Economic Monitoring Report

to the Ad Hoc Liaison Committee

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List of Acronyms

AHLC	Ad Hoc Liaison Committee
AML/CFT	Anti-Money Laundering and Combating Financing of Terrorism
COGAT	Israel’s Coordination for Government Activities
CoLA	Cost of Living Allowance
DNA	Detailed Needs Assessment
GDP	Gross Domestic Product
GHI	Government Health Insurance
GoI	Government of Israel
GPP	Gaza Power Plant
ICA	Investment Climate Assessment
IFC	International Finance Corporation
GRM	Gaza Reconstruction Mechanism
IEC	Israel Electric Corporation
IMF	International Monetary Fund
JEC	Joint Economic Committee
JWC	Joint Water Committee
LGU	Local Government Unit
LTU	Large Taxpayer Unit
MENA	Middle East and North Africa
MoCA	Palestinian Ministry of Civil Affairs
MoFP	Ministry of Finance and Planning
MoH	Ministry of Health
MoU	Memorandum of Understanding
NIS	New Israeli Sheqel
NORG	National Office for the Reconstruction of Gaza
NPA	National Policy Agenda
PA	Palestinian Authority
PAYG-DB	Pay As You Go Defined Benefit
PCBS	Palestinian Central Bureau of Statistics
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PMA	Palestine Monetary Authority
PPA	Palestinian Pension Authority
SMEs	Small-Medium Enterprises
UN	United Nations
VAT	Value Added Tax

I. Executive Summary

1. **The Palestinian economic outlook is worrying: recovering slowly from the recession of 2014, the per capita income growth has almost stagnated and projected growth levels will not support an improvement in living standards.** The growth rate of the Palestinian economy is projected to hover around 3.5 percent in the medium term. Given the high population growth in the Palestinian territories, this implies a near stagnation in per capita incomes. The economy has also not been able to create enough jobs, resulting in stubborn unemployment rates reaching 27 percent in 2016 (18 percent in the West Bank and 42 percent in Gaza), despite recent steps by Israel to increase the number of work permits for West Bank Palestinians. The productive capacity of the Palestinian economy has been eroded over the years with a significant decline in the size of manufacturing and agriculture in the economy.

2. **Despite impressive fiscal consolidation efforts over the years, the Palestinian Authority's (PA) fiscal situation remains fragile with a US$600 million financing gap projected for 2016.** The PA has managed to reduce the relative size of the fiscal deficit by 15 percentage points of GDP over the last decade, a highly impressive achievement rarely experienced in other places around the world. The improvement in the deficit has been achieved through a general containment in the wage bill and efforts to curtail net lending. The total deficit is projected to further decline to US$1.3 billion in 2016, 10 percent of GDP. Yet, recent trends in foreign aid have projected the full 2016 donor support at under US$700 million (down from about US$2 billion in 2008) -- resulting in a financing gap in excess of US$600 million.

3. **The current critical situation requires renewed efforts by the donors, the PA and the Government of Israel (GoI).** Until there is a permanent peace agreement, the Palestinian economy will continue to perform below its potential and this will impact the economic and fiscal performance. However, even without a final peace deal there is more that can be done to enhance the performance of the Palestinian economy and improve the fiscal situation.

   - **In the short term, donor support, and in particular budget support, is vital to address the financing gap and avoid a fiscal crisis leading to wider economic problems -- as alternative options are limited.** While the PA needs to continue to stop non-priority spending, accelerate reform efforts, and optimize any one-off revenues (such as licensing fees), the potential contribution from these actions will not be enough to cover the full financing gap. The PA's borrowing from local banks is very close to the limit set by the Palestinian Monetary Authority. With the local borrowing opportunity now largely exhausted, the gap will translate into additional arrears. Although a financing gap and arrears have been experienced in recent years, their size is growing and the options for addressing them are now extremely limited. With the performance in 2016 helped by one-off receipts, future prospects indicate an even larger gap unless current trends can be adjusted. In the short term, there is no feasible alternative to budget support as a key source of deficit financing. A higher level of donor support – beyond the current – is essential to avoid a fiscal crisis leading to wider economic problems. The GoI could make a valuable contribution by building further on the positive steps it has taken to redress some of the areas of fiscal loss described in the World Bank's April 2016 report to the Ad Hoc Liaison Committee (AHLC).

   - **In parallel to the increased donor support, sustained reform actions by the PA are needed now to ensure improved competitiveness and fiscal sustainability of the Palestinian economy over time.** More sustained and fundamental reforms are needed to improve the quality of expenditures and revenue collection and many of the fiscal reform options earlier reported by the

Bank to the AHLC -- and summarized in Chapter III -- remain unaddressed. Particular attention should be given to making the pay and pension systems for government employees sustainable and fair to the rest of society, as further gains are limited without these far reaching and politically difficult reforms. As identified in Chapter III, further efforts by the PA to improve the business climate are also important. Despite progress in recent years, the Palestinian territories still rank 129th out of 189 countries in the World Bank's 2016 *Doing Business.*

- **GoI actions to help Palestinian private sector activity and raise employment levels could significantly mitigate the stress of economic stagnation.** Restrictions have been the main constraint to Palestinian economic competitiveness and have pushed private investment levels to amongst the lowest in the world. Restrictions on Area C are amongst the most detrimental to economic growth and World Bank analysis has reported that access to Area C could increase Palestinian GDP by 35 percent and would be expected to lead to a 35 percent increase in employment. The World Bank estimates that GDP losses in Gaza, since the blockade of 2007, are above 50 percent -- in addition to large welfare losses.

- **To advance Gaza reconstruction, donor disbursements also need to accelerate and as larger recovery projects start progressing, the current import mechanism will need to be adjusted.** Starting March 2015, the World Bank was asked to update each AHLC on the progress of Gaza reconstruction and recovery. Out of the US$3.5 billion pledged at the Cairo conference for Gaza reconstruction, 46 percent has so far been disbursed. Since the last AHLC meeting, amounts disbursed have increased by US$188 million, but are still US$1.3 billion behind the planned disbursement. While donors need to accelerate disbursement, material entry also needs to be accelerated, particularly as efforts shift towards long term recovery projects. The Gaza Reconstruction Mechanism (GRM) has been fairly effective at facilitating material for minor home repairs and at increasing the transparency of the review and approval process. However, more complex infrastructure projects are facing long delays depending on the type of material and equipment needed. There is a need for a longer-term solution that builds on the transparency achieved by the GRM while streamlining the administrative processes (including within the PA) and establishing direct coordination between the Israeli administration and the PA line agencies in Gaza.

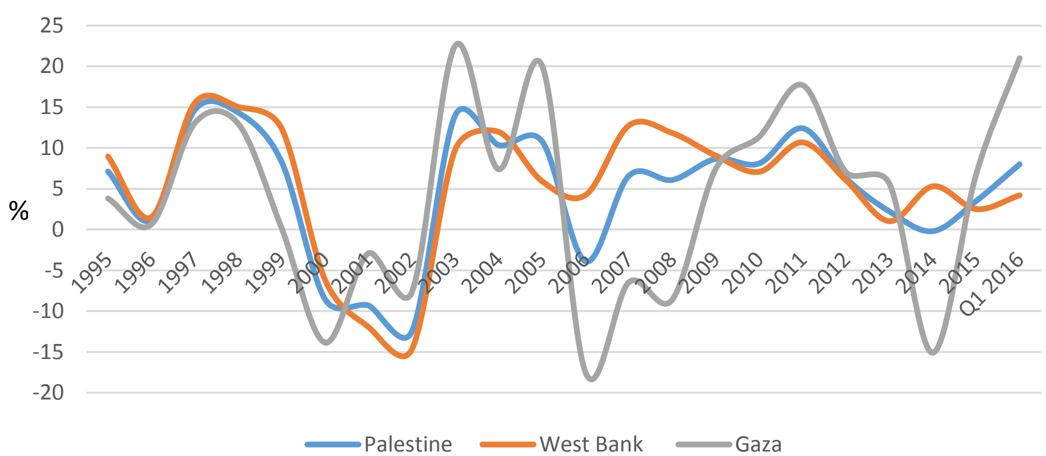
4. **The main body of the report is organized in two chapters.** Chapter II focuses on recent developments in the real, fiscal and banking sectors while providing a near term outlook that highlights critical challenges facing the Palestinian economy. In view of the need for far-reaching reform, Chapter III presents a stock take of World Bank recommendations to the AHLC meeting over the years, discusses the state of the issues, and suggests a way forward. It is hoped that it will galvanize the efforts of all parties to address the immediate crisis while setting in place actions for long term sustainability of the Palestinian economy and public finances.

II. Recent Developments

A. The Real Sector

5. **Economic activity has expanded since the 2014 recession mainly due to a pickup in Gaza.** After sliding into recession in 2014 following the Gaza war, economic activity has picked up with real GDP growth of the Palestinian economy reaching 3.5 percent in 2015, followed by 8 percent in the first quarter of 2016 (latest available data). Growth was mainly driven by a rebound in Gaza where the economy is estimated to have expanded by 21 percent in the first quarter of 2016 due to an upsurge in construction activity which grew by 190 percent, year-on-year. This was enabled by a significant increase in the amount of construction material entering Gaza in recent months. The West Bank economy expanded by 4.2 percent in the first quarter of 2016 and growth was concentrated in services and household consumption financed by bank loans.

Figure 1: Real GDP growth rates in the Palestinian territories, 1995 - Q1 2016



Source: Palestine Central Bureau of Statistics

6. **At 27 percent, the unemployment rate in the Palestinian territories remains extremely high.** The overall figure masks wide regional differences: unemployment in Gaza at 42 percent is more than twice as high as that in the West Bank at 18 percent. Youth unemployment continues to be a major concern in the Palestinian territories, particularly in Gaza where it currently stands at 58 percent. This is partly due to low Palestinian employment in Israel, which prior to the second intifada in 2000 absorbed close to a quarter of the Palestinian labor force. The recent Israeli decision to increase the quota of Palestinian West Bankers working in Israel is encouraging as it creates benefits to the Palestinian labor market in the short term, while providing a source of competitive labor to Israel.

7. **The inflation rate remains low and in line with Israeli price trends.** Average inflation in the Palestinian territories in the period January - June 2016 was 0.19 percent. It was 0.24 percent in the West Bank and minus 0.02 percent in Gaza. Subdued inflation in the Palestinian territories is driven by deflation in Israel and a fall in global fuel and food prices.

8. **The recent pickup in growth was driven by Gaza reconstruction and is not sustainable without efforts to improve economic competitiveness**. The productive capacity of the Palestinian economy has been eroded over the years with a significant decline in the size of manufacturing and agriculture in the economy as a result of a poor business climate mainly driven by restrictions on trade and access to resources. Private investment levels, averaging about 15 percent of GDP in recent years, have also been very low and concentrated in low productivity activities less affected by political risk. Palestinian exports are focused largely on low value added products and services and their share in the economy has been low and stagnant at 17-18 percent. The substantial amounts of financial assistance from the international community have so far helped mitigate the impact of the restrictions on growth, but aid cannot substitute for a poor business environment.

9. **Therefore, the economic outlook remains worrying with projected growth levels unable to improve living standards.** Assuming that the current restrictions remain in place and that the security situation stays relatively calm, the real GDP growth rate of the Palestinian economy in 2016 is projected at 3.3 percent: 2.7 percent in the West Bank and 5.5 percent in Gaza. In the medium term, real GDP growth is projected to hover around 3.5 percent.[1] This sluggish growth implies a stagnation in real per capita income and an increase in unemployment. Moreover, downside risks remain significant. First, despite some progress in recent months, setbacks to the reconstruction process in Gaza are certainly possible. The resumption of armed conflict cannot be ruled out and if this happens, the Gaza economy is expected to slip back into recession. Second, the outcome in the West Bank may be worse than expected if the decline in donor support exceeds current projections. Also, if tensions erupt again throughout the West Bank, they will result in elevated security risks that may negatively impact economic activity.

B. Public Finance

10. **Despite strong revenues, a significant drop in donor aid in the first half of 2016 (latest available data) resulted in extremely tight financing conditions and resulted in further arrears accumulation.** Expenditure growth was high in the first half of 2016, but it was offset by strong revenues resulting in a 23 percent year-on-year decline in the PA's total deficit. At the same time, aid to the PA's budget dropped by 28 percent compared to its 2015 level, forcing the PA to accumulate additional arrears.

11. **The PA's revenues performed strongly in the first half of 2016 mainly due to frontloaded domestic tax receipts and one-off revenue transfers by the GoI.** Domestic taxes grew by 8 percent, compared to the first half of 2015, mainly due to frontloaded VAT payments as a bigger number of large taxpayers opted to benefit from the early payment discount offered by the MoFP. Growth in tax receipts was also driven by increased domestic customs collected on cars following a 5 percent rate hike in early 2016. The PA has continued with its efforts to widen the tax base and about five thousand payers have so far been registered in 2016. Nonetheless, income tax collection declined in the first half of 2016 due to amendments to the income tax law altering tax brackets. One-off revenue transfers by the GoI following the Israeli-Palestinian ministerial level discussions have also significantly contributed to the strong revenue performance in the first half of 2016. In fact, non-tax revenues grew by 36 percent, year-on-year, mainly driven by the transfer of US$15.6 million by the GoI on account of Allenby Bridge exit fees. Other one-off transfers by the GoI totaled US$115 million to cover VAT receipts collected on imports to Gaza in addition to a refund on fees charged by the GoI to handle

[1] GDP projections were produced by the International Monetary Fund (IMF).

Palestinian imports. This boosted clearance revenues[2] by 20 percent in the first half of 2016, year-on-year.

12. **Public expenditure growth was high in the first half of 2016, exceeding the prorated budget target by 8 percent**. This was partly due to a 5 percent year-on-year rise in the wage bill -- the PA's largest spending item. The 2016 cost of living allowance (CoLA) has so far not been disbursed, but wage bill growth was driven by unbudgeted increases for teachers, vets and engineers.[3] Spending on goods and services grew by 14 percent due to an increase in the cost of referrals to local hospitals while the cost of referrals to Israeli hospitals has been declining. Expenditure growth was also driven by a 22 percent rise in transfers following an increase in social spending in Gaza. Net lending[4] increased by 4 percent in the first half of 2016 as Palestinian utility distributers continue to accrue dues to the Israeli suppliers, particularly for water and sewage.

13. **Strong revenues offset the increase in spending and pushed the total deficit down by 23 percent, but a significant drop in donor support led to a sharp decline in resources available to finance the deficit, in turn causing an accumulation of further arrears.** The PA's total deficit amounted to US$542 million in the first half of 2016. Aid received was US$337 million: US$287 million in budget support and US$50 million in development financing. Aid received was 28 percent lower than in 2015, and 34 percent below budget. As a result, a financing gap of US$205 million ensued in the first half of 2016 forcing the PA to accumulate an equal amount of additional arrears. The PA also increased its net domestic bank financing which in addition to clearance revenue adjustments by the GoI enabled it to repay some arrears from previous years.

14. **Fiscal pressures are expected to intensify throughout the rest of the year with a projected financing gap of about US$600 million**. Revenue growth is projected to slow down in the second half of 2016 given that domestic taxes were frontloaded and additional clearance revenue transfers by the GoI to offset fiscal losses under the Paris Protocol are not certain. In parallel, expenditure growth is expected to remain strong throughout the remainder of the year driven by salary increases, the growing cost of medical referrals to local hospitals and net lending, particularly for water and sewage services. The PA's total deficit is expected to reach US$1.3 billion in 2016 or about 10 percent of GDP. Given the recent trends in aid, full year donor support is not projected to exceed US$700 million, leading to a financing gap in excess of US$600 million. Given that the PA's borrowing from domestic banks is fast approaching the limit set by the Palestine Monetary Authority (PMA), the PA may resort to domestic arrears to the pension fund and private suppliers to fill the gap. The stock of arrears to the pension fund is estimated at US$1.6 billion – and it threatens the viability of the overall pension system. Also, arrears to the private sector currently stand at about US$590 million, which heavily weighs on the private sector's ability to operate normally and is damaging for the economy and tax collection efforts. In an attempt to reduce the buildup of arrears, the PA introduced a promissory notes program in March 2016, and the total stock of issued notes currently stands at US$104 million. Almost half of the notes have already been discounted at local banks.

15. **While the PA could envisage reforms that align its spending and revenue capacity and reduce the financing gap in the medium to long term, in the short term, actions by the PA alone will not be enough to close the financing gap, hence the urgent need for additional donor financing**. In an effort to reduce the financing gap, the PA states that it plans to accelerate reforms to improve tax

[2] Clearance revenues are VAT, import duties and other income collected by the GoI on behalf of the PA and transferred to the latter on a monthly basis.

[3] Engineers and vets received a 30 percent increase while teachers' increase amounted to 5 percent.

[4] Net lending represents deductions by the GoI from clearance revenues it collects on behalf of the PA for unpaid utility bills by Palestinian public utilities and local governments.

enforcement especially among the large taxpayers. On the expenditure side, it aims to fully constrain non-priority spending, continue CoLA suspension, and strengthen efforts to reduce health referrals and net lending. The results of these measures, however, will not fully materialize in the short term, and therefore, will not be enough to close the 2016 financing gap. Also, a more drastic reduction in expenditures in the short term maybe harmful to the economy, given the constraints on private sector activity and the role of public spending as a key stimulus to growth, and may also bring about negative social consequences. In the short term, there is no feasible alternative to budget support as a key source of deficit financing. Donor support during these critical times is essential to sustain reforms and enable provision of services to the Palestinian population. Actions by the GoI to reduce the PA's fiscal losses under the Paris Protocol and to release spectrum to Palestinian telecom companies on which license fees are paid to the PA may have significant immediate fiscal benefits. Long term fiscal sustainability, however, cannot be achieved without a prudent and stringent fiscal consolidation program by the PA. This program needs to address reform areas such as the pension system, civil service reform, and untargeted transfers.

Table 1: The Palestinian Authority's Fiscal Operations, 2013-2016

				Budget	Proj.
	2013	**2014**	**2015**	**2016**	
	US$ million				
Total revenues	2311	2744	2754	2869	3060
Total expenditure	3693	4068	3973	3901	4121
Wage expenditure	1919	2050	1912	1965	1993
Nonwage	1564	1732	1816	1718	1858
Net lending	210	286	301	218	270
Recurrent deficit	-1382	-1324	-1219	-1032	-1061
Development expenditure	187	262	230	350	267
total deficit	-1569	-1586	-1449	-1382	-1327
Financing	1569	1586	1449	1382	1327
Budgetary support	1255	1027	709	750	600
Development financing	106	203	89	250	98
Net domestic bank borrowing	-248	-142	163	250	252
Domestic arrears	462	504	491	-250	-252
Residual	-6	-6	-3	382	629
	In percent of GDP				
Total revenues	18.6	21.6	21.7	21.2	22.6
Total expenditure	29.7	32.0	31.3	28.8	30.5
Wage expenditures to GDP	15.5	16.1	15.1	14.5	14.7
Nonwage	12.6	13.6	14.3	12.7	13.7
Net lending	1.7	2.3	2.4	1.6	2.0
Current balance	-11.1	-10.4	-9.6	-7.6	-7.8
Development expenditure	1.5	2.1	1.8	2.6	2.0
Total deficit	-12.6	-12.5	-11.4	-10.2	-9.8
Donor support	11.0	9.7	6.3	7.4	5.2
Financing gap	0.0	0.0	0.0	2.8	4.7
Nominal GDP (in US$ million)	12419	12697	12677	13526	13526

Source: PA MoFP, World Bank staff calculations and IMF

C. *Money and Banking*

16. **The Palestinian banking system remains stable and liquid in 2016, achieving steady growth in total credits and deposits.** PMA data as of June 2016 indicate an 11.7 percent increase in net assets compared to June 2015, reaching US$13.3 billion. Direct credit grew by approximately US$1 billion over the same 12 month period, reaching US$6.4 billion. Due to a comparable increase in customers' deposits, the overall credit-to-deposits ratio remained at a moderate 63 percent – slightly above the historical range of 50-60 percent – maintaining the market's high liquidity as confirmed by the most recent stress-testing data. Given the high political uncertainty permeating the Palestinian economy, the Banking sector maintains a fairly risk-averse position as indicated by the nonperforming loans ratio of 2 percent. A review of credit exposure to the private sector indicates some sectoral concentration, with 50 percent of all private lending going to construction or consumer loans.

Figure 2: Distribution of credit by sector

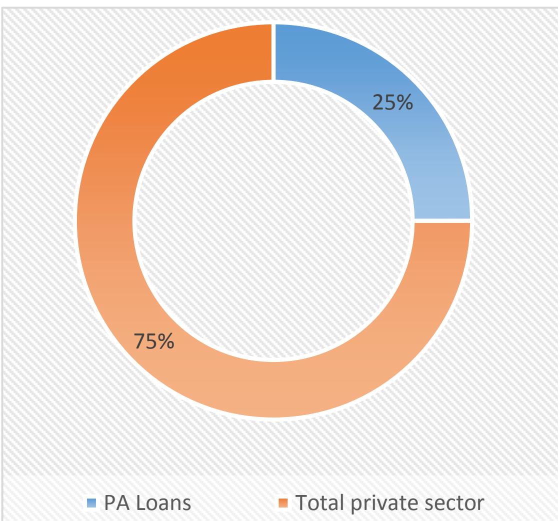
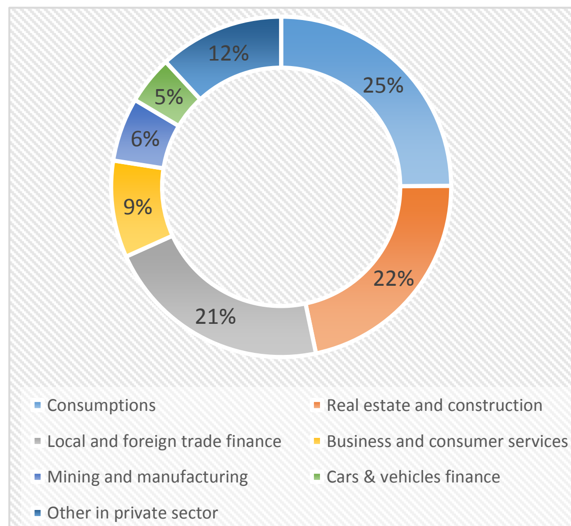


Figure 3: Distribution of private sector credit by economic activity



Source: Palestine Monetary Authority

17. **The banking sector's credit exposure to the public sector continues to be a cause for concern.** Over recent years, the PA's reliance on financing from the banking sector has been steadily growing, raising concerns over credit concentration risk. 2016 PMA data indicates that government loans account for US$1.44 billion, or one quarter of all lending by the banking system. It's also important to note that as of June 2016, PA debt is equivalent to 96 percent of the banking sector's total owners' equity, which is the PMA imposed –informal- credit limit for the PA. The banking sector's exposure to the PA is not limited to direct credits to the PA. Borrowing by public employees grew by over 43 percent since 2014, reaching US$1.2 billion as of June 2016. When combined, PA and public employees account for over 40 percent of total banking sector credits.

18. **Domestic banks' credit exposure to the PA is also increased through other channels.** In addition to the system's direct exposure to the public sector, the recently launched promissory notes program is further contributing to the concentration risk exposure of the banking system. Promissory notes holders

have the option to cash-in their debt instrument at a participating local bank, thereby transferring the PA's debt obligation to the bank – in exchange for a discounted cash payment[5]. As of July 2016, almost 50 percent of the US$104 million of total stock of outstanding notes were cashed-in and transferred to one of the participating banks, further contributing to the banking system's exposure to the PA.

19. **A growing cause for concern within the banking system is the potential negative impact of de-risking behavior on correspondent banking relationships.** The accumulation of excess NIS liquidity in Palestinian banks[6] remains to be a potentially destabilizing risk factor for the banking system. Citing money-laundering and financing of terrorism concerns, some Israeli banks do not accept shipments of NIS cash from Palestinian Banks. Board decisions have been made at some Israeli banks to terminate correspondent services to their Palestinian counterparts but these decisions have not been implemented yet. So far, one case has been reported of a bank starting to limit its correspondent services to Palestinian banks as part of its regional de-risking strategy. The PMA has been taking steps towards upgrading the Palestinian anti-money laundering and combating financing of terrorism (AML/CFT) system to be in line with international practices with IMF support, including securing the president's approval of a new AML/CFT law in 2015 to establish a national committee for the implementation of relevant UN Security Council AML/CFT resolutions. Steps are also being taken to establish a permanent liaison officer position at the PMA, responsible for coordinating AML/CFT activities with relevant counterparts.

20. **Latest stress testing by the PMA confirms the banking sector's resiliency.** To ensure the resilience of the Palestinian banking system against potential shocks, the PMA regularly conducts stress testing, in line with the Basel II principles. According to the latest available data (December 2015) the PMA reports that the banking system is well capitalized and is able to withstand a wide range of shocks including economic, political and liquidity shocks.

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[5] According to the PMA's guidelines, annual discount rates applied to promissory notes acquired by participating banks are capped at 8 percent for notes issued in NIS, and 6-month LIBOR + 3 percent for notes issued in US$.

[6] NIS cash transfer difficulties are currently only faced by Palestinian banks. Foreign banks operating in the Palestinian banking sector function under different correspondent banking relationships, and are less affected by the excess liquidity.

III. A Stock Take of Recommendations Made By the World Bank to the AHLC Meetings and the Way Forward

21. **As identified in section II, the Palestinian economic outlook is worrying.** The per capita income growth has almost stagnated and the projected growth rate of 3.3 percent for 2016 will not support an improvement in living standards. Although the PA's fiscal performance in 2016 has been quite strong, steeply declining donor aid is expected to result in a US$600 million financing gap for the year.

22. **The critical situation requires renewed efforts by the PA, the GoI and the donor community.** Until there is a permanent peace agreement, the Palestinian economy will continue to perform below its potential and this will impact the economic and fiscal performance. However, there is more that can be done to enhance the performance of the Palestinian economy and improve the fiscal situation.

23. **While additional donor support is critical in the short term, changes are needed now that over time will enhance the quality of PA expenditures and revenue collection, and support a stronger performance of the Palestinian private sector.** Additional donor support can buy time, but more complex and fundamental reforms can deliver benefits to the economy. Such potential efforts to promote fiscal sustainability, economic development, and Gaza reconstruction have been advised by the World Bank to the AHLC in recent reports and specific recommendations were made. In some areas, progress has been achieved, but this has not been broad-based nor consistent.

24. **This Section conducts a stock taking of all previous World Bank recommendations and categorizes them under three main pillars including 1) fiscal sustainability, 2) economic development and 3) Gaza reconstruction and recovery.** The report also describes the current state of reforms/actions under each of these pillars and includes a matrix summarizing the conclusions. This stock take is intended to provide a baseline for evaluating progress in achieving the Palestinian territories' development priorities. In addition, it is hoped that it will galvanize the reform efforts of all parties to address the immediate crisis while setting in place reforms that will deliver over time.

A. Fiscal Sustainability

25. **Despite commendable fiscal consolidation efforts during 2008-15, the PA's finances remain fragile.** The relative size of the PA's deficit was reduced from 25 percent of GDP in 2008 to 11 percent in 2015 due to the PA's reform efforts and strong economic growth. Nevertheless, the deficit still stood large at US$1.45 billion in 2015. Inflows of donor aid have been a major source of financing for the deficit, but those have significantly declined in recent years and have been insufficient to cover the overall financing need. To close the ensuing financing gap, the PA has accumulated large arrears to private suppliers and to the pension fund, estimated at 20 percent of GDP by the end of 2015.

Figure 4: Despite impressive fiscal consolidation efforts, the deficit continues to be large

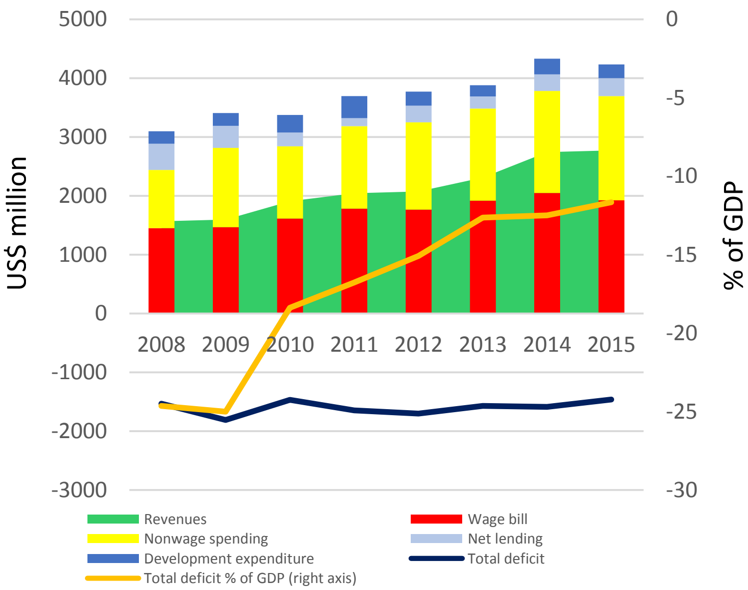
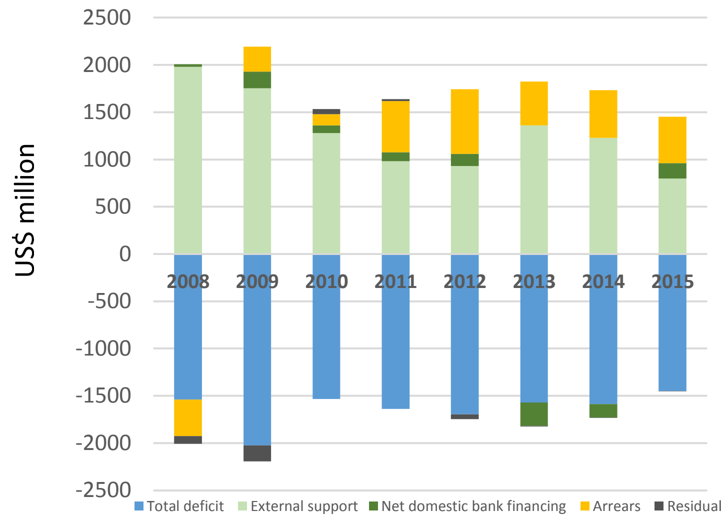


Figure 5: Aid has been declining forcing the PA to rely on domestic sources of financing



Source: PA MoFP and WB staff calculations

A.1 Expenditures

26. **There is substantial scope to improve the fiscal situation of the PA though expenditure reforms**. While it is clear that economic growth through lifting of the restrictions would be essential to sustainably improve the fiscal situation, there are a number of reforms that the PA can adopt to improve its fiscal position without compromising the quality of public services or negatively impacting public welfare. In fact, the Bank has provided precise recommendations aimed at rationalizing expenditures and improving the equity and efficiency of public spending in a number of areas, including the wage bill, medical referrals, the public pension system, and electricity net lending. Notably, experience from other countries shows that these reforms are difficult in nature and require time to be fully implemented.

A.1.1 Controlling the oversized wage bill

27. **At 15 percent of GDP, the relative size of the PA's wage bill is amongst the highest in the world and it is certainly a major contributor to the PA's chronic fiscal difficulties.** The high wage bill is mainly driven by the high average public sector wage, which as a multiple of GDP per capita amounts to 3.5 – exceeding the average ratio in MENA and in all other regions except Africa.[7] Pay practices[8], the system of annual step increases (1.25 percent per year) and automatic promotions have contributed substantially to the high average wage. Moreover, even though the overall number of civil servants is

[7] While African countries have significantly higher public pay/per capita GDP, the average number of public sector employees per capita is much lower in Africa than in the Palestinian territories.
[8] Following the enactment of the 2003 Civil Service Law and prior to the 2006 elections, the PA implemented across the board wage increases amounting to 8.4 percent in 2004 and 12.3 percent in 2006.

not large by international standards, pockets of excess do exist particularly in the health, education and security sectors, which also contributes to the high wage bill.

28. **Encouragingly, the PA has been implementing some measures to control the wage bill but those have not been enough to reduce it to a sustainable level**. Since 2013, the PA's annual budget has called for a zero net hiring policy. Even though this policy has managed to place some control on new recruitment compared to previous years, it has not been strictly maintained. In fact, the number of PA employees has increased by 1453, on a net basis, between 2013 and 2015. Notably, the net increase was in the West Bank and mainly in the education and security sectors -- both of which are overstaffed according to the World Bank's analysis.[9] Additional efforts to control the wage bill included discontinuing the practice of paying transportation and supervision allowances for stay-at-home staff since 2014. These efforts have managed to reduce the relative size of the wage bill by 0.4 percentage points over the last three years, to 15.1 percent of GDP in 2015. But, more needs to be done as the expected wage bill of a country at a level of development that is similar to that of the Palestinian territories would be below 10 percent of GDP.

29. **To substantially improve sustainability of the PA's budget and to augment the fiscal space for more productive public investments, the PA needs to implement serious reforms to reduce the wage bill**. The PA should (i) control wage increases and index the CoLA to inflation; (ii) consider implementing a temporary wage freeze for employees who are at the lower end of the public sector pay scale until their pay equalizes with private sector peers; and (iii) Implement zero-staff-growth policies in units of government that are found to be overstaffed while limiting staff growth in other units of government to a maximum of population growth (3 percent). The Ministry of Finance and Planning (MoFP) should also play a stronger role in wage bill planning through determining the wage bill ceiling and its allocation among different units of government. Finally, grading reforms are needed, particularly in the security sector where ranks are inflated compared to international standards. The Bank estimates that the implementation of these measures could reduce the wage bill to GDP ratio by over 6 percentage points. The above are all recommendations that need to be implemented in the short term. For a longer term agenda, however, the PA needs to implement comprehensive civil service reforms and improve its employment arrangements to create more flexibility for service delivery units and ensure that wages encourage value for money while being sufficient to recruit and retain staff.

A.1.2 Reforming the medical referral system

30. **The cost of medical referrals outside the public system has been on the rise, placing a strain on the fiscal situation of the overall health system.** The lack of availability of certain treatments, medications, medical staff, equipment and infrastructure within the public system has led to the creation of a referral system whereby large numbers of patients requiring tertiary care are referred to not-for-profit or commercial providers. Between 2000 and 2013, expenditure on referrals increased from US$8 million to US$52 million, and now corresponds to 18 percent of total public health spending. This has placed a significant fiscal strain on the overall health system.

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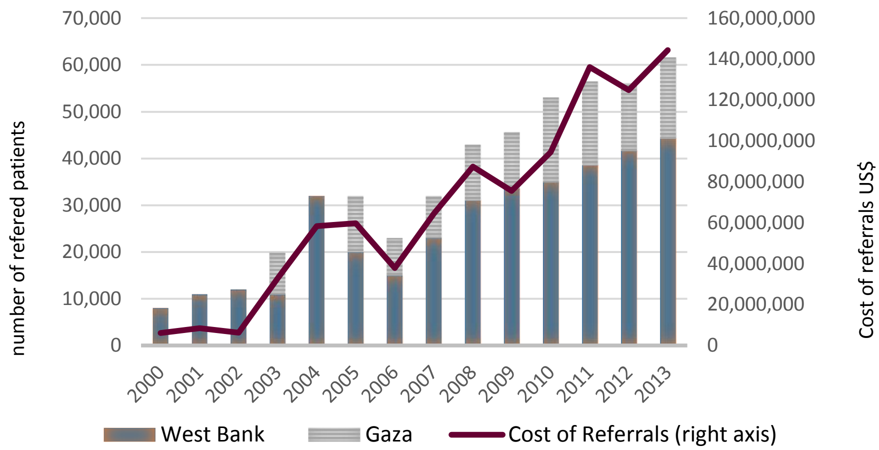
[9] Between 2013 and 2015, net employment in the West Bank increased by 4306 while it decreased by 2955 in Gaza. PA employment abroad, including in Palestinian embassies, increased by 102. The net number of employees in education, security and health increased by 1557, 330 and 14, respectively.

Figure 6: The number and cost of referrals has significantly increased over the years



Source: PA Ministry of Health

31. **A World Bank assessment has demonstrated that a significant portion of referred cases are unjustified, highlighting the need for reform**. Even though many referrals are needed because they pertain to the conduct of complex medical procedures for cancer and cardiac patients, about 40 percent of referrals currently made may not be necessary, according to a World Bank audit. In fact, the majority of referral documents lack accurate information on referral decisions, and a large proportion of patients circumvent the existing system. Also, the processes for selecting and contracting outside providers are not systematic or based on an understanding of costs and do not ensure a reasonable level of control.

32. **The PA has already been conducting efforts to control the cost of referrals, particularly to Israeli hospitals**. Given that the highest unit cost for referral cases is charged by Israeli hospitals, recent efforts by the Ministry of Health (MoH) have focused on reducing the cost of referrals to Israel.[10] Therefore, it has already signed Memoranda of Understanding (MoUs) with six Israeli hospitals to regulate the pricing and contractual arrangements with them. It was also agreed with these hospitals that invoices will be audited and scrutinized by the MoH before any deductions are made from clearance revenues to cover the cost. As a result, the MoH reports that the annual cost of referrals to Israeli hospitals has declined by 30 percent.

33. **Nonetheless, reforming the overall referral system requires more comprehensive efforts**. The Bank recommends that the MoH strengthens capacity for accurate diagnosing and appropriate referring within public health facilities. The process and rules of referrals for each procedure should also be standardized. In addition, the MoH should work on consolidating information flows and databases for all referred cases. It is also key to strengthen the MoH's regulatory and supervision capacity to manage and verify referrals. Furthermore, the MoH should revise all contracting and pricing arrangements with outside providers to include quality standards and appropriate medical audits and ensure adherence to those standards. Finally, it is important to note that reducing the cost of referrals requires reforming the extremely generous Government Health Insurance (GHI) scheme as it remains the main source of hemorrhage. In its current status, the GHI allows individuals to gain access to health services through

[10] Even though referrals to Israel represent 11 percent of the total number of referred cases, the associated cost is about 47 percent of the total referral cost.

paying a minimal yearly registration fee that grants them immediate access to the referral system. This creates a large imbalance between the system's revenues compared to its expenditures.

A.1.3 Restoring the public pension system

34. **The Palestinian public pension system suffers from considerable challenges and is currently unsustainable.** Pension spending, at 3 percent of GDP, is high given the demographic profile of the Palestinian territories. Also, the system only covers one percent of the population, which raises serious equity concerns. The system is highly fragmented consisting of four schemes; two of which were inherited from Jordan and Egypt and another two created at a later stage. All schemes offer extremely generous benefit formulas with replacement rates that can reach up to a 100 percent of the final salary. The system also offers early retirement options, sometimes at the age of 45. The eligibility criteria are broad, hence a wide range of cases are entitled to survivorship and disability benefits, which places a significant fiscal burden on the system. Most importantly, the PA has accumulated considerable arrears to the pension system over the years, estimated at around US$1.6 billion. According to World Bank estimates, if the status quo continues, the system is expected to run out of funding in 2021. If the PA stops the practice of accumulating arrears and starts making contributions to the Palestinian Pension Authority (PPA), the onset of the deficit will be delayed by 10 years, to 2031. This is not enough to deal with the system's structural problems; hence the need for a comprehensive program that makes the system sustainable.

35. **The Council of Minsters has adopted a comprehensive pension reform plan in 2010, but its implementation has been uneven.** Most of the administrative reforms have been implemented, leading to an overall improvement in the organizational aspects of the PPA. However, none of the parametric reforms were carried out**.** Political instability, low economic growth, high unemployment, and chronic difficulties with financing the PA's budget are all factors that dampen the government's appetite for pension reform. Nonetheless, the system is not fiscally sustainable as currently designed and implemented, and reforms need to be launched soon before the system becomes insolvent.

36. **Restoring the Palestinian pension system's sustainability requires a mix of reforms and adjustments**. Proposed reforms could include raising the retirement age to 65 years, reducing the accrual rate of pension benefits to 1.5 percent, and indexing pensions to inflation, as simulations show that these three reforms together could delay the onset of the deficit to 2041. To improve the system's long-term financial sustainability, it is recommended that the PPA consider the use of actuarially fair reduction coefficients for early retirement. A comprehensive pension reform program would also need to include adjustments to survivorship and disability benefits and should aim to limit or gradually eliminate the practice of purchasing years of service. Particularly for Scheme II, it is recommended that its funded Defined Contribution component is changed to a Pay As You Go Defined benefit (PAYG-DB) system, which will be easier to implement given the current context.

A.1.4 Reducing the size of net lending

37. **Due to inadequate revenues, many Local Government Units (LGUs) rely on utility bill collections, mostly electricity, to finance their operational expenditures -- creating the "net lending" issue**. LGUs sell utility services provided to them by Israeli companies, and don't pay most of their bills to the Israeli suppliers because they use these revenues to finance their own expenditures. This behavior represents a significant source of fiscal burden on the PA because the GoI deducts most of the unpaid bills from clearance revenues, which ends up costing the PA in excess of US$200 million per year in unplanned subsidies or 2 percent of GDP, creating the "net lending" issue. In addition to paying for unpaid electricity bills, the PA also pays an 11 percent late payment fee. Unpaid bills that are not offset

through clearance revenues accumulate as debt to the Israeli Electricity Corporation (IEC) – the main supplier, which currently stands at NIS1.9 billion, according to the GoI.[11] The MoFP attempts to recover losses caused by net lending through withholding revenues otherwise due to LGUs (municipal property tax, professional permit fees, transportation tax, etc.). But, these intercepts by no means offset utility non-payments and lead to a rather complicated, opaque and distorted intergovernmental fiscal relations system.

38. **To reduce net lending and eventually eliminate it, municipal revenues need to be increased while the management of utility services ought to be transferred to dedicated public corporations.** The Bank recommends that in addition to efforts to increase municipal own revenues and reduce unnecessary expenditures, a formal and transparent government transfer be instituted to enable poorer municipalities to stop diverting electricity and other utility revenues to finance their operational and sometimes also development expenditures. Furthermore, given that utility management requires skills and governance structures that are most often not found in government units, in particular local governments, these functions should be transferred to dedicated public corporations.

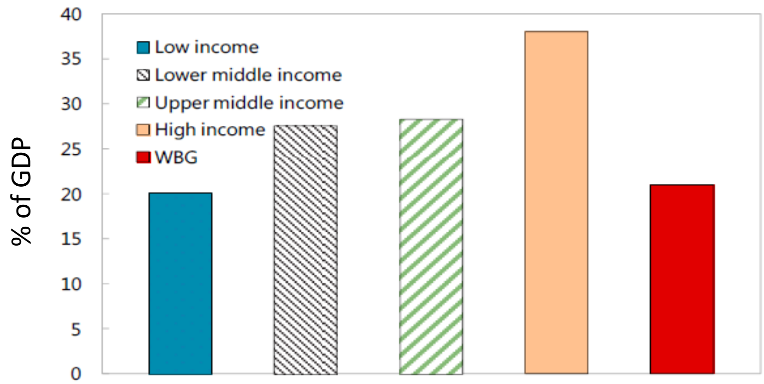
39. **So far, some measures have been implemented to reduce net lending, but more needs to be done.** Electricity distribution has been transferred in some areas of the Palestinian territories to dedicated commercial companies including NEDCO in the north, HEPCO in the south, GEDCO in Gaza, and others. However, World Bank analysis shows that most of these companies continue to divert utility revenues and not pay Israeli suppliers. To control this practice, the Palestinian Energy Authority has so far signed MoUs with four distribution companies and two municipalities wherein they commit themselves to paying 90 percent of what they collect from customers to electricity suppliers, while 10 percent is kept for operational costs. The MoUs have helped improve the problem but have not managed to fully control net lending, hence the need for a more comprehensive reform by the PA that covers all aspects of the issue, including intergovernmental fiscal transfers. Encouragingly, the PA and the GoI are close to reaching an agreement on the settlement of the electricity debt owed to the IEC. The Bank team has not seen details of the agreement and it is therefore not clear whether it fully addresses other outstanding issues between the parties in the electricity sector. There will also be a need to replicate efforts in the water and sewage sectors as net lending in these areas has witnessed a significant increase in recent months.

A.2 Revenues

40. **In addition to expenditure reforms, revenue mobilization should be key for reducing the PA's deficit**. Little progress was achieved in revenue mobilization until the last two years. In fact, the relative size of PA revenues declined by 9 percentage points of GDP between 2005 and 2013, primarily as a result of the internal divide. A reversal of this trend started in 2014, mainly due to an increase in clearance revenues. Nonetheless, cross country comparison shows that, at 22 percent of GDP, public revenue in the Palestinian territories continues to be low compared to most of the countries in the lower-middle-income group. Over the years, the Bank's reports to the AHLC have provided various recommendations to enhance public revenues, and below is a summary.

[11] The PA disputes this amount and it states that about NIS1.3 billion of the debt is owed by the Jerusalem District Electricity Company (JDECO) which is 75 percent privately owned, and hence, the PA should not be accountable for it.

Figure 7: The PA's public revenue as a percentage of GDP is low relative to comparators



Source: IMF report to the May 2015 AHLC meeting

A.2.1 Enhancing the PA's tax effectiveness in Gaza

41. **Low tax effectiveness in Gaza continues to be an outstanding issue.** The internal divide between the West Bank and Gaza, since 2007, has significantly affected the PA's ability to collect taxes in the Strip. In fact, only about 12 percent of the PA's current revenues come from Gaza even though the share of its economy is close to 30 percent of the overall Palestinian economy. Revenues collected from Gaza mainly include taxes on the income of PA employees working in the Strip in addition to taxes on fuel imports from Israel. Enhancing the PA's tax effectiveness in Gaza can add 3-4 percentage points of the PA's revenues to GDP ratio and, inter alia, requires progress in reconciliation efforts.

A.2.2 Improving compliance and eliminating tax exemptions

42. **Stronger compliance and less generous tax holidays could improve domestic revenue generation.** Tax avoidance is prevalent in the Palestinian territories as a large number of individuals and companies are not registered to pay taxes. According to the MoFP, only 30 percent of the tax base is covered. Tax enforcement could be improved through capacity building of the Large Taxpayer Unit (LTU) in order to strengthen targeted audit activity and dispute management capacity. Furthermore, legislation ought to be strengthened to penalize non-payers and eliminate excessive tax exemptions such as those offered by the investment promotion law. Also, nontax revenues could be significantly increased by revising some government fees and charges such as those paid for medical examinations and agricultural services, particularly since most have not been adjusted in over twenty years. Such actions could increase domestic revenues by as much as 3.7 percentage points of GDP, according to the IMF.[12]

43. **The PA has been prioritizing revenue reform, but efforts need to be better targeted**. In early 2014, a revenue strategy was launched, and this followed an earlier revenue action plan compiled with donor assistance. Efforts have so far focused on increasing the number of tax payers and the MoFP data show that those have increased by close to 35 thousand payers over the last four years -- a highly commendable achievement. However, domestic tax revenues over the same period only increased by 0.6 percentage points of GDP, because the majority of the new taxpayers are low earners. Efforts should

[12] See Annex IV of the IMF's May 2015 report to the AHLC.

be better targeted towards large taxpayers and high earning professionals such as doctors, engineers, pharmacists etc. as anecdotal evidence shows that the majority of those are still not covered by the system.

A.2.3 Reducing fiscal losses under the revenue sharing arrangements between the PA and the GoI[13]

44. **The PA and the GoI would mutually gain from resolving outstanding issues related to the revenue sharing arrangements, and some progress has already been achieved.** According to the World Bank's report to the April 2016 AHLC meeting, the PA suffers from annual losses estimated at US$289 million under the current revenue sharing arrangements with the GoI, outlined by the Paris Protocol.[14] Following several Israeli-Palestinian ministerial level discussions, the GoI transferred to the PA a total of US$131 million to offset some of the PA's fiscal losses over the years. One transfer in the amount of US$61 million was made in March 2016, and another one in April 2016 amounting to US$70 million. Transferred amounts were made to offset some of the PA's losses on imports to Gaza, Allenby Bridge exit fees and the fee charged by the GoI to handle Palestinian imports. The GoI also reports that it plans to lower the tax threshold for Palestinian workers in Israel to make it more in line with that in the Palestinian territories, which will lead to higher income tax collections transferred to the PA.

45. **Progress already made is highly commendable, and cooperation needs to continue to limit future losses.** The World Bank's April 2016 AHLC report proposed potential measures that can help reduce future losses on both sides. For instance, revival of the Joint Economic Committee (JEC) that was established in 1994 with the objective of following up on the implementation of the Paris Protocol and resolving outstanding issues could have big payoffs. Implementation of the Paris Protocol's provisions regarding information sharing would mitigate losses on bilateral trade suffered by both the GoI and the PA. Also, transferring VAT on bilateral trade with Gaza to the PA could bring about significant gains. Renegotiating the 3 percent handling fee charged by the GoI could further mitigate the PA's trade related losses.

A.3 Public Financial Management (PFM)

46. **Improving PFM systems has been central to the PA's fiscal reform efforts, but weaknesses still exist.** The PA has made good progress in developing modern PFM systems over the years. In fact, the 2013 Public Expenditure and Financial Accountability (PEFA) report praised the PA's financial transparency and its strong external audit function**.** However, the PEFA also revealed some significant systemic weaknesses, including:

- Weaknesses in budget preparation due to disjointed procedures and the lack of a realistic fiscal framework (no *top-down* procedure);
- Lack of coordination between the planning efforts for the National Policy Agenda (NPA) and budget preparation, due to the lack of a multi-year budgeting mechanism (*Medium Term Budgeting*);
- Lack of a proper budget circular for framing budget discussions between the MoFP and line ministries prior to final decisions at the Cabinet, resulting in significant delays in adopting the budget;

[13] For further details, please see the World Bank's report to the April 2016 AHLC meeting: http://documents.worldbank.org/curated/en/780371468179658043/pdf/104808-WP-v1-2nd-revision-PUBLIC-AHLC-report-April-19-2016.pdf

[14] The PA and the GoI both suffer from losses under the current revenue sharing arrangements.

- Extremely weak budget execution procedures with insufficient cash planning and commitment control resulting in a continuous accumulation of payment arrears;
- Lack of an internal audit function which has been hampering the oversight of internal controls, in particular in the accounting/reporting area; and
- Severe accounting weaknesses due to large discrepancies between accounting and bank data and the failure to issue the final accounts on a timely basis.

47. **The PA, with support from donors, has so far addressed some weaknesses identified by the 2013 PEFA.** Technical assistance activities have covered various aspects of the PFM cycle. For instance, budget preparation has been improved as a budget circular with a detailed calendar was implemented in 2016, which has eliminated delays witnessed in previous year in adopting the budget. Also, the budget execution procedure has been improved with the implementation of an annual cash plan and a commitment recording system that provides comprehensive information on the stock and flow of arrears.

48. **But, additional efforts are still needed to fill remaining gaps.** Budget preparation needs to be further enhanced through adopting a credible fiscal framework. The opportunities from the recent merger between the Ministry of Finance and the Ministry of Planning need to be taken to develop a better integrated planning and budgeting process. Budget execution needs to be streamlined and made consistent with available financing through using the commitment management tools developed. The PA also needs to strengthen accounting procedures and give immediate priority to clearing the backlog of outstanding financial statements for 2012-2015.

Table 2: A summary of World Bank recommendations to improve fiscal sustainability and the current status of implementation

Actions	Responsible Party	Progress
FISCAL SUSTAINABILITY		
Expenditures		
Control the oversized wage bill	PA	
Control medical referrals to Israel	PA	
Control medical referrals to local facilities	PA	
Implement administrative reforms for the pension system	PA	
Implement parametric reforms to restore the pension system's sustainability	PA	
Reduce the size of net lending	PA	
Revenues		
Enhance the PA's tax effectiveness in Gaza	PA	
Increase the number of registered large taxpayers	PA	
Strengthen legislation to penalize taxpayers	PA	
Revise government fees and charges upwards	PA	
Transfer to the PA fiscal losses accumulated over the years	GoI	
Implement institutional measures to reduce fiscal losses on clearance revenues	PA and GoI	
Public Financial Management		
Improve budget preparation procedures	PA	
Align budget execution with available resources	PA	
Clear the backlog of outstanding financial statements 2012-2015	PA	
Develop systems for monitoring and reporting expenditure arrears	PA	
Budget support		
Provide sizeable, predictable and timely support to the PA's budget	Donors	

Legend

On track

Some progress achieved

No progress

B. Economic Development

49. **Political instability and the long lasting restrictions on movement, access and trade are the main impediments to economic growth in the Palestinian territories**. These restrictions have severely constrained private sector activity and pushed private investment levels to be amongst the lowest in the world. They have also fragmented the territory into small enclaves lacking most forms of economic cohesion. The situation is even more difficult in Gaza where the ongoing blockade has significantly eroded the competitiveness of private businesses. As a result of the ongoing restrictions, the Palestinian economy has been deindustrialized with the share of manufacturing in GDP dropping from 18 percent in 1995 to around 10 percent, currently. Also, the share of agriculture in the economy is now half of what it used to be in 1995. With the decline of both the agriculture and manufacturing sectors, the Palestinian economy's capacity to export has deteriorated. Over the years, the World Bank has provided recommendations to the AHLC on how to improve the economic conditions in the Palestinian territories focusing on three main areas including Area C, the business climate and the Gaza economy.

B.1 Area C

50. **Restrictions on Area C[15] are among the most detrimental to economic growth.** Access to Area C for most kinds of economic activity has been severely limited for Palestinians. A 2014 World Bank study has revealed that lifting the restrictions on economic activity in Area C could have a large positive impact on Palestinian GDP, public finances, and employment prospects.[16] The economic significance of Area C lies in that it is the only contiguous territory in the West Bank, which renders it indispensable to connective infrastructure development. Also, a relative abundance of natural resources is situated therein. Area C offers large potential for the development of several sectors of the Palestinian economy including agriculture, stone and mineral processing, cosmetics, construction, tourism, and telecommunications. The Bank's analysis shows that access to economic activity in Area C could increase the Palestinian GDP by as much as 35 percent. The majority of this impact would stem from agriculture and Dead Sea minerals processing industries. An increase in GDP equivalent to 35 percent would be expected to lead to a 35 percent increase in employment, if an earlier estimated one-to-one relationship between growth and employment were to hold. This level of growth in employment would also put a large dent in poverty, as recent estimates show that unemployed Palestinians are twice as likely to be poor as their employed counterparts. Access to Area C would also dramatically improve the PA's fiscal position as tapping this potential output could increase public revenues by an estimated US$800 million – significantly reducing the need for donor aid.

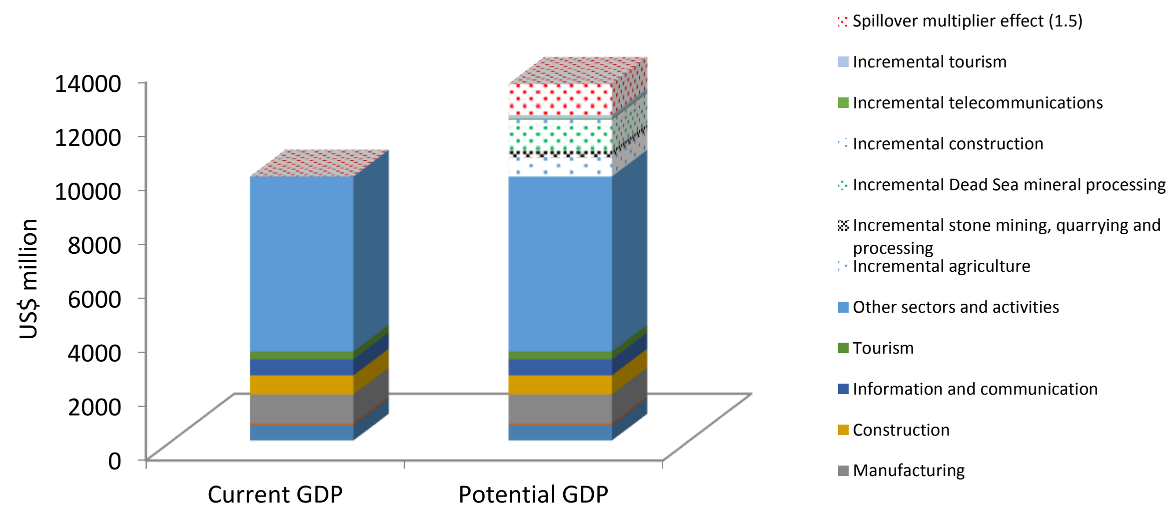
51. **There has hardly been any progress in relieving constraints in Area C, and the economic potential of this area cannot currently be tapped by Palestinians**. Out of more than a hundred master plans submitted to the GoI for Area C, only thirteen have so far been approved. This means that only about 10 percent of the 130 Palestinian villages in Area C have spatial outline plans – significantly impairing construction. Only 3.5 percent of construction permits submitted by Palestinians to the Israeli Civil Administration to build in Area C are approved. Also, no permits were granted for Palestinian

[15] Area C constitutes about 61 percent of the West Bank territory and it is defined by the 1995 Israeli-Palestinian Interim Agreement on the West Bank and the Gaza Strip as "areas of the West Bank outside Areas A and B, which, except for the issues that will be negotiated in the permanent status negotiations, will be gradually transferred to Palestinian jurisdiction in accordance with this Agreement".

[16] Niksic, N., Nasser Eddin, N. & Cali, M. (2014). *Area C and the Future of the Palestinian Economy.* Washington D.C., the World Bank.

commercial projects in Area C in recent years, except one date farm. Furthermore, only twelve permits have been issued to Palestinian companies to open stone quarries in Area C since 1994.[17] Even though some Palestinian companies have already secured international funding and prepared plans for tourism projects on the shore of the Dead Sea, none of these projects have so far taken off due to the restrictions. Encouragingly, the GoI reports that efforts are underway to reconvene the Israeli-Palestinian Joint Water Committee (JWC), which may pave the way for new water and sewage projects in Area C.[18]

Figure 8: Growth generated through the lifting of restrictions in Area C could increase potential Palestinian value added by more than a third



Source: PCBS National Accounts data and World Bank staff calculations

B.2 The Business Climate

52. **Even though Israeli restrictions are the main binding constraint to growth, efforts by the PA to improve the business climate remain key for the economy to reach its potential once the overall constraint is removed**. An Investment Climate Assessment (ICA) published by the Bank in 2014 confirms that no aspects of the investment climate are as binding as the restrictions, in light of their overwhelming constraint. Nonetheless, the assessment also revealed some weaknesses in the investment climate that can be significantly improved. The weaknesses are evidenced by the fact that despite progress in recent years, the Palestinian territories still rank 129th out of 189 countries in the 2016 Doing Business report.

53. **PA reforms to improve the business climate would need to focus on four major areas**. First, the PA needs to reform the current collection of legislation governing business because it stems from

[17] Information provided by the GoI.
[18] The Joint Water Committee (JWC) was established in 1995 as part of the Oslo Accords. It was supposed to be an interim body for a period of five years, however, it still exists today. Its main function is to approve and manage water and sewage projects in the West Bank and its last meeting was in 2010.

different periods of Palestinian history.[19] Some legal differences also exist between the West Bank and Gaza as a result of different legislation enacted by the PA and Hamas since 2007, creating many internal inconsistencies. The PA also needs to pass several regulations that are pending and that would significantly improve the business climate including the Competition Law, and the New Companies Law. Second, the PA needs to accelerate land registration in Areas A and B as only 30 percent of land in these areas is registered with a clear title. Even though a dedicated government agency does exist to manage land registration, at the current rate it would take approximately 80 years to completely register all unregistered land. A more streamlined and less costly process for land surveying, dispute resolution, and registration would release significant assets and resources into the economic space, with related benefits to the financial sector through collateralized lending. Third, even though access to finance is not seen as an impediment for large firms, it continues to be a challenge for Small and Medium Enterprises (SMEs). Greater access to finance for these firms should begin with supporting financial inclusion, further developing non-bank financial institutions and addressing their collateral constraints. Fourth, the PA needs to reform the education system so that it produces graduates well equipped with skills required by the private sector. It also needs to invest in developing skills of the existing workforce as this will be critical for increasing the productivity and competitiveness of Palestinian businesses.

54. **The PA has achieved progress in some of these areas, but additional work is needed**. For example, the PA has already eliminated the minimum capital requirement for registering a business, and reduced the number of procedures from 11 to 9, shortening the overall process from 48 to 45 days. An important milestone was reached in January 2014 when the President promulgated the Leasing Law to encourage new forms of business financing. Furthermore, the Secured Transactions Law has recently been adopted and an asset registry where leased assets can be formally registered and used for public notice has been developed with the support of the International Finance Corporation (IFC), and is currently online. The PA has launched an initiative to foster partnerships between Palestinian universities and employers in order to make study programs more relevant to the needs of the labor market – a commendable effort that needs to be scaled up.

55. **The business climate would be further improved by establishing a modern telecommunications network.** This continues to be a challenge in the Palestinian territories as the GoI has not yet released spectrum to the Palestinian telecom operators (see box 1).

[19] Business laws consist of layers of Ottoman, British Mandate, Jordanian, Egyptian, and Palestinian laws as well as Israeli Military Orders.

Box 1: Telecom license fees and access to the spectrum

Telecom license fees are an important asset of the Palestinian people, and a revenue source for the PA. Because the value of the license depends on the allocation of spectrum controlled by the GoI, the timing and size of the license fees is to a large extent, determined by negotiations with/decisions of GoI. In practice there have been extensive delays in the release of spectrum by the GoI, which have caused past revenue losses that a 2016 World Bank report "Missed Opportunity for Economic Development" estimates could be as high as US$1 billion over the last three years.

At stake at present is a payment of over US$200 million from the Palestinian company Wataniya, which is conditional on the provision of 3G spectrum in the West Bank and 2G spectrum in Gaza. A further payment is also expected from the other operator, Jawwal, linked to the receipt of 3G and other technologies in the West Bank and Gaza Strip once the current license discussions are complete. By delivering on the much delayed spectrum, the GoI could provide a short term fiscal boost to the PA, and make an important contribution to investment and jobs in the Palestinian economy – both directly and indirectly.

3G in the West Bank

After 9 years of negotiations an agreement in principle on the use of 3G spectrum in the West Bank was signed between GoI and the PA in November 2015. This agreement involved an allocation of spectrum to be shared between the Palestinian operators, and Israeli operators. It should be noted here that all Israeli operators have commercial presence in the West Bank that competes with Palestinian operations. Earlier this year the GoI asked the operators to negotiate mutually acceptable technical arrangements to share the spectrum, and provided the World Bank with an assurance that a solution would be reached by June 2016 at the latest. Despite 8 months of discussions between the operators no agreement has been reached to date. Meanwhile, the delay in resolving the 3G spectrum allocation is costing the Palestinian operators potential business. According to the Arab Advisors Group, in the first half of 2016 Israeli operators (which have the competitive advantage of already offering 3G/4G services) captured 63% of new Palestinian cellular subscriptions, giving little incentive for the Israeli operators to reach an agreement that would weaken their position in the West Bank. A new option has now emerged that would involve sharing the frequency of an Israeli operator that does not have infrastructure in the West Bank (Golan). However, both the technical and commercial details of the option need to be addressed. Unless a more directive approach can be taken to resolve this option, further delays could be expected.

2G in Gaza

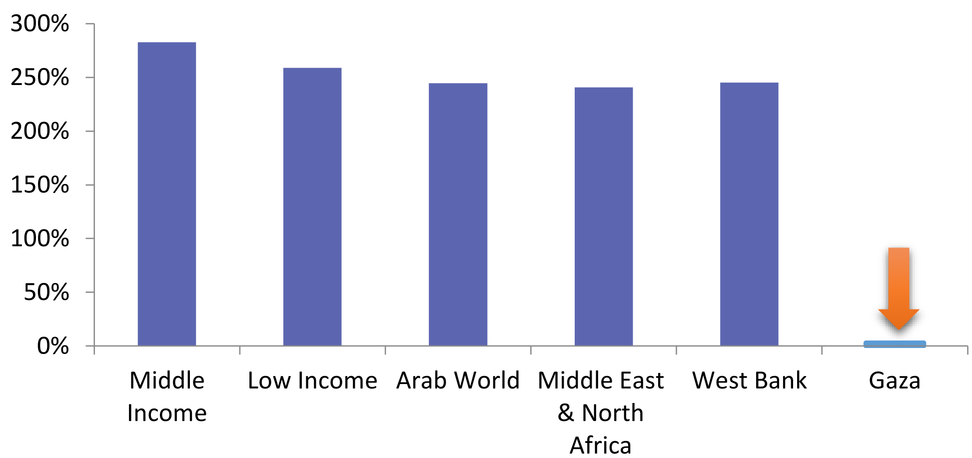
In 2007 Wataniya purchased a licence that amongst other provisions allowed the company to operate 2G in Gaza. After some delay it received approval in 2011 from GoI to import equipment into Gaza to operate on both the 900 and 1800 MHz spectrum. However, after spending 5 years getting most of the necessary equipment into Gaza, Wataniya has now been told by GoI that it will not receive the 900 MHz spectrum. This imposes an additional cost of US$10 million for new equipment, and would lead to a further year delay in launching of operations, even if GoI immediately allocate sufficient alternative spectrum on the 1800MHz band. We understand that if GoI were to allocate the spectrum to Wataniya for a two year transition period, the additional costs and delay could be avoided. Discussions on options are taking place between the various parties in New York this month.

Source: PA Ministry of Telecommunication and World Bank staff

B.3 The Gaza Economy

56. **A sustainable economy in Gaza is a precondition for achieving the development priorities of the Palestinian territories**. Over the years, Gaza's economy has been reduced to a fraction of its estimated potential due to tremendous damage by repeated armed conflicts, the Israeli and Egyptian blockade and the internal divide.[20] World Bank analysis shows that Gaza's economic performance over the past two decades has been at the global bottom, with its real GDP only a couple of percent higher today than it was 20 years ago and real income per capita has declined by nearly a third over the same period. Gaza's manufacturing sector, which was once significant, has been almost eliminated, virtually eliminating with it an already ebbed export sector.

Figure 9: Aggregate real GDP growth in Gaza over the last twenty years has been at the global bottom



Source: World Bank database and staff calculations

57. **The human costs of Gaza's economic malaise are enormous.** The deindustrialization of the economy, multiple wars and the loss of employment opportunities in Israel pushed up the unemployment rate, particularly amongst Gaza's youth to 58 percent. Close to 40 percent of Gazans live below the poverty line despite the fact that nearly 80 percent of them receive some sort of aid. These numbers, however, fail to portray the degree of suffering of Gaza's citizens due to poor electricity and water/sewerage availability, war-related psychological trauma, limited movement, and other adverse effects of the wars and the blockade.

58. **To rebuild Gaza's economy, reduce human hardship and increase the prospects for peace, concerted action is required by all parties.** Sustained economic recovery beyond the current reconstruction efforts will entail systematic policy efforts to create an enabling environment for private sector-led growth. Most importantly, this requires a unified Palestinian administration in both the West Bank and in Gaza that aims to build legitimate institutions which enjoy the support of the international community and that govern Gaza in a transparent, accountable, effective, and efficient manner. Moreover, lifting the trade blockade imposed upon Gaza by both Egypt and Israel and relaxing the long

[20] Following the electoral victory of Hamas in the Palestinian national elections in 2006 and Hamas' takeover of Gaza, Israel and Egypt have imposed a blockade on the Strip severely constricting the movement of goods and people in and out.

list of dual use items[21] would enable free movement of goods and people in and out of the Strip and support recovery and growth. Sustainable development of Gaza will be impossible without efforts to integrate Gaza into the regional and global economy through trade, while taking into account neighboring countries' legitimate security concerns. Finally, donor support will continue to be critical to support this long term agenda and it should gradually shift from reconstruction efforts towards development required for economic recovery.

59. **So far, some progress has been achieved in reconstructing damage caused by the 2014 war, but a sustained long term economic recovery beyond the reconstruction efforts is still absent.** Disbursements made so far of pledges made at the Cairo conference have enabled some of the damage caused by the 2014 war to be repaired and reconstructed (see Section C below for more details). Also, the GoI has been allowing some exports from Gaza to the West Bank and Israel, but goods coming out continue to be a fraction of what they used to be before the blockade.[22] Therefore, Gaza's economy has not yet rebounded to pre-war levels, and the conditions required for a post reconstruction long term sustainable economy in Gaza are not being put in place.

Table 3: A summary of World Bank recommendations on economic development issues and the current status of implementation

Actions	Responsible Party	Progress
ECONOMIC DEVELOPMENT		
Area C		
Expand spatial plans for Palestinian villages in Area C	GoI	
Increase number of building permits approved in Area C	GoI	
Grant approval to Palestinian business projects in Area C	GoI	
The Gaza economy		
Allow exports out of Gaza to reach pre-2007 level	GoI	
Significantly reduce items on restricted dual use list for Gaza	GoI	
Create a unified Palestinian authority in both the West Bank and in Gaza	PA	
The business climate		
Adopt the Secured Transactions Law & establish a movable asset registry	PA	
Adopt the new Companies Law & the Competition Law	PA	
Accelerate land registration in Areas A and B	PA	
Improve access to finance for SMEs	PA	
Reform the education system to bridge gap between graduates' skills and labor market needs	PA	

Legend
On track
Some progress achieved
No progress

C. Gaza Reconstruction and Recovery

60. **Slow recovery remains a key obstacle for the Gaza economy.** The previous section of this report discusses the general economic challenges facing the Gaza Strip. This section reviews specifically the efforts to enable reconstruction and recovery of the Strip in the aftermath of the July and August 2014 war**.**

61. **Donors pledged US$3.5 billion to address urgent needs after the 2014 Gaza war**. A Conference on Palestine "Reconstructing Gaza" was convened in Cairo in October 2014. From the total amount

[21] Dual use items are those that can be used for both civilian and military purposes. The restricted dual use list for Gaza includes 62 items in addition to 56 others that are on the West Bank list.
[22] http://gisha.org/reports-and-data/the-gaza-cheat-sheet

pledged to support Gaza, US$2.5 billion was recorded as new funding to finance the PA's response addressing the humanitarian and recovery needs following the war. Norway, as chair of the AHLC, and the PA requested the World Bank to lead a stocktaking exercise and track both the disbursement and implementation progress of the Gaza support pledged at the Cairo conference. The Bank's findings are updated regularly and the latest performance is presented in Annex 1.[23] As of today, up to 46 percent of Cairo Conference pledges have been disbursed.[24]

62. **However, only 16 percent of the total Gaza recovery needs have been addressed**.[25] A Detailed Needs Assessment (DNA) and Recovery Framework was prepared to guide the reconstruction and recovery process in Gaza under the leadership of the PA. [26] Total recovery needs identified in the DNA were estimated at US$3.875 billion, covering costs related to the economic and human losses of the war in addition to interventions to assist Gaza's recovery and build back better. The DNA was supported by the European Union, the United Nations and the World Bank with the objective of guiding the disbursement of donor funds pledged at the Cairo Conference, prioritizing recovery needs, and formulating key interventions in each of the following five sectors: (i) Infrastructure (housing and urban development, energy, water and sanitation, and transportation); (ii) Productive; (iii) Livelihoods and Social Protection; (iv) Social Development (health, education and culture); and (v) Governance. In the infrastructure sectors alone, total recovery needs were estimated at US$1.383 billion, while only US$386 million have been disbursed to date.[27] Out of the total US$1.596 billion Cairo Conference disbursements so far, only 38 percent (US$612 million) was directed towards priority interventions outlined in the Gaza DNA and Recovery Framework, equivalent to only 16 percent of total recovery needs.

63. **The pace of reconstruction and recovery has not met the expectations envisaged in the DNA**. In addition to slow disbursement, the inflow of materials remains below the estimated needs. A Gaza Reconstruction Mechanism (GRM) was approved in 2014 with the intention of facilitating entry of goods and materials for the reconstruction process. Almost two years following the establishment of the GRM, only two thirds of construction material needed for the housing sector following the last war has been imported.[28] At the present import rate, it is estimated that it will take another 1.3 years for the remaining construction material needed to rebuild the case load of the 2014 war to enter.[29] Overall, reconstruction progress remains behind expectations envisaged by the DNA. For example, although almost 51.5 percent of partially and severely damaged houses have been completely repaired, only 11 percent of the 11,000 housing units that were totally destroyed in the war have been rebuilt to date.[30] This leaves almost 11,700 families suffering from prolonged internal displacement.[31] Prevailing funds and construction material shortages would also further slowdown Gaza's long-term recovery, including addressing the accumulating capital investment backlog caused by a diversion of development funds

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[23] Findings can also be found online at: http://www.worldbank.org/en/programs/rebuilding-gaza-donor-pledges

[24] The disbursement figure may change once further data is collected from donors who have not yet provided information about disbursements and allocation of pledges. Support to Gaza figure refers to pledges made at the Cairo Conference and therefore does not reflect all support spent in Gaza after the 2014 war.

[25] This estimate is based on funding through Cairo Conference pledges only and does not reflect all support spent in Gaza after 2014 war.

[26] Detailed Needs Assessment and Recovery Framework, Palestine: Gaza, August 2015.

[27] Related to Cairo Conference pledges only.

[28] Construction materials constitute steel bars and cement quantities needed in the housing sector that are coordinated for private sector through GRM only. The estimate is based on construction material figures at the end of August 2016.

[29] Shelter Cluster Palestine. Construction Material Tracking for Gaza. July 2016.

[30] Shelter Cluster Palestine. Fact Sheet. August 2016.

[31] *Ibid*

for reconstruction needs. For example, there is a need for an additional 75,000 housing units in Gaza to address natural population growth and shortcomings from past conflicts. It would take up to 11 years to import the needed construction materials given the current pace of inflow.[32]

64. **Although some reconstruction has progressed, the blockade on Gaza continues to hinder critical infrastructure development and long-term recovery**. The GRM has been fairly effective facilitating the import of construction materials for home owner-driven minor repairs. It has also increased the transparency of the review and approval process, which are welcome developments. However, as mentioned above, the reconstruction of totally damaged houses and the construction of new houses remains problematic.[33] No additional participants were added to the residential and shelter streams of the GRM in February and March of 2016, while the finishing stream was temporarily suspended in 2016.[34] Despite the reported reopening of the finishing stream in March 2016, no new applications or procurement have occurred yet.[35] As for the project stream, despite the recent increase in the number of projects uploaded and approved through the GRM, this window is not yet effectively functioning.[36] Out of the total projects submitted though the GRM, projects completed account for 27 percent of infrastructure projects, 19 percent of commercial projects and only 5 percent of industrial projects.[37]

65. **Critical Gaza infrastructure investments have been facing cumulative delays for many years**. Slow or pending approvals of supply and equipment, including for operation and maintenance, have been affecting project implementation even prior to the inception of the GRM. The length of the approval and review procedures varies in time depending on the project's complexity, type of investment and the type of materials and equipment required. In the past, the average time for review and approval of lower complexity operations has been 4 months. Nevertheless, delays of material entry approval and delivery for certain cases has exceeded 4 years. Denying the entry of critical equipment for operations has obstructed both the continuation of existing infrastructure investments and the initiation of new capital projects. Delays and cost overruns can take different forms such as long or pending permitting procedures for key staff, including PA line agencies and contractors, review by Israel of detailed project designs, locations, and operating arrangements, and the need for approval of dual use items entry. Of additional concern, the approval rates of permits for national staff working with international organizations to leave and enter Gaza has declined significantly in 2016[38] adding to the existing constraints imposed by the de facto government on the movement and access of such staff to certain areas citing security concerns.[39] Such restrictions hinder the performance of organizations working in Gaza.

66. **The blockade on Gaza has caused an upsurge in investment costs, including for shipping, storage and compensation payments**. Building and operating infrastructure for basic service delivery, including water, sanitation, and electricity require a large number of items restricted by Israel for dual use, and severely impede procurement and delivery. Due to pending approvals, delays in receiving clearances and revision in shipping orders caused by Israeli limitations on the size and number of

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[32] Shelter Cluster Palestine. Construction Material Tracking for Gaza. July 2016.
[33] The GoI cites concerns over diversion of constructions materials entering through the GRM to Hamas.
[34] Shelter Cluster Palestine. Monthly Fact Sheets (Feb-Apr) 2016. Shelter steam is designated for conflict- affected applicants whose property is included in the damage assessment. The residential stream is designated for the construction of full residential properties, both new construction and reconstruction of totally destroyed homes. While the finishing stream is to complete the undamaged residential units started but not completed before the 2014 conflict.
[35] *Ibid*
[36] Project stream is designated for construction and infrastructure projects which require dual- use materials.
[37] Construction Material Tracking for Gaza. Shelter Cluster Palestine. August 2016.
[38] The GoI states that this is because they believe some national staff recruited by international organizations are affiliated with Hamas.
[39] OCHA. The Monthly Humanitarian Bulletin. May 2016.

shipments, implementing agencies are incurring increased storage and shipping costs. Requests for material entry are often rejected due to order quantities. Suppliers are forced to divide the shipment into smaller quantities which requires several shipments that result in logistical complications and increased storage and shipping costs. The PA had to compensate contractors for delays in terms of overhead, construction cost index and price adjustments. One of the World Bank financed projects in Gaza incurred a minimum of US$1.6 million of additional costs as compensation payments for contractors.

67. **Direct damage to sites and access denials for key staff have often caused work disruptions**. Several infrastructure investments in Gaza have suffered from damages by direct targeting of the site and/or denial of access for key staff and contractors. The inaccessibility to the work site causes unforeseen and long disruption of work. Meanwhile, frequent incursions and gunfire attacks have led international contractors and consultants to leave the sites or Gaza itself, which harms the level of qualifications needed to implement the project. Overtime, frequent disruptions and repair needs reduce the quality and development impact of donor funded investments.

68. **The absence of a resolution with Israel to increase the electricity supply to Gaza further adds to the cost of operations.** The lack of fuel needed to operate the equipment causes work delays and disruption. Plants depend on back-up generators to operate, which translates into dramatically higher operating costs that requires tax breaks to become affordable. The gradual reduction of tax exemptions for fuel purchased by the PA since the beginning of 2016 contributed to a significant increase in the cost of fuel. The Gaza Power Plant (GPP) was shut down or operated on minimal capacity during the second quarter of 2016 due to shortages in fuel which caused up to 20 hours of blackout a day.[40] The dispute over granting GPP tax exemptions on fuel purchases was resolved in late April. This resulted in an improvement in the electricity rationing schedule throughout Gaza to eight - hour intervals a day.[41]

69. **Looking forward, there is a need for long-term solutions beyond ad-hoc crisis management**. While the GRM improves transparency, it also adds new layers of review and has been effective only to a limited extent to support large-scale complex infrastructure. Delays are also related to a high level of centralization at the Palestinian Ministry of Civil Affairs (MoCA) and a limited acceptance of the GRM among key stakeholders in Gaza. However, the review process adds to existing implementation delays, in particular to sectors and agencies that had established direct coordination mechanisms prior to the GRM. An effective alternative to the GRM is required for development projects beyond the immediate reconstruction needs. Such a mechanism should build on the improvements introduced by the GRM, but rely on direct coordination between Israel's Coordination for Government Activities in the Territories (COGAT) and PA line agencies in Gaza.

70. **In the meantime, Israel and the PA can take actions to accelerate materials entry and reduce the cost of the blockade**. Clear and transparent criteria for the review and approval time requirements should be introduced to facilitate the planning and procurement of critical goods and equipment for construction, operation and maintenance. This would need to include equipment and materials from the dual use list beyond cement, aggregates and concrete which are currently processed at a faster rate.[42] The monitoring mechanism should highlight when review periods exceed the maximum allotted time and include a clear follow-up procedure to prompt approval or denial decisions. In addition, access and delivery of approved items would need to be assured and be included in the monitoring process.

71. **The PA should strengthen the existing institutional structure for the recovery of Gaza**. In addition to the existing financial tracking system, the National Office for the Reconstruction of Gaza (NORG)

[40] OCHA Flash updates, April 2016, Gaza's sole power plant shut down triggering up to 20 hours of outage a day.
[41] OCHA. Monthly humanitarian bulletin. May 2016.
[42] Aggregate was removed from the dual-use list in October 2016 and no longer requires special coordination.

should set up a transparent, accountable and regular Results-Based Tracking Program that looks at recovery from a holistic and sustainable perspective. To allow NORG to properly perform its duties, resources should be raised to recruit additional staff members that can bring further expertise and oversight capacity to liaise, coordinate, track and monitor the work being done across the various ministries and agencies. To step up decentralized recovery planning, recovery units within major ministries should have been formed in both the West Bank and Gaza, with the support of central government, to advance the recovery process and strengthen the cross-sectoral coordination. Improved reporting and monitoring across agencies is critical to achieve adequate budgeting and prioritizing of funding decisions.

Table 4: A summary of World Bank recommendations on Gaza reconstruction and recovery and the current status of implementation

Actions	Responsible Party	Progress
GAZA RECONSTRUCTION AND RECOVERY		
Complete a Detailed Needs Assessment (DNA) to guide reconstruction and recovery	PA	
Accelerate disbursements of Cairo Conference pledges	Donors	
Establish and monitor time line indicators for review and approval of dual use items	GoI	
Include delivery monitoring in GRM system	GoI and PA	
Set-up results-based tracking program to monitor recovery	PA	
Establish Gaza import mechanism able to handle Gaza's long term recovery needs	GoI	
Strengthen NORG and institutional structure for cross-sector coordination of decentralized recovery planning	PA	

Legend

On track

Some progress achieved

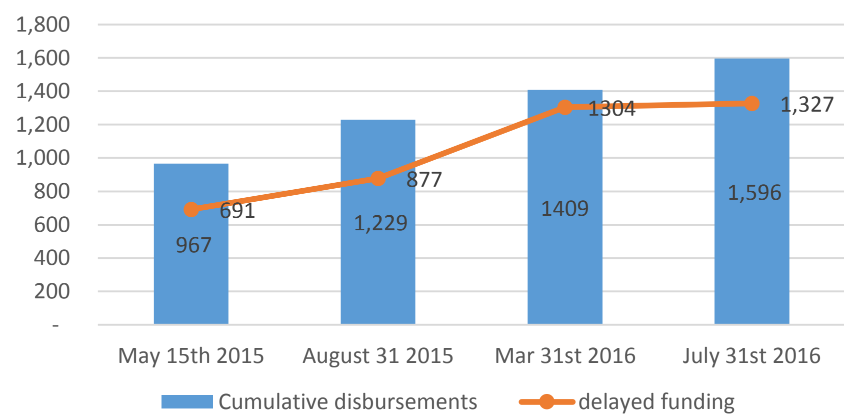
No progress

Annex 1: An overview of disbursement of pledges made at the Cairo Conference on Palestine "Reconstructing Gaza", Cairo 12th October, 2014

1. **While reconstruction after the 2014 Gaza war is underway with up to 46 percent of Cairo Conference pledges disbursed, only 16 percent of the total recovery needs have been addressed as of today.**[43] Total recovery needs, identified in the Gaza Detailed Needs Assessment (DNA) and Recovery Framework, are estimated at US$3.875 billion and aim to cover the economic and human costs of the conflict and finance interventions to help Gaza recover and build back better.[44] The Cairo Conference on Palestine "Reconstructing Gaza" captured US$3.5 billion of support to Gaza, of which US$1.596 billion was disbursed as of July 31st, 2016. This puts the disbursement ratio of Cairo Conference pledges at 46 percent.[45]

2. **Compared to the first quarter of 2016, disbursements as of July 2016 increased by 13 percent, but still fell short of planned disbursements by around US$1.3 billion and at the current rate, pledges are estimated to be fully disbursed by the end of 2019; two years behind schedule**. While US$1.596 billion has been disbursed, this is almost US$1.3 billion less than the amount projected by donors when indicating the timing of their disbursements at Cairo. To narrow the gap between planned funding and cumulative disbursements, donors need to expedite the disbursement of the remaining funds.

Figure 10: Cumulative actual disbursements and delayed funding of Support to Gaza (US$ million)



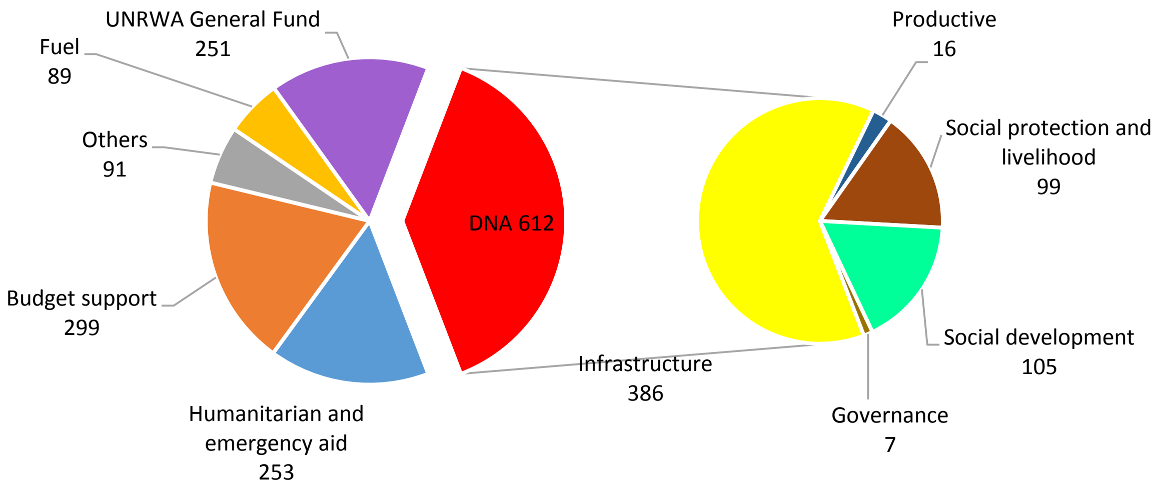
Source: World Bank staff calculations

3. **Out of the US$1.596 billion that has been disbursed, only 38 percent is directly attributed towards priority interventions outlined in the Gaza DNA and Recovery Framework, which covers 16 percent of total recovery needs.** As part of the Bank's ongoing support to the NORG in setting up a financial tracking and result-based monitoring system[46], it was concluded that only US$612 million of actual disbursements as of July 31st, 2016 are attributed to the recovery framework in the DNA across

[43] Disbursement figure may change once further data is collected from donors who have not yet provided information about disbursements and allocation of pledges. Support to Gaza figure refers to pledges made at the Cairo Conference and therefore does not reflect all support spent in Gaza after the 2014 war.
[44] Detailed Needs Assessment and Recovery Framework, Palestine: Gaza, August 2015.
[45] Refer to footnote 41.
[46] The National Office for the Reconstruction of Gaza was established following the 2014 war on Gaza as a coordinating body and secretariat to the Palestinian National Team for the Reconstruction of Gaza.

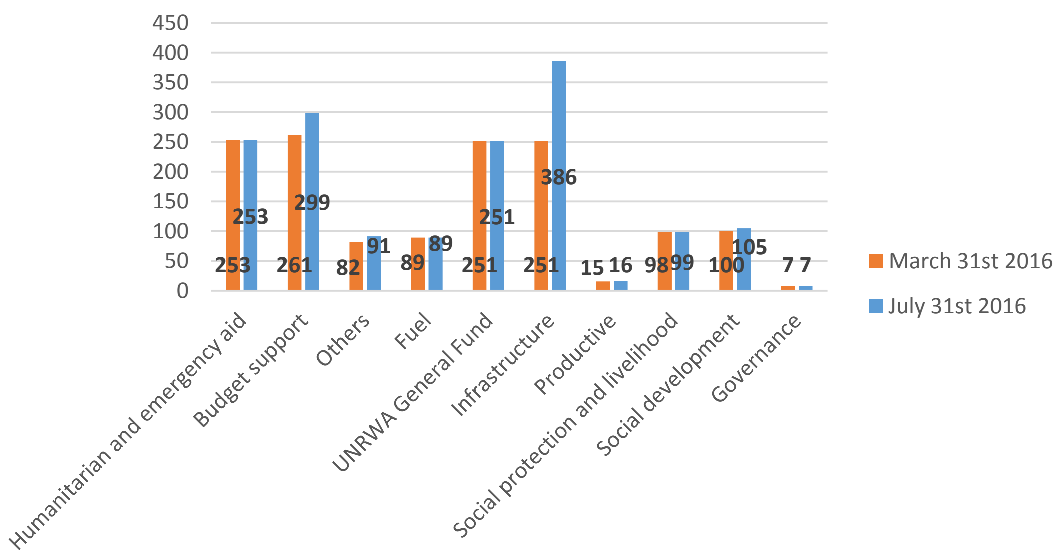
five sectors impacted by the 2014 war as shown in Figure 11. When compared to end of March 2016, the financing for DNA interventions has increased by 30 percent or US$140 million mainly due to an increase in disbursements to the infrastructure and social development sectors by US$134 and US$5 million respectively. Figure 12 illustrates the increase in disbursement for different categories between March 31st and July 31st 2016.

Figure 11: Actual disbursements of Cairo Conference support to Gaza by category As of July 31st 2016 (US$ million)



Source: World Bank staff calculations

Figure 13: Actual Disbursements of Cairo Conference support to Gaza by category over time (US$ million)



Source: World Bank staff calculations

4. **While progress has been made to track Gaza reconstruction results, reporting remains scattered.** All stakeholders are urged to feed real implementation data and actual expenditure into the standard reporting and monitoring system for Gaza recovery and reconstruction, developed by NORG. The online platform is intended to serve as a policy formulating and planning tool to help the government mobilize the funds, cover the gaps and demonstrate the impact on the ground. Currently, there remains US$1.4 billion that can be directed towards priority needs outlined in the recovery framework according to the latest information gathered from donors.

Table 5: Disbursement Status by Donor of Support to Gaza Pledged at Cairo Conference on Palestine "Reconstructing Gaza" in US$ Million (as of July 31st, 2016)

Donor	Support to Gaza	Disbursement of Support to Gaza	Disbursement Ratio of Support to Gaza
Qatar*	1000	192	19%
Saudi Arabia*	500	113	23%
European Union[1]	348	297	85%
USA	277	277	100%
Kuwait*	200	29	15%
Turkey	200	64	32%
UAE	200	29	15%
Norway[2]	145	126	87%
Switzerland	70.4	59	84%
European Investment Bank[3]	70	N/A	N/A
Germany	63.32	57.9	91%
World Bank	62	62	100%
Algeria	61.4	61.4	100%
Japan[4]	61	61	100%
UK	32.2	32.2	100%
Italy[5]	23.7	4.7	20%
Spain	22.8	5.22	23%
Sudan[6]	20	N/A	N/A
The Netherlands	15.3	15.3	100%
Canada	14.7	14.7	100%
Denmark	14.5	14.5	100%
Australia	13.2	13.2	100%
France[7]	10.1	10.1	100%

Sweden	**10**	**11.4**	**114%**
Finland	**9.3**	**9.3**	**100%**
Luxembourg	**9.0**	**N/A**	**N/A**
Russia	**8.7**	**8.7**	**100%**
Belgium[8]	**7.9**	**7.9**	**100%**
Bahrain*	**6.5**	**0.75**	**12%**
Austria[9]	**5.2**	**5.2**	**100%**
Brazil[10]	**5.0**	**2.4**	**48%**
India	**4**	**4**	**100%**
Ireland	**3.17**	**3.17**	**100%**
Argentina[11]	**2**	**N/A**	**N/A**
South Korea	**2**	**2**	**100%**
China	**2**	**N/A**	**N/A**
Estonia	**1.27**	**0.32**	**25%**
Greece	**1.27**	**0.63**	**50%**
Mexico	**1.1**	**1.1**	**100%**
Indonesia	**1**	**N/A**	**N/A**
South Africa	**1**	**0**	**0%**
Croatia	**0.4**	**0.25**	**63%**
Chile	**0.25**	**0.25**	**100%**
Slovenia	**0.19**	**0.127**	**67%**
Hungary	**0.16**	**0.16**	**100%**
Poland	**0.1**	**0.1**	**100%**
Malaysia	**0.1**	**0.1**	**100%**
Singapore	**0.1**	**0.1**	**100%**
Bulgaria	**0.06**	**0.06**	**100%**
Slovakia	**0.05**	**0.05**	**100%**
Romania	**0.05**	**0.05**	**100%**
Serbia	**0.05**	**0.0**	**0%**
Portugal	**0.03**	**0.03**	**100%**
TOTAL	**3,507**	**1596**	**46%**

[1] European Union contribution includes contribution to UNRWA General Fund pro-rata Gaza for 2014-2015.

[2] Norway did not specify the allocation of its total support between West Bank and Gaza. The amount to support Gaza is an estimate. Disbursement ratio of total support reached 38.2 percent.

[3] European Investment Bank contribution is in the form of a loan.

[4] Japan pledged US$200 million for the Palestinian territories. No specific pledged amount for Gaza reconstruction. So far, about US$199 million was disbursed of which US$61 million for projects in Gaza, US$106 million for West Bank and Gaza, US$28 million for West Bank and US$4.2 million for others.

[5] Italy's contribution includes a soft loan to the Palestinian Authority of EUR15 million.

[6] Sudan's contribution is in the form of in kind assistance (100 thousand tons of cement and US$3 million of medical supplies).

[7] France's contribution includes total aid for the Palestinian territories for the year 2014 only.

[8] Belgium's contribution is its 2014 general fund contribution to UNRWA.

[9] Austria's contribution of US$8.8 million is programmed for the benefit- with some minor exceptions- of people living in Gaza.

[10] Brazil's contribution is in the form of In kind assistance (6000 tons of rice and 4000 tons of beans).

[11] Argentina's contribution is in the form of technical assistance agreement to support Gaza which was signed with MoPAD.

*** Data provided by UNRWA and/or the Palestinian Authority.**