

PURSE Review April-June 2021

Fiscal performance

- 1. Easing the COVID-19 related lockdowns in the second quarter of 2021 and the subsequent economic rebound have resulted in a significant boost to public revenues.** According to data published by the Ministry of Finance (MoF), domestic tax collections grew by 21 percent in the first half of 2021, year-on-year. The increase was driven by income tax and VAT which grew by 7 and 10 percent, respectively, following the increase in economic activity. Domestic customs collected on used cars also increased by 56 percent as consumers that had delayed such purchases in 2020, given the perceived uncertainty, have proceeded in 2021. Also, excise on tobacco increased by 31 percent in the first half of 2021, year-on-year, as the closure of the border with Jordan has eliminated tobacco smuggling, resulting in higher public revenues. Non-tax revenues also grew significantly due to a 39 percent increase in domestic fees and charges following the receipt of around NIS90 million in license payments from telecoms providers. This offset a decline in transfers by the Government of Israel (GoI) of health fees and equalization levy collected from Palestinian workers in Israel¹. Also, investment profits declined by 97 percent as the PA barely received any investment profits from the Palestine Investment Fund in the first half of 2021, compared to NIS42 million in the same period of 2020.
- 2. Clearance revenue transfers stabilized, and their performance was impressive in the first half of 2021 increasing by 19 percent, year-on-year, but risks remain high.** Notably, clearance revenues grew despite the GoI increasing monthly deductions from NIS42 million to NIS50 million in April 2021, to account for some of the payments made by the PA to the families of those deceased as a result of violence, on top of those made to Palestinian prisoners in Israeli prisons and ex-prisoners. The increase in clearance revenues is mainly attributed to a 39 percent growth in customs collections due to Palestinian importers purchasing 3 months' worth of stock of raw tobacco from third countries in May, to avoid any future import delays related to the GoI changing its tobacco packaging laws. Some of this increase, hence, is expected to be offset in future months. Petroleum excise also increased by 7 percent due to higher imported quantities compared to the same period in the previous year in line with the rebound in economic activity. The impressive performance of clearance revenues is threatened in the second half of the year due to a new decision by the GoI to double its monthly deductions from NIS50 million to NIS100 million to offset payments made by the PA in 2020 and not deducted by the GoI.
- 3. Public spending increased by 19 percent in the first half of 2021, year-on-year.** The increase was mainly driven by a 15 percent increase in the wage bill due to the PA's decision to reinstate the wages of more than 30 thousand public employees in Gaza to a 100 percent starting March 2021, up from 70 percent in the last several years. Spending on the use of goods and services also increased by 69 percent in the first half of 2021 reflecting additional expenses associated with the regular return of public employees to their duty stations and to normal working hours compared to the first half of 2020. Transfers also grew by 3 percent due to additional spending on pensions to Gaza employees as those were also reinstated to a 100 percent starting February 2021. Finally, net

¹ According to the PA MoF data, the GoI transferred in excess of NIS128 million in the first half of 2020 in health fees and equalization levy compared to NIS65.3 million in the same period in 2021 even though the number of workers was higher in the first half of 2021 compared to the same period in 2020.

lending increased by 58 percent signaling the urgent need for reforming to intergovernmental fiscal transfer system.

4. **Despite the impressive revenue performance, the fiscal financing situation remained very tight due to high public spending and very low external financing.** The total deficit amounted to US\$472 million in the first half of 2021 – a 16 percent increase year-on-year.² Aid received through the budget was US\$75 million (US\$30 million in budget support and US\$45 million for development projects). Budget support was only 13 percent of what was received during the same period last year. The big drop is attributed to the absence of funding from GCC countries, lack of contributions by donor countries to the World Bank’s PRDP TF and a delay in the European Union’s contribution which is planned to be disbursed in the second half of 2021 rather than in the first half of the year, as in 2020. Given the decline in external financing, the PA faced a large financing gap (US\$397 million). To finance it, the PA mostly relied on arrears to the private sector and the pension fund. Even though comprehensive data on arrears is not available, it is estimated that the total stock of arrears to the private sector now amounts to US\$850 million. Data on arrears to the pension fund is also not available but the stock is estimated at around US\$2 billion. The stock of debt to domestic banks stood at US\$2.4 billion (14.6 percent of GDP), as of June 2021.

Table 1: Budget Support to the Palestinian Authority, US\$ million

Budget Support (US\$ million)	January -June 2020	January -June 2021
Arab Donors	38	0
Saudi Arabia	31	0
Qatar	6	0
Oman	1	0
International Donors	188	30
France	9	0
EU PEGASE	107	0
World Bank PRDP TF	42	0
World Bank DPG	30	30
Total	226	30

Source: MoF

Reform progress

5. **The assessment in this section is based on progress made by the PA in achieving the targets set in the World Bank’s “Building the Foundations of a Digital Economy, Strengthening Resilience, and Supporting Governance” Development Policy Grant (DPG) approved by the Board of directors on May 28, 2021.** This is the eleventh budget support operation that the World Bank has prepared for the benefit of the Palestinian territories, and it is in the amount of US\$30 million. The development objectives of the operation are to: (i) Support the digital foundations of the Palestinian economy, (ii) Strengthen recovery and resilience post COVID-19 (iii) Improve governance and transparency in the areas of public procurement, wage bill control and the health sector. The following table summarizes implementation progress while the section lists the main reforms supported by the operation and describes progress on each.

² The increase is calculated in NIS terms to avoid the impact of the USD/NIS exchange rate.

Table 2: DPG 11 Implementation Progress

Prior Action	Implementation Progress
Pillar 1	
Prior Action 1	Delayed
Prior Action 2	On track
Pillar 2	
Prior Action 3	On track
Prior Action 4	On track
Prior Action 5	On track
Prior Action 6	On track
Pillar 3	
Prior Action 7	Delayed
Prior Action 8	On track
Prior Action 9	On track
Prior Action 10	On track

Pillar 1: Support the digital foundations of the Palestinian economy

6. **Prior Action 1: The Recipient, through its Cabinet, has adopted a new Law on Communications and Information Technology that establishes the role, governance, financing, duties and authorities of an independent telecom national regulatory authority.** One of the main shortcomings of the legal framework governing the telecoms sector is that it does not require the establishment of an independent regulator and allows for monopolies. This is a key issue standing in the way of the development of the sector and it has kept the Palestinian territories foreign to international best practice in this area. The process of setting up a national regulatory authority started seventeen years ago, but without any tangible results until this reform was adopted. The new telecommunications and information technology law supported by the DPG aims to achieve effective regulation of the sector through overseeing the performance of licensees and protecting the benefits of subscribers and beneficiaries. The law also encourages investment in the sector and ensures the provision of main telecommunications services in all regions of the Palestinian territories. The law specifically requires the establishment of the Palestinian Telecommunications and Information Technology Regulatory Authority (TITRA) and clearly sets out the split of responsibility for the sector between the regulator and the Ministry of Telecommunications and Information Technology (MTIT). After being adopted by the Cabinet in March 2021, the law was sent to the President’s office and it is currently awaiting his signature for enactment.

7. **Prior Action 2: The Recipient, through the Palestine Monetary Authority (PMA), issued Official Instructions setting forth the conditions and modalities of e-wallet services in the Palestinian territories and launched operations of non-bank payment service providers, facilitating financial transactions amid the COVID-19 crisis.** The PMA has initiated and led the reform and modernization of the National Payment System (NPS) as a platform for the digital economy since 2005. Prior action 2 supports the PMA’s efforts by launching the operations of non-bank payment service providers through regulating the use of their first product, e-wallet services. E-wallets provide cost and time effective alternatives to cash and, with other forms of electronic payments, will form the foundation of a critical “digital utility”. Once the overall system is more developed, it is expected that it will improve financial inclusion, especially for women, and boost

growth and job creation. The prior action requested that at least 120,000 e-wallets are issued by December 2022, and that 20 percent of those are owned by women. Data from the PMA for May 2021 indicates that the number of issued wallets was 113,539 with female ownership reaching 22 percent.

Pillar 2: Strengthen recovery and resilience post COVID-19.

8. **Prior Action 3: The Recipient, through the Ministry of Social Development (MoSD), has created an online registration system to facilitate access to emergency financial support for households affected by the COVID-19 pandemic which, once recertified at the end of the crisis, will be integrated into the Recipient's main social registry, to maintain a single national portal.** COVID-19 has exacerbated already challenging social conditions in the Palestinian territories, and the PA has, therefore, adopted measures to facilitate access to social assistance. The MoSD has rolled out an online registration system to provide financial support for families and households that have been affected by the crisis. The tool was rolled out with a simplified registration form to facilitate access for beneficiaries from the West Bank and also from Gaza where poverty rates are higher. The criteria that were used to identify eligible beneficiaries were: 1) individuals that suffered a job loss due to the COVID-19 crisis, 2) individuals that are sick with the virus, 3) individuals in quarantine, and 4) businesses that have defaulted during the crisis. With the roll out of the online system, the MoSD has made efforts to ensure high levels of transparency and to maintain governance related to its social assistance programs. For example, to ensure that families that receive support through the online registration system do not receive assistance through any other channels including the National Cash Transfer Program, Waqfet Izz solidarity fund, UNRWA, and are not employees of the PA, cross checks are carried out at the central level through the PA's internal systems. The online registration system is expected to provide assistance to 62,000 newly poor beneficiary households by December 2022. Data as of June 2021 shows that the number of beneficiary households reached 36,125.
9. **Prior Action 4: To respond to the COVID-19 pandemic and provide cash transfers to employees and households, the Recipient, through the Palestinian Authority, has established the "Waqfet Izz" solidarity fund to collect monetary donations through a unified bank account and transfer assistance to beneficiaries vetted through the Ministry of Social Development and Ministry of Labor.** The solidarity fund was established at the early stages of the pandemic to quickly address the growing social needs. Its role is to collect contributions from private institutions and individuals through a unified bank account and provide cash transfers to beneficiaries. The beneficiaries are vetted through the MoSD and the Ministry of Labor (MoL) to ensure that they have suffered income losses due to the COVID-19 crisis and that they do not receive assistance through any other channel. The fund was able to raise about NIS62 million (US\$18 million) since its establishment and it continues to provide support to needy beneficiaries until today. The fund is expected to provide assistance to 53,000 beneficiaries by December 2022. Data as of June 2021 shows that the number of beneficiary households reached 52,300.
10. **Prior Action 5: The Recipient, through the Ministry of Health (MoH), has implemented the Pandemic Response Plan that mobilizes health facilities and human resources across public and private providers as well as non-governmental organizations, thereby strengthening the Recipient's compliance with the International Health Regulations on Pandemic Response.** COVID-19 has caused significant public health impacts in the Palestinian territories. A major public health response to protect the population has been launched by the PA. In particular, the

MoH, in cooperation with the World Health Organization and the Palestinian National Institute for Public Health, has developed and put in use a Pandemic Response Plan. The plan guides the use of resources including public and private health facilities and human resources to optimize their deployment based on the degree of spread of the virus. The plan provides five scenarios for managing the pandemic in the Palestinian territories, divided as follows: 1) first scenario: no cases of COVID-19 in the Palestinian territories, 2) second scenario: one or more confirmed local cases of COVID-19 or those resulting from coming into contact with imported cases, 3) third scenario: the presence of a larger amount of infections within the population of Palestinian workers in Israel or those who came into contact with them, including a larger number of critical cases, 4) fourth scenario: widespread penetration of infections beyond the capacity of facilities prepared in the previous stages, and 5) fifth scenario: large degree spread of cases in all Palestinian districts. The plan provides clear guidance on the deployment of health facilities and human resources for each of these scenarios and it will continue to be the main reference for resource mobilization during any future health crisis. The target agreed upon with the PA through the DPG for this prior action is that 15 facilities across public and private providers as well as NGOs will be involved in operationalizing the emergency response plan by December 2022. Information from the MoH shows that, as of June 2021, 8 hospitals have been involved with the plan and it is expected that the number will reach 15 by the end of 2022.

11. **Prior Action 6: The Recipient, through the Palestine Water Authority (PWA), has issued Official Instructions mandating service providers to use an emergency response framework that safeguards water quality and public health during the COVID-19 outbreak and also builds resilience in the face of future pandemics.** While the COVID-19 virus is not waterborne, its spread is controlled - among other measures - by good hygienic practices, especially frequent handwashing with soap. Therefore, maintaining high quality water and wastewater services while safeguarding water quality have been deemed essential in the fight against this pandemic. As a result, the PWA, with support from the World Bank, has developed an emergency response framework that has been put in use by service providers. The emergency framework is based on 6 main pillars that cover: 1) business continuity during a crisis, 2) prevention of a reduction in water quality through adequate water chlorination and preventive maintenance, 3) early detection of water contamination through ongoing sampling and analysis and public health surveillance, 4) rapid action plans to quickly respond to malfunctions, 5) effective communication with consumers and other stakeholders through regular updates, and 6) availability of standard operational procedures and protocols to improve the capability of distance operating. This framework will ensure that service providers continue providing water and sanitation services during the COVID-19 pandemic at a quality that does not jeopardize public health and will also build their resilience to better face future crises such as pandemics and climate change. The target agreed upon with the PA through the DPG for this prior action is that four major service providers serving 29 percent of the West Bank population³ meet the WHO standards related to the frequency and compliance of free residual chlorine tests in the water distribution network, by December 2022. Data as of June 2021 shows that one of the four targeted service providers (Nablus municipality) was able to meet the required standard for the number and frequency of free chlorine tests in the water supply network. For the other three service providers, preparations are underway to mobilize the necessary personnel,

³ The four service providers targeted by the prior action include the Jerusalem Water Undertaking, the Water Supply and Sanitation Authority in Bethlehem, Nablus municipality and the Hebron municipality. These four providers serve 900,000 consumers that represent 29 percent of the West Bank population of 3.053 million in 2020.

equipment and supplies to meet the required standards, and this is expected to be achieved by the end of August 2022 according to the PWA, ahead of the DPG agreed upon date.

Pillar 3: Improve governance and transparency in the areas of public procurement, wage bill control and the health sector.

12. **Prior Action 7: The Recipient, through the Cabinet, has approved the amendment to the executive regulations to the Public Procurement Law to operationalize the Dispute Review Unit (DRU) and endorse its role in carrying out administrative reviews of appeals from aggrieved bidders, and publish its decisions on the single procurement portal.** A credible dispute review mechanism is critical to the deepening of procurement reform. Therefore, this DPG supports the institution of a procurement DRU and endorses its role in carrying out administrative reviews of appeals from aggrieved bidders. The Public Procurement Law stipulates a two-level complaint mechanism for bidders alleging unfair treatment in the procurement proceedings. At the first level, bidders are entitled to complain to the procuring entity within 7 days from the date of the procurement decision (e.g., contract award). At the second level, and in case the procurement entity fails to respond or take action within 7 business days from receiving the complaint or if its response or action were deemed unsatisfactory to the complaining bidder, the latter has an opportunity to appeal to the DRU, within 7 business days from receiving the procurement entity's response. The appeal will be reviewed by a dispute review committee comprised of three independent experts. The law mandates the publication of appeals and DRU resolutions via the single procurement portal. The target agreed upon with the PA through the DPG for this prior action is that a 100 percent of cases submitted to the DRU are resolved within the period stipulated in the implementing regulations to the Public Procurement Law and are published on the single procurement portal, by December 2022. The DRU is not operational yet and more time is needed to achieve the target as the pace of implementation has slowed down over the past few months following a change in the leadership of the High Council for Public Procurement Policies (HCPPP).
13. **Prior Action 8: The Recipient, through the Cabinet, has instructed all public entities at the central and local levels to use Standard Bidding Documents (SBDs) for the procurement of non-consulting services and framework agreements.** This is an important reform that widens previous efforts by complementing the suite of SBDs supported under DPG 10 as it mandates the use of new SBDs for other types of procurement (non-consulting services) and other procurement methods (framework agreements for common use goods). The use of SBDs (including standard forms of contract) presents a number of advantages for a procurement system including: helping to standardize and harmonize implementation of procurement proceedings; promoting transparency and predictability in public procurement proceedings, helping to mitigate the effects of low levels of procurement capacity in the public sector; facilitating participation by small businesses; facilitating oversight, regularity control, and audit of procurement proceedings. The target agreed upon with the PA through the DPG for this prior action is that a 100 percent of non-consulting services tenders processed by the General Services Department (GSD) and of framework agreements for common use goods entered into by GSD, use the new SBDs by December 2022. The HCPPP has conducted a one-day training for the GSD staff on the use of the new SBDs, and 15 percent of tenders have used them, as of June 2021. It is expected that the target will be achieved by end-2022.
14. **Prior Action 9: The Recipient, through the MoF, has taken the necessary measures to install a new payroll system that connects the MoF's payroll management information system with**

the Human Resources system at the General Personnel Council (GPC), to enable a transparent exchange of data and control the impact of recruitment, promotions, and salary adjustments on the wage bill. Prior to this prior action, there was no interconnection between the payroll system at the MoF and the HR system at the GPC. As a result, shared information was missing which hindered the PA's ability to exercise effective wage bill controls. The prior action supported by this operation focuses on implementing a new payroll system that enables the exchange of data between the GPC and the MoF on recruitment, promotions, and salary adjustments. This would allow for a transparent flow of information between the two organizations in due time and will enable the MoF to subsequently develop better control and financial simulations on the wage bill during the execution year, which would significantly enhance financial planning. The target agreed upon with the PA through the DPG for this prior action is that a 100 percent of data is migrated from the old to the new payroll system by December 2022. As of June 2021, the MoF has almost finalized the preparation of the data migration plan, which will be a key tool to conduct the actual migration. The target is on track to be achieved by end-2022.

15. **Prior Action 10: The Recipient, through the MoF and MoH, has taken the necessary actions to improve transparency related to Outside Medical Referrals (OMR) and enhance financial planning, by linking the MoH's e-referrals system with the Integrated Financial Management Information System (IFMIS), to ensure a real time exchange of data between the two ministries.** Given the limited capacity at MoH facilities, the majority of Non-Communicable Diseases (NCDs) are managed in the context of OMRs. This category of expenditure has been growing fast and in recent years it constituted about 50 percent of the PA's non-salary spending on health. Governance arrangements for purchasing OMRs are highly fragmented and information on the commitments made remains incomplete. To help the PA enhance the management of health referral expenditures, the DPG supports efforts to exchange data between the e-referrals system at the MoH and the IFMIS at the MoF. Creating this link will ensure that medical referrals' commitments are recorded in time and that the MoF receives accurate real time information on the liabilities, which will help it plan its finances accordingly. This will allow for the review of the health referral expenditure trends against the budget on a quarterly basis, which would facilitate a more active management of this activity, e.g., undertaking certain investments which would reduce referrals or limiting referrals for certain procedures. It will also inform the decision making on the consequences of the gap in terms of financing problems and pile-up of arrears. The target agreed upon with the PA through the DPG for this prior action is that a 100 percent of transactions entered in the e-referral system are captured and automatically reflected in IFMIS, by December 2022. The MoF reports that the target has already been achieved but the Bank is currently in the process of verifying this information.