovative Private Sector Development Project (IPSD). These firm enhancements will be accomplished largely through objective 2.2, as cross-fertilization of the workforce, technical know-how, technology, financing, and access to markets will all help develop the sector. TechStart and IPSD will offer targeted support to Gaza firms that face even greater challenges in cross-fertilization and more basic business needs. To foster inclusive private sector growth, the Bank is assessing factors of competitiveness that would help identify and prioritize the key issues—and related solutions—to improve opportunities for small and medium enterprises (SMEs) and entrepreneurs. The Bank Group will continue to foster entrepreneurial growth, with IFC advisory services that are tailored for women entrepreneurs. IFC advisory will support the growth of the entrepreneurship ecosystem and use digital channels to facilitate access to new markets. The Bank is providing ongoing support to entrepreneurship through IPSD angel investor group building and Finance for Jobs (F4J) matching grants that mobilize venture capital investments. IPSD support to entrepreneurs is also a key part of objective 2.2, where entrepreneurs are supported and incentivized to partner with stakeholders across borders. As investment in digital infrastructure ramps up, the Bank and IFC will support firms and entrepreneurs to become more integrated in the global market, including by benefitting from the digital economy, encouraging trade of high value-added services.

- In the COVID-19 context, IPSD, TechStart, and F4J (see more detail below on financial instruments) are deploying instruments to support resilience of firms and entrepreneurs to remain afloat and retain employees.
- In terms of *financial instruments*, the Bank is urgently supporting resilience of firms to access finance in the wake of COVID-19. To progress toward a “well-connected Palestine,” the Bank’s F4J will continue to support inclusive access to finance for SMEs and entrepreneurs. The F4J investment co-financing facility (ICF) is supporting the bankability of transformative, job-creating investments (e.g., rooftop solar) that will continue to create powerful demonstration of private sector investment. Additional financing to the F4J ICF will support firm resilience and

adaptation to COVID-19 and will help meet the increased demand for financing created by the pandemic. This round of ICF financing will be more concessional in nature and target investments that will help retain jobs in the economy. In microfinance, IFC will support the industry to deliver on the PMA’s new microfinance strategy. Depending on PA readiness, the Bank Group stands ready to assess long-term financing in the Palestinian financial sector and would provide TA to lay the groundwork for improved and diversified long-term financing instruments. IFC would look to provide investment support to issuance of Sukuk by Islamic financial institutions, building on the advisory provided to the Palestine Capital Markets Authority. Issuance of Sukuk, an instrument of long-term finance, would support development of capital markets. In access to finance to SMEs, IFC will support the introduction of new channels such as the Supply Chain Finance through which SMEs would have faster and easier access to finance.

- In keeping with the cross-cutting theme of digital technology, the Bank Group will scale up support of *digital financial solutions*, with IFC planning to provide investment and advisory. The Bank will continue supporting the PMA to diversify financial products and provide modernized payment systems to improve financial inclusion. In the coming years, the WBG will support the development of and access to digital financial products—which would enhance Palestinian access to global markets and allow for efficiency gains in remittances. The Bank stands ready to facilitate digital solutions to improve resiliency of social protection systems—reinforcing the work of improving social protection system as described under objective 1.4.

OBJECTIVE 2.2: CONNECT THE PALESTINIAN ECONOMY
TO REGIONAL AND GLOBAL ECONOMY

51. In objective 2.2, the WBG will help foster a “well-connected Palestine” through interventions in cross-border trade, investment, knowledge-sharing and expanded business and market linkages. In the current state, the fragmentation of the Palestinian territories and the economy, has led to weakened sectoral linkages and limited integration to value chains, reducing export dynamism, discouraging foreign investment, and increasing the Palestinian economy’s dependence to the Israeli economy. Following objective 2.1, with improvement to the business environment and enhanced firm capability, connections to regional and global markets will start to happen commercially, but this objective will help to facilitate these links in the face of external restrictions. This objective was developed based on filters 2, 3 and 4:

- Filter 2 (links with the PA’s NDP): this follows the PA’s NDP that prioritizes expanding international trade and attracting foreign direct investment.
- Filter 3 (pathways to a “well-connected Palestine”): as is shown in Figure 2, a “well-connected Palestine” is partially within the PA’s control through improvement in capacity of the three Cs. This objective aims to support the PA’s opening up trade and investment across border.
- Filter 4 (WBG corporate and regional priorities): this objective aligns with the Bank’s MENA Region Strategy that prioritizes cross-border cooperation.

52. There are apparent disconnects that stymie Palestinian trade, international business, and other aspects of regional and global cooperation.

- Being almost entirely dependent on Israel for energy, the Palestinian *energy sector* has a 2030 vision of diversifying energy sources to also include imports from Jordan, in addition to new domestic power production. Improved regional dialogue, enhanced sector credibility, and private

investment would unlock increased energy trade in the future with Jordan, and potentially Egypt—as well as with Israel.

- Regarding the *lacking business and market linkages*, the current regulatory framework is particularly restrictive for foreign investors, which, based on outdated laws, cap foreign ownership and thus mandate a local majority business partner. Although exceptions are granted, this deters foreign investors and substantially increases their risk assessment of an already risky environment.
- Since most Palestinian sources of water are shared with neighbors, access to transboundary water is essential, especially as demand for water will only continue to increase. While coordination with the GoI is ongoing, there is a gap with what is needed in terms of *water cooperation*, and an opportunity to advance a “well-connected Palestine.”
- *Urban areas* will require support for planning and implementation of investments that will connect markets.

53. The Bank Group plans to undertake interventions that will promote greater connectedness of the Palestinian economy across borders.

- The recently approved energy program (Bank-supported ASPIRE MPA Phase 1) is laying the groundwork for increased electricity imports from Jordan. The MPA seeks to also enable the WB & G to participate in the Pan-Arab Electricity Market facilitated by the Jordan and Egypt interconnections. Alongside Palestinian independent power production, particularly investment in renewable energy, power trade in the sub-region would enhance Palestinian energy security. The Bank Group would facilitate energy sector dialogue, TA, and necessary infrastructure development, including private sector participation with IFC support in the transmission networks. This support will contribute to PA’s commitment to reduce net lending and improve creditworthiness of the sector, which in turn would improve viability of the *energy trade* and encourage private sector involvement across generation, transmission, and distribution systems.
- As referenced in objective 2.1, the Bank Group will continue efforts to stimulate the *access to global finance and the internationalization of firms*. IPSD is using matching grants to incentivize entrepreneurs and businesses from nearby ecosystems to partner together, helping Palestinian firms to expand market access, gain technical know-how and access to additional sources of financing. IFC advisory to the PA would also help foster greater access to markets for Palestinian entrepreneurs. TechStart is supporting Palestinian firms to sign more international contracts, and the project is promoting FDI in the IT outsourcing sector and raising awareness of the comparative advantages of multi-national corporations doing business with Palestinian firms. The Bank Group stands ready to support development of value chains.
- Improved *regional cooperation on water resources* will help promote regional economic integration and strengthen the overall capacity of the Palestinians to provide water services for drinking and agriculture and to restore, protect and preserve water quality. Deepening analytics and dialogue around transboundary wastewater is an opportunity to improve cooperation and coordination while identifying opportunities for increasing reuse of treated wastewater for productive purposes. Additional opportunities to advance work on transboundary water also exist. Transboundary water management can serve as a connector between the WB & G and its neighbors and is increasingly needed as the region faces challenges such as increasing variability in water flow as a result of climate change.
- The ongoing Bank-financed project is preparing the leading *urban areas* in the WB & G to be engines of economic growth, lead economic recovery post-pandemic, and facilitate connectivity across services.

OBJECTIVE 2.3: IMPROVE INFRASTRUCTURE THROUGH WORLD BANK INVESTMENT THAT
LEVERAGES DONOR RESOURCES AND BY ATTRACTING PRIVATE INVESTMENT

54. While improved O&M of infrastructure is essential for a resilient and “well-connected Palestine,” improvements in Palestinian infrastructure are much needed to realize the ambition of the Palestinian NDP and this AS. The infrastructure needs remain extensive, including in waste management, digital, energy, bulk water supply, as well as small-scale infrastructure at the local level. This objective has been formulated based on filters 1, 2, and 4.

- Filter 1 (lessons learnt): a key lesson, from the implementation of the FY18-21 program, informing this objective is how the Bank’s analytical work—including that related to infrastructure—is an important value-added that donors demand when deciding to channel resources through Bank-financed operations.
- Filter 2 (links with the PA’s NDP): this objective follows the PA’s NDP that outlines priorities of strengthening infrastructure and attracting private investment.
- Filter 4 (WBG corporate and regional priorities): this objective aligns with the Bank’s Group strategy for maximizing finance for development.

55. There are apparent disconnects leaving the WB & G without critical infrastructure, while potential investment opportunities are not bankable for the private sector.

- Across many of the sectors, there is a need for developing and improving resiliency of infrastructure which will strengthen the PA’s *response to shocks and natural and man-made disasters*.
- Confidence among private investors remains very low and bankable investments are scarce. Mobilization and risk mitigation instruments would spur private sector confidence and help to realize *private capital investments* creating positive examples for increased private investment in the WB & G.

56. The Bank Group will undertake interventions to improve infrastructure by leveraging donor resources and encouraging private investment.

- Securing the needed digital infrastructure will have an outsized impact on building “a well-connected Palestine,” so the Bank Group will engage in a cross-sectoral manner in *digital development*. Toward this end, the Bank will support Palestinian access to broadband services and support digital transformation of select e-services that will also support resiliency to COVID-19. IFC will provide upstream advisory toward enabling the development of digital infrastructure, and toward increasing competition and deepening the markets in broadband services—helping to foster commercially viable and bankable investment opportunities in the telecom sector. IFC and MIGA are also ready to support internet service providers and sector players for mainstream investment opportunities.
- The World Bank and IFC’s PPP team will continue to work closely with PENRA to pave the way for competitively procured IPPs. Sector connectedness is crucial for establishing a successful PPP track record, thereby increasing domestic renewable generation. While the WBG will help the Palestinian territories access diversified energy resources—overall context allowing—improving local energy generation will remain a priority to secure long-term sustainability. The Bank Group will support the *energy sector* during the next four years, including through IFC upstream work focused on the electricity distribution companies towards building smart grid solutions, incorporating increasing share of solar energy and demand response. IFC and MIGA will continue to pursue investments aimed at diversifying energy sources, notably through

renewables and IPPs. The World Bank will continue to provide support towards implementation of the Gaza Electricity Master Plan through TA and exploring new opportunities. The Bank’s ASPIRE MPA is also expanding a solar funding mechanism for salaried female heads of households in both Gaza and the West Bank. This mechanism would allow for sustainable independent solar photovoltaic systems that would offer affordable energy as opposed to rolling blackouts.

- The Bank will support small-scale *municipal* infrastructure through ongoing operations (MDP-3 and LGSIP) that provide infrastructure grants to LGUs that meet specific requirements. See objectives 1.2 and 2.2 for how the Bank will support improved operations and maintenance, as well as urban planning for investment, for better infrastructure that will strengthen Palestinian resilience and a “well-connected Palestine.” IFC and MIGA will seek to apply their instruments to mobilize financing for and mitigate risks facing private sector participation in municipal infrastructure and services delivery.
- With the availability of donor funding, there is immense opportunity to replicate the success of the Gaza Solid Waste Management Project design in northern Gaza, expanding the solid waste system across the whole of Gaza, thus further strengthening the resilience of the PA in *waste management*. In wastewater, the Bank and donor partners are supporting targeted infrastructure improvements—together with institutional strengthening for improved O&M—for treatment plants that will help address the health and environmental threats posed by inadequate collection and treatment of wastewater.
- The Bank’s work in the *water sector* will contribute to improved health outcomes. For instance, 97 percent of the Gaza population does not have access to piped water that is safe to drink. Phase I of the ongoing Bank-financed Water Security Development – Gaza Central Desalination Program: Associated Works Project (AWP-I) will help improve health outcomes by addressing chronic poor water quality in Gaza and the significant increase in domestic demand that is expected in the medium term. The Bank will support water sector reforms through TA that will help to ensure sustainability of bulk water supply in Gaza and will consider future operations to scale up access of clean water throughout Gaza.

IV. IMPLEMENTING THE ASSISTANCE STRATEGY

A. Arrangements for Assisting the West Bank and Gaza

57. The Bank-administered Trust Fund for Gaza and the West Bank (TFGWB) finances grants to the WB & G. As the WB & G is not a member of the WBG nor the International Monetary Fund, it cannot directly access the funding of the International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA). The TFGWB was established in 1993 and replenished from the IBRD surplus, with each transfer requiring approval by the Board of Governors. The nineteenth replenishment, by US\$80 million, of the TFGWB was adopted by the World Bank’s Board of Governors on October 7, 2020. In addition to US\$1.331 billion received from IBRD surplus, US\$189.67 million was received in the TFGWB from investment income, service charges, commitment fees and repayments bringing the total TFGWB resources to about US\$1.52 billion. As of March 23, 2021, US\$1.32 billion has been disbursed, leaving US\$201.37 million undisbursed. About US\$170.48 million of the undisbursed amount is committed and US\$30.89 million is currently uncommitted.

58. There is an urgent need to allocate a higher level of World Bank resources for the WB & G program. Each year, senior management seeks the Board of Governors’ approval for a share

of IBRD surplus to be transferred to the TFGWB, which finances World Bank grants. The amount of annual grant assistance from IBRD surplus, channeled through the TFGWB, remained at the same average US\$55 million during 2012-2017⁶. This is equivalent to US\$27 million in 1993 when the first transfer was made from IBRD to the TFGWB. Even before COVID-19 pandemic struck, the Palestinian economy faced serious challenges. Nearly one in three Palestinians live in poverty. The overall share of population below the national poverty line has increased from 25.8 percent in 2011 to 29.2 percent in 2017. The situation is particularly dire in Gaza where half the population is below the poverty line.

59. The IFC began investing in the WB & G after the Oslo Accords of 1993. IFC Blended Finance has been utilized successfully in its investment in Palestinian companies by combining concessional donor funds with IFC's own commercial funds, with its commitment of US\$12 million as of December 31, 2020.

60. MIGA operates in the WB & G through its West Bank and Gaza Investment Guarantee Trust Fund, which offers both foreign and local investors insurance coverage against political risks. MIGA has historically supported investments by several small and medium enterprises in the agribusiness, manufacturing, consumer goods, and renewable energy sectors. MIGA currently has three active projects in the WB & G totaling US\$25.3 million: US\$7 million in guarantees issued to support the 7MW PRICO Solar Project and US\$11.8 million in support of the National Beverage Company manufacturing facility, both within the Gaza Industrial Estate, as well as US\$6.5 million in guarantees in support of the Nakheel agribusiness project involving the cultivation of dates in the West Bank.

61. The World Bank, IFC, and MIGA—continuing close collaboration—have jointly developed the FY22-25 AS.

- Close cooperation between the three organizations has been a key feature of the WBG operations in the Palestinian territories. The World Bank's support to improving financial sustainability of service providers has laid groundwork for creditworthiness of these institutions, and this has already opened opportunities for IFC and MIGA to support additional financing of renewables. During the FY18-21 period, the Bank piloted its ICF which enabled IFC to make investments in renewables that would not have been bankable otherwise. Through utilization of the ICF instrument, alongside IFC loans and MIGA political risk insurance, the Bank Group helped launch a 7-megawatt rooftop solar photovoltaic power plant in Gaza, which will provide affordable electricity to 32 factories at the Gaza Industrial Estate. Through this collaborative exercise, the WBG helped mobilize first private investment to the energy sector in Gaza in more than ten years.
- The three WBG institutions will continue to build on their work in the implementation of the strategy. The description of focus areas and objectives in Section III laid out how the three organizations will complement each other's activities in those areas. IFC will continue pursuing investments in private sector establishments in key sectors—with a special focus on the financial sector and in infrastructure, where it will explore innovative ways to ease access to finance for MSMEs and will support creation of niche and new market segments. MIGA will continue working to identify opportunities to provide political risk insurance to enable job-creating investments, helping to fulfill the promise of human capital.

⁶ Exceptional higher amounts of US\$90 million, US\$81 million, and US\$80 million were allocated during the last three years on account of the dire economic situation in the West Bank and Gaza amid the revenue transfer stand-off with the GoI and the daunting challenges of COVID-19 crisis.

B. Attracting Donors' Resources Channeled through the World Bank

62. Donors' funds channeled through the World Bank contribute significantly to the World Bank's ability to undertake priority projects and are therefore essential to success of the program.

- To provide budget support to the PA, since 2008, donors have channeled their funds through the Bank-administered Palestinian Recovery and Development Plan (PRDP) MDTF. Progress of the PA's reforms in PFM, macro-fiscal stabilization, and private sector development is monitored against priority policy and institutional actions jointly identified by the PA and the Bank for support through the World Bank's development policy grants. The PRDP MDTF disburses upon assurance of satisfactory progress; its overall disbursement to date has reached over US\$1.59 billion.
- Established in 2012, the Partnership for Infrastructure Development MDTF provides co-financing for infrastructure projects and programs as well as TA activities, which the Bank is supporting in the water, urban development, and energy sectors. During FY18-20, the PID MDTF has consolidated engagements with fewer, larger operations and TA in each sector. The PID MDTF has participation from ten donors with contributions of US\$273 million.
- Other World Bank-administered TFs to which donors contribute support critical areas such as aid coordination, PFM and social protection.

63. An Umbrella TF will serve as a significant, streamlined platform for donors to coordinate with the Bank and the PA. A ten-year implementation timeline with the objective of strengthening sustainable recovery, economic reform, and social resilience in the WB & G. The Palestinian Umbrella for Resilience Support to the Economy will provide a central mechanism to channel funding to activities aligned with the FY22-25 AS, while filling the gaps not covered by existing TFs.

C. Fiduciary Systems

64. The World Bank will follow the PA's financial systems. The 2019 Public Expenditure and Financial Accountability assessment indicates that despite some weaknesses, the PA's PFM system is operating at a satisfactory level, compared to other countries in the region. In 2019, the PA adopted the "The National Cross-Sectoral Strategy to Bolster Integrity and Combat Corruption (2020-2022)", which provides a critical assessment of the existing laws, institutions, political and priority areas including prevention, community participation, law enforcement and international cooperation. Reducing the cost of doing business and improving the business climate were among the PA's efforts, though a new draft of the Companies Law is yet to be finalized. Steps have also been taken to upgrade the Palestinian AML/CFT system to be more in line with international practices. A national risk assessment with the aim of identifying threats and enhancing the ability of relevant AML/CFT stakeholders to identify, assess, understand, and mitigate the money laundering and terrorism financing risks was endorsed by the Palestinian Cabinet in October 2018. AML/CFT internal controls including reporting procedures are under implementation by regulatory agencies. The PPL and its implementing regulations were enacted in 2014 to regulate procurement at all levels of government, and a procurement policy and oversight body was established. The launch of a single procurement portal and the development and endorsement of national standard bidding documents and contract templates for different types of procurement were among the significant achievements of 2019 and 2020. The PA's national procurement

systems will be used when approaching the national market subject to complying with the requirements specified in the World Bank Procurement Regulations. The ongoing Bank-financed Public Financial Management Improvement Project (P162850) is supporting the enhancement of expenditure controls, financial accountability, and procurement management. Ongoing TA is enhancing audit and procurement practices in addition to increased citizen engagement.

D. Indicative Program of World Bank Grants

65. The Bank’s portfolio is currently fragmented, with 24 active operations of US\$514.6 million (as of March 31, 2021) in Bank resources and donor co-financing (not including parallel donor financing leveraged by the projects). During FY22, the Bank will consolidate the portfolio, closing more than half of the current operations. Going forward, new operations will be fewer in number and of larger amounts—in order to remain selective but ambitious in the scope of impact. The Bank will use additional financing to scale up successful ongoing operations that will help achieve the objectives of the AS. In terms of geographic makeup, overall, the portfolio is nearly evenly distributed between Gaza and the West Bank—with infrastructure and human development operations skewing toward Gaza, and private and financial sector operations skewing toward the West Bank.

66. World Bank grants will help achieve the objectives laid out in Tables 2 and 3. The pipeline of grants under development for FY22 and FY23 is summarized in Table 3 below.

Table 3: Indicative Program of World Bank Grants

FY	Proposed grant	Supported AS objective
2022	Advancing Sustainability in Performance, Infrastructure, and Reliability of Energy Sector in the West Bank and Gaza Multi-Phase Programmatic Approach (ASPIRE MPA) Phase II	Multiple (1.1, 1.2, 2.2, and 2.3)
	Long-term intervention in the education sector	1.3 Achieve Better Human Development Outcomes.
	Additional areas of the PFM reform agenda: AF to the ongoing Public Financial Management Improvement Project	1.1 Strengthen Institutions’ Accountability and Transparency
	Development Policy Grant that will support priority reform areas, in particular digital development	Multiple (1.1, 2.1, and 2.3)
2023	Long-term intervention to strengthen performance and financial sustainability of local governments	Multiple (1.2 and 2.3)
	Sustainability of infrastructure	1.2 Support Service Providers to Become Financially Sustainable.
	Water governance	Multiple (1.2, 2.2 and 2.3)
	Development Policy Grant that will support priority reform areas, in particular education and social protection	Multiple (1.1, 1.3, and 1.4)

67. Complementing the indicative World Bank program for FY22-23, IFC will look to investment opportunities in: (i) independent power production (including renewables and through PPPs), (ii) construction sector, (iii) telecom, (iv) municipal infrastructure, (v) Islamic finance, and (vi) digital finance.

68. Indicative ASAs will support both resilience strengthening and the underpinnings of a “well-connected Palestine,” including by supporting a robust reform agenda of the PA. Forthcoming in FY22 for resilience strengthening is to be a Pandemic Preparedness Review and Poverty Assessment work. To support the long-term ambition of this AS, FY22 is to include a programmatic business environment reform ASA, and the Bank’s AHLC reports will provide important stocktaking and analysis of the PA capacity for commitment, coordination, and cooperation toward connectedness. To dedicate support to the corporate priorities across the program, a programmatic gender and citizen engagement ASA is expected to be launched. Annex 4 lists active Bank ASAs aligned with the objectives of this AS, including several long-term programmatic tasks.

69. Going forward, MIGA will complement the World Bank and IFC programs and build on its existing portfolio in the WB & G by seeking to leverage and strengthen the impact of its WB & G Investment Guarantee Trust Fund and other available trust funds to mobilize both local and foreign private capital into sectors where there is an opportunity to deploy MIGA’s political risk insurance. MIGA’s efforts will focus on the solar IPP sector alongside the World Bank and IFC, as well as continued support for the manufacturing and agribusiness sectors where MIGA has enabled several projects to date in the WB & G.

E. Program Monitoring

70. The program’s implementation will be monitored closely and continuously. Each year, at the time of seeking replenishment of the TFGWB, the WBG Board receives an updated program performance, implementation progress, and lessons learnt. Program implementation progress will also be reported and discussed with development partners whose complementary resources flow through the World Bank.

71. Given the WB & G’s fragile context, the AS is a flexible and adaptive strategy that incorporates learning by doing. It will therefore, adapt to prevailing circumstances and changing priorities. Program interventions will be informed by Filter 3 and economic and political developments.

72. Midway through the four-year implementation period, a broader mid-term review will be undertaken to check the strategy’s relevance compared with the operating environment and course corrections will be made if needed. Benchmarks, outlined in Annex 1, have been developed for each focus and objective area and the progress will be monitored regularly against those. These benchmarks may be amended to respond to changing priorities.

F. Cross-Cutting Themes

73. Amongst the World Bank’s cross-cutting initiatives, most relevant to the program are: addressing and narrowing gender gaps, strengthening resilience to climate change, leveraging digital technology, and promoting citizen engagement.

ADDRESSING AND NARROWING GENDER GAPS

74. **The program will seek entry points in the interventions throughout the implementation of the strategy to address gender inequalities in economic opportunities and agency.** The World Bank’s *Women, Business, and the Law 2020* report places the WB & G at the

very bottom of their index rankings, based on measures related to women's mobility, access to work, assets, earnings, and family and pension laws.

- COVID-19 has made it even more important than before to address gender aspects in the program and to strengthen implementation. Women are finding it more difficult than men to earn a living during the outbreak: according to polls conducted by United Nations (UN) Women in 2020, 76 percent of women (compared to 65 percent of men) reported their family lost partial or full income due to COVID-19. Such losses are particularly problematic in a context where close to half of women in the labor force are unemployed (45 percent), more than twice as high as rates among men. According to Palestinian Central Bureau of Statistics (PCBS) 2020, the unemployment disparity is even more prominent in Gaza with two out of three women (66 percent) unable to find work in 2020.

- The World Bank's 2018 analytical report "*Enhancing Job Opportunities for Skilled Women in the Palestinian Territories*" provided short- and medium-term policy recommendations. These include not only addressing societal norms and stereotypes but also implementing legal and regulatory reforms—including around women's access to employment, mobility, and care services. For example, within Focus Area 1 (Strengthening

Institutions for Economic and Social Prosperity), support for digital payments will help narrow the gender financial account divide and strengthen women's bargaining power and control over household resources. Supporting women in leadership through incentives to business conducting demonstration pilots in IT services will also contribute to narrowing gender gaps in the workplace.

- The program implementation will continue to carry out gender tagging for all new operations, building on the implementation experience during the current AS period when 50 percent of projects approved in the infrastructure sectors in FY18 were gender-tagged and 100 percent were gender-tagged in FY19 and FY20.

Box 2. A Bottom-Up Approach: Local Solutions for Women

The challenge of hiring women in labor-intensive works in culturally conservative contexts was discussed in a focus group of eight municipalities of Gaza as part of preparing the Additional Financing to the Third Municipal Development Project (MDP-3) project and financed by the PID MDTF's gender implementation support. How could women work on World Bank-financed projects supporting SWM, sewage networks, and road network maintenance? Suggestions were put forward in the focus group. Municipalities created new positions in surveying, archiving, and communications that would not only complement field work activities in road maintenance and solid waste collection but would also improve its quality. During May-September 2020, the number of female jobs increased from 292 to 756 out of 5,298, meeting the project's expected 15 percent target.

MAXIMIZING CLIMATE RESILIENCE

75. Program implementation will support WBG's priorities and the PA's climate mitigation and adaptation efforts laid out in the PA's National Adaptation Plan to Climate Change (2016).

- Climate forecasts predict up to 40 percent reduction in precipitation in the Palestinian territories coupled with increased median temperatures, while the Palestinian population will grow rapidly. Furthermore, per capita freshwater resources are already very low as a result of reduced precipitation and will become scarcer emphasizing the need for addressing both demand and

supply aspects of water resources management - increased reuse, curbing losses and increasing supply, e.g., through desalination.

- The World Bank is supporting the PA to review and update the current Nationally Determined Contributions (NDCs) for developing an enabling environment for climate change mitigation and adaptation policies and providing capacity building for institutions. During the forthcoming strategy period, an adapted monitoring, reporting and verification system will be developed to track emissions and emission reductions. A functioning monitoring, reporting and verification system will help the PA understand greenhouse gas sources and trends, design mitigation strategies, enhance credibility and take other policy actions.
- The ongoing AWP-I will address a vulnerable situation through diversification of water resources as well as better management and O&M of water and wastewater resources. Moreover, the ASPIRE MPA will support the energy sector in moving towards renewable energy through enabling private sector engagement, interconnection of solar photovoltaic installations and metering of solar photovoltaic and renewable energy installations.
- The Bank Group will continue to promote private sector financing for clean energy projects. IFC and MIGA will seek to support investments in renewable energy projects (mainly solar) that could potentially also benefit from the liquidity facility provided by the World Bank under the ASPIRE project. The World Bank and MIGA coordinate closely with the IFC advisory team to identify risk mitigation tools and instruments that would enable private sector participation into small scale solar projects. The program will support de-risking instruments to reduce private investment risk and encourage more active participation in financing green investments, which will maximize efficient use of water and energy resources as well as minimize waste and provide better solid waste and wastewater management services.
- The program is taking sustained action across its portfolio and pipeline to increase the proportion of its financing that qualifies as climate co-benefits—from less than 10 percent in FY19 to more than 50 percent in FY20. Among the new projects approved in FY20, climate co-benefits of the AWP-I and ASPIRE MPA are estimated at approximately 96 percent and 70 percent of the overall project costs, respectively. The WBG will continue to take extra measures to surpass its target of 35 percent climate co-benefits, of which at least half are expected to be adaptation co-benefits.

LEVERAGING DIGITAL TECHNOLOGY

76. Digital technology will not only multiply the positive contribution that individual sectors are already making, but also catalyze the synergies across various sectors of the Palestinian economy. With the recently-approved Digital West Bank and Gaza Project in the portfolio, under Focus Area 1 (Strengthening Institutions for Economic and Social Prosperity), the program will support the development and implementation of an e-governance system and facilitate the use of digital technologies for COVID-19 response, recovery, and resilience. Furthermore, interactive digital education content will be provided to enable high-quality teaching and learning (e.g., Arabic, English, Math, Sciences, digital skills) during and in the aftermath of COVID-19 crisis. Within Focus Area 2 (Boosting Innovation and Diversification for a Well-Connected Palestinian Economy), the program will aim to improve inclusiveness of the financial sector, including digital payments systems, while the development of the digital financial services sector is still at nascent stage. The program will build on strong analytical underpinnings to inform

relevant digital policy dialogue and provide support to enabling policy and regulatory framework. The program will also help foster digital technology in private sector activities that emerge.

PROMOTING CITIZEN ENGAGEMENT

77. In line with the 2014 Strategic Framework for Mainstreaming Citizen Engagement in WBG operations and the NDP priorities, the program will support advancing the PA citizen engagement agenda across the portfolio to improve governance, institutional development and close collaboration with citizens. Participatory citizen engagement and feedback mechanisms are already existent in the Bank-financed operations; they will continue to be incorporated into all future WBG engagements.

78. The World Bank will provide training and capacity building to utilities and municipalities/local governments to assist them in inculcating citizen engagement strategy and ethos in their strategic outlook and day to day operations. In the water sector, the Bank has helped form a Water Youth Committee that has been actively engaged with the Palestinian Water Authority and facilitated the first “Water Innovation Challenge” in the water sector. Building on this work, the Bank will continue to support building institutional capacity for citizen engagement and youth mainstreaming, at the national water sector policy level as well as into the Bank’s water operations. The ongoing Real Estate Registration Project will support the development of public awareness campaigns to inform people and communities in the project areas of the systematic land registration process and options available to them to voice their concerns. In the energy sector, the PENRA will conduct a baseline beneficiary survey, followed by periodic tracer surveys and an end survey within the duration of the ASPIRE MPA to seek feedback on benefits and services provided by the program.

G. Communication

79. The World Bank will maintain ongoing discussion in the public sphere on the development and economic needs of the Palestinian people, especially in critical periods such as during the COVID-19 crisis. Communication with the Palestinian, Israeli and international media will be essential to streamline awareness of the Bank’s activities and generate debate around the Bank’s economic and sector analysis. In addition, every opportunity for video blogs, briefings and interviews to media representatives will be taken. Video blogs will remain a practice to address the public such as the recent WBG’s engagement in the region, response to the COVID-19 impact, testimonies by young entrepreneurs and beneficiaries of cash-for-work. Short explanatory animations have proved effective in introducing innovative tools applied by the Bank like the Development Impact Bond, the urban modeling tool for sustainable development. The use of social media and capacity building for implementing units in their communication process are key to expanding outreach and sharing results and progress. Furthermore, the communication strategy will aim at engaging Palestinian influencers in WBG global and regional events. Equally important, internal communications will entail smart and up-to-date political analyses as well as coordination within the WBG’s units.

V. RISKS AND MITIGATION MEASURES

80. The overall risk rating for implementing the AS is Substantial (Table 4). Political instability and economic volatility are core characteristics of the WB & G context, leading to

uncertainties around the medium to long-term macro-economic framework. Historically, the operating environment has often disrupted the institution strengthening process, calling for a continued engagement given the institutions' critical role in service delivery. The three categories of risks that are more likely to materialize are: (a) political and governance; (b) macroeconomic; and (c) institutional capacity for implementation and sustainability.

81. Political and governance risks (High). Prospects of a return to peace talks and a recent announcement by the PA about parliamentary and presidential elections in 2021 have added to the uncertainty of the political scene. Progress on peace talks could result in relaxation of restrictions, thus enhancing opportunities for Palestinian economic growth. Stalled negotiations and/or persisting Palestinian internal divide could lead to either social unrest or maintaining the status quo. If the security situation relapses, the economic decline would have a negative impact on the society. Political and security risks will be mitigated by planning different scenarios to respond to the PA's needs while practicing caution and following country and UN security mitigation measures. To mitigate this security risk to WBG operations the Resident Security Specialist is in continuous contact with the UN's security system and the local authorities facilitating clear guidance to monitor and supervise project. Armored vehicles are used for the WBG staff travel in the West Bank, while travel within Gaza is by a two-car convoy.

82. Macro-economic instability risks (Substantial). The PA's fiscal stability remains vulnerable given the political context, the COVID-19 pandemic's economic implications and the continued decline in donor aid. During the pandemic, the PA's demand for budget support in 2020 increased at the same time when international and regional donors' contributions fell sharply. The liquidity crunch that resulted from the clearance revenues standoff with Israel adversely impacted consumption and investment patterns and economic activity resulting in very low growth in 2019 and 2020. In the absence of donor support and a near total collapse in revenues, the PA had to borrow from domestic commercial banks to cover partial salaries to the public sector, adding to the risks in the financial sector. Evolving international dynamics could revive aid inflows and have positive implications for the economic situation. Yet, the pandemic's negative effect on the world economy, donors' priorities and the resources they channel through the World Bank may decrease. This risk is mitigated through regular contact with all donor partners and timely, thorough implementation reports that encourages them to see the Bank as an effective and reliable partner for them to channel financial assistance to the PA through the World Bank.

83. Institutional Capacity for Implementation and Sustainability Risks (Moderate). The continued isolation of Gaza challenges the entry of project inputs, including COVID-19-related medical imports in recent times. The Bank-financed operations are implemented by well-performing project implementation units of the PA and through utilities and universities. The Bank liaises with COGAT and UN agencies for the implementation and supervision of Bank-financed projects. The COVID-19 deterioration in the economic and financial outlook for the PA adds to the risk of the PA undertaking difficult institutional reforms supported by the program. However, operational design, building ownership and support through citizen engagement mechanisms and project-level participation modalities will help to improve prospects for successful implementation of this AS. The PA's strong commitment to the continued implementation of structural reforms despite the challenging economic environment and fiscal pressures will provide a basis for boosting private sector confidence and support of development partners. The AS emphasis on long-term, programmatic engagement for increased and sustainable impact mitigates these risks.

Table 4: Risk Categories and Ratings

Risk Categories	Rating
1. Political and Governance	High
2. Macroeconomic	Substantial
3. Sector Strategies and Policies	Moderate
4. Technical Design of Project or Program	Moderate
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Moderate
7. Environment and Social	Moderate
8. Stakeholders	Moderate
9. Other	
Overall	Substantial

Annex 1: Indicative Benchmarks for the West Bank and Gaza Assistance Strategy FY22-25

Focus Areas	Objective	Program	Benchmarks	Baseline	End Target
<p align="center">Focus Area 1</p> <p align="center">Strengthening Institutions for Economic and Social Prosperity</p>	<p align="center">1.1 Strengthen Institutions' Accountability and Transparency</p>	Public Financial Management Improvement Project and <i>new PFMIP AF</i>	Budget allotments are established based on cash planning	No	Yes
		<i>New PFMIP AF</i>	Percentage of procurement staff who completed the mandatory training based on the Procurement Professionalization Strategy	0	100%
		Digital WB & G	Procurements processed through national e-procurement system (as % of total annual procurement value)	0	80%
	<p align="center">1.2 Support Service Providers to Become Financially Sustainable</p>	Real Estate Registration Project	The Palestinian Land Authority has launched automation of its services	No	Yes
		Municipal Development Program	Intergovernmental fiscal transfer system is functional	No	Yes
		Wastewater Management Sustainability (WMS) & Associated Works Phase 1 (AWP-I)	Percentage of the Wastewater Treatment Plants' O&M costs that are covered by service providers	0	20
			Design of National Service Providers Improvement Program	Not designed	Designed and Piloted
		Advancing Sustainability and Performance, Infrastructure, and Reliability of the Energy Sector (ASPIRE)	Share of competitively procured solar IPPs in the West Bank and Gaza	0%	10%

Focus Areas	Objective	Program	Benchmarks	Baseline	End Target
Focus Area 1 Strengthening Institutions for Economic and Social Prosperity	1.3 Achieve Better Human Development Outcomes	<i>MPA Education</i>	Enrollment of the PA (MoE) in the program for International Student Assessment (PISA) and the Trends in International Mathematics and Science Study (TIMSS)	Not enrolled	Enrolled
			<i>Tawjihi</i> reform is designed based on best international evidence, approved by the Cabinet and implemented in at least one cohort of 12 th grade students	No reform yet	Reform designed, approved, and implemented
		Finance for Jobs (F4J)/ TechStart/ Innovative Private Sector Development (IPSD)	Number of beneficiaries entering skills development activities	0	2700
			Of which female (percentage)	0	35%
		<i>Future Engagement</i>	Expansion of new family health model digital tools and multidisciplinary teams to all PHC	105	475
	1.4 Strengthen Social Protection Systems to address Multi-Dimensional Poverty	Social Protection Enhancement Project (SPEP) and Emergency Social Protection and Jobs COVID-19 Response (SPJ)	The establishment of the unified Social Registry	No	Yes
The Institutionalization of the Case Management System			No	Yes	
Number of female-headed households enrolled in the Unified Social Registry			0	60,000 (out of a total target of 150,000)	

Focus Areas	Objective	Program	Benchmarks	Baseline	End Target
Focus Area 2 Boosting Innovation and Diversification for a Well-Connected Palestinian Economy	2.1 Stimulate Inclusive Private Sector Development and Diversify Financial Products	Payments/Digital Financial Services (ASA)	Number of active e-wallet accounts	0	10,000
			Of which female (percentage)	0	25%
		IPSD/ /TechStart/F4J	Private capital mobilized	0	US\$30M
		TechStart/IPSD	High-skills IT services jobs created by local firms	0	1000
			Of which female (percentage)	0	400
		IPSD	Number of business environment policy reforms endorsed for implementation	0	5
	2.2 Connect the Palestinian Economy to Regional and Global Economy	TechStart/IPSD	Number of firms that access new international clients or markets	0	150
			Value of new contracts signed between local IT services firms and international buyers	0	US\$25M
		TechStart	Amount of foreign direct investment attracted in IT services sector	0	US\$1.5M
	2.3 Improve Infrastructure through WB Investment that Leverages Donor Resources and by Attracting Private Investment	ASPIRE	Participation in the Pan Arab Electricity Market	PA is signatory to the Pan-Arab Energy Market	The first inter-connection approved
		Digital West Bank and Gaza	Number of e-services re-engineered	0	3
			Number of people with access to internet Of which female (percentage)	3,515,880 47.80%	4,482,000 50%
		AWP-I	Volume of potable water supplied in Gaza is increased	0	30MCM
IFC PPP Advisory – West Bank Solar PP		Increase of solar PV generation in the overall energy mix	0MW	9MW	

**Annex 2: List of Donor Partners' Participation in Sector Working Groups
of Local Aid Coordination Secretariat**

Sector Working Group	Deputy Chair	Technical Assistance	Donor Country Members
Justice	Canada	EUPOL/COPPS	EU, Germany, Italy, Netherlands, Spain, Sweden, Switzerland, UK
Security	UK	USSC/EUPOL COPPS	Canada, EU, France, Italy, Japan, Netherlands, Spain, Turkey
Environment	Sweden	UNDP	Belgium, France, Italy, Japan, Netherlands
Local Governance	Denmark	World Bank	Belgium, EU, France, Germany, Japan, EU
Elections	EU	---	Germany, France, Italy, Netherlands, Norway, Sweden
Agriculture	Spain	FAO	Australia, Canada, Denmark, EU, Japan, Netherlands, Switzerland
Social Protection	EU	UNICEF	Canada, Denmark, Finland, Japan, Norway, Spain, Switzerland
Private Sector	World Bank	EU	Belgium, Denmark, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, UK
Tourism/Culture	Norway	UNESCO/UNDP	Canada, EU, Germany, Italy, Poland, Spain, Sweden, Switzerland, Turkey
Education	Ireland	UNESCO	Belgium, Finland, Germany, Japan, Norway, Turkey, UK
Energy	Norway	World Bank	Czech Republic, EU, France, Italy, Japan, Netherlands, Sweden
Labor	Germany	ILO	Belgium, Canada, France, Italy, EU
Water	Netherlands	World Bank	Austria, EU, France, Germany, Japan
Health	Italy	WHO	France, Japan, Norway, Sweden, Turkey, UK

Annex 3: Donor Funds that Complement the World Bank Grants and Advisory Services and Analytics (ASAs) in the West Bank and Gaza

Trustee TF # (Grant #)	Trust Fund Name	Objective	Donors
TF072593	Palestinian Recovery and Development Multi-Donor Trust Fund	Budget support as co-financing to the Development Policy Grant	Norway (MoFA), France (MoFA, AfD), State of Kuwait, and Japan. Former donors include: Australia (DFAT), Canada (CIDA), Finland (MoFA), Poland, and the UK (DFID).
TF071898/ TF072778	Partnership for Infrastructure Development Multi-Donor Trust Fund	Provides co-financing to projects related to water supply and sanitation, urban development, and energy; also finances analytical and advisory activities	Australia, Croatia, Denmark, Finland, France, Netherlands, Norway, Portugal, Sweden, and the United Kingdom.
TF072989	Norway West Bank and Gaza Support Trust Fund	Funds activities to strengthen the analytical base for the development community, enhances donor coordination efforts, and supports the Ad-Hoc Liaison Committee as secretariat	Norway
TF073011	West Bank and Gaza Public Financial Management Improvement Project (PFMP) Multi-Donor Trust Fund	Enhances the expenditure controls, financial accountability and procurement management of the PA and selected municipalities	Denmark (Royal MoFA); EU (Commission of the European Communities)
TF071021 (TF0A5114)	State and Peace Building Fund (West Bank and Gaza Development Impact Bond for Jobs)	Support a DIB piloted in the WB&G as a component of the Second F4J Project. The DIB is tested to catalyze private investment to enhance skills and job readiness in a more market-driven way to foster improved employment outcomes.	State and Peace Building Fund Donors

Trustee TF # (Grant #)	Trust Fund Name	Objective	Donors
TF070574 (TF0B0358 / TF0B1572 / TF0B1573)	IFC TF for the Performance-Based Grants Initiative (IFC PBGI) (GPRBA West Bank and Gaza Real Estate Registration / IVA Funding)	Enhances tenure security and improve real estate registration services	IFC TF for PBGI Donors
TF070574 (TF0B3582)	Global Partnership for Results-Based Approach (W3 – AF: Gaza Solid Waste Management)	To improve SWM services in the Gaza Strip through provision of more efficient, environmentally and socially sound waste management systems.	IFC TF for PBGI Donors
TF072755 (PENDING)	MENA Region-wide TA MDTF (West Bank Emergency Social Protection COVID-19 Response)	Provides cash support and short-term employment opportunities to vulnerable populations in the West Bank, affected by COVID-19 crisis	MNA Region-wide TA MDTF Donors (related to Norway, Ireland and Canada sector preferencing)
TF072755 (PENDING)	MENA Region-wide TA MDTF (Technology for Youth and Jobs)	To increase economic opportunities for IT service firms in the West Bank and Gaza.	MENA Region-wide TA MDTF (related to sector preferencing from the Netherlands)
TF072755 (TF0A9308)	MENA Region-wide TA MDTF (Accelerating Private Investment and Job Creation)	To test the effectiveness of selected financial interventions in incentivizing private sector investment and job creation.	MNA Region-wide TA MDTF Donors
TF072755 (TF0B1234)	MENA Region-wide TA MDTF (Youth Engagement)	To strengthen the operational and financial performance of the water and wastewater sector institutions in the West Bank and Gaza in support of the Water Law.	MNA Region-wide TA MDTF Donors

Trustee TF # (Grant #)	Trust Fund Name	Objective	Donors
TF072755 (TF0B2076)	MENA Region-wide TA MDTF (Enabling Private Investment in the Energy Sector)	To improve operational and financial performance of electricity sector institutions and diversification of energy sources in the West Bank and Gaza.	MNA Region-wide TA MDTF Donors
TF072772 (TF0B4123 / TF0B4547)	Climate Resilience and Low-Carbon Development MDTF (Palestine – NDC-SF CAEP2 Grant)	Support the Palestinian Government to revisit and update the current Nationally Determined Contributions	Climate Resilience and Low-Carbon Development MDTF Donors
N/A	Parallel Financing	Support to the Health System Resiliency Strengthening project	USAID (Intrahealth), World Health Organization, Italy (Italian Agency for Development Cooperation), UK-DFID
N/A	Parallel Financing	Provides support for the Social Protection Enhancement project	European Commission
N/A	Parallel Financing	Provides co-financing to Gaza Emergency Cash for Work Project	Qatar, Switzerland (SDC), Islamic Development Bank (ISDB)
N/A	Parallel Financing	Provides co-financing to the Third Municipal Development project	International Cooperation Agency of the Association of Netherlands Municipalities “VNG International” and the EU, Kreditanstalt für Wiederaufbau (KfW), Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), Swiss Agency for Development and Cooperation (SDC), Agence Française de Développement (AFD), the Government of Denmark through the PID-MDTF, and the Government of Netherlands

Trustee TF # (Grant #)	Trust Fund Name	Objective	Donors
N/A	Parallel Financing	Provides co-financing to the Water Security Development - Gaza Central Desalination Program – Associated Works Phase I Project	Kuwait Fund for Arab Economic Development
N/A	Parallel Financing	Support to the Local Governance and Services Improvement program	Germany (KfW and GIZ); Belgium (BTC); EU; AFD; UNDP (Austria, Italy and Sweden); Switzerland (SDC)
N/A	Parallel Financing	Support to the Gaza Solid Waste Management Project	EU, France (AFD), Islamic Development Bank (IsDB), United Nations Development Programme (UNDP)
N/A	Parallel Financing	Support to the West Bank Emergency Social Protection COVID-19 Response Project	EU
N/A	Parallel Financing	Support to the Hebron Regional Wastewater Management Project	EU, France (AFD), USAID

Annex 4: West Bank and Gaza Active Portfolio and ASAs

Portfolio - March 2021

Page 1 of 3

Project Name	Lead GP/Global Themes	Appr. FY	Closing Date	Net Comm. Amt - Total (\$M)	Co-financing (\$M)
Digital West Bank and Gaza	Digital Development	2021	30-Dec-2026	20.00	
West Bank and Gaza: Education-to-Work Transition	Education	2012	31-Jan-2022	11.50	
Improving Early Childhood Development in the West Bank and Gaza	Education	2020	31-Jan-2025	9.00	
West Bank and Gaza Electricity Sector Performance Improvement Project	Energy & Extractives	2018	20-Dec-2023	9.00	14.00
Advancing Sustainability in Performance, Infrastructure, and Reliability of the Energy Sector in the West Bank and Gaza	Energy & Extractives	2020	31-Dec-2024	14.00	49.00
West Bank and Gaza: Finance for Jobs	Finance, Competitiveness and Innovation	2016	31-Jan-2022	5.00	
Finance for Jobs II	Finance, Competitiveness and Innovation	2018	15-Oct-2023	23.00	1.50
Innovative Private Sector Development	Finance, Competitiveness and Innovation	2018	15-Nov-2024	22.00	
Technology for Youth and Jobs	Finance, Competitiveness and Innovation	2020	30-Oct-2025	15.00	
Public Financial Management Improvement Project	Governance	2018	30-Jun-2022	3.00	0.50
Health System Resiliency Strengthening Project	Health, Nutrition & Population	2015	31-Dec-2021	8.50	
West Bank and Gaza COVID-19 Emergency Response	Health, Nutrition & Population	2020	28-Feb-2024	5.00	

Project Name	Lead GP/Global Themes	Appr. FY	Closing Date	Net Comm. Amt - Total (\$M)	Co-financing (\$M)
Strengthening Fiscal Stability and Financial Integrity	Macroeconomics, Trade and Investment	2020	31-Oct-2021	30.00	8.33
Social Protection Enhancement Project	Social Protection & Jobs	2018	31-Mar-2023	15.00	
Gaza Emergency Cash for Work and Self-Employment Support	Social Protection & Jobs	2019	31-Oct-2021	17.00	
West Bank Emergency Social Protection COVID-19 Response Project	Social Protection & Jobs	2021	31-Dec-2023	30.00	
Gaza Solid Waste Management Project	Urban, Resilience and Land	2014	30-Jun-2022	10.00	
Local Governance and Services Improvement Program	Urban, Resilience and Land	2016	31-Dec-2021	5.00	13.00
GZ-Integrated Cities and Urban Development Project	Urban, Resilience and Land	2017	30-Jun-2021	5.00	
GZ-Third Municipal Development Project	Urban, Resilience and Land	2018	28-Feb-2022	41.00	35.00
Real Estate Registration Project	Urban, Resilience and Land	2020	30-Nov-2023	5.00	7.60
Hebron Regional Wastewater Management Project - Phase 1	Water	2015	31-Dec-2022	4.50	
Water Security Development - Gaza Central Desalination Program – Associated Works Phase I Project	Water	2020	31-Dec-2024	15.00	42.00
Wastewater Management Sustainability Project	Water	2020	30-Jun-2024	10.00	3.70

Task Name	Lead GP/Global Themes	Activity Completion
Education Sector Programmatic ASA	Education	15-Apr-2021
West Bank & Gaza Energy Sector Programmatic Technical Assistance	Energy & Extractives	26-Aug-2021
Palestine Business Environment Reform II	Finance, Competitiveness and Innovation	28-May-2021
West Bank and Gaza Financial Sector Engagement	Finance, Competitiveness and Innovation	31-May-2024
Palestinian Digital Economy Assessment	Finance, Competitiveness and Innovation	27-May-2021
Fostering Competition and Local Markets in West Bank & Gaza	Finance, Competitiveness and Innovation	30-Jun-2022
Technical Assistance - Public Financial Management Improvement	Governance	30-Sep-2022
Modernizing Public Procurement in the Palestinian Authority	Governance	30-Sep-2022
Identifying Risk Factors for Anemia and Assessing the Feasibility of an Oil Fortification Program to Improve Vitamin Deficiencies	Health, Nutrition & Population	14-Jan-2022
Evidence Based Policies to Enhance Efficiency in the Health Sector in West Bank and Gaza: Improving Priority-Setting Processes	Health, Nutrition & Population	15-Apr-2021
FY21 Macroeconomic monitoring and forecasting	Macroeconomics, Trade and Investment	18-Jun-2021
Monitoring the Welfare Impact of Covid-19 on Households in Palestine	Poverty and Equity	17-May-2021
Palestine Local Government Sector Reform Support	Urban, Resilience and Land	31-Dec-2021
Support to the Palestinian Land Sector Reform	Urban, Resilience and Land	30-Nov-2023
Sustained Service Delivery through Improved O&M of Infrastructure in West Bank and Gaza	Urban, Resilience and Land	30-Sep-2021
Programmatic Technical Assistance: Towards Water Security for the Palestinians	Water	29-Dec-2022

Annex 5: IFC Committed and Disbursed Outstanding Investment Portfolio

(As of 02/28/2021)
(IN US\$ MILLION)

FY Approval	Company	Committed					Disbursed Outstanding				
		Loan	Equity	Quasi Equity	*GT/RM	Participant	Loan	Equity	Quasi Equity	*GT/RM	Participant
FY20	Al-Jebrini	10.01	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
FY09	Bank of Palestine	0.00	12.45	0.00	0.00	0.00	0.00	12.45	0.00	0.00	0.00
FY16	Bank of Palestine	0.00	0.00	75.00	0.00	0.00	0.00	0.00	75.00	0.00	0.00
FY17	ISC Ibtikar Fund	0.00	1.00	0.00	0.00	0.00	0.00	0.77	0.00	0.00	0.00
FY20	Massader	9.07	0.00	0.00	0.80	0.00	0.00	0.00	0.00	0.00	0.00
FY18	PRICO Operation and Maintenance	3.01	0.00	0.00	0.56	0.00	1.47	0.00	0.00	0.00	0.00
Total Portfolio:		22.09	13.45	75.00	1.36	0.00	1.47	13.22	75.00	0.00	0.00

Note: Includes Long-Term Financing projects only

*Guarantee/Risk Management

Annex 6: MIGA West Bank & Gaza Active Portfolio

(as of April 21, 2021)

Project Name	Project Description	Gross Exposure	Expiry Date
Nakheel Palestine for Agricultural Investment	Plantation of Medjool dates over 300 hectares in Jericho, West Bank	US\$6.48 million	June 2022
National Beverage Company	Construction and operation of a beverage manufacturing facility within the Gaza Industrial Estate	US\$11.8 million	September 2025
PRICO Operating and Maintenance Company	Construction and operation of 7MW rooftop solar PV within the Gaza Industrial Estate	US\$6.93 million	December 2027