



**The World Bank**

Building the Foundations of a Digital Economy, Strengthening Resilience, and Supporting Governance  
Development Policy Grant (P174975)

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# Program Information Document (PID)

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Concept Stage | Date Prepared/Updated: 22-Oct-2020 | Report No: PIDC30249



**BASIC INFORMATION**

**A. Basic Project Data**

Country West Bank and Gaza	Project ID P174975	Project Name Building the Foundations of a Digital Economy, Strengthening Resilience, and Supporting Governance DPG (P174975)	Parent Project ID (if any)
Region MIDDLE EAST AND NORTH AFRICA	Estimated Board Date Mar 15, 2021	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Palestine Liberation Organization (for the benefit of the Palestinian Authority)	Implementing Agency Ministry of Finance		

**Proposed Development Objective(s)**

The Development Objectives of the proposed operation are: (i) Support the digital foundations of the Palestinian economy, (ii) Strengthen recovery and resilience post COVID-19 (iii) Improve governance and transparency in the areas of public procurement, wage bill control and the health sector.

**Financing (in US\$, Millions)**

**SUMMARY**

<b>Total Financing</b>	30.00
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**DETAILS**

<b>Total Non-World Bank Group Financing</b>	30.00
Trust Funds	30.00

**Decision**

The review did authorize the preparation to continue

**B. Introduction and Context**

**Country Context**

The proposed DPG, in the amount of US\$30 million, provides timely financing to the Palestinian Authority (PA) budget to



support the government in responding to the COVID-19 crisis while also maintaining a medium term focus on strategic priorities envisaged in the National Policy Agenda (NPA) 2017-2022. The DPG supports the PA's efforts to build the foundations of a digital economy, strengthen recovery and resilience post COVID-19 and support key governance reforms. The operation is taking place at a time when the PA's decision to halt coordination with the Government of Israel (GoI) has resulted in additional revenue losses on top of the fiscal and economic impact of the COVID-19 pandemic. The proposed DPG provides some much-needed financing to mitigate what would otherwise be a much steeper decline in public spending. The US\$30 million grant will directly leverage other donor financing through the Palestinian Reform and Development Plan (PRDP) Trust Fund (TF). The PRDP TF is administered by the Bank and disburses funds quarterly based on satisfactory progress in reforms covered by the DPG matrix. The stand-alone operation (like all previous 10 DPGs to the PA) builds on earlier operations. A particular emphasis in this operation is on building the foundations of the digital economy as this can bring shared prosperity and reduced poverty through inclusive growth and job creation, in areas where economic activity may be limited by the political environment.

Prior to the current crises, the Palestinian territories have faced long lasting political instability and periodic episodes of violence over the last two decades, exacerbating macroeconomic volatility. Inflows of transfers have significantly dropped in recent years, making it more pressing to unlock growth constrained by a challenging business environment. The trade and movement restrictions have created a high risk of disruption in projects and trade and have kept investment levels low, resulting in a bias towards non-traded services which have less potential for productivity growth. Most recent projections indicate that the economy is going to contract in 2020 due to the COVID-19 outbreak and also the political standoff that has affected clearance revenue transfers.

Driven by episodes of conflict, poverty rates in the Palestinian territories were high prior to the recent crises and they are projected to have significantly increased in recent months. Data from the Palestinian Central Bureau of Statistics (PCBS) show that 22 percent of Palestinians lived below the US\$5.5 2011 PPP a day poverty line in 2016 – latest actual available data. This, however, masks a substantial divergence in trends between the West Bank and Gaza. The poverty rate in the West Bank declined from 15 to 9 percent between 2010 and 2016, while poverty in Gaza increased dramatically from 34 to 46 percent during the same period – almost leaving every second Gazan below the US\$5.5 a day poverty line.<sup>1</sup> According to Bank estimates, the poverty rate is projected to have further increased to 27.5 percent in 2020 in the Palestinian territories – a 5.5 percentage point increase in the last four years leading to 1.4 million people currently living in poverty.

#### Relationship to CPF

The operation contributes to the implementation of the World Bank Group's Assistance Strategy for the West Bank and Gaza (FY18-21). With a pillar solely focused on building the foundations of a digital economy, the proposed operation directly contributes to the first pillar of the Assistance Strategy (setting the conditions for increased private sector investments and job creation). In addition, this DPG will help strengthen the ability of public institutions in delivering citizen-centered service delivery (prior actions 4, 5, 6, and 7) as well as increase governance and transparency of public finances (prior actions 8, 9, 10 and 11).

### C. Proposed Development Objective(s)

The Development Objectives of the proposed operation are: (i) Support the digital foundations of the Palestinian

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<sup>1</sup> According to Atamanov and Palaniswamy (2018), *Measuring Poverty in West Bank and Gaza*, there is no statistical significance in the difference between poverty in female-headed and male-headed households (as per consumption-based index).



economy, (ii) Strengthen recovery and resilience post COVID-19, and (iii) Improve governance and transparency in the areas of public procurement, wage bill control and the health sector.

#### Key Results

The main results expected from this operation include: 1) the establishment of an independent regulator in the telecommunications sector, 2) the launch of e-wallet services by e-payments companies to facilitate financial transactions for vulnerable populations and women, 3) the institution of e-public procurement, 4) rolling out and online registration system to facilitate access to social assistance during COVID-19 to 68 thousand beneficiaries -- 50 percent of which are women, 5) establishing a solidarity fund that would provide assistance during the COVID-19 crisis to 41 thousand affected households and workers, 6) issuing instructions to hospitals to guide a coordinated deployment and mobilization of public and private human resources, facilities and other key inputs according to designed scenarios set by a Pandemic Response Plan for the health sector, 7) an increase in the number of water service providers that follow WHO guidelines related to free residual chlorine tests to safeguard water quality and public health during the COVID-19 outbreak, 8) the establishment of a public procurement Dispute Resolution Unit that would carry out administrative reviews of appeals from aggrieved bidders, 9) a 100 percent of non-consulting services tenders processed by the General Services Department (GSD) and of framework agreements for common-use goods entered into by GSD use new Standard Bidding Documents, 10) establishing a link between payroll system at the MoF and the HR system at GPC to control the impact of recruitment, promotions, and salary adjustments on the wage bill, and 11) linking the e-referrals system at the Ministry of Health with the Integrated Financial Management Information System (IFMIS) at the Ministry of Finance to ensure a real time exchange of data that would enhance transparency and improve financial planning.

#### **D. Concept Description**

The first pillar of the operation focuses on supporting the digital foundations of the Palestinian economy through the adoption of a modern telecoms and information technology law, the operationalization of e-payments companies and instituting e-public procurement. This is a new area for DPGs in the Palestinian territories and it is hoped that actions supported by this pillar would support a vibrant digital economy that can bring shared prosperity and reduced poverty through inclusive growth and job creation, in areas where economic activity may be limited by the political environment. The second pillar of the operation focuses on actions adopted by the PA to better respond to the COVID-19 outbreak and also put in place stronger systems that would increase resilience in the face of future crises. This pillar is multisectoral covering actions in the social protection, health and water sectors.

The third pillar focuses on improving governance, transparency and public procurement practice with the overall aim of strengthening the quality and reliability of public spending. It does that through supporting the PA's efforts in instituting a procurement Dispute Resolution Unit, mandating the use of Standard Bidding Documents for the procurement of non-consultants' services and framework agreements, upgrading the payroll system and providing more transparent information on outside medical referrals.

#### **E. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects**

##### Poverty and Social Impacts

The overall poverty and social impact of the prior actions supported by this operation is expected to be largely positive or neutral. Efforts under pillar 1 to support the digital foundations of the Palestinian economy are expected to enhance private sector participation in the economy, which would contribute to job creation and, hence, have a positive impact on poverty. Under pillar two, efforts to strengthen the resilience and recovery post COVID-19 through rolling out an online registration system to facilitate access to financial support for families and households, including in Gaza where poverty rates are higher, are expected to have positive poverty and social impacts as they make accessing assistance



easier. Similarly, the measure to establish a solidarity fund to collect monetary donations through a unified bank account and transfer assistance to beneficiaries vetted through the Ministry of Social Development and the Ministry of Labor is also expected to have a positive poverty and social impact. Other measures that strengthen the response of service providers in the health and water sectors to the pandemic are not expected to have negative poverty and social impacts. Finally, efforts under pillar 3 aim to improve governance and transparency in the areas of public procurement, wage bill control and the health sector. None of these measures are expected to have negative poverty and social impacts.

#### Environmental, Forests, and Other Natural Resource Aspects

Reforms supported by this operation are unlikely to have a significant negative environmental impact. The prior actions supported under pillar 1 that aim to support the legislative framework for a digital economy are not expected to have any negative environmental impacts. Prior actions covered by pillar 2 that aim to support efforts to strengthen recovery and resilience post COVID-19, especially those in the health and water sectors, have a positive environmental impact given that they are aimed to protect the community's health and safety, water resources, and water and sanitation service provision and public health during the pandemic and build resilience afterwards. Finally, prior actions in pillar 3 that aim to support reforms to improve governance and transparency in the public sector are not expected to have any negative environmental impact.

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### APPROVAL

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### Approved By

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