

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

Report No.: AB6734

(The report # is automatically generated by IDU and should not be changed)

<b>Operation Name</b>	GZ - PNDP Support IV
<b>Region</b>	MIDDLE EAST AND NORTH AFRICA
<b>Country</b>	West Bank and Gaza
<b>Sector</b>	Sub-national government administration (44%);Central government administration (22%);Power (22%);Other social services (12%)
<b>Operation ID</b>	P123437
<b>Lending Instrument</b>	Development Policy Lending
<b>Borrower(s)</b>	PALESTINIAN LIBERATION ORGANIZATION
<b>Implementing Agency</b>	PALESTINIAN AUTHORITY/MINISTRY OF FINANCE
	Palestinian Authority, Ministry of Finance Ramallah, West Bank West Bank and Gaza Tel: (970-2) 240-0650 Fax: (970-2) 240-0595 mofirdg@palnet.com
<b>Date PID Prepared</b>	September 1, 2011
<b>Estimated Date of Appraisal</b>	
<b>Estimated Date of Board Approval</b>	October 13, 2011
<b>Corporate Review Decision</b>	Following the corporate review, the decision was taken to proceed to ROC.

**I. Key development issues and rationale for Bank involvement**

The main focus of the Bank's strategy is to continue supporting the Palestinian Authority's implementation of the National Development Plan as the successor to the Palestinian Recovery and Development Plan, through the proposed DPG IV as well as other complementary operations. The NDP's success depends upon three critical factors: (i) the PA effectively carrying out promised reforms; (ii) GOI relaxing the closure regime to release the private sector growth potential; and (iii) the international donor community providing full support for the PA's recurrent budget. The Bank is focusing its efforts on the first and third factors.

The Bank continues to provide significant amounts of technical assistance to help the PA implement its reforms. Through its ongoing policy dialogue, it is providing the government with advice and encouragement to remain on track. In addition, the Bank, in consultation with the IMF, produces quarterly reports on reform progress that provide donors comfort to increase their support through the Central Treasury Account (CTA). This has been a successful effort as the PA received nearly US\$1.15 billion in budget support in 2010; over US\$220 million of which was provided through the Bank managed PRDP-TF. The PRDP-TF has provided US\$657 million in support to the PA in its less than four years of existence. However, in 2011 donor assistance has lagged behind the pace experienced in 2010. This proposed fourth DPG is designed to both help the PA close its fiscal gap and to encourage donors to continue to provide untied budget support through the CTA.

## II. Proposed Objective(s)

The proposed operation is designed to support the PA as it builds on the successful implementation of the PRDP and implements the reform program detailed in the NDP, by supporting actions in two policy areas: (i) strengthening the fiscal position and (ii) improving public financial management. The PA implemented the PRDP throughout 2008-2010 and largely met the targets set in the plan. As detailed in World Bank monitoring reports, the PA is making adequate progress. To have the largest impact, the proposed DPG IV maintains the focus on the same two policy areas supported by the previous operations. These are critical building blocks for the government of an independent Palestinian state and are also crucial for attracting continued international donor support. The Bank's involvement in monitoring and providing technical assistance for the reform agenda described in previous operations' policy matrices has helped strengthen the PA's capacity to achieve its desired reforms and to also build the required support among donors. This fourth operation is expected to have a similar impact.

## III. Preliminary Description

*The proposed operation will help the PA continue to implement the NDP. Following on the DPGs I, II and III, DPG-IV will also support efforts to improve the fiscal position and increase government transparency and accountability.*

At the request of the PA, the Bank, in consultation with the IMF, will continue to provide reports detailing the status of the reform process. The PA has also committed to strengthening the PFM system by improving the standard accounting system used across all ministries, producing budgets in a transparent manner, improving commitment controls, and continuing to publish accounts that are subject to external audit.

The proposed National Development Plan DPG IV is a single tranche operation, focusing on the following four key areas:

- **Control Public Sector Wage Bill:** The immediate agenda involves: (i) establishing a macro-fiscal unit within the MoF to oversee fiscal policy, planning and budgeting; (ii) completing the piloting of a new payroll system; and (iii) implementing pension reform provisions regulating new entrants to the pension system.
- **Reducing Subsidies:** Increasing electricity collections and transferring all electricity supply and distribution to distribution companies. The immediate agenda involves: the Palestinian Electricity Regulation Committee to set financial and technical performance targets for West Bank electricity distribution companies.
- **Improving Domestic Revenue Collection:** The immediate agenda involves: (i) establishing a customs court to handle disputes on payment of customs duty and VAT on imported goods; (ii) beginning unifying the VAT and income tax services for large taxpayers; and (iii) issuing guidelines to amalgamated municipalities on how to improve revenue generation.
- **Public Financial Management:** PFM remains one of the main pillars of DPG-IV, with reforms expected in all elements of the budget cycle and capacity building of the public oversight institutions. The immediate agenda involves: (i) improving fiscal reporting of donor and treasury

financed development projects; (ii) adopting the new procurement law and setting up a Higher Council for Public Procurement Policies; and (iii) completing the FY2009 audit of the PA's accounts and submitting the FY2010 financial statements for audit.

#### **IV. Poverty and Social Impacts and Environment Aspects**

##### **Poverty and Social Impacts**

A recent poverty assessment report<sup>1</sup> by the World Bank concluded that one of the strongest drivers of poverty in the WBG is labor market outcomes, with the unemployed facing the highest risk of poverty. Furthermore, the report states that public sector employment is increasingly playing the role of a safety net, especially in Gaza. The PA recognizes these risks and drivers of poverty, and as a part of the NDP 2011-2012, it set a target of lowering poverty incidence from its current level of 22 percent to 13 percent by 2013.

The World Bank, through DPG IV, will support the two main pillars of the PA's National Development Plan: First, while the operation does not specifically target the private sector, the program should contribute to improving the environment for private sector development. A new and comprehensive procurement law will result in a more open and equal distribution of business opportunities, allowing for more small and medium firms to compete with the more established private sector actors. Ongoing banking sector reforms with the goal of lowering transaction costs and raising lending by local banks are expected to promote local investment. Second, the World Bank is working closely with the Ministry of Social Affairs (MoSA) to improve the targeting and efficiency of social assistance programs, including integrating the findings of the recent poverty analysis. Significant progress has been made in developing a transparent targeting mechanism as part of MoSA's Cash Transfer Program (CTP).

More recently, the MoSA adjusted its social transfers targeting formula, to include factors such as energy consumption expenses as determinant for CTP eligibility. This will help direct aid to the most vulnerable households. A new electricity tariff has also been developed by the Palestinian Energy Authority (PEA) and the Palestinian Electricity Regulation Committee (PERC), taking into account the potential burden of collection rates hike on vulnerable households. In cooperation with MoSA, PERC set the first block of this new tariff to be billed at cost, thus providing poor households a basic amount of electricity consumption at a lower price. To improve PERC's regulatory capacity, new performance indicators are being instituted in evaluating West Bank electricity distributors. These measures take into account both technical and financial performance indicators and are designed to ensure the efficient provision of energy to customers.

##### **Environmental Aspects**

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

---

<sup>1</sup> The World Bank, 2011: "*Coping with Conflict? Poverty and Inclusion in the West Bank and Gaza*"

**V. Tentative financing**

Source:	(\$m.)	
Borrower	0	
Special Financing	40	
Borrower/Recipient		
IBRD		
Others (specify)		
	Total	40

**VI. Contact point**

**World Bank**

Contact: Nancy Claire Benjamin

Title: Sr Country Economist

Tel: (202) 473-0189

Fax:

Email: [nbenjamin@worldbank.org](mailto:nbenjamin@worldbank.org)

**VII. For more information contact:**

The InfoShop

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 458-4500

Fax: (202) 522-1500

Web: <http://www.worldbank.org/infoshop>