



## 1. Project Data

**Project ID**

P118560

**Project Name**

GZ:Econ/Regulatory Institution-Building

**Country**

West Bank and Gaza

**Practice Area(Lead)**

Finance &amp; Markets

**L/C/TF Number(s)**

TF-97344

**Closing Date (Original)**

30-Jun-2014

**Total Project Cost (USD)**

3,700,000.00

**Bank Approval Date**

24-Jun-2010

**Closing Date (Actual)**

29-Jun-2016

**IBRD/IDA (USD)**
**Grants (USD)**

Original Commitment

3,700,000.00

3,700,000.00

Revised Commitment

3,700,000.00

3,633,428.24

Actual

3,635,689.01

3,633,428.24

**Prepared by**

Antonio M. Ollero

**Reviewed by**
J. W. van Holst  
Pellekaan
**ICR Review Coordinator**

Christopher David Nelson

**Group**

IEGFP (Unit 3)

## 2. Project Objectives and Components

### a. Objectives

According to the Trust Fund Grant Agreement (page 6) between the International Development Association (IDA), acting as Administrator of the Trust Fund for Gaza and West Bank, and the Palestine Liberation Organization, acting for the benefit of the Palestinian Authority, the project development objective (PDO) of the Capacity Building for Palestinian Economic and Regulatory Institutions Project was: "to build the capacity of leading economic and regulatory institutions of the Palestinian Authority, in order to support the implementation of the Palestinian Reform and Development Plan".



**b. Were the project objectives/key associated outcome targets revised during implementation?**  
No

**c. Will a split evaluation be undertaken?**  
No

**d. Components**

**1. Capacity Building for the Palestinian Central Bureau of Statistics** (US\$1.450 million estimate, US\$1.505 million actual) aimed to support the strategic priorities identified in the 2008 National Strategy for the Development of the Statistical System by: (a) improving the accuracy, timeliness, and coverage of the National Accounts estimates and developing economic models to test for data consistency and to analyze policy; (b) conducting the first agricultural survey of the West Bank and Gaza; (c) improving the ability of the Palestinian Central Bureau of Statistics to produce accurate and timely poverty estimates; and (d) enhancing the capabilities of the newly-organized Quality Control Directorate.

**2. Capacity Building for the Palestine Monetary Authority** (US\$1.000 million estimate, US\$0.681 million actual) aimed to support strategic activities identified in the 2006 Palestinian Monetary Authority Strategic Transformation Plan and the 2008 World Bank West Bank and Gaza Financial Sector Review by: (a) strengthening the monitoring and supervision capacity of the Banking Supervision Department; (b) preparing an appropriate legal and regulatory framework and provision of training to establish a deposit insurance scheme; and, (c) strengthening the database and analytical capacity of the Research and Monetary Policy Department to lay the ground for future improvements in modeling and forecasting economic, financial and monetary activity. A fourth activity --- strengthening the reserve management system --- was dropped at the second restructuring.

**3. Capacity Building for the Palestinian Pension Authority** (US\$0.622 million estimate, US\$0.804 million actual) aimed to strengthen the managerial, technical, information technology, and financial capacity of the Authority to fully assume its mandate as the main agency where all pension records are maintained by: (a) strengthening the information and communications technology (ICT) infrastructure; (b) building capacity in actuarial analysis and pension reform options; (c) strengthening the strategic planning and corporate governance of the Authority. Three activities originally listed at project preparation were not pursued: the conduct of a public information and awareness campaign on retirement income, savings, and pensions; a review of the mechanisms to extend pension coverage to private sector employees; and, an assessment of the current system of disability pensions, with proposals for reforms, and estimates of the cost of alternatives.

**4. Project Management and Capacity Building for the Ministry of Finance and Planning** (US\$0.400 million estimate, US\$0.644 million actual) aimed to strengthen the capacity of the Ministry of Finance and of Planning for: (a) project management and for monitoring and evaluation through the provision of consulting services, including audit and training, and through the financing of incremental operating costs; and, (b) public procurement reform (this second activity was added at the first restructuring). A third activity



--- to strengthen the capacity of the Ministry of Finance and Planning for tax administration reform by strengthening the Ministry's Large Taxpayers Unit and by developing plans to broaden the tax base for the personal income tax --- was also added at the first restructuring, but dropped at the second restructuring.

#### **e. Comments on Project Cost, Financing, Borrower Contribution, and Dates**

Project Cost: The project cost, including contingencies, was estimated at appraisal at US\$3.7 million. The actual project cost at closing was US\$3.633 million.

Financing: The Trust Fund for Gaza and West Bank, with the Bank as administrator, financed the project with a grant of US\$3.7 million to the Palestine Liberation Organization, for the benefit of the Palestinian Authority. The amount of US\$3.633 million of the grant was disbursed.

Borrower Contribution: The Palestine Liberation Organization did not provide any counterpart funding to the project.

Dates: The project was approved in June 24, 2010 and became effective in September 8, 2010. There were two restructurings of the project, both Level II restructurings, the first in February 6, 2014, and the second, in June 18, 2015. The project closed in June 29, 2016.

Restructurings: The first restructuring of the project: (a) revised the fourth component from "Project Management" to "Project Management and Capacity Building for the Ministry of Finance and Planning", adding two new activities --- strengthening the capacity of the Ministry of Finance and Planning for procurement reform, and for tax reform, the latter involving strengthening the Ministry of Finance and Planning's Large Taxpayers' Unit (LTU) and broadening the tax base among professional workers, both for the purpose of increasing tax revenues; (b) revised the M&E design, adding three output ("intermediate outcome") indicators and an outcome ("a project development objective-level") indicator; (c) reallocated costs among the project components; and, (d) extended the project closing date by a year from June 30, 2014 to June 30, 2015.

The second restructuring of the project: (a) revised the third component, dropping the activity on reserve management (the activity was to be covered instead in a project with the International Monetary Fund (IMF)); (b) revised the fourth component further, dropping the activity for tax reform (the activity was to be pursued by the Ministry of Finance and Planning independently of the project); (c) revised the M&E design further, removing two output indicators (for the deleted activities); and, (d) extended the project closing date by another year from June 20, 2015 to June 29, 2016.

### **3. Relevance of Objectives & Design**

#### **a. Relevance of Objectives**



The project was and continues to be relevant to economic and political conditions in the West Bank and Gaza at project preparation and at project closing. The Palestinian Reform and Development Plan of 2008-10 had laid out the vision and plan of a future Palestinian state, for which institutional infrastructure and capacity building was, and remains, vital. Whereas, three previous Bank development policy grants had focused on strengthening the fiscal position of the Palestinian Authority and increasing Government transparency and accountability by improving public financial management, this project focused on building institutional capacity in other areas equally critical to the implementation of the reform and development plan --- economic management and statistics, central banking and the financial sector, the pension system, and public procurement. As the creation of the Palestinian state has yet to come to fruition, institutional capacity building in these focus areas remains relevant and essential.

The project continues to be well aligned, at project closing, with the strategic objectives of the World Bank Group's Assistance Strategy for the West Bank and Gaza for FY2015-16. The assistance strategy is anchored on two pillars, the first, on strengthening public institutions for state building and for improving service delivery, and the second, on promoting private sector development, with an emphasis on increasing employment opportunities by supporting reforms that encourage job creation in the private sector. The project is well aligned with the first pillar, by aiming to build the capacity of leading economic and regulatory institutions of the Palestinian Authority to support the implementation of the Palestinian Reform and Development Plan. The project is also aligned with the second pillar because, by supporting capacity building in areas including agricultural census taking, bank deposit insurance, and pension reform, it strengthens the economic institutional infrastructure which could enable employment creation.

## **Rating**

High

### **b. Relevance of Design**

The IEG finds the PDO statement to be generally coherent, notwithstanding criticism of the PDO by the ICR.

Admittedly, the language of the project development objective (PDO) --- to build the capacity of leading economic and regulatory institutions of the Palestinian Authority, in order to support the implementation of the Palestinian Reform and Development Plan --- is broad. But generality has a practical purpose. Any number of institutions can be slotted under the rubric "leading economic and regulatory institutions of the Palestinian Authority" without needing to revise the PDO as the list expands or contracts. In this case, the leading institutions targeted for capacity building were the Palestinian Central Bureau of Statistics (PCBS), the Palestine Monetary Authority (PMA), the Palestinian Pension Authority (PPA), and the Ministry of Finance and Planning (MOFP).

Similarly, any number of Palestinian Reform and Development Plan activities can be targeted for implementation support. In this project, they included national accounts estimation, agricultural census taking, banking supervision, bank deposit insurance, pension information, pension reform, and public procurement. It appears nonetheless that the phrase "in order to support the implementation of the Palestinian Reform and Development Plan" is too generally worded as to risk the interpretation that the goal is to support the



implementation of the Plan in its entirety. The insertion of the qualifier "vital aspects" or "vital parts of the Palestinian Reform and Development Plan" gives the PDO statement better clarity.

The principal criticism levelled by the ICR (pages 22 and 47) against the Results Framework, however, has merit. The Project Appraisal Document (PAD) (pages 31-32) and the ICR (pages 24-26) simply list the objectives, components, and indicators of the project without as much a statement on the causal links between the project's inputs, outputs, and outcomes. In sum, neither the PAD nor the ICR lay out a clear results chain for the project.

This does not mean, however, that the project is necessarily lacking a logical Results Framework. In fact, following the summary description of the project activities (PAD, pages 8-9), the listing of project outputs, outcomes and indicators (PAD, pages 31-32), and the discussion of aspects of the Palestinian Reform and Development Plan targeted by the operation (PAD, pages 2-4), the logic of the results chain can be outlined as follows:

- At the broad institutional level, the project comprises a set of capacity building activities directed at four key economic institutions of the Palestinian Authority. The outcome --- a more capable statistics agency, central bank, pension administrator, and finance ministry --- strengthens the institutional infrastructure for economic management for a future Palestinian state, supporting the aspirations of the Palestinian Reform and Development Plan and achieving the objectives of the project.
- At the individual program level, activities to improve the estimation of the National Accounts, the completion of the first agriculture census, the production of poverty maps, and the implementation of quality standards at the PCBS uplifts the quality of the economic data system for the territories. Better economic data supports more competent economic management, helping the Government with its mission to restore economic growth and increase national prosperity, one of the four primary goals of the Plan.
- Similarly, activities to upgrade banking supervision to Basel II/III standards, to introduce bank deposit insurance, and to improve macroeconomic modeling and forecasting modernizes the banking system, fosters financial sector stability and strengthens the conduct of monetary policy. A better banking system, financial sector, and monetary policy apparatus similarly helps the Government with efforts to restore economic growth and increase national prosperity.
- Activities to help the pension agency with information technology, actuarial analysis, and strategic planning advances pension reform in the immediate and for the long term, a critical area considering that the pension system is large (four percent of GDP), complex (four ongoing pensions schemes, with pension information scattered among agencies and across locations), and unsustainable (a pay-as-you-go system, also serving as a social safety net). Better data and analytics on pension liabilities enables the PPA to plan for a more fiscally sustainable system, helping the Government to achieve fiscal stability and increase national prosperity, a second dimension of one of the four primary goals of the Plan.
- Finally, activities to reform the public procurement system helps the Government enhance the efficiency and effectiveness of public services, strengthen public institutions, and achieve good governance, another of the four primary goals of the Plan.

Viewed in this light, the activities and outputs of the project could potentially lead to the attainment of the



project's objective --- building institutional capacity of leading economic and regulatory institutions of the Palestinian Authority --- and hence to the project's higher order objective to support the Palestinian Reform and Development Plan. In this sense, the relevance of design of the project could be rated as High. However, since the PAD and the ICR failed to clearly articulate this results chain, the relevance of design is rated as Substantial.

**Rating**  
Substantial

#### 4. Achievement of Objectives (Efficacy)

##### **Objective 1**

###### **Objective**

To build the capacity of leading economic and regulatory institutions of the Palestinian Authority, in order to support the implementation of the Palestinian Reform and Development Plan.

###### **Rationale**

###### **Outputs**

Towards Capacity Building for the Palestinian Central Bureau of Statistics --- met all its output targets (ICR, paragraphs 113-115).

- Supply use tables (SUTs) were produced, enabling the more accurate estimation of the quarterly National Accounts for the West Bank and Gaza. The Palestinian Central Bureau of Statistics (PCBS) gained competence in the preparation and use of the SUTs and of Input Use Tables, and in the production of the National Accounts.
- The Agricultural Census Report was completed and disseminated ahead of schedule, improving the PCBS dataset; and, four studies using the census data were produced, helping inform policy. The PCBS collaborated closely with the Food and Agriculture Organization (FAO) in the activity.
- Handheld devices were used in a paperless conduct of the Palestinian Expenditure and Consumption Survey, in fulfillment of the target for the PCBS to introduce and use a new electronic survey technology in at least one socio-economic survey.
- A new poverty map was completed, along with a statistical atlas, with the PCBS using modern technologies and a new poverty assessment methodology to produce the poverty estimates. Earlier in 2012, PCBS staff received training on poverty mapping in Washington, D.C.
- The top four priorities of the 17 actions recommended to implement the best practices of the United Nations framework --- the European Foundation for Quality Management (EFQM) --- were completed by the PCBS. The actions were recommended by an international expert and endorsed by the Statistical Council.





Towards Capacity Building for the Palestine Monetary Authority --- achieved all its output targets (ICR, paragraphs 116-118).

- Basel II bank supervision guidelines (governing the capital that banks need to cover financial and operational risks) were developed by the Palestine Monetary Authority (PMA) for the West Bank and Gaza banks, with the assistance of an international consultant.
- The Palestinian Deposit Insurance Corporation (PDIC) was established, with a deposit insurance scheme covering 1.1 million bank depositors, representing 93 percent of all depositors in licensed banks in the West Bank and Gaza. The establishment of the PDIC exceeded the target for this activity --- the drafting and submission of a deposit insurance law to the Council of Ministers.
- Annual Financial Stability Reports and Quarterly Inflation Reports were produced and published (including online), by the PMA. In addition, macroeconomic indicators were developed and a statistical database was installed for the PMA Research and Monetary Policy Department.

Towards Capacity Building for the Palestine Pension Authority --- fully achieved two and partially achieved one of its output targets (ICR, paragraphs 119-121).

- The Pension Reform Action Plan was prepared by the PPA, with the assistance of consultants.
- Targets to improve the information technology (IT) system of the Palestinian Pension Authority (PPA) were partially achieved. The Integrated General Ledger Management Information System (IGLMIS) was installed at the PPA. Data were partially keyed into the system, and the system was in the testing phase at project closing. The Document Management and Archiving System (DMAS) was developed for the PPA. The digitization process, ongoing at project closing, was completed in end-October 2016, four months after the project closed in end-June 2016. Some one million documents were archived in Gaza and another 300,000 in the West Bank. The target had been for the IGLMIS and the DMAS to be developed and installed at the PPA, with all data on active and passive pension schemes consolidated at the PPA, including updated information on individual records.
- A strategic plan to strengthen the PPA's capacity for future pension reforms was developed, with four objectives. Training for the PPA staff was delivered. These results fully achieved the target for the PPA staff to receive the both the tools (use of the Bank's Pension Reform Options Simulation Toolkit (PROST)) and the training for actuarial analysis. The reforms had the potential to benefit 75,000 civil servants and 64,000 security personnel enrolled in the pension system.

Towards Project Management and Capacity Building for the Ministry of Finance and Planning --- partially achieved its output target (ICR, paragraph 122).

- The Standard Bidding Documents (SBDs) and the Procurement Manual were prepared by a consultant. Training on procurement law was delivered to the Palestinian Authority institutions. Training on the SBDs and on the Procurement Manual were not completed however.



## Outcomes

The ICR posits that the degree of achievement of the objective is assessed as Substantial on the following grounds (ICR, paragraphs 100-111):□

- The quality and timeliness of the West Bank and Gaza National Accounts estimates were improved. The PCBS now produces consistent and regular estimates of the National Accounts --- on both annual and quarterly bases, by both the production and expenditure methods, and in both constant and current prices. The base year of the data was updated to 2004. The data are accessible and publicly available in the PCBS website. The quality of the National Accounts data has been confirmed by technical missions of the International Monetary Fund (IMF). The future plan calls for the production of the supply and use tables every five years.
- The capacity to conduct an agricultural census survey was demonstrated with the completion of the first Agricultural Census in November 2011, with six workshops conducted to disseminate the results. Some 25 publications related to the census have since been produced, including the four produced by project closing. The future plan calls for the PCBS to conduct an agricultural census every ten years. The PCBS Agricultural Statistics Department is planning and preparing for the next survey in 2020.
- The monitoring of the financial sector has been improved, with the data and forecasting system strengthened. The Basel II framework was submitted to comments by the banks during consultations conducted by the PMA. The PMA has subsequently issued the governing instructions on minimum capital requirements and on risk management, shortly after the project closed in end-June 2016. The Deposit Insurance System designed under the project is operational --- the system insures 93 percent of bank depositors (1.1 million). The system, designed in line with international standards, was adequately funded, ensuring sustainability. The PMA Research and Monetary Policy Department produces monthly, quarterly, and annual macroeconomic reports covering a wide range of indicators and risk factors. The Department is using the data and forecasting models developed under the project in preparing its reports.
- The administration by the PPA of the current pension system has been improved, with the capacity for future reform strengthened. The Pension Reform Action Plan, underpinned by actuarial analysis and aiming to stabilize the pension system, was approved by the Cabinet and submitted to the President.□The Document Management and Archiving System (DMAS) is fully operational, with archiving costs now borne by the PPA, while the Integrated General Ledger Management Information System (IGLMIS) is partially operational. An Actuarial Analysis Unit has been established at the PPA, responsible for conducting actuarial analyses that aim to inform policy discussions of pension reform proposals.
- Public procurement at the Ministry of Finance has been modestly improved. The Standard Bidding Documents and the Procurement Manual were approved by the High Council on Public Procurement Policies. The Public Procurement Law was approved in 2014 and came into effect in July 2016.□Public procurement at the MOFP has been partly improved, in terms of approval of documents. But, further steps are needed to ensure that the new procedures are subsequently implemented by all entities of the Palestinian Authority. Procurement reform is a major undertaking subject to political economy constraints





and will take time to complete. □

Whether the foregoing results imply that the leading economic and regulatory institutions of the Palestinian Authority have acquired the institutional capacity to support the implementation of the Palestinian Reform and Development Plan is a vital question for the purpose of judging the achievement of the project objective.

- The question is important because many of the outputs and outcomes of the project, which are credited to the four economic and regulatory institutions, were delivered with the aid of consultants. According to the ICR (Annex 7, paragraph 5), the project provided 40 technical assistance consultancies, 35 training [activities], and seven goods assignments to 21 departments, involving close to 400 staff, in the four institutions. Sixteen of the 40 consultancies served the PCBS; eleven, the PMA; three, the PPA; and, ten, the MOFP.
- Evidence that the institutions have gained some capacity to support the implementation of the development plan can be gleaned from: (a) the work they performed in the project, albeit with the assistance of consultants; (b) the work they were able to carry out on their own, following the conclusion of the consultancy and training contracts; (c) testimony provided by the institutions themselves that they have gained capacity from the technical assistance; and, (d) independent third-party assessment of the expertise gained by the institutions.
- Although the ICR does not lay out the evidence systematically as above, subsequent consultations with the project team --- including by reference to a Project Completion Report prepared by an independent consultant to the Palestinian Authority to help inform the ICR, and by reference to independent assessments advanced by Bank staff --- indicate that the project "succeeded in building the organizational capabilities" of the four institutions. Extensive interviews conducted for the report with officers and staff of the PCBS (with 13 respondents), the PMA (with six), the PPA (with two), the MOF (with three) ) and the Bank (with two) effectively constitute an "unstructured" beneficiary survey of the institutions and staff benefitting from this capacity building project.
- At the PCBS: (a) the staff produced the final supply and use tables (SUTs) for the years after 2004, representing aggregate demand and aggregate supply for 95 commodities, after an international expert compiled the first SUT for the year 2004 and provided training on the construction of social accounting matrices; (b) the staff has produced expenditure-side quarterly National Accounts since the second quarter of 2012, meeting IMF Special Data Dissemination Standards (SDDS), after the same consultant supervised the compilation of the quarterly National Accounts through the second quarter of 2012, assisting with data sources, calculation methods, gap analyses, and the update of price deflators; and, (c) staff at the agricultural statistics department were able to conduct surveys of agricultural holdings, livestock, gardening, and farm management, following a technical assistance on survey methods provided by the Food and Agriculture Organization (FAO).
- Moreover, an independent assessment by a Bank staff in November 2016 concluded that: (a) the PCBS is now one of the few statistical agencies in the MENA region that regularly collects micro data and shares the micro data through its website; (b) the PCBS is now a leader in the region in terms of the range of data, statistics, and tools, including poverty maps and the statistical atlas, that it is able to produce and



disseminate; (c) the staff had demonstrated during their work with the Bank on poverty assessment that they are able to run and test models of poverty imputation, discuss data comparability and the selection of variables, and interpret and communicate their findings; and, (d) the Bank is engaged with the PCBS on a new round of household surveys aimed at improving the measurement of socio-economic and welfare indicators.

- At the PMA: (a) the staff at the research department were able to run the models developed by consultants --- a structural economic model, an inflation model, and a small calibration model --- to help write the monthly, quarterly and annual macroeconomic reports for the West Bank and Gaza; and, (b) the staff also demonstrated a facility with the use of macro-financial indicators, risk factor indicators, and business indices to write the financial stability reports. The ability of the staff to apply the Basel II bank capital framework had not been demonstrated during the life of the project, as the framework would only become operational in the last quarter of 2016. In preparation for this work, the staff at the commercial banks had been trained on the Internal Capacity Adequacy Assessment Process (ICAAP) for banks, following which the PMA bank supervision department updated three models in its financial stability toolkit, including the stress-testing of the banking system.

- At the PPA: (a) the staff were now responsible for running the Document Management and Archiving System (DMAS), the Open Text software-based document automation system installed by an Egyptian-Palestinian information technology (IT) consulting joint venture; (b) the staff were now operating the Integrated General Ledger Management Information System (IGLMIS), the Oracle Financials software-based accounting system installed by a Jordanian-Palestinian IT consulting joint venture; and (c) the staff at the policy/actuarial unit, with the assistance of the World Bank, and using the Bank's PROST pension simulation model, had advanced the action plan that was submitted to the Cabinet focusing on parametric changes to the pension system --- increasing the retirement age, eliminating early retirement, indexing pension increases, tightening benefits, revising the benefit calculation formula, and restricting the purchase of additional years of insurance --- in response to threats to the system posed by deficits and unfavorable demographic prospects.

- Separately, an independent assessment by a World Bank staff in December 2016 asserted that: (a) the PPA was the only institution in the West Bank and Gaza able to discuss pension reform options with stakeholders in a transparent manner and using a quantitative approach; and, (b) the PPA Director General and staff were technically proficient and had a strong understanding of issues pertaining to the current pension system.

In view of the foregoing evidence, the efficacy of the project is rated as Substantial.

**Rating**  
Substantial



## 5. Efficiency

The efficiency of the project is assessed as Modest, as it lacks an economic efficiency measure and the project suffered a two-year implementation delay.

### Economic Efficiency

The Project Appraisal Document (pages 15 and 67-68) listed the economic benefits of, but did not compute an economic rate of return (ERR) for, the project.

The PAD argued that by building the institutional capacity of the leading Palestinian institutions to implement the Palestinian Reform and Development Plan, the project would, first, improve the conditions for economic growth in the West Bank and Gaza, and second, improve the fiscal position of the Palestinian Authority. Specifically, building the capability of Palestinian Central Bureau of Statistics (PCBS) to produce timely and accurate economic data, particularly national accounts and poverty estimates, would enhance the Government's ability to foster economic activity and encourage growth. Institutional support to the Palestine Monetary Authority (PMA) would lower the cost of financial intermediation in the economy, increase liquidity in the interbank market, improve liquidity management in support of price stability, foster stability in the bank-dominated financial sector, and promote overall economic growth. Building the capacity of the Palestinian Pension Authority (PPA) would lead to pension reform, which would have a direct beneficial fiscal impact in the territories --- public pensions were the Palestinian Authority's single biggest unfunded liability, and therefore unsustainable.

The ICR did not compute an ERR for the project at closing either.

### Operational Efficiency

The extension of the project closing date by two years and the lagged disbursement of projects funds indicate a degree of operational inefficiency in the implementation of the project (ICR, paragraphs 123-124) -- assuming the disbursement schedule in the PAD was realistic given the uncertain circumstances in the West Bank and Gaza.

Some causes of the inefficiency were outside the control of the Government and the implementing agencies (ICR, paragraphs 124-125). First, the war in Gaza in 2014 disrupted daily life in the territory. Implementation of project activities slowed down markedly and fell behind schedule. Travel to and from Gaza and communication with the Palestinian Pension Authority (PPA) and the Project Coordination Unit (PCU), both based in Gaza, stalled. The World Bank suspended operational and supervision missions to Gaza. Instead, the Bank focused on arranging emergency relief and reconstruction efforts in the territory. Second, and more broadly, general restrictions on access to and movement in the West Bank and Gaza adversely affected the pace of implementation of the project. On many occasions, project team members, including task team leaders from the World Bank, could not obtain visas for travel to the territories. Staff and implementing agency interactions became less efficient. Communication between the Bank and the PPA and the PCU had to be conducted virtually. However, equipment, including ICT equipment, could not be easily delivered to the territories.



Other causes of the inefficiency were, however, well within the control of the Government and the implementing and beneficiary agencies (ICR, paragraph 126). Approval by the MOFP of contracts was often delayed. In many cases, the PCU failed to take a more proactive stance to help solve contract issues. The PPA had the least experience among the four institutions with Bank projects and project management and could have been better assisted and supervised by the PCU.

Project management costs reached 16 percent of the total project cost. On one hand, the amount is unusually high, even allowing for the fact that this was a small project, albeit with four implementing agencies and many project activities. On the other hand, the amount likely reflects the high cost of doing business in the West Bank and Gaza, considering the restrictions on staff travel and goods transport as well as the operational risks arising from unpredictable conflict in the territory.

## Efficiency Rating

Modest

a. If available, enter the Economic Rate of Return (ERR) and/or Financial Rate of Return (FRR) at appraisal and the re-estimated value at evaluation:

	Rate Available?	Point value (%)	*Coverage/Scope (%)
Appraisal		0	0 <input type="checkbox"/> Not Applicable
ICR Estimate		0	0 <input type="checkbox"/> Not Applicable

\* Refers to percent of total project cost for which ERR/FRR was calculated.

## 6. Outcome

This ICR Review rates the outcome for the project as Moderately Satisfactory.

The basis for this rating is that the relevance of objectives is rated High. The relevance of design is rated Substantial. And the efficacy of the project's achievement was also Substantial. The efficiency with which the project was implemented was Modest because of factors beyond the Government's control such as the 2014 war in Gaza and because of severe restrictions in movement and communications in the West Bank and Gaza faced by the project staff during most of the project's implementation.

### a. Outcome Rating

Moderately Satisfactory



## 7. Rationale for Risk to Development Outcome Rating

Overall, the risk to the sustainability of the development outcome is Substantial.

Political Risk: The risk that political commitment to the institutional reforms in economic management, banking supervision, and pension administration may waver is assessed as Modest. The reforms in these three areas have been implemented and it is unlikely that political action will reverse any of the gains that have been made. The risk that political commitment to pension reform and to procurement reform may waver is assessed as High. Pension reform would be a major undertaking in the West Bank and Gaza, as the system is large, complex (with four schemes), and currently financially unsustainable. Any adverse impact on pensioners would be contested. Procurement reform is a difficult undertaking in any polity globally, being normally opposed by political and business interests. The policy reforms embodied in the new Standard Bidding Documents and the new Procurement Manual have yet to be implemented by the Palestinian Authority institutions. In fact, training on the SBD and the manual had not been delivered by the project closing date. Overall, political risk to the sustainability of the reforms, which underpin capacity building, is rated as Substantial.

Institutional Risk: The risk that institutional capacity that has been built up at the PCBS, the PMA, and the PPA for operational and technical knowledge and expertise may erode is assessed as Modest. The PCBS is now held up as a model in the MENA region for micro and census data collection, quarterly National Account estimation, and poverty mapping. The PMA is knowledgeable with financial stability reporting, has operationalized a deposit insurance system, and has installed a Basel II banking supervision framework. The PPA operates an electronic document management and financial accounting system that is at par with its peers in the MENA region. The institutional capacity for implementing policy reform however --- pension reform at the PPA and procurement reform at the MOFP and other Palestinian Authority institutions --- is as yet untested, for which the risk to the sustainability of the development outcome is therefore assessed as High. On balance, institutional risk is rated as Substantial.

Country Risk: The risk posed by other potentially disruptive country events --- another war, a resurgence in violence in the West Bank and Gaza, political instability, internal institutional upheaval, an economic downturn, the withdrawal of financial support to the Palestinian Authority by donors, decreased budget allocations --- appear to be more severe. The likelihood of these events occurring, however, and the degree of severity of the consequences are difficult to predict. Notwithstanding, it is worth noting that the West Bank and Gaza and its population and the Palestinian Authority and its institutions have so far managed to survive, function and achieve capacity building in a time of war. Indeed, the Government was able to deliver on most outcomes of this project, although with delay, even as war flared up in Gaza in 2014. Hence, the country risk is rated Modest.

### a. Risk to Development Outcome Rating

Substantial



## 8. Assessment of Bank Performance

### a. Quality-at-Entry

The project benefitted from strong points at entry. The Bank: focused on relevant development challenges in the West Bank and Gaza; targeted the prime economic institutions for capacity building; conducted a sound analysis of the project; considered the lessons learned from similar operations; and, built on the accomplishments of previous Bank engagements with each institutional partner. The Bank vetted each project component meticulously, as reflected in the lengthy and detailed description of the project activities in the appraisal document (pages 35-44).

However, the project also had some shortcomings at entry.

The capacity building component for the Palestine Pension Authority (PPA) had an overly ambitious scope relative to the capacity of the PPA to accomplish the expected outcome in the project's lifetime. The PAD (pages 41-43) originally envisioned a "modernized and reformed PPA" that would effectively "administer all civil and security service pension schemes", and "at a lower cost". The project planned seven activities, in response to what the Bank perceived was a window of opportunity for reforming the politically sensitive subject of pensions. The component was eventually scaled down during project implementation, however, focusing instead on laying the groundwork for future pension reform --- by improving pension data and analytics, and by preparing an action plan for reform.

Bundling four institution capacity building operations into a single project introduced another layer of operational risk to the project --- that entailed in coordinating the activities of the four implementing agencies. The four institutions had different levels of capacity and experience, with the Gaza-based PPA having the least exposure to Bank operations. Consequently, each institution moved at a different implementation pace, faced distinct challenges, and required varying levels of support from the Bank. To mitigate the operational risk, the Bank had the Ministry of Finance and Planning (MOFP) take a coordinator role, organizing a Project Coordination Unit (PCU) for the purpose and requiring the MOFP to prepare a Project Implementation Manual before negotiations. There had been considerable debate at project preparation whether this was the optimal structure, as opposed, for instance, to having each implementing agency organize their own project coordination unit. At project close, the ICR (paragraph 130) eventually judged the organizational structure to be optimal, albeit initially rife with coordination problems.

There were also shortcomings with the project's Results Framework (see Section 3.b), most particularly with the M&E design (see Section 10.a), requiring two restructurings with a heavy focus on recasting the M&E design.

### Quality-at-Entry Rating

Moderately Satisfactory

### b. Quality of supervision

The Bank supervised the project closely. During the six-year implementation period, the supervision was managed by five task team leaders, although a permanent task team leader was appointed in August 2012.





Most of the task team leaders worked in Washington, although the project benefitted from a field-based task team leader for the last two years of the project's life. The Bank also fielded senior technical staff to ensure the quality of the technical aspects of the project. It spent approximately US\$0.5 million on supervision activities, about 14 percent of the project's total cost.

The Bank produced 11 supervision reports (Implementation Status and Results Reports) and eight Aide Memoires over the six-year duration of the project. These documents were forthright in recording the implementation challenges faced by the project and constructive approaches used in seeking resolutions for these challenges. It can be gleaned from the documents that the Bank collaborated closely with all of the implementing agencies to anticipate problems and find solutions to implementation issues.

The Bank took an active role to resolve particular project implementation bottlenecks. It helped the implementing agencies refine terms of references (TORs) for consulting engagements. It intervened with the PCBS when the implementation of the European Foundation for Quality Management (EFQM) activity hit a snag. It advised the PPA when the agency encountered difficulties with its two service providers.

The Bank responded effectively to major project issues, with two project restructurings (see Section 2.d). The mid-term review (MTR) in November 2012 helped inform the first restructuring of the project, the request for which was sent to the Bank in October 2013 before being approved in February 2014. A one-year extension of the project closing date was deemed necessary to complete the implementation of three vital activities: training on and implementation of the European Foundation for Quality Management (EFQM) quality improvements at the Palestinian Central Bureau of Statistics (PCBS); the drafting of the Basel II banking supervision guidelines at the Palestinian Monetary Authority (PMA); and, the information technology (IT) activities at the Palestinian Pension Authority (PPA).

There were shortcomings with the Bank's performance nonetheless.

Ten months separated the first supervision mission in January 2011 and the second mission in November 2011. There was also a gap of 10 months between the supervision mission of January 2012 and November 2012. These time gaps were likely due to the turnover in the task team leader position in late 2011 and in mid-2012.

The first four supervision reports missed reporting on the fourth outcome indicator, the "Improved administration of current pension systems and the strengthened capacity for future reform".

According to the implementing agencies, they would have preferred reporting directly with the Bank in a more streamlined project management system. The Bank could have participated in quarterly steering committee meetings, from which the agencies could have benefitted from hearing shared lessons on project implementation.

### **Quality of Supervision Rating**

Moderately Satisfactory



## **Overall Bank Performance Rating**

Moderately Satisfactory

## **9. Assessment of Borrower Performance**

### **a. Government Performance**

The Government (Palestinian Authority) was strongly committed to the project during preparation.

The Government worked to promptly meet all requirements for the effectiveness of the project, achieving effectiveness within ten weeks from the approval of the project by the Bank's Board.

The Government created and staffed the Project Coordination Unit (PCU) with competent personnel.

Approval of procurement contracts by the Government, however, remained a problem. The Government reported that it had to check the tax status of contractors. On the other hand, it claimed that delays with the contract approval affected only a limited number of contracts.

### **Government Performance Rating**

Moderately Satisfactory

### **b. Implementing Agency Performance**

Four Palestinian Authority institutions acted as implementing agencies for the project --- the Palestinian Central Bureau of Statistics (PCBS), the Palestine Monetary Authority (PMA), the Palestinian Pension Authority (PPA), and the Ministry of Finance and Planning (MOFP).

The performance of the PCBS, which implemented the first component of the project (41 percent of the total project cost), is rated by this ICR Review as Satisfactory. The PCBS delivered on all the outputs and outcomes planned at appraisal. A project manager and department managers were responsible for project implementation, and the staff demonstrated an ample understanding of the relevance and impact of the project. The PCBS recruited consultants readily, having a pool of experts with a track record with the institution. The quick start made by the PCBS accounted for the high disbursement rate of the overall project in the early stages of implementation. The PCBS took proactive steps to resolve issues besetting the implementation of two activities --- the execution of the European Foundation for Quality Management (EFQM) actions and the conduct of the Palestinian Expenditure and Consumption Survey. Delays with these two activities did not detract from the achievement of the project outcomes.

The performance of the PMA, which implemented the second component of the project (19 percent of the total project cost), was also rated as Satisfactory. The PMA delivered on all the outputs and outcomes planned at appraisal. The central bank was able to secure the commitment of the Government for the use of the Basel II bank capital guidelines and the implementation of the deposit insurance system. A delay in drafting the Basel II guidelines was a minor shortcoming, owing to difficulties in locating a qualified expert for the consulting job. The cancellation of the reserve management activity was justified; the activity was to



be included, instead, in a PMA project with the International Monetary Fund (IMF).

The performance of the PPA, which implemented the third component of the project (22 percent of the total project cost), is rated as Moderately Satisfactory. The component was scaled down from the original plan at appraisal. Implementation of the redefined component was also delayed. The PPA faced several constraints implementing the component activities: the agency had little experience with Bank operations and processes, notably procurement activities; its location in Gaza was a barrier to the efficient execution of the project activities, considering entry and exit problems along its borders; the war in Gaza in 2014 disrupted daily life in the territory for months; with the Palestinian Authority facing fiscal challenges, contributions to the pension system had been declining; and, pension reform is a politically sensitive subject. Nonetheless, the PPA fully achieved two of the three component outputs and partially achieved the third by the project completion date.

The performance of the MOFP, which implemented the fourth component of the project (18 percent of the total project cost), is rated as Moderately Unsatisfactory. Commitment to the reform of the procurement system wavered during the course of the project. Admittedly, implementation of the component hinged on the pursuit of broader procurement reforms in the West Bank and Gaza. The Standard Bidding Documents (SBDs) and the Procurement Manual were prepared, but training on the SBDs and on the manual were not delivered. The tax administration activity, added after the second restructuring, was subsequently dropped after the MOFP decided that it would pursue the activity independently of the project (see Section 2.d).

The performance of the MOFP Project Coordination Unit (PCU), which was tasked to coordinate the implementation of the four components, is rated separately as Moderately Satisfactory. The PCU exerted considerable effort in trying to ensure the effective and efficient implementation of the project, as each implementation agency incurred operational inefficiencies. But the PCU also suffered from its own inefficiencies --- the implementing agencies reported procurement delays once contracts reached the MOFP (for approval and signing). It should be noted that the PCU had to work within the constraints of existing government procurement policies and procedures.

Overall, the performance of the four implementing agencies and of the PCU is rated as Moderately Satisfactory.

### **Implementing Agency Performance Rating**

Moderately Satisfactory

### **Overall Borrower Performance Rating**

Moderately Satisfactory

## **10. M&E Design, Implementation, & Utilization**

### **a. M&E Design**

M&E was to be centralized in the Project Coordination Unit (PCU), with the PCU mandated to maintain close



dialogue with all the implementing agencies.

Plans drawn at appraisal for implementing the M&E were clear cut. Meetings were to be conducted once every two months to assess the progress with the project. Implementation status reports were to be prepared quarterly and submitted by the implementing agencies to the PCU. Consolidated progress reports were to be produced semi-annually and submitted by the PCU to the Bank. A mid-term review would assess implementation progress against the agreed activity and procurement plans, and provide the basis for re-allocating budgets across activities and components, and from the contingency item.

There were shortcomings with the M&E design at appraisal. Principally, the outcome indicators lacked targets, by which the realization of the outcomes and the degree of achievement of the project development objective could be measured and assessed. Many of the output targets also lacked clarity.

## **b. M&E Implementation**

The Bank and the Government revised the M&E design after effectiveness, detailing the revisions in the restructuring papers of January 2014 (pages 12-23) and June 2016 (pages 5-15). Targets for the project outcomes were defined, where none were provided in the appraisal document.

- For the outcome "Improved quality and timeliness of the National Accounts estimates", the indicator target was to have "The quarterly National Accounts estimates released using the expenditure approach, with the base year updated".
- For the outcome "Capacity to conduct agricultural census surveys", the indicator target was to have "The agricultural census methodology and technical capacity in place at the Palestinian Central Bureau of Statistics (PCBS)".
- For the outcome "Improved monitoring and supervision of the financial sector, with strengthened data and forecasting system", the indicator target was to have "The banking supervision guidelines following Basel II/III, the deposit insurance scheme, and the data and models for forecasting in place".
- For the outcome "Improved administration of the current pensions system by the Palestinian Pension Authority (PPA) and strengthened capacity for future reform", the indicator target was to have "The Pension Reform Action Plan submitted to the Cabinet, the management information system and general ledger systems installed and made operational, and the capacity for actuarial analysis in place at the PPA".
- For the outcome "Improved public procurement at the Ministry of Finance", the indicator target was to have "Streamlined and consistent procurement procedures implemented by all Palestinian Authority procuring entities".

In addition, the first and second restructuring (see Section 2.d) also revised the project output indicators --- adding output indicators for the new activities, dropping output indicators for the deleted activities, and re-writing many of the output targets as the Bank and the Government agreed to give greater clarity to the intended outputs of the project components. Clarity was achieved with the final revision of the results indicators.



The M&E plan was implemented as revised. The project results, in terms of outputs and outcomes, were reflected in the Bank supervision reports, the Implementation Status and Results Reports (ISRs). The one shortcoming is that the first four ISRs missed reporting on the fourth outcome indicator, the "Improved administration of the current pension system, and the strengthened capacity for future reform". The fifth ISR corrected the error. The Bank also reported errors in the information technology (IT) system supporting the M&E, but the ICR (page 23) concluded that the "glitch did not make a material difference in project monitoring". □

### **c. M&E Utilization**

Data gathered from the M&E implementation were used by the Bank and the PCU to help improve project performance. The Bank intervened to help resolve specific implementation bottlenecks (see Section 8.b).

The M&E findings also helped the Bank reallocate costs from the third component of the project (savings were realized from consulting services at the PMA) to the first, second and fourth components (costs at the PPA and PCBS were turning higher). The Bank also used the M&E results to distribute the contingency item among the project components.

### **M&E Quality Rating**

Substantial

## **11. Other Issues**

### **a. Safeguards**

Environmental and Social Safeguards: The project was classified as an Environmental Category C, at appraisal. The project, an institution building technical assistance operation, did not trigger any Bank safeguard policies.

### **b. Fiduciary Compliance**

Procurement: A procurement capacity assessment of the implementing agencies and of the Project Coordination Unit (PCU), conducted at appraisal, rated the overall procurement risk of the project as Substantial. A set of measures designed to mitigate the risks were drafted and subsequently complied with: a Procurement Officer was appointed; a Procurement Advisor, with expert knowledge of Bank processes, was hired; the Manual of Procurement Procedures was made available to the implementing agencies; and, the PCU was supported with technical assistance and training activities.

The Bank completed five ex-post procurement reviews during project implementation and did not report any major non-compliance finding. The rating for procurement which was assessed as Moderately Satisfactory in



the Implementation Status and Results Reports (ISRs) during most of the project's implementation was upgraded to Satisfactory at the project close.

**Financial Management:** The financial management risk of the project was originally determined as Substantial during appraisal. To better execute the financial management aspects of the project, the plans called for: the opening of one designated account at the MOFP under the central treasury system; the handling of all payments centrally at the MOFP on behalf of all implementing agencies; and, the preparation of a Financial Management Manual as part of the Project Implementation Manual (PIM).

The performance of the project in financial management was rated as Satisfactory during the life of the project. The PCU Financial Management Specialist performed his functions competently. The project complied with all financial reporting and auditing obligations. Interim Financial Reports (IFRS) were submitted to the Bank, and on time, with no overdue IFRs at the time of project closing. There were no overdue external audit reports either, and all audit reports were reviewed by the Bank, with comments provided to the Government.

#### **c. Unintended impacts (Positive or Negative)**

The project did not have any unintended impacts.

#### **d. Other**

No other issues were raised by the ICR.

## **12. Ratings**

<b>Ratings</b>	<b>ICR</b>	<b>IEG</b>	<b>Reason for Disagreements/Comment</b>
Outcome	Moderately Satisfactory	Moderately Satisfactory	---
Risk to Development Outcome	Modest	Substantial	Risk to the sustainability of the institutional operational improvements is Modest. But risk to the sustainability of policy reforms that underpin capacity building is High.
Bank Performance	Moderately Satisfactory	Moderately Satisfactory	---
Borrower Performance	Moderately Satisfactory	Moderately Satisfactory	---
Quality of ICR		Substantial	---





## Note

When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.

The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

## 13. Lessons

The four lessons are drawn from the ICR (pages 53-54), with some adaptation.

**One, resilient national institutions are vital to the viability of development projects in "fragility, conflict, and violence" country settings.** The four Palestinian Authority institutions supported under this project --- the Palestinian Central Bureau of Statistics, the Palestine Monetary Authority, the Palestinian Pension Authority, and the Ministry of Finance and Planning --- all found ways to solve problems under very trying conditions. The PCBS introduced the electronic collection of field survey data in Gaza using hand-held tablets. The Gaza-based PPA, responded to the disruptions with "business continuity measures", including granting West Bank staff remote access to its work files and databases located at headquarters. The PPA and the MOFP PCU resumed operations fairly quickly after rounds of violence subsided. Institutions that can ably cope with internal challenges and with external shocks enable development efforts to make headway in difficult settings similar to those faced in the West Bank and Gaza.

**Two, concrete and measurable results indicators are critical to capacity-building and reform-focused projects, where the results indicators are often qualitative and subject to varying interpretation.** The Bank and the Government had to make an extra effort after project effectiveness to craft clear and precise statements of the results indicators for this project, including the baseline conditions and the end-project targets. Greater attention is needed at project preparation to the Results Framework and M&E design of capacity building and institutional reform operations to ensure that qualitative targets are clearly defined and practicably measurable.

**Three, capacity building and institutional reform operations may take longer than the project closing date to fully realize their development outcomes, considering the very nature of institution building as a medium- to long-term effort.** The project only partially completed the planned outputs and outcomes for procurement reform, in large part because overhauling the rules and norms by which the Palestinian Authority and its agencies practiced procurement would be a political process that would take time and effort.

**Four, a government needs to carefully consider the functions and responsibilities it assigns to a project coordination unit, particularly in a multi-agency operation.** The MOFP Project Coordination Unit was burdened with responsibility over many contracts, consultants, and sub-contractors in this four-agency project. The responsibilities of a coordination unit ought to be aligned with its technical capacity, with the organization given sufficient Bank support including through front-loaded training, embedding of experts, and more rigorous supervision.



## 14. Assessment Recommended?

No

## 15. Comments on Quality of ICR

The strengths of the ICR are:

One, the document is comprehensive. Considering the changes to the project components, the addition and deletion of activities, and the re-casting of results targets, the ICR does a commendable job at tracking all the project revisions through the two restructurings. It then summarizes the project results, in terms of outcomes and outputs, succinctly --- Table 2 (page 34), Table 5 (page 36), Table 6 (page 37), Table 7 (page 38), and Table 8 (page 49). The concise summary facilitates an understanding of the project outcome rating.

Two, the analysis of project implementation issues is candid. The ICR (pages 46-48) assesses the Bank performance on quality at entry as Moderately Unsatisfactory. The ICR reasons that the Bank did not calibrate carefully enough the original scale and scope of the third component of the project to the capacity of the Palestinian Pension Authority to undertake the planned activities. The ICR also suggests that the Bank did not ensure that the Project Coordination Unit would operate a streamlined project implementation system. The ICR (pages 39-40) also squarely points to restrictions in the movement of persons (Bank and Government staff and consultants) and goods (project IT equipment) in the West Bank and Gaza as constraining the implementation of the project, leading to operational inefficiencies.

And three, the assessment of the project results is evidence-based. The ICR puts a primary emphasis on the results chain to assess the degree of achievement of the project objective. But, the ICR also considers other aspects of capacity-building not explicitly covered by the formal list of indicators to judge the results of the project: (a) the staff in the four institutions assisted with training, workshops, study tours, upgraded IT equipment, advisory services and other technical assistance activities; (b) the exposure to international standards, cutting-edge technology, and technical experts provided by the project to the four institutions (a valuable result considering that most institutions in "fragility, conflict, and violence" settings are isolated from the global community); and, (c) the ownership exhibited by the four institutions of the reforms introduced by the project, as reflected in the integration of the reforms in their post-project operations.

Overall, the ICR was written following OPCS guidelines. A minor weakness of the ICR (page 22) is that it does not identify clearly enough which parts of the project results were due to actions by the PCBS, PMA, PPA and MOFP staff, and which were due to activities performed by the consultants. The information would have helped to more readily determine whether the four institutions had acquired the knowledge and developed the capacity to support the implementation of Palestinian Reform and Development Plan as intended by the PDO. The information was obtained from the project team, but after the completion of the ICR.

### a. Quality of ICR Rating



Substantial