

PURSE Review
July-September 2021

Fiscal performance

1. **Easing the COVID-19 related lockdowns in the second and third quarters 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 27 percent in the first 9 months of 2021, year-on-year. The increase was driven by income tax and VAT which grew by 12 and 13 percent, respectively, following the increase in economic activity. Domestic customs collected on used cars also increased by 80 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 23 percent in the first nine months of 2021, year-on-year, as during the closure of the border with Jordan tobacco smuggling was eliminated, resulting in higher public revenues. Non-tax revenues also grew due to a 19 percent increase in domestic fees and charges following the receipt of around NIS110 million in license payments from telecoms providers. On the other hand, investment profits declined by 96 percent as the PA barely received any investment profits from the Palestine Investment Fund in the first nine months of 2021, compared to NIS42 million in the same period of 2020.
2. **Clearance revenue transfers stabilized, and further increased in the first nine months of 2021 by 15 percent, year-on-year, despite higher deductions by the 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 in 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 the first nine months of 2021 remained strong. It was mainly attributed to a 20 percent growth in 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 by 8 percent 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 360 percent and amounted to NIS225 million in the first nine months of 2021, reflecting a decision by the GoI to increase the number of work permits granted to Palestinians and a bulk transfer of retained income tax revenues amounting to NIS165 million in September.
3. **Public spending increased by 18 percent in the first nine months 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 public employees in Gaza to 100 percent in March 2021, up from 70 percent in the past several years. Spending on goods and services also increased by 68 percent in the first nine months 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 same period in 2020, in addition to higher spending on vaccines and medical supplies. Net lending also increased by 151 percent indicating the urgent need for significant reform in the intergovernmental fiscal transfer system. On the other hand, transfers declined by 13 percent due to a lesser number of payments through the National Cash Transfer system compared to 2020.

4. **Despite the impressive revenue performance, financing was very tight in the first nine months of 2021 due to high public spending and very low external support.** The total deficit amounted to US\$885 million in the first nine months of 2021 – a 13 percent increase year-on-year.¹ Donor financing was US\$110 million (US\$31 million in budget support and US\$79 million for investment projects). Budget support was less than 10 percent of what was received during the same period last year. 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\$775 million in the first nine months of 2021. Despite an advance payment on clearance revenues in the amount of US\$153 million (NIS500 million) provided by the GoI in September 2021 which provided some relief, the financing need remained large. The PA relied on arrears to the private sector and the pension fund and on domestic borrowing to make ends meet. Even though comprehensive data on arrears is not available, estimates suggest that the stock of arrears accumulated to the private sector is around US\$900 million. The stock of domestic debt increased from US\$2.3 billion as of December 2020 to US\$2.5 billion as of August 2021, only to be slightly reduced to US\$2.47 billion as of September 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	Delayed
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	On track
Prior Action 10	On track

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

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 even though it was signed by the President, it has not been enacted yet. The Bank has not seen the final version of the law and hence, cannot confirm that it is aligned with best practice especially regarding the financial and institutional independence of the regulator.

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 September 2021 indicates that the number of issued wallets was 171,000 with female ownership reaching 25 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 shows that the number of beneficiary households reached 64,112 -- exceeding the target.

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 September 2021 shows that the number of beneficiary households reached 69,709. 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. The report also noted that the findings of the report were taken onboard by the Ministry of Labor and that a plan to recover the unduly made payments was initiated.
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 September 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 population² 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 September 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, equipment and supplies to meet the required standards. Below are more details regarding the status of the three remaining service providers:

- **Jerusalem Water Undertaking:** has been able to ensure the frequency of testing as well as the compliance rate and concentration range of free chlorine in the water supply network and at end users. However, the number of tests required still needs to be increased to meet the indicator's requirements.

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. These four providers serve 900,000 consumers that represent 29 percent of the West Bank population of 3.053 million in 2020.

- **Hebron municipality** has been able to ensure the frequency of testing as well as the compliance rate and concentration range of free chlorine in the water supply network and at end users. However, the number of tests required still needs to be increased to meet the indicator's requirements.
- **Water Supply and Sanitation Authority in Bethlehem** has been able to ensure the frequency of testing. However, the number of tests required, as well as the degree of compliance and the range of free chlorine concentrations in the water supply network and at end users, must be improved to meet the indicator requirements.

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. 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 is now fully ready to receive dispute requests from bidders and start the actual work.
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 September 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 September 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 module design and coding will be complete by end of 2021, testing and presentation will be done by February 2022, and data migration should be complete by August 2022—ahead of 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. Data accuracy between both systems, however, has improved with time and it is expected that the target is on track to be achieved by end-2022.

16. **Overall implementation progress of the reform program supported by the DPG is rated moderately unsatisfactory.** Even though good progress has been achieved in the majority of prior actions, the enactment of the telecoms law continues to be delayed. Given the importance of this action as a key reform underpinning the DPG matrix, its delay negatively impacts the overall rating.