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Report Number: ICRR0022714

1. Operation Information

Operation ID P164427	**Operation Name** WB&G:Strengthen Fiscal Res & Bus Environ
Country West Bank and Gaza	**Practice Area (Lead)** Macroeconomics, Trade and Investment

Non-Programmatic DPF

L/C/TF Number(s) TF-A9743,TF-B1405	**Closing Date (Original)** 01-Feb-2020	**Total Financing (USD)** 64,227,196.00
Bank Approval Date 07-Feb-2019	**Closing Date (Actual)** 01-Jun-2020	

	IBRD/IDA (USD)	Co-financing (USD)
Original Commitment	64,227,196.00	64,227,196.00
Revised Commitment	64,227,196.00	64,227,196.00
Actual	64,227,196.00	64,227,196.00

Prepared by	Reviewed by	ICR Review Coordinator	Group
Antonio M. Ollero	Paul Holden	Jennifer L. Keller	IEGEC

2. Program Objectives and Pillars/Policy Areas

a. Objectives

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

For the purpose of this ICR Review, the program development objective is restated into the following three objectives:

Objective 1 - To strengthen revenue administration, the intergovernmental revenue framework, and land administration.
Objective 2 - To improve the business environment and lay the foundations for a digital economy.
Objective 3 - To enhance the sustainability and creditworthiness of local service providers of electricity, water, and medical services.

b. Pillars/Policy Areas

The operation had three pillars.

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

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

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

c. Comments on Program Cost, Financing and Dates

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

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

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

3. Relevance of Design

a. Relevance of Objectives

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

- Highly reliant on "clearance revenues" collected by the Government of Israel and on budget support from international donors, West Bank and Gaza faced significant domestic revenue mobilization constraints: (a) it lacked a unified taxpayer database with the bifurcation of the revenue management information system between inland and border taxes; (b) the revenue and expenditure assignments for local governments were misaligned – with revenues at a low 5 percent of GDP, half derived from sales of electricity and utility services provided by Israeli companies, four-fifths of all local governments could provide only 12 of the 27 services mandated of them, according to the "Public Expenditure Review of the Palestinian Authority" (World Bank, 2016); and (c) property taxation was weak, principally because of poor land administration – there were no property valuations in 1994-2009, and when they resumed in 2009, the valuations used the dated "replacement value" rather than the modern "area assessment" methodology, according to the "Public Expenditure Review of the Palestinian Authority" (World Bank, 2016).
- A poor business environment posed serious obstacles to private sector activity: (a) municipal business licensing was burdensome – exacerbated by the territorial, political, and administrative divisions between West Bank and Gaza, problems with business licenses and permits were tagged as a major constraint to conducting business by 27 percent of all enterprises, according to the "West Bank and Gaza Investment Climate Assessment - Fragmentation and Uncertainty" (World Bank, 2014); (b) land purchases and land registration by businesses were cumbersome and detrimental to economic activity – as much as US$35 billion of collateral value was locked in unregistered land in a financial system where only registered land could be pledged as collateral for loans, according to the "The Socio-Economic Effects of Weak Land Registration and Administration System in the West Bank" (World Bank, 2018); and (c) the economy lacked digital payments service providers and instruments to enable digital economic activity – only 14 percent of the adult population made or received a digital payment in 2014, compared to the average 33 percent in the Middle East and North Africa region, according to the "Global Findex Database 2017" (World Bank, 2017).
- Providers of electricity, water, and medical services faced financial sustainability problems: (a) customers repeatedly failed to pay their electricity bills, accumulating debts with electricity service providers. The poor condition of the electricity network, the inability of technicians to fix engineering problems, and the dearth of payment platforms discouraged customers from paying their bills, according to the "Assessment and Action Plan to Improve Payment for Electricity Services in the Palestinian Territories" (World Bank, 2014); (b) municipal water providers failed to collect on water bills or otherwise diverted water bill collections to municipal budgets, accumulating debts with the Ministry of Finance and Planning – as a result, the Palestinian Authority had to shoulder the cost of bulk water

supplied to municipal water departments in the amount of US$35 million annually, according to "Toward Water Security for Palestinians: West Bank and Gaza Water Supply, Sanitation and Hygiene Poverty Diagnostic" (World Bank, 2017); and (c) "outside medical referrals" had risen sharply in number and costs, rendering government health spending unsustainable.

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

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

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

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

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

- The first program objective was aligned with the objectives to "strengthen the fiscal position of the Palestinian Authority" and "improve public financial management" advanced by P111078, P113621, P118593, P123437, and P129742; "reduce the recurrent fiscal deficit" and "improve the effectiveness and transparency of public finances," by P147687 and P152257; and "improve public revenue performance" and "improve the transparency of public finances," by P156865.

- The second program objective was aligned with the objectives to "improve the business climate," advanced by P147687 and P152257; and "improve the business environment," by P161525.
- The third program objective was aligned with the objective to "improve the transparency of fiscal transfers to local service providers," advanced by P156865.

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

b. Relevance of Prior Actions

Rationale

Prior Actions
Objective 1 - Strengthen Revenue Administration, the Intergovernmental Revenue Framework, and Land Administration
PA1 - The Ministry of Finance and Planning has taken the necessary actions to improve tax collection and operational efficiency, by connecting existing management information systems for domestic and border taxation (RMIS and ASYCUDA), as evidenced by the issuance of official letter No. 5426, from the General Directorate of Revenue to the General Manager of the Revenue IT Department, informing the completion of the merger of RMIS and ASYCUDA
PA2 - The President has taken the necessary actions to strengthen domestic revenue collection by LGUs by authorizing the Cabinet, in cooperation with the MOFP, to delegate the MOFP's responsibilities to collect property taxes and related penalties to LGUs, as evidenced by the enactment of Law No. 12, dated May 3, 2018, amending the 1954 property tax law.
PA3 - The Cabinet has established strategic and policy oversight mechanisms for institutions in land administration, as evidenced by the adoption of Decision No. 17/229/18 signed by the Prime Minister on November 22, 2018, referring the draft amendments to the Palestine Land Authority Law for approval by the President.
Objective 2 - Improve the Business Environment and Lay the Foundations for a Digital Economy
PA4 - The Ministry of Health has streamlined the procedures for issuance of business licensing, reflecting the amendments to the Law on Crafts and Industries of 1953, as evidenced by the issuance of: (a) Cabinet decision No. 1 for the year 2018, approving the amendments to the annexes of the Law on Crafts and Industries dated April 3, 2018; and (b) Guidelines and instructions for business licenses, issued by the MOH dated July 25, 2018.
PA5 - Cabinet has taken the necessary steps to reduce the land registration procedures for businesses, as evidenced by the issuance of Circular 6-15 dated February 2, 2017, describing the streamlined procedures necessary for obtaining a purchase permit.
PA6 - The PMA Board of Directors has adopted regulations enabling the establishment of new electronic payments systems, fostering competition and reducing costs, as evidenced by the minutes of the PMA Board meeting signed by the Governor on July 17, 2018, approving regulations for the licensing of payment service providers.
Objective 3 - Enhance the Sustainability and Creditworthiness of Local Service Providers of Electricity, Water, and Health Services

PA7 - The Cabinet has set forth procedural steps to follow before service providers can cut off electricity following the accumulation of debt, including a grievance mechanism and protection of poor and vulnerable population, as evidenced by the issuance of official instructions dated April 17, 2018, published in the Official Gazette on April 22, 2018, that include the following provisions: (a) specification of exact periods of unpaid bills (30 days to households and 60 to non-households; (b) objections from the consumer to the distributor; (c) instructions on how to file a complaint; (d) instructions on how to reconnect power back to consumers; (e) guidelines on resolving disputes between the consumer and the distributor; and (f) exemptions.
PA8 - The Intra-agency Committee has taken the necessary steps to strengthen payment discipline and improve financial viability of the water sector by rescheduling the debt for unpaid water bills owed by LGUs to the MOFP for at least 90 LGUs, as evidenced by: (a) the issuance of an Official Letter signed by the Head of the Intra-agency Committee and dated October 28, 2018 enclosing a report describing the balances of the municipalities after debt rescheduling; and (b) seven debt rescheduling agreements entered between the LGU and the Intra-agency Committee, selected on a sample basis.
PA9 - The Ministry of Health has directed its Service Purchasing Unit to plan and implement training and capacity building to make the National Price Reference List tool ready to be used for medical referrals with domestic non-MOH healthcare providers when negotiating with at least three hospitals, as evidenced by the issuance of Directive No. 32/110/1139/18, dated October 30, 2018

Objective 1 - Strengthen Revenue Administration, the Intergovernmental Revenue Framework, and Land Administration

- **PA1**, **PA2**, and **PA3** aimed to strengthen revenue administration, the intergovernmental revenue framework, and land administration. By merging the MIS for domestic and border taxation, the Palestinian Authority would create a unified taxpayer database out of two previously separate systems that were each easily prone to tax evasion. Delegating property tax collections to local governments could help strengthen the intergovernmental revenue framework. Improving oversight of the Palestinian Land Authority and the Land and Water Settlement Commission could strengthen land administration.
- **PA1** aimed eliminate the division between domestic and border tax information systems, which hobbled revenue administration: (a) the Palestinian Authority collected VAT on imports and sales while customs taxes and duties were collected (on behalf of the Palestinian Authority) by the Government of Israel, which controlled the territories' borders; (b) the inland system, the Revenue Management Information System (RMIS), and the customs system, the Automated System for Customs Data (ASCUYDA), were separate and independent systems that could be manipulated by taxpayers (taxpayers reportedly paid one type of tax but not the other). This prior action would strengthen revenue administration: (a) following the merger of the Inland Tax Department and the VAT Department (supported by the Improving Public Revenue Performance and Sustainability Development Policy Grant), the unification of RMIS and ASCUYDA would create a single taxpayer database that covered all of the Palestinian Authority's principal tax revenue streams – VAT, customs taxes, and the income tax; (b) the single taxpayer database would help expand the tax base and strengthen tax revenue administration. The relevance of this prior action is rated **satisfactory**.
- **PA2** aimed to improve the inter-governmental framework for revenue administration and strengthen domestic revenue collection by delegating the collection of property taxes and penalties to municipal governments: (a) the collection of property taxes and penalties were the responsibility of the Ministry of Finance under the 55-year old Property Tax Law of 1954; meanwhile, (b) local governments had the mandate to provide critical public services, but lacked their own revenues to fulfill these obligations. The

prior action would strengthen the inter-governmental framework for revenue administration: (a) the devolution of property tax collection to local governments would address the misalignment of revenue and expenditure assignments; (b) it would also help diminish the practice of net lending and begin to shape a viable financing model for local governments. The relevance of this prior action is rated **satisfactory**.

- **PA3** aimed to strengthen land administration and property taxation by establishing policy and strategy oversight at two land administration institutions: (a) 55 percent of land in the West Bank was not formally registered, impeded by the Palestinian-Israeli conflict over land rights, the difficult settlement process, unclear and disputed ownership among family members, and absentee ownership; (b) incomplete land registration adversely affected property taxation – the effective tax rate was 1.8 percent for unregistered land compared to 4.5 percent for registered land– resulting in significant fiscal losses; (c) it also made the collection of taxes from land transactions difficult as property rights were not formally transferred; and (d) it discouraged real estate development. This prior action would strengthen land administration and property taxation with institutional reform at the two land agencies: (a) following the approval by the Cabinet of the *Roadmap for Reforming the Palestinian Land Sector* and the creation of the Land and Water Settlement Commission (as the agency responsible for the first-time registration of land), it was opportune to reform the institutional structure of the Palestinian Land Authority, which was responsible for recording land titles, property transfers, and mortgages and managing state-owned property; (b) a Board of Directors for the Palestinian Land Authority and the Land and Water Settlement Commission would conduct policy, direct strategy, and assume oversight of the two institutions; (c) overall, institutional capacity building would strengthen land administration, advance land registration, and improve property taxation. However, because this prior action did not require signing of the draft amendments by the President, its relevance is rated **moderately satisfactory**.

Objective 2 - Improve the Business Environment and Lay the Foundations for a Digital Economy

- **PA4**, **PA5**, and **PA6** aimed to improve the business environment and lay the foundations for a digital economy. By simplifying the procedure to obtain a municipal business license, the Palestinian Authority would address a problem tagged by more than a quarter of all enterprises as a major constraint to conducting business. Similarly, by simplifying the procedure to obtain permits to purchase land and register land ownership, the Palestinian Authority would facilitate land purchases for habitation and investment. By establishing the legal framework to license mobile payment service providers, the Palestinian Authority would promote access to digital finance by individuals, enterprises, and institutions, and help lay the foundations for a digital economy that would be supported by a functional digital payments and remittance system.
- **PA4** aimed to simplify the burdensome procedure to obtain municipal business licenses: (a) business licensing was governed by the 65-year old Law of Crafts and Industries of 1953; (b) it took an average 43 days to incorporate a limited liability company, including 36 days to obtain a municipal business license; (c) like obtaining a construction permit and transferring property, business licensing required a separate transaction with a different authority, which did not share data with other agencies, raising transaction costs for businesses. This prior action: (a) streamlined business licensing to facilitate business entry and reduce incentives for informality; and, related to Objective 1, a larger number of formal enterprises would enlarge the tax base. The relevance of this prior action is rated **satisfactory**.
- **PA5** aimed to simplify the cumbersome procedure to obtain permits to purchase land and register land ownership: (a) purchase permits were required by law ostensibly to prevent the acquisition of Palestinian land by Israelis; and (b) the number of days to obtain a purchase permits was 30 days, on average. This prior action would improve the business environment: (a) the requirement for a security

check would be waived for Palestinian companies and associations; and (b) the average time to obtain a land purchase permit could then be cut by half. The relevance of this prior action is rated **satisfactory**.

- **PA6** aimed to help lay the foundation for a digital economy by addressing an impediment to digital economic activity – the lack of digital financial services: (a) following the introduction of 3G telecommunications services, it was opportune to encourage the development of mobile digital financial services; (b) electronic payments would support digital retail economic activity, which has been shown to be robust as evidenced by the use for business purposes of SIM cards, albeit illegally distributed in the West Bank by Israeli telecom operators, which were not authorized to operate in the Palestinian territories; (c) moreover, digital payments, as part of the retail payments system, would advance the third stage in the development of the national payments system after the introduction of the Automated Transfer System (in the first stage) and securities settlement (in the second stage). This prior action would set the legal framework by which the Palestine Monetary Authority would license mobile payments services providers: (a) with Palestinian cellular providers launching high-speed data services in the West Bank in 2018 after a lengthy ban on the operation of 3G networks, the enabling regulatory framework would facilitate organization by private providers of transaction accounts and the creation of electronic payment instruments; (b) digital mobile payments would facilitate transactions among individuals, businesses, and even public services; and (c) digital mobile payments would advance the digitalization of the financial services industry. The relevance of this prior action is rated **satisfactory**.

Objective 3 - Enhance the Sustainability and Creditworthiness of Local Service Providers of Electricity, Water, and Medical Services

- **PA7**, **PA8**, and **PA9** aimed to enhance the sustainability and creditworthiness of local services providers for electricity, water, and medical services. By setting clear rules by which providers can cut off electricity services, the Palestinian Authority would incentivize customers to pay for electricity services under the pain of being denied services, helping repair the finances of electricity service providers. By rescheduling the debt of local governments to the MOFP for water bills, the Palestinian Authority would begin to clear water bill arrears with the MOFP, helping repair the finances of both the water service providers and the MOFP, which had to cover the costs of the unpaid bills. By facilitating the use of the National Reference Price Tool in negotiations for external medical services, the Palestinian Authority would help rationalize medical referral pricing and spending, helping the finances of the medical service providers and the government. The three prior actions would strengthen the fiscal sustainability of the central government, which had to cover the costs of unpaid electricity, water, and medical services (the "net lending problem"), and strengthen the financial sustainability of electricity, water, and medical service providers. .
- **PA7** set the rules by which electricity services could be cut off as a result of customer non-payment: (a) electricity service providers suffered from financial leakages from unpaid electricity bills; (b) the absence of rules on services cutoffs enabled customers to continually postpone payments to electricity service companies. Following the opening of dedicated accounts at local governments for electricity revenue collection (supported by the West Bank and Gaza Fiscal Stability and Business Environment Development Policy Grant), this prior action would help improve electricity bill collection. The takeover by the Palestinian Electricity Transmission Limited of single-buyer functions from the Israel Electric Corporation and the signing of long-term contracts between the two parties, together with the creation of new, or merger of existing, distribution companies, should help shore up the finances of the electricity sector. The relevance of this prior action is rated **satisfactory**.
- **PA8** aimed to enhance the financial sustainability of water service providers by restructuring the accumulated debt owed by local governments to the Ministry of Finance for unpaid water bills. Water service providers were unable to collect water and wastewater tariffs in full despite obtaining water from

the West Bank Water Department at 20 percent below cost. Municipal water service providers also diverted water tariff collections to municipal budgets. Consequently, arrears built up in the books of the Ministry of Finance and Planning; and the Government of Israel withheld "clearance revenues" due the Palestinian Authority for the unpaid water and wastewater bills. This prior action would enhance the sustainability of water services providers: (a) debt rescheduling agreements would be concluded between local governments and the inter-agency committee consisting of the Palestinian Water Authority, West Bank Water Department, and the Ministry of Finance; (b) this prior action is part of the series of reforms to improve the operations and finances of water services – the creation of water utilities separate from local governments; the cost recovery of investment capital, and the coverage of operating and maintenance costs. The relevance of this prior action is rated **satisfactory**.

- **PA9** aimed to enhance the sustainability of medical services by facilitating and piloting the use of the National Reference Price Tool in negotiations with hospitals for external (non-Ministry of Health) medical referral contracts (the transfer of patient care from one clinic to another). The number of "outside medical referrals" (typically to hospitals in Israel and private medical facilities in the West Bank and Gaza, East Jerusalem, Jordan, and Egypt) had risen sharply from 8,123 in 2000 to 74,654 in 2017. Costs rose from US$10 million in 2000 to US$210 million in 2014. At the same time, "outside medical referrals" did not use standard categories of medical conditions, and resorted to ad-hoc pricing arrangements, resulting in costly health expenditures. This prior action would enhance the financial sustainability of medical services. The National Reference Price Tool would help health authorities negotiate contracts with service providers that would be more cost-effective for patients, providers, and the government. The relevance of this prior action is rated **satisfactory**.

Rating

Satisfactory

4. Relevance of Results Indicators

Rationale

Results Indicator	Associated Prior Action	Relevance Rating	Baseline	Target	Actual Value	Actual Change in Results Indicator Relative to Target	Achievement Rating
Objective 1 - Strengthen Revenue Administration, the Intergovernmental Revenue Framework, and Land Administration							
RI1 - Increase in gross domestic tax revenues	PA1	Moderately Unsatisfactory	NIS2,750 million (2017)	NIS2,982 million (2019)	NIS2,524 million (2020)	-97.4 percent of target	Negligible

RI2 - Number of LGUs that have piloted collection of property taxes	PA2	Moderately Unsatisfactory	0 (2017)	3-5 (2019)	2 (2020)	40-66.7 percent of target	Modest
RI3 - Supporting the above result	PA3	Highly Unsatisfactory					Negligible
Objective 2 - Improve the Business Environment and Lay the Foundations for a Digital Economy							
RI4- Number of days on average to issue a business license	PA4	Satisfactory	36 (2017)	10 (2019)	6 (2020)	115.4 percent of target	High
RI5 - Number of days on average to obtain a land purchase permit	PA5	Moderately Satisfactory	30 (2017)	15 (2019)	15 (2020)	100 percent of target	Substantial
RI6 - Regulatory authorities have reviewed licensing applications for mobile payments providers under the new framework	PA6	Moderately Unsatisfactory	0 (2017)	5 (2019)	5 (2020)	100 percent of target	Substantial
Objective 3 - Enhance the Sustainability and Creditworthiness of Local Service Providers of Electricity, Water, and Health Services							
RI7 - Share of electricity that is purchased from	PA7	Satisfactory	86 (2017)	95 (2019)	92 (2020)	66.7 percent of target	Substantial

wholesale suppliers is collected and paid by LGUs							
RI8 - Percentage of unpaid debts for water owed by LGUs to the MOFP is restructured	PA8	Moderately Unsatisfactory	0 (2017)	15 (2019)	30 (2020)	200 percent of target	Substantial
RI9 - Service Purchasing Unit of the MOH has completed negotiations for contracting medical services using the NPR tool with domestic private healthcare providers	PA9	Moderately Unsatisfactory	0 (2017)	3 (2019)	5 (2020)	166.7 percent of target	Modest

Objective 1 - Strengthen Revenue Administration, the Intergovernmental Revenue Framework, and Land Administration

- **RI1** only partly measures the impact of the prior action on progress toward achievement of the targeted outcome. Although it can be argued that improvement in tax revenue administration from a merger of RMIS and ASCUYDA could help raise gross domestic tax revenues, there are many other factors that drive an increase in gross domestic tax revenues. The suggestion by the ICR (page 22) to use instead the "increase in tax revenues as a percentage of GDP" would consider the effect of economic growth on the indicator, but does not address the attribution issue altogether. There are many other factors driving an increase in tax revenue, including the continuing effects of the merger of the Income Tax Department and the VAT Department, an action supported earlier by the Improving Revenue Performance and Sustainability Development Policy Grant (P156865). The results indicator is rated **moderately unsatisfactory**.
- **RI2** only partly measures the impact of the prior action on progress toward achievement of the targeted outcome. The number of local governments that pilot the collection of property taxes falls short of the intended result – that local governments have actually taken over property tax

collection from the Ministry of Finance. As the ICR (page 22) correctly argues, the piloting of property tax collection was "not enough to contribute to the achievement of the project objective" and might belie the weak capacity of the participating local governments at tax collection and administration. The results indicator is rated **moderately unsatisfactory**.

- **RI3** was not relevant to the impact of the prior action – establishing policy and strategy oversight at land institutions (PA3) – toward achievement of the objective of strengthening land administration. It is not clear what "supporting the above result," means. The results indicator is rated **highly unsatisfactory**.

Objective 2 - Improve the Business Environment and Lay the Foundations for a Digital Economy

- **RI4** was adequate to measure the result of simplifying the procedures to register a business. The reduction in the number of days to issue a business license, measured on a *de jure* basis, would reflect the improvement in the business environment. The results indicator is rated **satisfactory**.
- **RI5** was mostly adequate to measure the result of simplifying the procedure for obtaining a land purchase permit. The reduction in the number of days to obtain a land purchase permit would reflect the improvement of the business environment. The results indicator is rated **moderately satisfactory.**
- **RI6** was mostly adequate to measure the result of adopting regulations for the establishment of new electronic payments systems. The review of licensing applications for mobile systems providers under the new regulatory framework would indicate that the foundations for digital economic activity were being built. However, the approval of licensing applications, rather than mere regulatory review, would have served as a more powerful results indicator for this outcome. The results indicator is rated **moderately unsatisfactory**.

Objective 3 - Enhance the Sustainability and Creditworthiness of Local Service Providers of Electricity, Water, and Health Services

- **RI7** was mostly adequate to measure the result of raising bill collections from electricity service customers. This results indicator is rated **satisfactory**.
- **RI8** was partly adequate to measure improvement in the financial sustainability of water service providers. However, while restructuring may facilitate the clearance of accumulated debts, it does not itself result in repayment. This results indicator is rated **moderately unsatisfactory.**
- **RI9** only partly measured the impact on the objective (of financial sustainability and creditworthiness of health services) of the action directing the Ministry of Health Service Purchasing Unit to plan and implement training and capacity building activities to make the National Price Reference (NPR) tool ready for use when negotiating medical referral contracts. This results indicator only counts the number of negotiations completed, without saying anything about the results of the negotiations and their impact on fiscal sustainability. This results indicator is rated **moderately unsatisfactory**.

Rating

Moderately Unsatisfactory

5. Achievement of Objectives (Efficacy)

OBJECTIVE 1

Objective

To strengthen revenue administration, the intergovernmental revenue framework, and land administration.

Rationale

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

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

Rating

Unsatisfactory

OBJECTIVE 2

Objective

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

Rationale

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

- The achievement of R5 is rated substantial. The average number of days to obtain a land purchase permit from the Council of Minister through the Land Authority was reduced from 30 days to 15 days, meeting the target.
- The achievement of R6 is rated substantial. The number of licensing applications for mobile systems providers that were reviewed by the regulatory authority under the new framework was five, meeting the target. Although the results indicator – the number of licensing applications reviewed – is rated moderately unsatisfactory, additional evidence indicates that the licensing applications were approved and all licensees were operational. According to the ICR (page 26), the Palestine Monetary Authority has since granted licenses to the five applicants – JawwalPay, PalPay, Middle East Payments Services, MalChat, and MadfooatCom. Moreover, all five mobile payment providers are fully operational and have issued 324,083 e-wallets so far, which are in use in the Palestinian territories. Hence, the objective to lay the foundations for a digital economy was achieved.

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

Rating

Satisfactory

OBJECTIVE 3

Objective

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

Rationale

- The achievement of R7 is rated substantial. The share of electricity purchases from wholesale suppliers that was paid by local governments rose from 86 percent in 2017 to 92 percent in 2020, two-thirds of the target increase to 95 percent. According to the ICR (page 26), the economic dislocation caused by COVID-19 negatively affected the ability of consumers to make timely payments for electricity bills.
- The achievement of R8 is rated substantial. The percentage of unpaid debts for water owed by local governments to the Ministry of Finance that was restructured rose from 0 percent in 2017 to 30 percent in 2020, exceeding the target of 15 percent. The restructured debt were owed by 93 local governments and amounted to new Israeli shekel (NIS) 380 million of the total NIS 1,277 owed.
- The achievement of R9 is rated modest. The number of negotiations for contracting medical services that was completed by the Ministry of Health Service Purchasing Unit with domestic private healthcare providers using the NPR tool rose from zero in 2017 to five in 2020, exceeding the target of three. Additionally, according to the ICR (page), the Ministry of Health has since implemented the NPR pricing covering 50 medical procedures with five local medical service providers – the Najah National University Hospital, Makassed, Augusta Victoria, St. John, and Al Ahli.

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

Rating

Moderately Satisfactory

Overall Achievement of Objectives (Efficacy)
Rationale

With the efficacy of the first objective rated unsatisfactory, the second, satisfactory, and the third, moderately satisfactory, the overall efficacy of the project is rated moderately satisfactory.

Overall Efficacy Rating
Moderately Satisfactory

6. Outcome

Rationale

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

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

The outcome is rated moderately satisfactory

a. Rating

Moderately Satisfactory

7. Risk to Development Outcome

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

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

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

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

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

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

8. Assessment of Bank Performance

a. Bank Performance – Design

Rationale

Analytical Foundations. The operation was informed by analytic work produced by the Bank as well as by the Palestinian Authority.

- PA1 and PA2 – "Public Expenditure Review of the Palestinian Authority" (2016) and "The Performance of Palestinian Local Governments" (2017).
- PA3 – "The Economic Effects of Restricted Access to Land in the West Bank" (2014) and "The Socio-Economic Effects of Weak Land Registration and Administration System in the West Bank" (2018).
- PA4 and PA5 – "West Bank and Gaza Investment Climate Assessment - Fragmentation and Uncertainty" (2014) and "Doing Business Report" (2017).
- PA6 – "The Telecommunication Sector in the Palestinian Territories: A Missed Opportunity for Economic Development" (2016).
- PA7 – "Assessment and Action Plan to Improve Payment for Electricity Services in the Palestinian Territories" (2014) and "Securing Energy for Development in the West Bank and Gaza" (2017).
- PA8 – "Toward Water Security for Palestinians: West Bank and Gaza Water Supply, Sanitation and Hygiene Poverty Diagnostic" (2017).
- PA9 – "Report on Policy Directions for Outside Referrals – Technical Assistance on Health Financing" (2013) and *The Master Plan for Organizing Medical Referrals to Service Providers Outside the Public Sector* (2016).

Linkages with Other Bank Operations. This operation formed part of the Bank's long engagement with West Bank and Gaza in the three pillars supported by this operation. The prior actions broadened the scope of reforms implemented under the Support for Fiscal Stability and Public Financial Management Development Policy Grants I-VII and the immediately-preceding Fiscal Stability and Business Environment Development Policy Grant.

- **PA1**, involving the merger of the MIS for domestic and border taxation, followed previous prior actions to strengthen tax administration, including by unifying the income tax and VAT services for large taxpayers (under P123437), merging the VAT Administration and the Customs Administration (P129742), merging the income tax collection and VAT collection departments of the MOFP (P156865), and establishing a new Tax Identification Unit (P129742).
- After expanding the number of municipalities in which the Palestinian Authority collected property taxes from 25 to 34 (P118593), **PA2** would delegate the collection of property taxes and related penalties from the MOFP to local governments, restructuring the inter-governmental revenue framework.
- **PA4**, which would amend the annexes to the Law on Crafts and Industries, comprised a set legal and regulatory reforms to improve business licensing, together with the enactment of a new Companies Law to simplify business registration (P161525) and the amendment of the Law on Crafts and Industries of 1953 to update the three-tier system for granting business licenses (P161525).
- A waiver of land titling registration fees and charges for first-time land purchases (P156865) and the simplification of land registration procedures for businesses under **PA5** would facilitate land purchases and land registration in the West Bank and Gaza, helping unlock the economic potential of unregistered land in the territories.
- To secure the viability of electricity services, the government initiated a series of Bank-supported measures to reform various aspects of the electricity market. The measures included: a program to

reduce net lending (subsidies to local governments) for electricity services (P111078), the creation of the Northern Electricity Distribution Company to take over electricity distribution from municipal governments in the northern part of the West Bank (P111078), including in Nablus (P118593), the provision of "compensation" to municipalities to end their reliance of electricity revenues (P113621), the grant of authority to the Palestinian Energy and Natural Resources Authority (PENRA) to set electricity tariffs (P113621), the setting by the Palestinian Energy Regulatory Commission of performance targets for electricity distribution companies (P123437), the model agreement among PENRA, one municipality, and two distribution companies to facilitate the payment of electricity bills to electricity distribution companies (P156865), and the opening by local governments of separate bank accounts to deposit funds collected for the payment of electricity bills to PETCO (P161525). Part of the measures, **PA7** would focus on consumers and set the steps for cutting off electricity services because of accumulated electricity debt.

- After local governments opened separate bank accounts to deposit funds collected for the payment of water bills to the West Bank Water Department (P161525), **PA8** would tackle the larger problem of rescheduling the accumulated debt of local governments to the MOFP, which had previously covered local government dues to the West Bank Water Department.
- The Ministry of Health started to rationalize the medical referral practice in 2013 by expanding the membership of medical referral committees (P129742), centralizing the medical referral audit function (P129742), restricting medical referrals to essential cases (P129742), facilitating the medical referral process with three Israeli hospitals (P156865), and prescribing the use of the Referral Manual for medical referrals to institutions outside of the public health system (P156865). **PA9**, which promoted the use of the National Reference Price Tool in negotiations with external medical referral service providers, would add to these efforts.

Stakeholder Consultation. The Program Document (pages 31-32) reported that the Palestinian Authority conducted formal consultations with the private sector and civil society on the reforms supported by this operation. The reforms were reviewed by the Sector Strategy Teams of representatives from the private sector and civil society and focused on questions of alignment with the *National Policy Agenda 2017-2022 – Putting Citizens First*.

Donor Coordination. Donor coordination was conducted within the governance framework for the Trust Fund for Gaza and the West Bank and the PRDP Trust Fund which financed this operation. Specifically, according to the Program Document (pages 31-32), the Bank consulted the donors of the PRDP Trust Fund prior to finalizing the policy and results matrix. Additionally, the Bank consulted with the European Union, which provides the single largest contribution to the Palestinian Authority budget through its *Palestino Européen de Gestion et d'Aide Socio-Economique* mechanism, to ensure the alignment of this operation with the European Union's *Results Oriented Framework* for reforms and with the United Kingdom's Department for International Development to satisfy the latter's terms of conditional support. Finally, the Bank used the formal aid coordination mechanism for the Palestinian territories established in 2005, including that of the Ad-Hoc Policy Committee, to verify the coherence of this operation with the OECD-DAC Paris Declaration on Aid Effectiveness.

Rating

Satisfactory

b. Bank Performance – Implementation

Rationale

Monitoring. Although this was a stand-alone operation, its link to the immediately-preceding Fiscal Stability and Business Environment Development Policy Grant and the lengthy sequence of Support for Fiscal Stability and Public Financial Management Development Policy Grants I-VII argued for its treatment as the equivalent of a "programmatic series" aimed at strengthening the fiscal position of the Palestinian Authority and improving the business environment in the West Bank and Gaza. Toward this end, the Bank constructed a multi-year monitoring matrix of expected results that "not only included targets for the first year of implementation, but also anticipated actions for the next two years," according to the Bank staff.

Rating

Satisfactory

c. Overall Bank Performance

Rationale

Program design is rated satisfactory. Program implementation is rated satisfactory. Overall Bank performance is rated satisfactory.

Overall Bank Performance Rating

Satisfactory

9. Other Impacts

a. Social and Poverty

The ICR did not cite any ex-post social and poverty impacts. The operation had no social and poverty impacts, according to the Bank staff.

b. Environmental

The ICR did not cite any ex-post environmental impacts. The operation had no environmental impacts, according to the Bank staff.

c. Gender

The operation benefitted women through greater access to financial services, according to the Bank staff. Women received 26 percent of all e-wallets issued, while holding only 16 of all regular bank accounts.

d. Other

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10. Quality of ICR

Rationale

The quality of the ICR was substantial.

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

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

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

a. Rating

Substantial

11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments

Outcome	Moderately Satisfactory	Moderately Satisfactory
Bank Performance	Moderately Satisfactory	Satisfactory
Relevance of Results Indicators	---	Moderately Unsatisfactory
Quality of ICR	---	Substantial

12. Lessons

Three lessons are drawn from the ICR (pages 34-35), with some adaptation.

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

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

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

13. Project Performance Assessment Report (PPAR) Recommended?

No