PURSE Review
January-March 2022

Fiscal performance

1. **The first quarter of 2022 witnessed a significant boost to public revenues, in line with an improvement in economic activity.** Domestic tax collections increased by almost 30 percent year-on-year (y-o-y) driven by a growth in all tax categories, except tobacco excise. Income tax collections grew by 43 percent while VAT and domestic customs grew by 28 percent, each. This y-o-y growth was driven by an improvement in economic activity as real GDP growth is estimated to have reached 5.7 percent in Q1 2022, y-o-y. Collections from excise on tobacco dropped by 5 percent as the re-opening of the bridge with Jordan may have allowed for some tobacco smuggling, but it seems like this practice remains limited given that monthly collections continue to be higher than the pre-COVID-19 era. Non-tax revenues increased by 57 percent in Q1 2022 driven by an increase in domestic fees and charges, and also in the equalization levy collected by Israel from Palestinian workers and transferred to the Palestinian Authority (PA).[1] Tax refunds, a negative tax item, more than tripled in 2022 given the increase in the fuel subsidy following the PA's decision to continue subsidizing fuel despite the increase in global prices. The increase in tax refunds was offset by a growth in tax collections, as mentioned above, resulting in an overall increase in tax revenue.

2. **Clearance revenues also performed well in Q1 2022, increasing by 19 percent, y-o-y.** Their good performance is mainly attributed to higher customs and VAT collections which increased by 26 and 18 percent, respectively, due to a rise in imports.[2] Petroleum excise also increased by 13 percent due to higher imported quantities compared to the same period in the previous year and the rise in the global prices of fuel. Also, the appreciation of the NIS encouraged higher imports from abroad, in line with the rebound in economic activity. Notably, income tax collected by Israel from Palestinian workers reached NIS36 million in Q1 2022, up from zero in the same quarter last year.[3] Deductions by Israel from clearance revenues 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 were reduced to NIS50 million per month in 2022, down from NIS100 million since August 2021.

3. Growth in recurrent public spending was limited to below 2 percent in Q1 2022, y-o-y, as increases in certain spending items were offset by a strong drop in transfers. Government transfers declined by 18 percent as the PA did not provide any payments to poor beneficiaries through the National Cash Transfer Program (NCTP) in Q1 2022. The strong decline in transfers offset the increase in other spending items. Mainly, the wage bill rose by 4 percent, on a commitment basis, in Q1 2022, y-o-y, due to the implementation of the yearly step increase and the cost-of-living allowance. Also, the wages of Gaza employees were reinstated from 70 to 100 percent in March 2021, resulting in a lower comparator base. On a cash basis, the PA has been paying around 80 percent of the salaries of public employees, while protecting the lowest earners, since November 2021. Spending on goods and services increased by 12 percent, reflecting higher expenses mainly related to outside medical referrals and also vaccines and medical

[1] Palestinians employed in Israel are only entitled to basic insurance benefits, and hence their contribution to the Israeli national insurance system is lower than Israeli workers who are fully ensured. To keep the wage costs of Palestinian labor equal to those of Israeli workers and avoid any preference towards cheaper labor from the Palestinian territories, the GoI introduced the so called "equalization levy" to the income of Palestinian workers.
[2] PCBS trade data show that imports in Q1 2022 increased by 33 percent compared to Q1 2021.
[3] According to the PCBS, the number of Palestinian working in Israel and the settlements increased from 138 thousand in Q1 2021 to 204 thousand in Q1 2022.

supplies. The increase in net lending, reflecting unplanned subsidies to Local Government Units (LGUs) covering utility bills to Israeli suppliers, was limited to 2.3 percent in Q1 2022.

4. **Given strong revenues and low expenditure growth, the PA enjoyed a small surplus in Q1 2022 that was offset by Israeli deductions.** The total balance (before grants) reached USD45 million, but deductions by Israel from clearance revenues amounted to USD47 million, eliminating the surplus. Donor financing was USD19 million (USD6 million in budget support and USD13 million in development financing). This amount is higher than in Q1 2021 when the PA received zero budget support. The PA was able to slightly pay down its debt from the domestic banking sector which stood at USD2.35 billion as of March 2022. The PA also accumulated arrears to the private sector, the pension fund and on the wages of its public employees, as explained earlier, while repaying arrears from previous years. The net amount of arrears accumulated in Q1 2022 reached USD134 million.

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	On track
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	Target met
Pillar 3	
Prior Action 7	Target met
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. Even though the gazetted law requested the establishment of the Telecommunications Regulatory Authority (TRA), it did not grant it the level of independence expected to effectively perform its role. Following comments from civil society and international organizations, including the World Bank, the Palestinian cabinet revised the law to strengthen the technical and regulatory authority of the regulator, in line with advice provided by the World Bank. The amendment to the law was signed by the Palestinian President on May 18, 2022 and was published in the Official Gazette on May 25, 2022.[4] Given this, the reform supported by this prior action is expected to be on track.

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 indicate that the number of issued wallets stands at 305,768 with female ownership reaching almost 27 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 PA employees, 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

[4] The Gazette can be accessed here: https://maqam.najah.edu/media/uploads/offizial_gazette/191_%D9%85%D8%B9_%D8%B4%D8%B9%D8%A7%D8%B1_compressed.pdf.

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 May 2021 conflict.

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) and it is expected to provide assistance to 53,000 beneficiaries by December 2022. Data as of March 2022 show that the number of beneficiary households reached 75,000. Notably, 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 who has already recovered most of the unduly made payments.

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. Latest information from the MoH shows that 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[5] meet the WHO standards related to the frequency and compliance of free residual chlorine tests in the water distribution network, by December 2022. Latest data from the PWA show that all 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. Thus, the DPG target is considered met. The below table provides more details.

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

Service Provider	**Population**	**Compliance with the Requirements of the Main Components of the Indicator**				
		Number of Tests	**Frequency (2/5000/day)**	**Compliance Rate (%)**	**Concentration (0.2-0.8 mg/l)**	**Status**
JWU	375,000	2507	2	99	0.3 – 0.6	Met
HM	236,900	573	2	98	0.3 – 0.5	Met
NM	219,823	5384	2	99	0.3 – 0.7	Met
WSSA	116,157	487	2	98	0.3 – 0.4	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 (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

[5] 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.

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, nine cases have been submitted to the DRU, six have already been resolved while three are still under review. Cases resolved were, indeed, handled within the period stipulated in the implementing regulations to the Public Procurement Law, and were published on the portal, as requested by the DPG indicator.[6] The target for this prior action is considered met.

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 *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. Data so far for 2022 show that 16 out of 16 (100 percent) non-consulting service tenders processed by the GSD used the SBDs and 10 out of 10 (100 percent) of framework agreements for common-use goods entered into by GSD used the new SBDs. Hence, the target is on track.

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

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

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 *100* percent of data is migrated from the old to the new payroll system by December 2022. The MoF has already finalized the preparation of the data migration plan, and 20 percent of the data has been migrated to the testing environment. Full data migration is expected to be finalized in March 2023, after the DPG requested timeline. Hence, the target is delayed.

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 *100* percent of transactions entered in the e-referral system are captured and automatically reflected in IFMIS, by December 2022. The application programming interface (API), which is the link between the two systems that automatically transfers the data, has been tested and it has gone live in May 2022. The World Bank has conducted an initial check and it seems that the data in the e-referral system is accurately reflected in the IFMIS. A final check will be conducted within the next couple of months to ensure that *100* percent of transactions entered in the e-referral system are captured and automatically reflected in the IFMIS. The target is expected to be on track.