PURSE Review
September-December 2021

Fiscal performance

1. **In line with a rebound in economic activity, public revenues witnessed a significant boost in 2021.** The Palestinian economy is estimated to have grown by around 7.1 percent in 2021. The upsurge in economic activity resulted in an increase in public revenues. According to data published by the Ministry of Finance (MoF), domestic tax collections grew by 28 percent in 2021, year-on-year (y-o-y). The increase was driven by income tax and VAT which grew by 12 and 14 percent, respectively. Domestic customs collected on used cars also increased by 81 percent as consumers that had delayed such purchases in 2020, given the closures and the perceived uncertainty, proceeded in 2021. Also, excise on tobacco increased by 18 percent in 2021, y-o-y, as the closure of the border with Jordan eliminated tobacco smuggling, resulting in higher public revenues. However, non-tax revenues grew by 2 percent only in 2021 due to a decline in investment profits by 98 percent, as the Palestinian Authority (PA) barely received any investment profits from the Palestine Investment Fund in 2021, compared to NIS95 million in the same period of 2020. On the other hand, domestic fees and charges increased by 10 percent in 2021 following the receipt of around NIS110 million in license payments from telecoms providers.

2. **Clearance revenue transfers stabilized, and increased by 12 percent in 2021, y-o-y, despite higher deductions by the Government of Israel (GoI).** The GoI increased monthly deductions from NIS42 million to NIS50 million, since April 2021, to account for some of the payments made by the PA to Palestinian prisoners in Israeli prisons, ex-prisoners, and families of those deceased as a result of violence. Deductions were further increased to NIS100 million since August 2021 to offset payments made by the PA in 2020 and not deducted by the GoI. Despite the additional unilateral deductions, clearance revenues' growth in 2021 remained strong. It was mainly attributed to higher customs collections due to Palestinian importers purchasing three 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. Petroleum excise also increased due to higher imported quantities compared to the same period in the previous year in line with the rebound in economic activity. Notably, income tax collected by the GoI from Palestinian workers in Israel and the settlements increased by 241 percent y-o-y and amounted to NIS260 million in 2021, reflecting a decision by the GoI to increase the number of work permits granted to Palestinians.

3. **Growth in recurrent public spending was limited to 2 percent in 2021, y-o-y, as increases in certain spending items were offset by a strong drop in transfers.** Government transfers declined by 25 percent as the PA disbursed less payments through the National Cash Transfer Program (NCTP) in 2021 compared to the previous year. The strong decline in transfers offset the increase in other spending items. Mainly, the wage bill rose by 13 percent in 2021, y-o-y, due to the PA's decision to reinstate the wages of public employees in Gaza to 100 percent since March 2021, up from 70 percent in the past several years. Spending on goods and services increased by 15 percent in 2021, reflecting additional expenses associated with the return of public employees to their duty stations and to normal working hours compared to 2020, in addition to higher spending on vaccines and medical supplies. Also, net lending reflecting unplanned subsidies to Local Government Units (LGUs) covering utility bills to Israeli suppliers, increased by 4 percent in 2021.

4. **Given strong revenues and low expenditure growth, the PA's deficit declined significantly in 2021, but financing remained very tight due to low aid**. The total deficit (before grants) amounted to US$1.26 billion in 2021 – a 28 percent decrease y-o-y.[1] Donor financing was US$317 million (US$186

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

million in budget support and US$131 million for investment projects). Budget support was only a half of what was received in 2020. This drop is attributed to the absence of funding from GCC countries, lower contributions by donor countries to the World Bank's Multi Donor Trust Fund, and a delay in the European Union (EU)'s contribution, which is now expected to be fully disbursed in 2022. Given the decline in external financing, the PA faced a large financing gap of US$940 million in 2021. Despite an advance payment on clearance revenues in the amount of US$153 million (NIS500 million) provided by the GoI in September 2021 that provided some relief, the financing need remained large. The PA relied on arrears to the private sector, the pension fund and on domestic borrowing to make ends meet. Even though comprehensive data on arrears is not available, data from the MoF suggest that the stock of arrears accumulated to the private sector over the years is around US$975 million. The stock of domestic debt increased from US$2.3 billion as of December 2020 to US$2.5 billion as of December 2021.

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 and (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.

Table 1: DPG 11 Implementation Progress

Prior Action	**Implementation Progress**
Pillar 1	
Prior Action 1	Reversed
Prior Action 2	Target exceeded
Pillar 2	
Prior Action 3	Target exceeded
Prior Action 4	Target exceeded
Prior Action 5	Target exceeded
Prior Action 6	On track
Pillar 3	
Prior Action 7	On track
Prior Action 8	On track
Prior Action 9	Delayed
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. The new telecommunications law was enacted by the President and then published on December 23, 2021 in the 186th edition of the Gazette. The law establishes a regulator for the sector -- the Palestinian Telecommunications Regulatory Authority (TRA). However, it does not grant TRA the required independence to effectively conduct its duties. For example, instead of granting TRA the authority to regulate the sector, this duty was assigned to the Ministry of Telecommunications and Information Technology (MTIT), including (i) the responsibility to conduct and implement ex-ante asymmetric regulation; and (ii) as mentioned in the law, "supervising the performance of the regulator in regard to regulating the telecoms sector including all duties specified in the law". Also, the law doesn't grant TRA the required financial independence. It states that TRA will have a budget line in the PA's overall budget, in contrast to TRA having an independent budget. The gazetted Law also states that the financial resources of the regulator will come from funds allocated by the PA's overall budget, amongst other revenue the regulator collects such as licenses and fees. However, all its income should be transferred to the PA treasury, significantly weakening its financial independence. These provisions in the gazetted Law are not in line with the essence of the reform supported by the DPG 11, resulting in a reversal of the prior action.

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. Latest data from the PMA for December 2022 indicate that the number of issued wallets was 234,083 with female ownership reaching 26 percent, already exceeding the target.

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 September 2021 show that the number of beneficiary households reached 64,112 -- exceeding the target. The number has not changed since, as the online system was used as an interim shock responsive tool. With the ease of the covid-related lockdowns, the online applications gradually stopped, especially in the West Bank. Also, with the PA's mounting fiscal stress which resulted in less payments to the poor through the official cash transfer program (NCTP), priorities for any emergency funding have been given to those already on the NCTP list or those who fell into poverty or vulnerability due to the Gaza conflict last May.

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 December 2021 show that the number of beneficiary households reached 75,000. While the target was exceeded, the State Audit Administrative Control Bureau's (SAACB) annual report for 2020 revealed that ineligible recipients benefited from the fund. According to information provided by the Prime Minister Office, findings of the SAACB report were taken onboard by the Ministry of Labor and the unduly made payments were recovered.

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 December 2021, 19 hospitals and health facilities have been involved with the plan exceeding the target set by the DPG.

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 population[2] 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 December 2021 show that three of the four targeted service providers were able to meet the required standard for the number and frequency of free chlorine tests in the water supply network. For the last service provider, preparations are underway to mobilize the necessary personnel, equipment and supplies to meet the required standards. Thus, the target is on track to be achieved within the required timeline. The below table provides more details.

Table 2: Compliance with the Requirements of the Main Components of the DPG Indicator

Service Provider	**Population**	**Number of Tests (number)**	**Frequency (2/5000)**	**Complianc e Rate (%)**	**Concentrat ion (0.2-0.8 mg/l)**	**Status**
JWU	375,000	1558	2	100	0.3 – 0.6	Met
HM	236,900	324	2	99	0.2 – 0.6	Met
NM	219,823	3547	2	100	0.3 – 0.8	Met
WSSA	116,157	156	2	82	0 – 0.6	Partially Met

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**

[2] 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.

(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. Following approving the amendments to the executive regulations, the cabinet completed the recruitment of the DRU experts in accordance with the procedures in the Public Procurement Law and its implementing regulations. Additionally, the cabinet approved the selection of the DRU committees, namely, the committee for procurement of goods, and the committee for procurement of works. Therefore, the DRU has been fully ready to receive dispute requests from bidders and has already started actual work. So far, two cases have been submitted to the DRU; one has been resolved, while the other is still being processed. The case that was resolved was, indeed, handled within the period stipulated in the implementing regulations to the Public Procurement Law, and was published on the portal, as requested by the DPG indicator.[3] The target for this prior action is on track to be achieved within the required timeline.

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 data as of December 2021 showed that 4 out of 20 (20 percent) of non-consulting service tenders processed by the GSD used the SBDs while only 1 out of 10 (10 percent) of framework agreements for common-use goods entered into by GSD used the new SBDs. Despite the delay, it is expected that the DPG target will be achieved within the required timeline as the Cabinet has issued a decision in September 2021 emphasizing the mandatory use of SBDs by all procuring entities. Therefore, the GSD will be fully committed to using the new SBDs going forward.

[3] Details of the case and the resolution can be accessed here: https://www.shiraa.gov.ps/disputeunit/resolutions

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 December 2021, the MoF has finalized the preparation of the data migration plan. The trial mode will also start in the first quarter of 2022. Actual data migration is expected to be finalized in March 2023 though, after the DPG requested timeline.

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. According to analysis done by the World Bank, the rate has reached 86 percent, as of November 2021, as some data is still manually entered resulting in a margin of error. Since then, the application programming interface (API), which is the link between the two systems that will automatically transfer the data, has been tested and it will go live in the first quarter of 2022. Hence, it is expected that the target is on track to be achieved by end-2022.