

**PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE**

Report No.: AB7230

Project Name	WBG - PRDP Support V
Region	MIDDLE EAST AND NORTH AFRICA
Sector	Central government administration (64%);Sub-national government administration (12%);Energy efficiency in Heat and Power (12%);Other social services (12%)
Project ID	P129742
Borrower(s)	PALESTINE LIBERATION ORGANIZATION
Implementing Agency	PALESTINIAN AUTHORITY/MINISTRY OF FINANCE
Date PID Prepared	March 11, 2013
Date of Appraisal Authorization	January 24, 2013
Date of Board Approval	Expected May 23, 2013

1. Country and Sector Background

A sharp reduction in donor budget support in recent years has brought to prominence the Palestinian Authority's (PA's) efforts to strengthen its fiscal position and reduce reliance on donor aid for financing recurrent budget expenditures. In addition to measures aimed directly at enhancing public revenues and reducing inefficiencies in public expenditures, which are critical to fiscal sustainability, other measures aimed at laying the institutional foundations for improved governance and transparency in the public sector, which the PA is conducting, are equally important not only for fiscal sustainability in the long run, but also for enhancing the quality of services provided by the government and for economic growth and development. Given substantial constraints to the growth of the tradable sector of the economy related to the political situation in the Palestinian Territories (e.g., various restrictions on economic activity imposed by the Government of Israel and the political division between the West Bank and Gaza), further rapid reduction in donor aid inflows would hurt the outlook for economic growth.

2. Operation Objectives

The proposed operation aims to support the PA in strengthening its fiscal position and reducing reliance on donor assistance for recurrent expenditures. Specifically, DPG V will support the following aspects of the PA's National Development Plan: (a) strengthening the fiscal position by undertaking reforms to (i) increase government revenues, (ii) improve the efficiency of public expenditures, and (b) lay out the institutional foundations for improved governance and transparency in the public sector.

3. Rationale for Bank Involvement

The Development Policy Grant V, as envisaged in the 2012-2014 Interim Strategy of the Bank for assisting the West Bank and Gaza, is a key instrument aimed at supporting the PA's strategic priorities, but also providing essential financing for the Palestinian Authority's budget. The operation aims to assist the Palestinian Authority in implementing some of the core areas of its National Development Plan (NDP) 2011-2013 and efforts to address some of the recently emerged priorities in addressing the above-mentioned fiscal challenges. Specifically, the PA is taking measures to boost domestic revenue performance, in particular aimed at improving collection efficiency and compliance; it is also taking measures to contain growth of the public wage bill, as well as to improve efficiency of social assistance and health benefits; at the same time it is reforming the public procurement system and increasing transparency of public finances. This operation was designed to support those efforts. The financial significance of this operation is not only in that it provides US\$ 40 million in Bank financing, but that it directly leverages the support of other donors through the multi-donor PRDP Trust Fund in the amount close to US\$ 200 million.

4. Financing

This operation will provide US\$ 40 million in grant financing for the budget of the Palestinian Authority. The entire proceeds of this operation will be disbursed in a single tranche.

5. Institutional and Implementation Arrangements

The PA Ministry of Finance will be the main implementing agency for the operation. It will also be responsible for coordinating activities with other relevant organizations within the PA (mainly Ministry of Health and Ministry of Social Affairs). As has been the established practice with the previous development policy grants, the Ministry of Finance will continue producing regular quarterly progress reports.

Bank staff located in the World Bank's West Bank and Gaza office, in Jerusalem, will continue regular dialogue and monitoring activities focusing on the impact outcomes of the program. They will also conduct formal supervision missions. The review will be largely based on the results framework and a set of specific monitoring indicators, which are currently being finalized in together with the PA Ministry of Finance. At the same time, the overall status of the Government's program will be monitored to determine whether the actions supported by the proposed operation have been met.

6. Benefits and Risks

Benefits

The operation is expected to contribute to enhanced fiscal sustainability and increased efficiency of public expenditures. It will also support strengthening of the public procurement and broader finance management systems. The operation will also provide critical financing for the budget of the Palestinian Authority, which due to a number of restrictions on economic activity and various other uncertainties, continues to rely on substantial and predictable inflows of donor aid.

Risks

The risks that may affect the implementation of this operation and, more broadly, the entire government's program are relatively high. The NDP's success depends on parallel actions by the PA, the Government of Israel (GOI) and the donor community.

The key risks are:

- Highly volatile and uncertain political situation.
- PA's dependence on large levels of donor aid to finance recurrent budget expenditures.
- Lower than expected economic growth due to external and internal stressors.

6. Poverty and Social Impacts and Environment Aspects

No negative poverty and social impacts are expected as a result of this operation. Over the medium-term, the reforms supported by this operation are expected to translate into augmented fiscal space for essential poverty-reducing programs and improved prospects for employment opportunities in the private sector. Measures aimed at increasing government revenues combined with measures to reduce inefficiencies in public expenditures will increase the fiscal space for essential poverty-reducing expenditure programs. Improved fiscal management is also an important requirement for economic growth and job creation. The measures supported by this operation to strengthen the public procurement process should reduce the procurement costs and thereby increase the fiscal space for essential public services; these reforms should also enhance business opportunities for more domestic companies and consequently support growth and employment of the private sector. This would have a positive poverty and social impact. Other Public Financial Management (PFM) reforms supported by this operation are expected to have similar positive effects

Environmental Aspects

The DPG V operation will not have significant effects on the country's environment, forests and other natural resources. The environmental and natural resource implications are driven to a large extent by the nature of an operation. In the proposed operation, none of the prior actions as listed in the policy matrix will have environmental impacts or risks. Additionally, the proposed DPGV does not have any investment lending subcomponent involving physical investment. None of the Bank's safeguard policies are triggered by the proposed operation.

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