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AND INTERNATIONAL FINANCE CORPORATION
AND MULTILATERAL INVESTMENT GUARANTEE AGENCY**

**ASSISTANCE STRATEGY
FY 15-16
for
THE WEST BANK AND GAZA**

October 8, 2014

West Bank and Gaza Country Management Unit
Middle East and North Africa Region

Middle East and North Africa Strategy Unit
International Finance Corporation

MIGA Operations
The Multilateral Investment Guarantee Agency

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Currency Equivalents (As of October 8, 2014)
 Currency Unit = New Israeli Shekel
 US\$1.00 = 3.7 New Israeli Shekel

ABBREVIATIONS AND ACRONYMS

AAA	Analytical and Advisory Activities	LGU	Local Government Unit
AFD	Agence Française de Développement	MIGA	Multilateral Investment Guarantee Agency
AMAL	Affordable Mortgage and Loan Program	MoFA	Ministry of Foreign Affairs
AML	Anti-Money Laundering	MOH	Ministry of Health
CFT	Combating the Financing of Terrorists Program		
COGAT	Coordinator of Government Activities in the Territories	MOPWH	Ministry of Public Works and Housing
DPG	Development Policy Grant	MSME	Micro and Small Medium Enterprises
E4E	Education for Employment	NDP	National Development Plan
EC	European Commission	NGO	Non-Governmental Organization
EU	European Union	PA	Palestinian Authority
FDI	Foreign Direct Investment	PCBS	Palestinian Central Bureau of Statistics
GDP	Gross Domestic Product	PEFA	Public Expenditure & Financial Accountability
GoI	Government of Israel	PLA	Palestinian Land Authority
IBRD	International Bank for Reconstruction and Development	PMA	Palestinian Monetary Authority
ICIEC	Islamic Cooperation for Insuring Investments and Export Credit	PPIAF	Public-Private Infrastructure Advisory Facility
ICT	Information and Communications Technology	PWA	Palestinian Water Authority
IDA	International Development Association	SAACB	State Audit and Administrative Control Bureau
IEC	Israel Electric Corporation	SME	Small and Medium Enterprises
IFC	International Finance Corporation	TA	Technical Assistance
IGTF	West Bank and Gaza Investment Guarantee Trust Fund	TFGWB	Trust Fund for Gaza and West Bank
IMF	International Monetary Fund	UN	United Nations
ISN	Interim Strategy Note	USAID	United States Agency for International Development
JSC	Joint Service Council	WB & G	West Bank and Gaza
LDF	Local Development Forum	WBG	World Bank Group
		WHO	World Health Organization

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This Assistance Strategy for the West Bank and Gaza was prepared under the direction of Steen Jorgensen by a team comprising Lina Abdallah, Layali Abdeen, Nabila Assaf, Nina Bhatt, Roger Cunill, Ibrahim Dajani, Nour Nasir Eddin, Rapti Goonesekere, Victoria Gyllerup, Elena Ianchovichina, Mary Koussa, Youssef Habesch, Samira Hemsy, Samira Hillis, Riham Hussein, Abdelwahab Khatib, Nadi Mashni, Piers Merrick, Pierre Messali, Bushra Mohammad, Ranjana Mukherjee, Teri Nachazel, Orhan Niksic, Anita Nyajur, Bjorn Philipp, Alexandra Pugachevsky, Iyad Rammal, Nikolai Soubbotin, Simon Stolp, Lina Tutunji and Velayutham Vijayaveri.

I. INTRODUCTION

1. **The World Bank Group’s involvement in the Palestinian territories dates back to 1992** when it provided the blueprint for donors’ subsequent involvement in the West Bank and in Gaza. The IFC began investing in the West Bank & Gaza (WB & G) after the 1993 and 1995 Oslo Accords, while MIGA initiated activities in 1997 with its West Bank and Gaza Investment Guarantee Trust Fund (IGTF).
2. **This proposal for the World Bank Group’s forthcoming engagement during the period FY 2015-16 has been developed jointly by IFC, MIGA and the World Bank.** The last Interim Strategy (for the period FY 2012-14) was also a joint product of the Bank and IFC. During its implementation period, MIGA’s program grew considerably—both in the West Bank and in Gaza. IFC’s and MIGA’s participation in the current strategy has enhanced its emphasis on private sector development.
3. **Prolonged conflict and deep-seated uncertainty has required the World Bank to rely on occasional interim strategy notes** rather than medium-term partnership strategies and frameworks. However, Executive Directors have reviewed the program regularly: twice in the intervening two years, in May 2013 and May 2014, the Board discussed the program’s implementation in response to political and economic developments. The previous strategy was accompanied by a results monitoring framework, which the country team used to assess progress and to draw lessons of implementation experience that are summarized in this document.
4. **In the highly unpredictable operating environment, institution strengthening to build the foundation of a strong Palestinian administration has been central to the Bank’s program, while IFC has focused on the development of the financial and infrastructure sectors.** The Bank has been assisting the Palestinian territories since 1994, with assistance financed from IBRD’s net income, with each transfer requiring the approval of the Board of Governors. Leveraging donors’ funds, selective engagement and systematic follow-up on implementation have allowed continuity in the program: six development policy grants have supported the Palestinian agenda of public financial management and fiscal strengthening, while investment projects have helped develop the education, municipal, water and social protection sectors. Since 2008, IFC has invested US\$269 million to support private firms in the financial and infrastructure sectors.
5. **The Bank Group’s response to the situation in Gaza is part of this Assistance Strategy.** Hostilities began in early July 2014 and continued until the end of August. A cease-fire, announced in the end of August 2014, has provided the space to provide humanitarian assistance, initiate early recovery and plan international assistance for reconstruction. As the humanitarian numbers show, the latest conflict is more serious in terms of lives lost, physical destruction and productive losses than any previous conflict in Gaza. The World Bank Group (WBG) is supporting the recovery effort led by the Palestinian Authority (PA) and WBG response is closely coordinated with other donors. An aid conference, convened by the PA, Egypt and Norway is scheduled on October 12, 2014. A MIGA-supported project in Gaza has been damaged in the hostilities. Given its current foothold in the financial and infrastructure sectors in the West Bank, IFC will focus its Gaza reconstruction efforts in both of these sectors.
6. **The Assistance Strategy will balance short-term stabilization and reconstruction activities with operations that serve as platforms for maintaining continuous dialogue with the PA and donors.** This deliberate “twin-track” strategy permits a continued emphasis on longer-term development priorities (state building, service delivery and support for private sector-led growth) while also retaining the high degree of flexibility needed to respond rapidly to emergency and other immediate needs. In view of the limited financial envelope available, the World Bank will also continue to play a catalytic role

among development partners using World Bank-supported operations as opportunities to leverage and coordinate additional donor co-financing.

7. **The strategy outlined below is aligned with the Palestinian National Development Plan (2014-16) and the experience with the Bank group’s previous (FY 2012-14) interim strategy.** The first pillar remains centered on strengthening public institutions for state building and improving service delivery. The second pillar continues to be focused on private sector development—with an added emphasis on increasing employment opportunities (through supporting reforms that encourage job creation in the private sector.) The same elements that constrain economic growth in the Palestinian territories overall affect Gaza even more, with Gaza reconstruction initiatives falling within both pillars. The development of this strategy has been informed by upstream discussions with various parts of the Palestinian Authority, private sector representatives, civil society and with donor partners. Gender-informed interventions, introduced in the program during the implementation of the previous strategy, will be scaled up based on a gender action plan developed in FY 14.

II. POLITICAL AND ECONOMIC CONTEXT

A. Political Developments

8. **The Palestinian Authority was established in the West Bank and Gaza shortly after the Oslo Accords of 1993.** The PA assumed civilian responsibility for most of the Palestinian residents: its security powers were limited, however, to the major urban centers. Israel maintained full control of large tracts of land around settlements and primary movement axes, leaving 61 percent of the West Bank (so-called Area C) outside the PA’s reach. Under the Oslo accords, this arrangement was intended as a temporary measure, to be replaced by a final-status agreement by the year 2000, but it still remains in force. Several peace processes were initiated but none so far have been successful.

9. **In November 2012, the UN voted in favor of the Palestinian Authority’s application for becoming a non-member observer state.** While opening the door to the PA to apply for membership in a number of UN agencies, the positive vote put an additional strain on its relationship with Israel. US facilitated Palestinian-Israeli peace talks re-started in mid-2013. By the end of March 2014, the peace talks began to stall. After Palestinian President Mahmoud Abbas forged a unity pact with *Hamas* (which formed the *de facto* authority in Gaza), Israel suspended its participation in the talks. Political developments in the region such as in Egypt, Iran, Jordan, Lebanon and Syria have added to the complexity of the topics being negotiated.

10. **A “consensus” Palestinian government was established in May 2014,** with a cabinet of technocrats, who are not affiliated to any political party, endorsed by both *Fatah* (the party led by President Abbas) and *Hamas*. The violence that erupted in Gaza in early July 2014 and continued until the end of August has put a strain on the consensus government. Service delivery in Gaza is complicated by the existence of two distinct public services—one paid and managed by the PA in Ramallah, and the other by the *de facto* authority in Gaza—and the current arrangement is unsustainable.

11. **The situation in Gaza is extremely volatile.** Even before the crisis, two thirds of the population of Gaza was receiving food assistance, and the United Nations Relief and Works Agency for Palestine ran eight refugee camps, with schools, medical centers and food distribution points, where more than half a million people (28 percent of the population) lived. All movement of people and goods in and out of Gaza has been restricted since June 2007 by both Israel and Egypt. Israeli restrictions have been eased since 2010 for some construction materials, but exports are still virtually blocked from Gaza and must be destined for a third country (neither Israel nor the West Bank, which traditionally absorbed 85 percent of

Gaza’s exports.) However, there is little world demand for goods made in Gaza: a few fruits and flowers grown in a Dutch-supported project were exported to the Netherlands. The supply of basic necessities was restricted with Egypt’s 2013 clamp-down on the tunnel trade (movement of goods through illegal tunnels dug under the border between Gaza and Egypt) and prices rose sharply.

12. **The recent conflict in Gaza has created a humanitarian crisis and dramatically worsened the development challenges.** More than 2100 Palestinians died during the hostilities, and a third of the population was internally displaced. The conflict resulted in massive destruction of infrastructure. According to the PA’s estimates, as presented in its report to the Cairo conference on Gaza reconstruction, the total damage is close to US\$4 billion. These numbers, as well as proposals for implementation of reconstruction, are being refined in a full damage needs assessment led by the PA with support from the EU, UN and World Bank. Gaza reconstruction will require the PA to agree with the Government of Israel (GoI) on an effective entry and access system to allow critical construction materials into Gaza, and allowing reconstruction activities to be led by private contractors. The system would need to ensure entry of materials under the PA’s leadership, assuring the GoI and donors that building materials are used only for the purposes intended. The efficacy and efficiency of this system will significantly affect the time and cost of the reconstruction process, but also the accumulating economic impact of the conflict.

B. Recent Economic Developments and Prospects

13. **The Palestinian economy was slowing down even before the Gaza conflict.** Following a period of sustained economic recovery during 2007 to 2011 when average yearly growth exceeded 8 percent, the economy has been struggling. The decline started in 2012 when the overall growth rate halved, falling to about 6 percent as a result of a sharp drop in foreign aid. This, against a backdrop of ongoing Israeli restrictions and high political uncertainty, led to a significant fall in public and private consumption which caused growth rates to continue their decline, down to only 1.9 percent in 2013. The economic situation significantly deteriorated in 2014 and preliminary estimates by the Palestine Central Bureau of Statistics (PCBS) indicate that the economy fell into recession in the first quarter of 2014 with growth amounting to -1 percent (0.5 percent in the West Bank and -4 percent in Gaza). The sharp drop in Gaza’s growth was primarily caused by the closures of the tunnels with Egypt, which represented the main trade channel for imports and exports for Gaza.

14. **The economic decline is resulting in growing unemployment.** Unemployment reached 26 percent by the middle of 2014: 16 percent of the workforce in the West Bank and a staggering 45 percent in Gaza. At 40 percent each, women and youth have particularly high levels of unemployment. What is more, almost 23 percent of the workforce is employed by the public sector, an uncommonly high proportion that reflects the lack of dynamism in the private sector. Labor force participation is low as outlined in Table 1 below.

Table 1. Labor Force Statistics (2nd quarter of 2014)

Indicator	West Bank and Gaza	West Bank (percentage)	Gaza
Unemployment	26.3	16.0	45.1
Underemployment	6.4	5.7	7.8
Labor force participation	45.8	46.4	44.7
Youth unemployment (15 to 29)	39.5	25.3	63.3
Youth labor force participation	39.7	40.6	38.3
Female Unemployment	39.6	26.9	60.8
Female Labor Force Participation	19.4	19.0	20.1

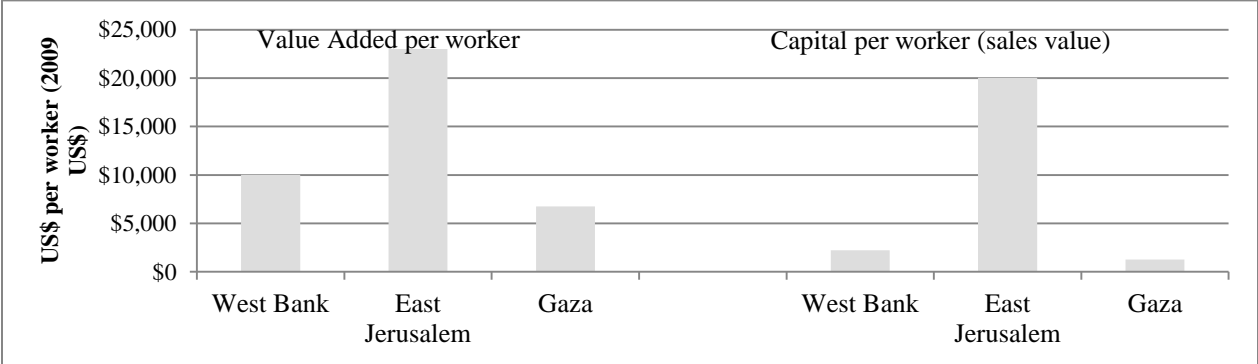
Source: PCBS Labor Force Survey, 2nd quarter, 2014.

15. **Even though the Palestinian economy has made considerable progress towards the twin goals of eradicating extreme poverty and shared prosperity, challenges remain both on poverty and inequality.** The share of people living on less than US\$1.25 a day is less than 1 percent and between 2004 and 2009 (the latest period where numbers are available), the annual per capita income growth of the bottom 40 percent of the population slightly outpaced the average per capita income growth. However, the \$1.25 poverty line is not appropriate for the Palestinian situation, as evidenced by 25.8 percent living in poverty in 2011 (latest data available) according to the national, basic-needs based poverty line. In addition, a GINI coefficient of 40.3 percent indicates a significant level of income inequality in the Palestinian territories.

16. **Israeli restrictions¹ on economic activity, in particular those on trade, movement and access, are a binding constraint to economic and social progress.** These restrictions substantially increase the cost of trade and make it impossible to import many production inputs into the Palestinian territories. As described above, the restrictions on import and export and on movement of people for Gaza are particularly severe. In addition to the restrictions on labor movement between the Palestinian territories, the restrictions on movement of labor within the West Bank have been shown to have a strong impact on employability, wages, and economic growth. Moreover, Israeli restrictions render much economic activity very difficult or impossible to conduct in Area C, comprising 61 percent of the West Bank territory. A recent report by the Bank assessed that removal of Area C restrictions would permit an increase in Palestinian GDP by an estimated 35 percent.

17. **Even before the recent fighting, Gaza’s economy had been unsustainable due to recurring conflict and blockade on exports and imports.** Economic activity was paralyzed and infrastructure damaged during multiple episodes of conflict. In the past decade, manufacturing sector employment plummeted from 9 percent to 5 percent mainly from the loss of main export markets (Israel and the West Bank). Gaza’s labor force productivity is lower than that in the West Bank or in East Jerusalem, mainly because firms there are able to invest less in capital goods. The destruction caused by a series of conflicts in recent years, and in particular the last conflict, has seriously reduced the productive capacity of Gaza’s economy.

Figure 1. Gaza's labor productivity is lower than that of the West Bank and East Jerusalem



Source: The World Bank, 2014. West Bank and Gaza Investment Climate Assessment: Fragmentation and Uncertainty.

18. **Gaza’s energy crisis has become the primary binding constraint for firms there, second only to political instability,** resulting from long-term generation capacity deficits and poor distribution

¹ According to the Government of Israel, these restrictions are for the purpose of enhancing the security of Israel and Israeli citizens.

infrastructure. The situation has worsened due to chronic fuel shortage and disruption of fuel supply from both Israel and Egypt. Because they cannot afford their own generators, Gaza's small and medium enterprises have been more adversely impacted by power outages (averaging around eight hours per day in 2013) than larger firms and those located in West Bank and East Jerusalem. The damage to Gaza's only power generating plant during the conflict has exacerbated the crisis.

19. **Despite the recession, the PA managed to keep its finances under control in the first half of 2014.** According to the MoF data, the PA's recurrent deficit between January-June 2014 was 24 percent lower than its mid-year budget target mainly due to a better-than-expected outturn for revenues and expenditures. The PA has been making efforts to improve revenue performance and reduce the share of government expenditure in the economy. Efforts have been geared towards widening the tax base and collecting arrears and liabilities from delinquent tax payers. It has continued implementing a Revenue Strategy and Action Plan that puts emphasis on tax policy and enforcement measures. If the PA's ongoing efforts to strengthen governance in Gaza succeed, tax revenues could increase significantly as the potential tax revenues from Gaza are close to 19 percent of the PA's total revenues in 2013. No revenues currently collected for Gaza's electricity bill are remitted to the PA, while the PA pays the entire electricity bill for Gaza as it is directly deducted by Israel from the PA's revenues through the clearance process. If this were to change, the PA's projected revenues would increase by at least US\$200 million. The PA has placed control on the wage bill, which is the largest spending item representing more than 50 percent of recurrent expenditures. In fact, the wage bill grew by less than 2 percent in 2013 mainly due to a zero net hiring policy that the PA has put in place since late 2012. Reducing net lending (utility subsidies) continues to be a key priority for the PA. The Bank has recently finalized a study that identifies the main drivers of this complex issue, something that was not done before. Based on the recommendations of the study, the PA has already taken some steps to reduce net lending. With support from USAID, a number of measures are also being implemented by the Ministry of Health (MoH) to improve the efficiency of health expenditures in particular through streamlining the costs of outside referrals.

20. **However, the PA's fiscal position for the remainder of the year remains highly vulnerable due to spending pressures in Gaza.** Year-end revenues are expected to be higher than previously anticipated due to stronger-than-expected growth in clearance revenues. However, expenditures are also expected to exceed forecasts on account of higher-than-expected non-wage spending and net lending. The total deficit is expected to amount to US\$1.49 billion by the end of 2014 and aid to the public sector for recurrent and development spending is projected at US\$1.48 billion, which is almost sufficient to cover the PA's regular spending needs. Additional spending on reconstruction in Gaza, however, is expected to add significant fiscal pressures that may jeopardize the PA's fiscal position if additional aid is not secured.

21. **Despite significant losses in Gaza, the banking sector remains healthy thanks to the efforts of the Palestine Monetary Authority (PMA).** The sector is well regulated by the PMA which has steadily been building the capabilities of a central bank. Banks in general are risk averse and profitable due to several reasons including cheap sources of deposits and healthy margins. The year-on-year growth of the sector's net assets was 15 percent in June 2014, and its net income grew by 4 percent when compared to the same period last year. The banking sector has a high credit exposure to the Palestinian Authority and its employees, and the PMA is carefully monitoring related risks. The ratio of non-performing loans to gross loans continues to be low at 3 percent; however, this is expected to increase due to the recent conflict as the capacity of some individuals and businesses to service their loan installments has significantly deteriorated. The PMA has already taken measures to deal with the effects of the latest conflict on the banking sector. It has recently reached an agreement with banks to reprogram loans (principal and interest payments) for six months and waive some fees for the people of Gaza. It has also reduced risk reserves from 2 percent of risk weighted assets to 0.5 percent.

Table 2: WB&G Central Government Fiscal Operations (commitment basis), 2010-2017

	2010	2011	2012	Estimate	Projections			2016	2017
				2013	2014	2015			
	(In millions of US\$)								
Total net revenues	1836	2045	2075	2312	2657	2874	3076	3282	
Gross domestic revenues	653	738	729	853	811	879	929	978	
Tax revenues	382	482	481	598	556	589	623	658	
Nontax revenues	271	256	248	255	255	290	305	320	
Clearance revenues	1259	1423	1459	1691	2042	2165	2290	2418	
Less tax refunds	76	116	113	231	197	170	142	114	
VAT	..	..	..	..	22	..	..	..
Petroleum rebate	..	..	..	..	174	..	..	..
Recurrent expenditures and net lending	2900	3139	3357	3517	3823	3911	4032	4150	
Wage expenditure	1614	1782	1769	1919	2043	2132	2197	2260	
Non-wage expenditure	1051	1217	1309	1388	1488	1567	1636	1705	
Net lending	236	140	278	210	292	213	199	185	
Recurrent balance	-1065	-1094	-1281	-1205	-1167	-1037	-956	-868	
Development expenditures	299	370	243	187	328	488	510	531	
Overall balance (before external support)	-1364	-1464	-1524	-1392	-1495	-1525	-1466	-1399	
Overall balance (after external support)	-86	-452	-483	-27	-11	-120	-121	-121	
Financing	1364	1464	1524	1392	1495	1525	1466	1399	
External budgetary support	1147	843	885	1259	1284	1212	1137	1056	
Development financing	131	169	156	106	200	193	208	222	
Net domestic bank financing	84	93	127	-248	120	120	121	121	
Domestic arrears	-60	358	404	285	-109	0	0	0	
Residual	62	1	-48	-10	0	0	0	0	
Public finances (commitment basis)	(In percent of GDP)								
Total net revenues	22.0	20.9	20.2	20.5	24.0	23.9	23.8	23.8	
Recurrent expenditures and net lending	34.8	32.1	32.7	31.1	34.5	32.5	31.2	30.1	
Wage expenditure	19.3	18.2	17.3	17.0	18.4	17.7	17.0	16.4	
Non-wage expenditure	12.6	12.5	12.8	12.3	13.4	13.0	12.7	12.4	
Net lending	2.8	1.4	2.7	1.9	2.6	1.8	1.5	1.3	
Recurrent balance (before grants)	-12.8	-11.2	-12.5	-10.7	-10.5	-8.6	-7.4	-6.3	
Overall balance (before grants)	-16.3	-15.0	-14.9	-12.3	-13.5	-12.7	-11.3	-10.1	
Overall balance (after grants)	-1.0	-4.6	-4.7	-0.2	-0.1	-1.0	-0.9	-0.9	
Memorandum items (in millions of US\$):									
Nominal GDP	8344	9775	10255	11302	11090	12018	12920	13794	

Source: IMF, WB and PA MoF

Note: The PA has been repaying operational arrears and recording these payments as expenditures. This accounting misclassification was fixed in the table from 2014 onwards, but the lack of data on the exact amount of these payments in previous years prevented us from fixing this misclassification prior to 2014.

22. Year-end GDP projections indicate that the Palestinian economy will shrink in 2014, but growth is expected to rebound in 2015. Projections indicate that the growth rate in the Palestinian territories will be about -4 percent in 2014 driven by the recession in Gaza and stagnation in the West Bank. Even though reconstruction efforts are expected to start reviving economic activity in Q4, this will not be enough to push Gaza's economy out of recession, and hence, growth in Gaza is expected to be -15 percent by the end of 2014. In the West Bank, the overall decline in the confidence level and the conflict in the city of Hebron that took place in June/July 2014 are expected to have had a damaging effect on economic activity during the first three quarters of the year. A slight recovery in Q4 is expected to push

full-year growth rates in the West Bank back to their 2013 level at around 0.5 percent. Encouragingly, growth in the Palestinian territories is expected to rebound to more than 4 percent in 2015 assuming that large amounts of aid will be channeled for reconstruction. Gaza's economy is projected to grow by 11 percent in 2015 while growth in the West Bank is expected to reach just over 2 percent.

23. **Despite having to incur additional expenditures to provide immediate assistance to the conflict-stricken people in Gaza, the PA is expected to continue reducing the deficit in the medium term.** Based on the current projections and thanks to unexpectedly strong revenue performance, the PA is expected to reduce its large stock of arrears to the private sector by roughly US\$100 million in 2014, which will inject some liquidity into the struggling Palestinian private sector. The PA has also recently reduced its debt to local banks. The recurrent deficit is projected to keep falling over the medium term from 11 percent of GDP in 2013 and 2014 to 6 percent in 2017. The overall deficit is also expected to drop from 12 percent to 10 percent over the same period. This declining deficit trend is in line with the IMF's assessment. Notably, planned pension system reforms have not been implemented yet due to uncondusive political economy and social pressures, which is resulting in significant contingent liabilities of about US\$1.6 billion for the PA's budget in the medium to long term.

C. Arrangements for Assisting the West Bank and Gaza

Trust Fund for Gaza and the West Bank

24. **To enable the Bank's assistance to the Palestinian territories, a trust fund was established.** The special arrangement was necessary to channel the Bank's financial assistance because being neither a member of the IMF nor the World Bank made the PA ineligible for the sources of financing normally available to member countries. First, by Resolutions No. 93-11 and IDA 93-7, a trust fund (then called the Trust Fund for Gaza) was established in 1993 and US\$50 million was transferred from IBRD surplus. Two years later, in August 1995, the Board of Governors renamed it the Trust Fund for Gaza and the West Bank (TFGWB) as the territorial scope was modified to cover the area under the jurisdiction of the PA.

West Bank and Gaza Investment Guarantee Trust Fund

25. **Another Trust Fund was established to enable political risk guarantees by MIGA.** The West Bank and Gaza Investment Guarantee Trust Fund (IGTF) was established in 1997 and offers foreign investors the coverage against political risks such as convertibility restrictions, expropriation, war and civil disturbance or even a breach of a commercial contract that the investor has entered with a government. In 2008, the US\$ 26 million fund had a key operational regulation change and was able to offer political risk insurance to both foreign and local investors. This departed from MIGA's standard cover, which applies to cross-border investments. As of September 2013, the IGTF had issued US\$18.3 million worth of guarantees. With the remaining trust fund capacity at US\$7.7 million and formal applications requiring over US\$13 million worth of guarantees currently being underwritten, the IGTF is currently unable to accept any new projects until it is replenished.

Mobilization of Donor Funding

26. **The Bank's assistance from the Trust Fund for Gaza and the West Bank leverages substantial complementary resources from donors.** In recent years, the TFGWB has been annually replenished by \$55 million from the IBRD surplus. Investment grants from this trust fund leverage substantial (3.8 times) project financing from development partners. (*Trust Funds contributed by donors that complement grants from the TFGWB are listed in Annex 2*). The Bank's DPGs (typically US\$40 million) from the TFGWB leverage four to five times their amount through the Bank-administered Palestinian Reform and Development Plan Multi-donor Trust Fund. Australia, France, Japan, Kuwait, Norway and UK are currently active donors to this trust fund, which provides budgetary support to the

PA's reform agenda and supports the same policy areas identified in the DPGs. The Bank monitors the PA's progress against priority economic and institutional and policy actions that it jointly identifies with the PA for the purpose of the most recent DPG. It makes regular disbursements, every quarter, upon assurance of satisfactory progress of the PA's reform agenda.

27. Other trust funds contributed by donors complement the Bank's operations.

- To pool donors' support for infrastructure, a Bank-administered multi-donor trust fund (TF) for infrastructure development was established in 2012 with contributions from Denmark, Finland and Sweden. The aim of the TF is to improve the coverage, quality, and sustainability of infrastructure in the WB & G through financial and technical assistance to the PA in the water, urban development, and energy sectors. To date the TF has received over US\$40 million in donor contributions.
- A trust fund financed by Norway (US\$3.5 million) has supported analysis of economic and sociopolitical developments. A successor trust fund, also funded by Norway, continues this engagement and support analytical and technical assistance in the areas of public and private institutions, gender, governance, environment and infrastructure development.

28. Donors find World Bank-administered trust funds useful mechanisms to channel their assistance, and are utilizing these for Gaza reconstruction. Budget support to the PA from Australia, France, Japan, Norway and the UK is flowing through the Palestinian Reform and Development Plan Multi-donor Trust Fund (*described above*). Denmark, Sweden, and Finland are supporting infrastructure restoration and service delivery through the multi-donor infrastructure trust fund, and several other donors (including France and the Netherlands) have recently expressed their intent to provide additional contributions through this mechanism.

29. Donor resources have helped mitigate the PA's repayment burden of accumulated debt to IDA. This debt resulted from the World Bank assistance provided during the period 1999-2003 on IDA terms instead of grants provided currently. The World Bank has established a trust fund (Debt Relief Trust Fund for the Palestinian Authority) to provide temporary debt relief to the PA from March 1, 2013 until February 29, 2016 with respect to the outstanding credits from the TFGWB on IDA terms. The amount mobilized is being used to buy down 100 percent of the annual principal repayment obligations over the three-year debt relief period and 46 percent of the annual service charges.

III. IMPLEMENTATION EXPERIENCE OF THE PORTFOLIO

A. Experience of the Previous Interim Strategy (FY 2012-14)

30. The previous interim strategy, jointly prepared by IFC and the World Bank, was organized around two pillars:

- *To strengthen the institutions of a future state to efficiently manage public finances and ensure services to citizens, and;*
- *To support the creation of an enabling environment for private sector led growth.*

The pillars were closely aligned with the four blocks of the Palestinian National Development Plan (2011-13): the first pillar with the 2011-13 NDP's 'governance' and 'social' blocks, and the second pillar with the 'economy' and 'infrastructure' blocks.

31. The Bank Group's goal of poverty reduction was addressed by the FY 2012-14 interim strategy, while the shared prosperity goal was indirectly addressed. The Bank's budget support operation, and the donor resources that it leveraged, along with the focus on macro-fiscal strengthening

and public financial management, helped the PA free up resources in order to provide basic services. Under the strategy's first pillar, extremely poor Palestinians were assisted by the World Bank and European Union through the Cash Transfer Program, and technical assistance to refine targeting of the households that deserve to receive this assistance.

32. **IFC's strategy was driven by 'staying the course' with feasible expansion when opportunities arose, and therefore focused on investing in sectors that are not as severely constrained as others by the restrictions imposed on movement and access.** IFC concentrated on financial markets (including microfinance) and infrastructure sector (with a focus on telecommunication). This strategy enabled IFC to increase its program, with a total of US\$175 million (including mobilization) being invested by IFC and other investors that IFC brought into the Palestinian territories during the strategy period.

33. **MIGA undertook a major business development outreach during the previous strategy's implementation period,** after a period of stagnation that followed the second *intifada* (2000 to 2004). With an improvement in the overall investment environment, MIGA complemented IFC's role in attracting private sector investors by providing political risk insurance. It insured four projects in the amount of \$7.8 million in agro-industries and manufacturing sectors. As of July, 2014, MIGA has conducted an initial preliminary review of 25 projects for US\$130 million in investments, and guaranteed seven projects for a total of US\$18.3 million.

34. **A robust set of demand-driven Analytical and Advisory Activities (AAA) provided policy advice.** The Bank's analysis of development challenges through the lens of economic development has helped frame the PA's development agenda as well as those of the donor community and other stakeholders. During the last strategy period and through consultation with the PA, the World Bank Group produced a mix of reports, policy notes and technical assistance that includes:

- *The West Bank and Gaza Sources of Growth* reviewed the issues faced by the Palestinian economy and identified the steps necessary to set the stage of dynamic private sector growth;
- *The Investment Climate Assessment* sought to provide empirical analysis of the investment climate under which Palestinian businesses operate, described the key constraints, and identified reform priorities for those aspects of the investment climate and constraints which are within the PA's control.
- *Area C and the Future of the Palestinian Economy* assessed the extent to which the restrictions imposed by the Government of Israel on economic activity in Area C of the West Bank impacts overall investment opportunities and growth of the Palestinian economy.
- *International Good Practices in State-NGO Relations: A Benchmark for West Bank and Gaza and Social Accountability in Municipal Services* focused on better understanding the services provided to private citizens by municipalities and NGOs.
- *Efficiency of Universal Health Coverage* analyzed how to increase efficiency of public health expenditures with a view to ensuring fiscal and financial sustainability of proposed universal health coverage.
- *A Study on Microwork* supported job creation and poverty reduction in the virtual economy through microwork (internet-based outsourcing of back-office functions)
- Twice yearly, the Bank reported on Palestinian economic development to the Ad Hoc Liaison Committee of Donors to the Palestinian Authority. (The World Bank is secretariat to this body which is chaired by Norway.)
- IFC's advisory activities mainly provided capacity building to private companies to improve access to finance and strengthening the financial sector. These included building capacity in local banks, advancing corporate governance, and developing leasing, providing support to Small and Medium Enterprises (SMEs), microfinance, bank risk management, secured lending, and housing finance sub-

sectors. In FY14, IFC signed an agreement to help Bank of Palestine expand its outreach to SMEs with a focus on women. IFC's advisory services supported the first public private partnership in solid waste management in the West Bank.

35. **Projects financed from the TFGWB continued to meet their development objectives in FY 2013-14.** The portfolio's performance was reviewed twice during the previous strategy implementation period. If projects went into "problem" status they were restructured -- such as the now closed Village and Neighborhood project which had become a problem project in FY 12. Additional financing was used as an instrument of choice since it has allowed the Bank to respond rapidly to emerging priorities: projects that delivered results on the ground received additional funds to expand the scope of work or to cover financing gaps (e.g. Municipal Development project, Cash Transfer project, Palestinian NGO project.)

36. **A MNA-wide initiative to make greater use of ICT for citizens' engagement and monitoring was introduced in the program in FY 14 and will be scaled up as new entry points are identified.** An improved grievance redress mechanism in two pilots (one each in the West Bank and in Gaza) is planned in the Cash Transfer Project Additional Financing, with possible scale-up to other governorates depending on the context and possible entry points. Tools for citizens' engagement developed for the Local Governance and Services Improvement Program include disclosure and development of local development strategic plans, the design of voluntary project support groups, and a grievance redress mechanism for the overall projects so that citizens can provide feedback on the quality of services provided and local government units' (LGUs') responsiveness and efficiency. Project teams are exploring the use of citizen surveys using mobile technology. Identifying which projects lent themselves to this new tool (e.g. the second Municipal Development project and Education to Work Transition project) was part of the recent review of the country portfolio's performance.

B. Lessons of Implementation Experience

37. The Palestinian territories program benefits from a continuous process of reviews and assessments. A retrospective of the FY 2012-14 ISN was discussed by the Country Team on March 6, 2014 and drew the following lessons from implementation experience, which motivated the guiding principles of this strategy.

- **The program's selectivity principle has served it well.** The Bank continued to lead the dialogue in the water sector where it has maintained an active presence for the past fifteen years, postponing engagement in the health sector until the dialogue was sufficiently advanced, and not engaging in the agriculture, transport and justice sectors where others were better placed to provide support. The program had mixed results in areas that were new to the program. Re-engaging in the land administration sector after six years, a second land administration project was approved in 2012 but shows moderately unsatisfactory results and is in the process of being restructured following its mid-term review. IFC's focused and selective approach helped support the private sector in a financially sustainable, high impact manner. IFC will continue this selective approach and expand engagements in new sectors depending on the improvement in the overall environment.
- **The volatility of the operating environment requires continuous monitoring.** Close monitoring ensures that rapid adjustments to the portfolio can be made in response to emergencies, deterioration in operating conditions or changes in government or donor priorities. The program's operating environment was hindered by outbreaks of conflict (e.g. Gaza in November 2012), social unrest in September 2012 in reaction to price increases and civil servants' strikes in October 2012 due to delayed salary payments. Only nine of the twenty targeted results were achieved. The protracted financial crisis affected outcomes of the first pillar (institutional strengthening for service delivery), where four of the six

targeted results in the areas of revenue and expenditure management and public financial management were not met.

- **The restrictions on access also impeded the progress of Bank Group financed investments.** As Israel does not allow free entry of construction materials into Gaza and places severe constraints on “dual-use” items both for Gaza and the West Bank, implementing projects required the World Bank’s intensive coordination with Israeli authorities and collaboration with donor partners. Despite intensive efforts, implementation of the ongoing Northern Gaza Emergency Sewage Treatment project and Gaza Electricity Network Rehabilitation project has been delayed. Movement and access restrictions impeded IFC’s investment in the second mobile operator’s expansion plans into Gaza where telecommunications equipment was denied entry for more than two years.
- **Program implementation adhered to the ISN’s commitment to remaining sensitive to gender integration across the portfolio and tracking project achievements by gender wherever possible.** Of the eight investment projects that were approved by the Board during the previous strategy’s implementation, gender disaggregated data is being tracked in seven, and as core sector indicator in five of them. IFC has sought to address the gender gap through the financial sector, using both its investment and advisory arms. Women constitute 55 percent of the client base of Faten, where IFC has microfinance investment. In its advisory work with the Bank of Palestine, IFC supports women-owned businesses and women entrepreneurs.

IV. THE PA’S PROGRAM AND DEVELOPMENT CHALLENGES

A. The Palestinian National Development Plan (NDP) 2014 to 2016

38. **The proposed Assistance Strategy has been prepared within the overall framework of the NDP 2014-16, which has its overall objectives** outlined as “Palestinian sovereignty and realizing economic potential, steadfastness and resistance, national unity ending the internal divide, fighting poverty and unemployment, effective public institutions and fiscal stability.” The NDP is built upon sector strategies that were consulted broadly with public and private sectors and civil society organizations, and informed by the experience of the previous (2011-13) NDP. The World Bank and other international organizations had the opportunity to review the draft strategy and to provide suggestions. The draft plan was posted on the website of Ministry of Planning and Administrative Development to allow public access and comments.

39. **The NDP’s major thrust is similar to that of the previous National Development Plan for 2012 to 2014.** *Good Governance and Institution Building, Social Protection, Economic Development and Employment* and *Infrastructure* are the four blocks that define the present NDP. The PA’s emphasis on jobs is reflected in the expansion of the previous NDP’s Economic Development block to include employment creation.

40. **The Assistance Strategy’s pillars are aligned with the NDP’s blocks.** Pillar 1 is aligned with the NDP’s *Good Governance / Institution Building* and *Social Protection* blocks, while Pillar 2 is aligned with the *Economic Development and Employment* and *Infrastructure* blocks.

B. Development Challenges

41. **Poverty programs have been effective in reducing poverty.** The PA’s social programs (including one of the best cash transfer programs in the region, developed with Bank and EU support) have reduced poverty significantly. For instance, simulations carried out in 2011 show that the poverty rate would have been 11 percentage points higher in the absence of these programs.

42. **Inequality and shared prosperity remain an issue driven by employment status, regional disparities, gender and type of employment:**

- Poverty rates are highly correlated with employment status and thus with the overall low growth of the private sector;
- Wide regional disparities still exist between Gaza and the West Bank, with unemployment and poverty rates at least twice as high in Gaza;
- While gender issues are well-addressed in the education system, very few women are working. Less than 35 percent of women of working age are active in the labor force and, of those, 40 percent are unemployed, resulting in only one in five women of working age actually being employed; and
- Household income depends on the type of employment with poverty rates among households where the head works in the public sector ten percentage points below those headed by an employee in the private sector. Similarly, poverty rates for households where the head works in the Israeli private sector is lower.

Box 1. Progress towards Millennium Development Goals (MDGs)

The PA has a national strategy to meet the MDG targets by 2015. It is complementary to the National Development Plan, but focuses on areas targeted by the MDGs and defines the policies and interventions needed to achieve them.

- **Eradicate extreme poverty and hunger.** Even though the proportion of Palestinians whose income is below US\$1.25 is extremely small, a quarter of Palestinians live in poverty according to the national poverty line with the rate in Gaza being twice that in the West Bank (2011 data).
- **Achieve universal primary education.** According to the Ministry of Education, net enrolment in basic education rose from 87.5% in 1994-95 to 93.1% for males and 95.9% for females in 2013. Although school enrolment has increased in recent years and almost universal literacy has been achieved, student performance according to the Trends in International Mathematics and Science Study (TIMSS) scores is only around the regional average, with significant room for improvement.
- **Promote gender equality and empower women.** Girls outnumber boys (118%) in secondary education. Female participation in the labor market at 18%, however, continues to be much lower than male participation at 70%. The average daily wage for females is 6% lower than that of males. The proportion of seats held by women in local councils also increased from 2% in 2000 to 18% in 2010. However, a large proportion of married women continue to suffer from violence the PA has recently joined “The Convention on the Elimination of All Forms of Discrimination against Women” which commits the PA to undertake a series of measures to end discrimination against women in all forms.
- **Reduce child mortality.** The under-five mortality rate was 16.2 per 1000 live births in 2012, with the main causes of infant deaths in the West Bank prenatal diseases, congenital malformations and blood poisoning. Child mortality rates are significantly higher in Gaza compared to the West Bank.
- **Improve maternal health.** Maternal mortality was 23 cases in 2012. Deliveries under the supervision of qualified health teams in the same year reached 98.4%.
- **Combat HIV/AIDS, malaria and other diseases.** The HIV/AIDS infection levels in the Palestinian territories are extremely low. There have been no reported cases of cholera, rabies, malaria or poliomyelitis in many years.
- **Ensure environmental sustainability.** The proportion of land area covered by forest in 2010 was only 1.63% of the overall Palestinian territories. Only around 13% of wastewater is treated and a limited 30% of solid waste is dumped in landfill sites in a sanitary manner. The *per capita* share of water is below the standard recommended by the World Health Organization.

Source: Palestinian Authority, June 2012: *The National Strategy to Achieve MDGs by 2015*

43. **The Gaza situation has introduced additional development challenges on the PA.** To obtain donors’ assistance, the PA is preparing a credible, comprehensive and well-coordinated estimate of damages, losses and needs. This will need to be a bottom-up approach, capturing information about the effects of the conflict, sector by sector, and aggregating these data to arrive at the total effect on the

economy and society. To address the priorities identified, strong PA coordination of its development partners, based on their comparative advantages and ongoing sector engagements, would be necessary. The PA would also need to agree with the GoI on a new system for accessing the materials that would enable it to lead reconstruction activities through private contractors. The new system would need to allow for efficient and speedy reconstruction by private sector entities under the PA's leadership; and assuring the GoI and donors that building materials are used only for the purposes intended.

V. DETAILS OF THE PROPOSED ENGAGEMENT (FY2015 – 16)

A. Guiding Principles

44. **Four principles guide the Bank Group's work in the Palestinian territories.** A sustained focus on technical work in a highly politicized environment; selectivity based on comparative advantages; flexibility; and enhanced focus on jobs. These principles drive both the "regular" engagement as well as emergency operations such as those currently under preparation for Gaza.

45. **The Bank Group exercises a technical mandate in an intensely political environment,** and analyzes development challenges through the lens of economic development. As it has since 1993, the Bank Group's program will continue to focus on laying the foundation for a future Palestinian state by relying on WBG comparative advantages – focus on longer term development issues, convening influence with development partners, and sector expertise. The Bank's apolitical stance helps coordinate with all parties concerned.

46. **The Bank Group's program will continue to remain selective** in deploying expertise in sectors where it has a history of engagement and has a comparative advantage. The series of budget support operations will continue to concentrate on fiscal strengthening and public financial management, and will be complemented by investment projects in higher education, local government, energy, water, and municipal development. These will directly benefit the poorest 40 percent as they depend more on public services than the rest of the population. In sectors like primary education, agriculture, transport, ICT and justice the Bank will follow other donors' lead. (Annex 3 summarizes donors' support to different sectors.) Driven by its mandate, the Bank will continue to be comprehensive and strategic in analytical work that helps set the development agenda for the PA and the donor community. Private sector job creation will support shared prosperity through World Bank investments complemented by IFC continuing its focus on financial and infrastructure sectors, and looking to expansion in other sectors if the operating environment for the private sector improves and opportunities arise.

47. **Flexibility--along with a balance between short and medium term needs--will continue to drive the Bank Group's program.** The Bank supports the long term structural reforms to build the foundation for a strong Palestinian administration. The current environment of uncertainty makes it even more important to continue this stream of support. Equally, the program will need to be flexible to adapt to sudden changes in a very fragile operating environment. Project designs will be simple, with reliance on Additional Financing to scale up assistance to bolster successful components of tested interventions. IFC will use a mix of debt, equity and guarantees as instruments of engagement on the investment side.

48. **Following the NDP's lead, the program will place increased attention on jobs.** Unable to directly create a significant number of jobs in the economy, the Bank and IFC will take follow-up actions on the findings of the recently completed assessment of the investment climate. A programmatic dialogue on job creation will continue during FY 15, and a private sector project under development will build on the results of the Investment Climate Assessment and focus on encouraging job opportunities and stimulating entrepreneurship, with a particular focus on youth and women.

49. **The Bank Group's response to the Gaza situation is based on the same principles of selectivity and flexibility.** To accommodate the PA's request for assistance to Gaza, the FY 15 proposed program has been radically restructured. First an emergency supplemental financing for the latest DPG will help finance the PA's additional recurrent expenditures related to the Gaza situation, primarily in the social sectors. In addition, as mentioned earlier, three emergency additional financings are proposed in three sectors where the Bank has experience in Gaza: water, electricity and municipal services. Two pipeline operations for health and wastewater treatment in Hebron will also be presented. While the PA appreciates the Bank's ability to re-program assistance, it has expressed serious concerns about the need to postpone key operations in infrastructure, jobs as well as the planned DPG VII to next fiscal year, given the limit on financing available in the trust fund. Without additional funds available for FY16, the program will have to be significantly reduced even in the core sectors where the Bank is taking the lead. IFC is exploring the possibility of structuring a lending facility with the banking sector that benefits from a grant component essential to providing risk mitigation measures needed to provide access to finance for the private sector in both in Gaza and the West Bank. IFC will leverage its engagement with the Bank of Palestine, which has the largest portfolio exposure to the private sector in Gaza, and with Wataniya Mobile Company, which is waiting for the necessary approvals and frequencies to be able to launch its operations in Gaza.

B. Proposed Program

50. Based on these principles and reflecting the PA's priorities reflected in the NDP, **the two pillars of this strategy are:**

- ***Strengthen the institutions of a future state to ensure service delivery to citizens,*** aligned with the governance and institution building, and social protection blocks of the NDP.
- ***Support private sector led growth that increases employment opportunities,*** aligned with the economic development and employment, and infrastructure blocks of the NDP.

51. **The strategy builds on the key elements of MNA's regional strategy (jobs, growth, inclusion, and governance).** For example, in the growth and governance areas the Bank will focus on state and institution building through macro-fiscal strengthening and public financial management (pillars of the ongoing series of Development Policy Grants) in order to free up resources for ensuring service delivery and shared prosperity. On inclusion, the Cash Transfer projects will ensure social protection of the very poor.

52. **The Bank will continue to pursue a long-term development agenda while measuring interim results.** The challenge is to keep the focus on the longer term state and private sector building agendas, while measuring interim indicators to ensure that the proposed engagement is on the right track. In the consultations with private and public stakeholders, there is a continued call for the Bank Group to focus on the big picture and the longer term development agenda through strategic analytical and advisory work as well as strategic investments in reform and service delivery. At the same time, the high degree of uncertainty in the program makes it essential to measure progress on a shorter time frame. IFC's counter-cyclical role in supporting private investments into the Palestinian territories while other investors remain on the sidelines is an indication of its role as a long-term investor. IFC will continue to play this role of signaling the long-term potential of both territories, and partner with domestic and foreign investors willing to endure the high short-term risks associated with investing there. Thus, the outcomes stated in tables below are those interim ones that can be measured, but they form part of a longer term, more strategic framework.

Pillar 1. Strengthen the institutions of a future state to ensure service delivery to citizens

53. **The ultimate goal of this pillar is to assist the PA improve delivery of services, and to help Palestinians reap the benefits of the state building measures.** In its 2011 report to the Ad Hoc Liaison Committee, the World Bank concluded that Palestinian public institutions compare favorably with those in the region and beyond. Under this pillar of the strategy, the Bank will help the PA ensure that this success translates into improved services for all Palestinians. Our development policy grants will continue to facilitate expanding the fiscal space for pro-poor and development expenditures, while a series of specific measures will focus on three sub-goals. The sub-goals are restricted to what can be measured in the brief period of this strategy but form a part of the longer terms state-building agenda that is essential for a sustainable Palestinian society.

Table 3. Pillar 1 Outcomes and Areas of Engagement to Help Achieve Assistance Strategy Objectives

Pillar 1. Strengthen the institutions of a future state to ensure service delivery to citizens			
Proposed Outcomes	1.1 Improved fiscal management with a focus on health and electricity sectors	1.2 Increased transparency and accountability in service delivery	1.3 Improved access to services by the poor and marginalized.
Areas of engagement	Public Financial Management	Services delivery by local governments	Service Delivery by NGOs
	Health sector expenditure	Service delivery by agencies at the apex level	Cash Transfer
	Electricity sector expenditure	Public procurement	Water and sanitation in Gaza

Outcome 1.1: Improved fiscal management with a focus on health and electricity sectors

54. Three strands of Bank assistance will help the PA achieve this first outcome of Pillar 1: general strengthening of public financial management practice as well as targeted expenditure management in the health and electricity sectors where savings may be possible.

55. **The PA’s fiscal management practices will be strengthened.** Being able to manage public finances strengthens the PA’s ability to prevent a roll-back of the gains made in institution-building and thereby losing what has been painstakingly achieved over the past years.

- The Bank, along with the IMF and other partners, will support fiscal strengthening through regular policy dialogue, annual development policy and investment operations and AAA. Particularly, the sixth Development Policy Grant is supporting policies to boost internally collected revenues and containment of the size of the wage bill.
- The Bank is helping the PA analyze the cost efficiency and sustainability of public service provision, in particular for education, health, electricity and social welfare services; and the fiscal implications of internal reconciliation through the Bank's ongoing programmatic Public Expenditure Review.
- The Bank’s 2013 Public Expenditure and Financial Accountability Assessment (PEFA), conducted in partnership with donor partners, found progress in comprehensiveness (no extra budgetary funds), transparency (budgets documents made public and containing a lot of information), controls (*ex-ante* control by financial controllers for budget and compliance controls) and audit (SAACB methodology and capacity, and recently built internal audit). Weaknesses identified in other areas will be strengthened, in particular budget execution (no cash planning, arrears generating, no commitment control, *see*

monitoring indicator 1) and accounting/reporting (mostly on accuracy grounds despite timeliness of monthly reports and near-GFS compliance).

- The 2011 financial statements are yet to be issued, and there were a number of “qualifications” in the 2010 financial statements audited in 2013. Financial reporting (*see monitoring indicator number 2*) will be strengthened to better manage the costs and pricing of public service provision and move towards better performance and value-for-money. The Bank will help further strengthen the capacity of the State Audit and Administrative Control Bureau (SAACB), one of the best state audit institutions in the Arab world.
- The Bank coordinates its support to the public financial management agenda with other donor partners. While helping strengthen the downstream side of the budget cycle (budget execution, GFMIS, accounting and reporting), DfID will continue to support the budget preparation cycle (program budgeting and performance), and the EU the internal and external audit functions.
- Municipalities’ financial management capacity will be built through the ongoing second Municipal Development Project by gradually rolling-out an Integrated Financial Management and Information System in selected municipalities.

56. **The PA will become better at managing its health expenditures.** In particular, expenditure for treating patients outside the Palestinian system—usually in tertiary care—have grown more than ten times between 2000 and 2011 (from 8,123 referrals in 2000 costing under US\$10 million to 56,468 in 2011 costing US\$125 million), and constituted 36 percent of MoH expenditures in 2011 and 40 percent in 2012. The referral system is plagued by weak management and old/inconsistent contracts with health care providers outside of the Palestinian facilities and has resulted in accumulated unpaid bills to outside providers of around US\$18 million. In response to a request from the PA, a proposed TA project would aim to help the MoH implement the policy recommendations from recent Bank-supported analysis and covering areas that could potentially include: assessment of cost effectiveness of developing national capacity for treatment against outside referrals for key conditions, technical assistance for rationalizing and organizing referrals and the development of a Referral Manual, establishing a system for contract management and in-service training for physicians (*see monitoring indicator number 3*).

57. **The PA will improve management of electricity expenditures.** Non-payment of electricity bills by end consumers as well as municipalities, village councils, and Distribution Companies has led to increasing arrears owed to the Israel Electric Corporation (IEC) – the principal supplier of electricity to the Palestinian territories. The Government of Israel deducts these arrears from the VAT that it collects on behalf of the PA. The PA has introduced a unified electricity tariff, and the Bank’s ongoing projects will consolidate supply of electricity from IEC through four major substations. An investment project under development will help improve payments for electricity by implementing the recommendations identified through the Bank’s ongoing analysis of electricity payments, reducing system losses, improving system performance, continue to consolidate supply and, implement a broader range of energy efficiency measures (*see monitoring indicator 4*). It will also help improve the PA’s energy security and control of electricity supply by supporting renewable energy implementation. The push for cost recovery will need to be suspended in the short term for Gaza, given the humanitarian crisis..

Outcome 1.2: Increased transparency and accountability in service delivery

58. Three strands of Bank assistance will help the PA achieve this second outcome. First, municipalities will adopt practices that make them more accountable. Second, agencies at the apex level of the PA as well as NGOs will have improved transparency in their delivery of services. Third, transparency in government-wide purchase of goods and services will be increased through continued improvement of the procurement system.

59. **Local governments' accountability in service delivery will be improved.** Municipal management practices for better municipal accountability and service delivery is being supported by the Bank's ongoing municipal development program (*see monitoring indicator number 5*). While (the larger) municipalities have been strengthened and accessed funds for service delivery, smaller local government units (LGUs) and Village Councils have not benefited from the ongoing support. Thus, an investment project will strengthen capacity of small LGUs and Joint Service Councils (JSCs) in upgrading both their technical capacity and efficacy for citizen engagement and gender inclusion. It will provide incentives for small LGUs to coalesce and collaborate to jointly provide services such as solid waste collection and transport, extension and/ or rehabilitation of existing water supply and sewage networks, rehabilitation of inter-village roads.

60. **Service delivery and regulatory agencies at the apex level will become more transparent in their transactions.** The ongoing Second Land Administration project will assist the Palestinian Land Authority (PLA) ensure efficient and transparent land registration operations (*see monitoring indicator number 6*). The PLA, along with the Ministry of Public Works and Housing, the Municipal Development and Lending Fund and the Ministry of Local Government will be strengthened as part of an investment project to augment municipal capacity for integrated urban planning and increasing the supply of affordable housing on a pilot basis in more densely populated areas. On the NGO side, the Bank's ongoing NGO project will incentivize NGOs delivering services to comply with the NGOs' Code of Conduct including financial reporting and hiring practices (*see monitoring indicator number 7*).

61. **The public procurement systems will be strengthened** through the adoption of policy reform actions supported by the series of Development Policy Grants and through a targeted investment project under development. This will include institution building of the Higher Council for Public Procurement Policies and the two central procurement entities (Central Tenders Department at MOPWH and General Supplies Department of the Ministry of Finance), strengthening the capacity of the State Audit and Administrative Control Bureau for carrying out procurement audits establishing the dispute review units, establishing framework agreements, in particular for common-use goods and services, issuing sector-specific national standard bidding documents (e.g. pharmaceuticals, textbooks, ICT); and putting in place a framework for data collection, monitoring and performance bench marking of the procurement system (*see monitoring indicator number 8*.)

Outcome 1.3: Improved access to services by the poor and marginalized.

62. Three strands of Bank assistance will help the PA's effort to extend public services to a greater proportion of the poor and marginalized. First, the Bank will help strengthen NGOs' service delivery. Second, the Bank will help the PA target assistance to the most poor. Third, to alleviate the suffering in Gaza, Bank interventions will focus on specific improvements to water supply and sanitation services.

63. **NGOs' effectiveness in delivering services will be enhanced.** Strong Palestinian charitable organizations emerged in the 1960s in the absence of a state, and currently NGOs provide a wide array of social services in health, agriculture, early childhood development, mental health, education, care for the elderly, environment and services for people with special needs, often supplementing and augmenting services provided by the PA. The Bank will continue to support institutionalization of a transparent and effective system for identifying NGOs providing critical services, providing them with grants and targeted capacity building and effectively monitoring the implementation of these activities (*see monitoring indicator number 9*).

64. **Services to poor and marginalized communities will be further strengthened.** The ongoing Palestinian NGO project will provide grants to NGOs for social service delivery to poor and vulnerable Palestinians in unserved and under-served areas. Through the ongoing Cash Transfer Project, the World Bank, alongside the European Union, will mitigate the impact of the continued socio-economic crisis on a

subset of the extremely poor and most vulnerable households; and support the Palestinian Authority's efforts to target assistance to the most poor (*see monitoring indicator number 10.*)

65. **Water and sanitation services will be improved in the Gaza strip.** A significant shortage of water services and a severe deterioration of public health are threatening the lives of Palestinians in Gaza, especially of the poor who cannot afford to purchase water from private vendors. The situation in Gaza was already serious before the recent conflict with the World Health Organization (WHO) estimating that Gaza would run out of potable water by 2015. After the conflict, the PA-led assessment estimated that more than 80 percent of the water wells were not functioning and about 1.2 million people lacked access to water and sanitation services. In addition to ongoing projects, emergency project activities proposed for additional financing will rehabilitate damaged water infrastructure to restore basic water supply and wastewater services (*see monitoring indicator number 11*). The Bank's interventions will help reduce the amount of time and financial resources spent by households in Gaza to manage the relatively limited supplies of water of variable quality. Wastewater treatment and disposal improvements will reduce the contamination of the aquifer on which most Gazans depend for their water supply leading to positive impacts on public health. Although less dire than in Gaza, water and wastewater services are inadequate in the West Bank, with *per capita* water consumption well below WHO-guidelines and only 13 percent of wastewater being treated. The Bank's interventions will help improve water and wastewater services in the Hebron Governorate and a cluster of villages located in the west Bethlehem governorate.

Pillar 2. Support private sector led growth that increases employment opportunities

66. **Sustainable economic growth and social progress is dependent on a vibrant private sector.** Private sector job creation is essential to support shared prosperity given the link between employment and well-being. The NDP's ambitious aim to increase employment opportunities by 600,000 during the next ten years would require an annual growth rate of 10 percent, or four times the growth rate of 2013². The World Bank is not engaged in some of the sectors identified in the NDP for selectivity reasons (e.g. agriculture), nor will the World Bank Group's initiatives lead to large scale job creation. Instead, the Bank Group will focus on four areas within its comparative advantage:

- Innovative approaches to job creation will be introduced by demonstrating untapped opportunities in hitherto unexplored sectors; and continuing to strengthen the link between businesses and tertiary education institutions so that graduates' skills match the demands of the marketplace;
- IFC's investments will help spur economic development and provide jobs.
- Infrastructure improvements in water, solid waste and energy will be supported. This will improve the business climate and thus support private sector job creation, in addition to directly providing employment for construction and maintenance. Such investments in improved service delivery also support shared prosperity by disproportionately benefitting those in the bottom deciles of the income distribution;
- The financial sector will be broadened and deepened so that larger numbers of people have access to financial services including insurance.

² During the timetable of the (now-stalled) peace talks, several initiatives to boost the Palestinian economy had been announced. The most significant of these is the Economic Initiative for Palestine, declared by US Secretary of State John Kerry. The initiative was designed to empower and stimulate a large number of Palestinian and foreign investors to invest US\$19 billion over the upcoming six years in a broad package of investments in eight vital sectors: construction and construction materials; water; agriculture; industry, tourism; information and communication technology; and energy.

Table 4. Pillar 2 Outcomes and Areas of Engagement to Help Achieve Assistance Strategy Objectives

Pillar 2. To support private sector led growth that increases employment opportunities			
Outcomes	2.1 Innovative approaches to job creation introduced	2.2 Infrastructure improved to attract private investment	2.3 Financial sector broadened and deepened
Areas of engagement	Employment opportunities for marginalized rural communities	Electricity supply	Enabling environment for MSMEs
	Internet-based work	Telecom services	Mortgage finance
	Industry-led workforce development	Water supply including for irrigation	Investment insurance

Outcome 2.1 Innovative approaches to job creation introduced

67. Three strands of the Bank Group’s assistance will help the PA achieve this first outcome: identify sectors that have the potential to generate jobs without requiring heavy investment, expand employment opportunities that rely on technology, and closing the missing gap between skills that tertiary education institutions build and what the industry needs.

68. **In marginalized rural areas, employment in tourism will be supported.** Although both public and private sectors are investing large amounts in developing the tourism industry, small communities in rural areas are not benefiting from these investments. The Abraham Path is the longest trail in the West Bank, attracting thousands of travelers. Combining walking in the West Bank with tourism and hospitality in local communities there, experiential tourism has the potential to create employment opportunities for homestay hosts, guides, transport providers, and local business owners. The Bank’s ongoing project will support the development of walking trails, while demonstrating the employment opportunities generated by experiential tourism in rural communities (*see monitoring indicator number 12.*)

69. **Technology driven entrepreneurship and innovation will be expanded.** ‘Microwork’ (online outsourcing) is one such area with significant potential to improve income generation opportunities and employment—requiring workers to have only computers and internet access for participation. In other parts of the world, this sector mainly employs those between the ages of 21 to 35 with a strong participation of women. A Bank project under development would conduct training for youth and women in online work and mobile computing; and provide training/education capacity in selected organizations, while providing matching and seed grants for local online work providers, brokers and intermediaries to launch online outsourcing (*see monitoring indicator number 13*). The Bank will also support higher education institutions’ development of curricula for building skills to take on microwork jobs.

70. **Tertiary education graduates’ skills will be more aligned to the market’s demands.** Acquiring these skills will prepare trained workers for the private sector to recruit while addressing young Palestinians’ serious employment challenges. Unemployment rates among graduates from both university and secondary education institutions are above 60 percent at the age of graduation with only a slow decrease over time. As part of its Education For Employment (E4E) program, IFC is identifying areas (mainly in banking and ICT) where targeted skills development will meet the market’s needs, develop skills frameworks for these areas, establish public and private sector platforms to bridge the skills gap, and advocate private sector investment in education, which could also create possibilities for IFC investments. The Bank’s ongoing Education to Work Transition Project will continue to support

transition of young Palestinians attending participating tertiary education institutions by fostering partnerships between those educational institutions and employers in order to make study programs more relevant to the needs of the labor market (*see monitoring indicator number 14.*)

Outcome 2.2 Infrastructure improved to attract private sector investments

71. **Energy supply will be increased, including through restoring damaged networks in Gaza.** Sustainability within the sector will also be addressed, and energy security will remain a significant focus – particularly through the development of renewable energy.

- The ongoing Gaza Electricity Network Rehabilitation project will continue to rehabilitate and expand the electricity networks in Gaza in order to improve reliability and performance. However, Gaza's electricity network was severely damaged during recent hostilities, affecting even basic levels of electricity supply. Therefore, an emergency additional financing will finance reconstruction and rehabilitation of the damaged electricity infrastructure in Gaza (*see monitoring indicator number 15*).
- The ongoing Electric Utility Management project will continue to strengthen key energy sector institutions to enhance the performance of the sector. A new operation, based on recent analysis of the electricity sector's contribution to net lending, will seek to support improved payment for electricity, continue to consolidate electricity supply through Palestinian institutions, improve energy efficiency, and to improve the overall fiscal sustainability of the sector.
- The Bank will also continue to support increased energy security, particularly where energy supply supports other basic service provision. This will focus primarily on the development of indigenous energy resources, and in particular renewable energy. The development of a strategy for renewable energy was supported by the Bank during the previous strategy period, and the PA's Green Palestine initiative (led by the Ministry of Agriculture and the Palestinian Energy Authority) aims to create both high skill and low skill jobs from improved efficiencies in the use of natural resources. The Bank is also supporting the private development of a biogas plant at the Zahrat Al-Finjan landfill that could generate 1.5 MW of electricity. Meanwhile, inadequate and unreliable power supply in Gaza places at risk the operation of the sewage treatment plant constructed with Bank support. Thus, the Bank is assisting the Palestinian Energy and Natural Resources Authority and the Palestinian Water Authority to confirm solar photovoltaic technology as the most optimal and feasible power supply option for the sewage treatment plant in North Gaza, and will continue to support the development of this option. If the opportunity arises, IFC will also explore options of participating in the renewable energy sector, primarily through PPPs. The Bank Group is also working together to increase private sector participation in the energy sector. IFC is evaluating an investment opportunity in a new US\$500 million 400MW power plant in Jenin, while the World Bank is seeking funds for a partial risk guarantee to support the same project. This model of support could also be expanded to a range of other smaller renewable energy investments in the West Bank, and potentially also in Gaza. MIGA is considering support to equity investors of the power plant through reinsurance mobilization.
- Lastly, in the event that political constraints to the development of Gaza Marine gas are removed, the Bank will seek to increase engagement in support of strong and transparent governance of the Palestinian gas sector.

72. **The Palestinian telecommunications sector will be strengthened.**

- Currently, IFC is the lead arranger and manager of the US\$125 million syndicated loan to Wataniya Mobile Co., the second mobile operator in the Palestinian territories. It is also supporting the company's launch of its operations in Gaza, which is expected to improve communication services and lower costs, as was witnessed in the West Bank. Service in Gaza is expected to double the number of the company's effective subscribers, which currently stands at more than half a million (*see monitoring indicator number 16*).

- The top telecom sector priorities are the allocation by Israel of adequate spectrum frequencies for Palestinian mobile and broadband use, the establishment of an independent regulator along with the strengthening of the regulatory framework to ensure competitive growth, increase private participation and enable further job creation. Ongoing technical assistance from the World Bank is helping the PA assess its telecommunications sector in comparative perspective along with prices, availability of services, access and use, and the PA's policies and regulations and main constraints hindering development and growth of the sector (*see monitoring indicator number 17*).

73. The water and wastewater management sector will be more organized, more capable of securing water supply and rights for citizens, and materializing a fair distribution for all purposes. Improvements to water supply, wastewater treatment will lower the costs of doing business for the private sector, allow for reuse of waste water for irrigation and directly generate employment.

- The Bank's Gaza Water Supply and Sewage System Improvement Project and the Water Supply and Sanitation Improvements for West Bethlehem Villages will improve water supply and wastewater services to vulnerable communities.
- To protect the underlying aquifer and supply irrigation water, effluent reuse from the Waste Water Treatment Plant in North Gaza (supported by the AFD and the World Bank) will recover water to irrigate agricultural land.
- In partnership with AFD, EC, and USAID the Bank's Hebron Regional Wastewater Management Project (under development) will support Hebron municipality and the Palestinian Water Authority to treat domestic wastewater from Hebron City (in a first phase) and other communities (in subsequent phase) in order to make the treated effluent available for irrigation (*see monitoring indicator number 18*).
- Additional Financing to the Water Sector Capacity-Building project will strengthen the capacity of the Palestinian Water Authority and other stakeholders to more effectively plan, monitor, regulate, and implement water sector development both in Gaza and the West Bank.

Outcome 2.3 Financial sector broadened and deepened.

74. Three strands of the Bank Group's assistance will help achieve this third outcome: increase the potential of MSMEs to generate income, develop mortgage financing, and provide political risk insurance to attract domestic and foreign investors.

75. The enabling environment for Micro, Medium and Small Enterprises (MSMEs) will be further developed.

- A regional MSME TA facility will help enhance the capacity of MSMEs. The facility is jointly managed by IFC and the World Bank and currently supports MSME finance and development across seven countries in the MENA region.
- On the advisory side, IFC will continue to work with client banks to develop their SME finance products with a special focus on financing of women entrepreneurs.
- Building on its successful microfinance investment in Faten, IFC is looking to double its financing to the microfinance sector (*see monitoring indicator number 19*).
- Following the PA's recent approval of the Leasing Law, IFC will work with the Capital Markets Authority to develop leasing regulations, help build the CMA's capacity building and operationalize the movable assets registry and continue its support the development of the Secured Transaction Law.
- The Bank will help strengthen accounting capacity in general. In partnership with the Ministry of Women's Affairs and the Palestinian Association of Certified Public Accountants, the Bank will train women in book-keeping skills who will eventually provide bookkeeping services to MSMEs.

76. **Mortgage finance markets will be deepened by providing banks with financing, risk sharing facilities and IFC's advisory services.** IFC's work with the PA's AMAL (Affordable Mortgage and Loan) program is continuing, where origination guidelines were revised to be more in line with the market. The Palestinian Monetary Authority is providing capacity building to banks through the training program developed by IFC. IFC will continue to build on its existing portfolio of investments and advisory projects in the financial sector, which includes an equity investment in the Bank of Palestine, trade finance lines with three banks, and plans to explore opportunities to expand into Islamic Banking (*see monitoring indicator number 20*).

77. **MIGA will continue to provide political risk insurance cover, while the Bank and IFC are analyzing options and instruments for insuring investments.** MIGA will seek to replenish the WB &G IGTF, fully allocated now, to continue supporting private sector activity (*see monitoring indicator number 21*). MIGA is also exploring reinsurance opportunities from regional institutions such as the Arab Export Credit and Investment Insurance (Dhama) and Islamic Cooperation for Insuring Investments and Export Credit (ICIEC), as well as the private market. MIGA has recently established a trust fund to attract investments in fragile and conflict states, which could be used to complement IGTF, though only to foreign investors according to the terms of this trust fund.

C. Cross-cutting Themes in Program Implementation

78. **The program will be closely coordinated with development partners through the Local Development Forum (LDF).** The LDF includes representation from the PA as well as all donor and aid agencies, meets roughly once every six months, and has been chaired by the Palestinian Prime Minister since October 2007. In addition, a number of sectoral working groups have also been established, each co-chaired by a donor and the relevant PA ministry or agency.

79. **The Bank Group will help build partnerships with the private sector.** Recently donors have shown greater interest in more coordinated support to private sector growth and job creation agenda, thus increasing the activity of the LDF's Private Sector Working Group. The public private partnership supported by the Southern West Bank Solid Waste Management project (construction by the PA and maintenance by a private operator) will serve as a model and reminder to seek similar opportunities throughout the portfolio. As mentioned earlier, the Bank is seeking funds to provide partial risk guarantee to the PA to provide comfort to private companies interested in investing in the energy sector while IFC is exploring options for investment.

80. **Integration of women's empowerment into operations will be stepped up.** To enhance the World Bank Group's gender focus a comprehensive assessment of current and planned operational activities was undertaken during the first half of 2014, a practical gender action plan was developed and is being implemented across the portfolio. Enhancing female employment and making service delivery responsive to women's needs will drive projects' design and implementation.

- In the area of enhancing female employment, the ongoing programmatic jobs dialogue will include workshops on addressing binding constraints to women's employment opportunities. Women's school to work transition will be enhanced through the ongoing Education to Work Transition project. Sources of livelihood for women will be created through pilot projects including the Abraham Path and the Economic Development across Fragile Communities and the planned Online Outsourcing for Jobs and Youth Empowerment. IFC will support programs to enhance women's access to credit and female entrepreneurship. Female entrepreneurship will also be supported through the Government Services for Business Development project, which aims to deliver timely business development information, data and services targeting women business owners.

- In the area of making service delivery responsive to women's needs, the Bank will include measures to enhance women's decision-making, design, and consumer voice in urban development, energy and water sector projects. For example, the Second Municipal Development project will include a female quota in decision-making committees of municipalities applying for funding. The Energy Efficiency Action Plan (TA) will conduct quantitative and qualitative data collection to improve the understanding of energy consumption behavior of women. The Gaza Water Supply & Sewage System Improvement project includes a public awareness campaign targeting women as a subcomponent of the project as women play a crucial role in water consumption. Various service delivery projects will also collect women's consumer feedback in citizen satisfaction surveys.

81. **Analytical and advisory activities will be strategically selected.** The Bank's analytical products will continue to inform project design and analyze emerging challenges. Knowledge products will respond to specific requests from the Palestinian Authority such as one recently received to propose an institutional structure for excellence in science and its applications in industry. IFC's advisory activities to provide capacity building of private companies will be conducted with a view to improving access to finance and strengthening the financial sector, as well as PPPs.

82. **All assistance for Gaza will continue to be provided through the Palestinian Authority.** Project implementation activities will be carried out through agencies of the PA such as utilities, higher education institutions and NGOs. Only the designated PA officials will be authorized to withdraw funds and sign off on the withdrawal applications. Disbursements for Gaza investment projects will continue to adhere to the Bank's Anti Money-Laundering and Combating the Financing of Terrorists (AML/ CFT) Program. IFC's engagement in Gaza's financial and telecommunications sectors will be through existing clients.

D. Communications and Outreach

83. **The Bank Group will engage counterparts in the Palestinian Authority and development partners in all stages of preparation of major products.** The Bank Group will increase its reliance on the internet to increase the availability of knowledge products both locally and internationally and in a timely manner. However, face-to-face meetings will continue—not only with counterparts in the PA but also in response to specific requests from the media, NGOs and individuals, many of whom follow the Bank's knowledge products on the role of economics in the peace process. Partnership with local universities has been helpful for disseminating our products and the Bank will strengthen its relations with these academic institutions more systematically. Task teams will engage upstream with ECR staff for the most effective communication strategy.

VI. RISKS

84. **The Bank Group's operating environment is one of high risk.** The recent Gaza crisis is a reminder of how worsening security challenges have the potential to derail program implementation (as it did in 2007-08). During July and August, 2014, the Bank's office in Gaza within the UN compound had to be closed for 63 days, and Bank staff and their families had to remain without electricity and water. To mitigate this risk, the Bank has a resident security advisor who is in continuous contact with the UN's security system. The program's Emergency Response and Business Continuity Plan is reviewed and updated frequently.

85. **Program implementation is prone to periods of slow-down.** Implementation of projects in Gaza is adversely affected by conflict such as during the recent eruption of violence. Conflict leads to declining private sector confidence and thus impedes IFC's investments. To mitigate this risk, political

and security developments are monitored routinely for the Bank Group to remain alert to any situation that may require adjustments to its program. The Bank draws upon its experience during 2000-2004, and again during 2006 to 2008 when international assistance to the Palestinian territories stalled. Having only one channel of providing assistance is risky, so in addition to the Palestinian Authority, the Bank will also partner with local communities, NGOs, utilities and educational institutions that can provide continuity of support in the event of program disruption due to violence. IFC will continue to play its countercyclical and development role in providing long-term financing not otherwise available. In the event that the investment climate worsens significantly and hampers IFC's business development in the areas highlighted in this Assistance Strategy, IFC—as it has in the past—will resort to engaging through advisory support while focusing on strong portfolio management to mitigate risks on its balance sheet.

86. Continued blockade of Gaza impedes investment projects from achieving their objectives. In this regard, maintaining good quality of the Bank's operational portfolio that is located in Gaza remains a challenge. A number of project implementation units rely on satellite staff in Gaza to supervise operations there, and communication between the West Bank and Gaza staff can be extremely difficult. Furthermore, the supply of goods, especially those required for larger infrastructure operations, requires an additional layer of support from the World Bank. For bringing into Gaza materials required to implement Bank-funded projects in the Gaza, the World Bank coordinates routinely with Israel's COGAT, the body tasked with managing civilian affairs in the Palestinian territories, to explain how the project inputs will be used. It is also exploring the possibility of collaborating with the UN Relief and Works Agency, which has a framework agreement with the Government of Israel for moving donor-supplied goods, to transport project materials from the border with Israel to the project site. The access of materials will be essential also for the reconstruction of Gaza from the recent conflict

87. A recent slow-down in the progress of public financial management reform placed risks on previous gains in this area. The Bank's PEFA Assessment in 2013, conducted in partnership with donor partners, found some weaknesses including in accounting/reporting—mostly on accuracy grounds including a difference on 2013 monthly fiscal reports, audit qualifications in the 2010 financial statements (audited in 2013), while the 2011 financial statements are not yet issued. To mitigate the risk, the Bank will monitor PFM arrangements and, along with donor partners, support implementation of the Action Plan issued in October 2013. The Bank is providing technical assistance (TA) on downstream budget performance (execution, accounting/reporting) while the other donors (DfID and EU) are helping on budget preparation and audit. During the past year, the Bank has fielded six TA missions on cash planning and accounting/reporting and will continue to provide support in this area. In partnership with the EU, the Bank will help the PA to implement an accounting manual under development, and strengthen the accounting/reporting practices.

88. Institution-strengthening, central to the Bank's assistance, is threatened by the PA's continuing fiscal challenges. The Bank has engaged in this long term development agenda since 1992. But the PA remains dependent upon high and unpredictable levels of aid. Donor fatigue and reduction in donor assistance is a significant source of risk to PA's finances and the Palestinian economy as a whole. Fiscal pressures put at risk the provision of public services by the Palestinian Authority (the first pillar of this assistance strategy) and make structural reforms hard to undertake. The Bank mitigates against this risk by emphasizing in all development forums the need for donors to maintain their support, without which the significant gains in strengthening of public institutions will be lost.

ANNEX 1. RESULTS MONITORING FRAMEWORK

Outcomes influenced by the program	Outcome Indicators	World Bank Group Program
Pillar 1. Strengthen the institutions of a future state to ensure service delivery to citizens		
PA's development goals in the National Development Plan and (AS Outcomes that will support each goal) <ul style="list-style-type: none"> • More effective, efficient and transparent management and allocation of public service delivery (Outcome 1.1 and Outcome 1.2) • Local government units are more capable of better public service delivery (outcome 1.2) • A rights-based, gender-sensitive, and a more inclusive, integrated and sustainable social protection system to alleviate poverty, marginalization and social exclusion (outcome 1.3) 		
Outcome 1.1 Improved fiscal management with a focus on electricity and health sectors	1. PEFA indicator 16(i) on cash flow planning and monitoring Baseline: Score D (2013) Target: Improved score (2016)	<u>Ongoing</u> --Development Policy Grant VI, World Bank --Public Expenditure Review, World Bank (ESW) --Supreme Audit Institutions' Capacity Building, World Bank, World Bank (TA) --Electricity Sector Contribution to Net Lending, World Bank (TA) -- Audit Capacity Development, World Bank (TA) Residual and Net Domestic Financing Reconciliation, World Bank (TA)
	2. The PA's Financial Statements up to 2013 prepared. (Yes/ No) Baseline: No (<i>they have been prepared up to 2011</i>) Target: Yes (2016)	
	3. Protocols and guidelines for medical referrals (to facilities other than Palestinian ones) developed and complied with. (Yes / No) Baseline: No (2014) Target: Yes (2016)		Planned --Gaza Emergency Response Development Policy Grant VI Supplemental Financing --Public Financial Management Capacity in Local Governments, World Bank (TA) --Health Systems Quality and Efficiency Improvement Project, World Bank --Electricity Sector Performance Improvement Project , World Bank
4. Data being tracked on non-payment of electricity bills, and key performance indicators encompassing full revenue position of electricity Distribution Companies being measured. (Yes / No) Baseline: No (2014) Target: Yes (2016)		
Outcome 1.2: Increased transparency and accountability in service delivery	5. Municipalities that apply social accountability measures – at least two public disclosure mechanisms. (percentage of whole) Baseline:68 (2014) Target: 75 (2016)	<u>Ongoing</u> --Second Municipal Development Project, World Bank --NGO Project IV, World Bank --Second Land Administration Project, World Bank --Development Policy Grant VI -- Second Municipal Development Project Emergency Additional Financing

Outcomes influenced by the program	Outcome Indicators	World Bank Group Program
	<p>6. Land transactions processed per month by the PLA's regional offices. (Numbers)</p> <p>Baseline: 2170 (2014) Target: 28000 (2016)</p> <p>7. NGOs delivering public services accredited through the Code of Conduct compliance system (number)</p> <p>Baseline: 25 (2014) Target: 50 (2016)</p> <p>8. The PA's single portal public procurement website --through which at least 50% of public procuring entities post their procurement plans, notices, contract awards --is functioning. (Yes / No)</p> <p>Baseline: No (2014) Target: Yes (2016)</p>	<p><u>Planned</u></p> <p>--Gaza Emergency Response Second Municipal Development Project Additional Financing</p> <p>--Local Governance and Services Improvement Project, World Bank</p> <p>--Modernizing Public Procurement Project, World Bank</p> <p>Local Government Performance, World Bank (TA)</p>
Outcome 1.3: Improved access to services by the poor and marginalized.	<p>9. Poor, vulnerable and marginalized population with access to social and economic services delivered by NGOs. (Number)</p> <p>Baseline: 37260 (2014) Target: 44260 (2016)</p> <p>10. Beneficiaries of the Cash Transfer Program of which in the lowest quintile of poverty (number) Of which female headed (number)</p> <p>Baseline: 18999, 26000 (2014) Target: 56000, 48000 (2016)</p> <p>11. Population in Gaza benefitting from restored access to water and waste water services (number)</p> <p>Baseline: 0 (2014) Target: 1000000 (2016)</p>	<p><u>Ongoing:</u></p> <p>--Cash Transfer Project</p> <p>--NGO project IV</p> <p>--Water Supply and Sewage System Improvement Project</p> <p>-- Additional Financing for Water Supply and Sewage Systems Improvement</p> <p><u>Planned:</u></p> <p>--Gaza Emergency Response Water Supply & Sewage Systems Improvement Project Additional Financing</p> <p>--Benefits for Marginalized Population in Palestine, World Bank (TA)</p>

Outcomes influenced by the program	Outcome Indicators	World Bank Group Program
<p>Pillar 2. To support private sector led growth that increases employment opportunities</p> <p>PA's development goals in the National Development Plan and (AS Outcomes that will support each goal)</p> <ul style="list-style-type: none"> • Investments creating employment opportunities have increased (Outcome 2.1) • Energy secured and supplied to consumers in sufficient quantities, at reasonable prices (outcome 2.2) • A water and wastewater management sector that is more organized and more capable of securing water rights for citizens and materializing a fair distribution for all purposes (outcome 2.2) • National productive capacity and the competitiveness of Palestinian businesses have improved (Outcome 2.1 and Outcome 2.3) 		
<p>Outcome 2.1 Innovative approaches to job creation</p>	<p>12. Job creation with a particular focus on women piloted through experiential tourism in marginalized rural communities along the Abraham Path (Yes/No).</p> <p>Baseline: No (2014) target: Yes (2016)</p> <p>13. Training in online outsourcing and digital literacy piloted (Yes/No)</p> <p>Baseline: No (2014) Target: Yes (2016)</p> <p>14. Electricity distribution network reconstructed (km)</p> <p>Baseline: 0 (2014) Target: 405 (2016)</p>	<p><u>Ongoing</u></p> <p>-- Investment Climate Assessment, World Bank (ESW) -- Dialogue for Palestinian Job Creation, World Bank -- Abraham Path Project Economic Development across Fragile Communities, World Bank -- Education to Work Transition Project, World Bank -- IFC's MSME investments and TA</p> <p><u>Planned</u></p> <p>-- Education for Employment engagement including potential for investment, IFC -- Online Employment Project, World Bank -- Enterprise and Job Opportunities Initiation Project, World Bank -- Education Component of Microwork, World Bank (ESW)</p>
<p>Outcome 2.2 Infrastructure improved to attract private investment</p>	<p>15. Mobile phone connections (number).</p> <p>Baseline: 500,000 Target: 1,000,000</p> <p>16. Assessment of the telecommunications sector in the regional context with respect to prices, availability of services, access and use (Yes, No)</p>	<p><u>Ongoing</u></p> <p>-- Electric Utilities Management Project, World Bank -- Gaza Electricity Network Rehabilitation Project, World Bank. -- North Gaza Emergency Sewage Treatment Project, World Bank -- Wataniya Palestine Telecommunications Project, IFC -- Telecom sector assessment, World Bank (ESW) -- Water Supply and Sewage System Improvement Project, World Bank</p>

Outcomes influenced by the program	Outcome Indicators	World Bank Group Program
	<p>Baseline: No (2014) Target: Yes (2016))</p> <p>17. Wastewater from the North Gaza Sewage Treatment Plant collected and treated in accordance with Palestinian environmental standards (M3 / day)</p> <p>Baseline: 0 (2014) Target: 35000 M3/ day (2016)</p> <p>18. Active MSME borrowers (number) Of which women (percentage)</p> <p>Baseline: 5688 (2014) Target: 12229 (2016) Of which women (55%)</p>	<p>-- Gaza Solid Waste Improvement Project, World Bank</p> <p><u>Planned</u></p> <p>-- Gaza Emergency Response Electricity Network Rehabilitation Project Additional Financing -- Energy for Gaza Sewage Treatment Plant Project, World Bank -- Sustainable water Supply Program, World Bank -- Hebron Wastewater Management Project, World Bank</p> <p>--IFC and World Bank engagement in Jenin Power Plant.</p>
Outcome 2.3 Financial sector broadened and deepened.	<p>19. Mortgage volume (US\$ amount)</p> <p>Baseline:US\$4.5 million (2014) Target: US\$30 million (2016)</p> <p>20. MIGA political risk guarantee (million US\$)</p> <p>Baseline: US\$18.3 (2014) Target: US\$30 (2016)</p> <p>21. Job creation with a particular focus on women piloted through experiential tourism in marginalized rural communities along the Abraham Path (Yes/No).</p> <p>Baseline: No (2014) target: Yes (2016)</p>	<p><u>Ongoing</u></p> <p>-- SME Banking for Women Advisory with Bank of Palestine, IFC -- Faten investment and TA support, IFC -- AMAL investment, IFC -- West Bank & Gaza Leasing Development, IFC -- West Bank & Gaza Secured Lending Project, IFC -- Quds Bank, IFC -- MIGA operations -- Innovation Finance, World Bank (ESW) -- Partial Risk Guarantee for IPP on Gas-fired electricity generation</p> <p><u>Planned</u></p> <p>--Potential repeat investment with Faten, IFC --Capital Markets Authority, IFC TA</p>

ANNEX 2. DONOR FUNDS THAT COMPLEMENT THE BANK'S GRANTS AND TECHNICAL ASSISTANCE

Note: does not include parallel financing

Project #	Project Name	Trust Fund #	Trust Fund Name	TF Status (Active or Closed)	Donor Name	Net Grant Amount (US\$ 000)
Grants						
		TF071607	Palestinian Reform and Development Multi-Donor Trust Fund	Active	AusAid, Finland-MoFA, Norway- MoFA, UK-DFID, France-MoFA, State of Kuwait, Japan (Canada-CIDA and Poland are former donors)	1,226,999.87 (Disbursed to Date)
P127163	Second Municipal Development Project	TF016476	Second Municipal Development Project	Active	Partnership for Water and Urban Development (PWUD)	25,800.00
P074595	North Gaza Emerg. Sewage Treatment	TF057595	North Gaza Emergency Sewage Treatment	Active	EU-Commission of the European Communities	7,831.02
		TF056186	Swedish Trust Fund for North Gaza Emergency Sewage Treatment	Closed	Swedish International Development Cooperation Agency (SIDA)	6,684.25
		TF016501	Third Additional Financing for the North Gaza Emergency Sewage	Active	Partnership for Water and Urban Development (PWUD)	5,000.00
		TF057109	Belgian Trust Fund for North Gaza Emergency Sewage Treatment	Active	Belgium - Directorate General for Development Cooperation (DGDC)	4,984.67
		TF017221	NGEST Solar Power Feasibility Study	Active	Partnership for Water and Urban Development (PWUD)	100.00
P105403	Second Land Administration	TF013714	Second Land Administration Project Co-Financing TF	Active	Finland-MoFA	4,926.70

P117443	GZ. Water Sector Capacity Building	TF015756	Water Sector Capacity Building co-financing fund	Active	Partnership for Water and Urban Development (PWUD)	1,000.00
P105404	Southern West Bank Solid Waste Management	TF090646	Second Solid Waste and Environment Management Project	Closed	Japan – Ministry of Finance	385.00
		TF014530	PID MDTF Program and TF Management Fund	Active	Partnership for Water and Urban Development (PWUD)	70.00
TECHNICAL ASSISTANCE						
P131009	WBG # 10186 Capital Markets Devt. Ph. 2	TF012005	West Bank & Gaza # 10186 Capital Markets Devt. Ph. 2	Active	FIRST- Financial Sector Reform Strength Initiative	195.56
ECONOMIC AND SECTOR WORK						
P129463	Municipal Finance III	TF011762	WB&G Improving Revenue Generation Policies and Framework in West Bank and Gaza	Active	PPIAF- Public-Private Infrastructure Advisory Facility – Multi-Donors	161.30

ANNEX 3. SUMMARY OF DONORS' ASSISTANCE IN DIFFERENT SECTORS

(Shaded blocks represent development partners' activity in the sector)

Sector	AFD/France	Algeria	Australia	Austria	Belgium	Canada	China	DfID/UK	Denmark	Egypt	EC	EU	Finland	GCC	GTZ/Germany	JICA/Japan	India	Ireland	IsDB	Italy	KfW/Germany	Kuwait	Norway	Netherlands	Oman	Qatar	Portugal	Russia	Saudi Arabia	South Korea	Spain	Sweden	Switzerland	Turkey	WB	UN Systems	USAID/USA	UAE	
Agriculture																																							
Education																																							
Energy																																							
Environment																																							
Extractives (oil, gas, mining)																																							
Gender																																							
Governance, service delivery																																							
Health																																							
ICT & Telecom																																							
Justice/Security																																							
Private Sector Development																																							
Public Fin Management																																							
Social Protection																																							
Tourism																																							
Transport																																							
Trade																																							
Urban dev't and solid waste																																							
Water & Sanitation																																							

ANNEX 4. SELECTED INDICATORS OF BANK PORTFOLIO PERFORMANCE AND MANAGEMENT

As Of Date 9/29/2014

Indicator	2012	2013	2014	2015
Portfolio Assessment				
Number of Projects Under Implementation ^a	16	17	16	16
Average Implementation Period (years) ^b	2.7	2.7	3.2	3.4
Percent of Problem Projects by Number ^{a, c}	6.3	0.0	18.8	18.8
Percent of Problem Projects by Amount ^{a, c}	6.2	0.0	16.0	15.9
Percent of Projects at Risk by Number ^{a, d}	18.8	11.8	18.8	18.8
Percent of Projects at Risk by Amount ^{a, d}	36.8	20.7	16.0	15.9
Disbursement Ratio (%) ^e	42.2	46.7	30.1	7.0
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	42	10
Proj Eval by OED by Amt (US\$ millions)	0.0	0.0
% of OED Projects Rated U or HU by Number	29.3	20.0
% of OED Projects Rated U or HU by Amt	0.0	0.0

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
- * All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

ANNEX 5. BANK OPERATIONS PORTFOLIO

<u>Active Projects</u>		<u>Last PSR</u>		<u>Fiscal Year</u>	<u>Original Amount in US\$ Millions</u>			<u>Difference Between Expected and Actual Disbursements^{a/}</u>	
<u>Project ID</u>	<u>Project Name</u>	<u>Supervision Rating</u>			<u>GRANT</u>	<u>Cancel.</u>	<u>Undisb.</u>	<u>Orig.</u>	<u>Frm Rev'd</u>
		<u>Developm ent Objective s</u>	<u>Implementa tion Progress</u>						
P105404	GZ- Southern West Bank Solid Waste Mgt	S	HS	2009	12.00		0.20	0.20	
P084461	GZ-Electric Utility Management	S	S	2008	14.50		2.10	-0.40	2.10
P116199	GZ-Gaza Electricity Network Rehab.	S	S	2012	8.00		5.19	1.69	
P121648	GZ-Gaza Solid Waste Management	S	S	2014	10.00		9.61	-0.19	
P074595	GZ-North Gaza Emerg. Sewage Treatment	MU	MU	2005	26.80		9.00	-10.00	9.00
P117444	GZ-Palestinian PNGOIV	S	S	2011	7.00	0.02	4.12	-0.86	
P105403	GZ-Second Land Administration	MS	MU	2012	3.11	0.11	2.16	0.32	
P127163	GZ-Second Municipal Development Project	S	S	2013	35.80		24.22	-9.83	
P117443	GZ-Water Sector Capacity Building	MS	MS	2011	4.00		0.93	-0.07	
P118560	GZ:Econ/Regulatory Institution-Building	MS	MS	2010	3.70		0.92	0.92	
P126586	GZ:Government Services for Business Dev.	MS	MU	2012	3.00		2.04	0.59	
P111394	GZ:Teacher Education Improvement Project	S	S	2010	5.00		1.39	1.39	
P101289	Water Supply & Sewage System Improvement	S	S	2013	6.40		2.54		
P147687	WBG - PRDP Support VI	#	#	2014	40.00				
P129861	West Bank & Gaza Ed.-to-Work Transition	S	S	2012	6.50		4.70	0.76	
P119307	West Bank and Gaza Cash Transfer Project	S	S	2011	20.00		4.77	-5.23	0.27
Overall Result					205.81	0.13	73.90	-64.58	11.37

ANNEX 6. IFC'S COMMITTED AND DISBURSED OUTSTANDING INVESTMENT PORTFOLIO

Commitment Fiscal Year	Institution Short Name	LN Cmtd - IFC	LN Repayment - IFC	ET Cmtd - IFC	QL + QE Cmtd - IFC	GT Cmtd - IFC	RM Cmtd - IFC	ALL Cmtd - IFC	ALL Cmtd - Part	LN Out - IFC	ET Out - IFC	QL + QE Out - IFC	GT Out - IFC	RM Out - IFC	ALL Out - IFC
2010	AMAL	0	0	0	0	75.40	0	75.40	0	0	0	0	0	0	0
2008/ 2009/ 2010/ 2011/ 2012/ 2013/ 2014/ 2015	BoP	0	0	11.44	0	19.47	0	30.91	0	0	11.40	0	3.47	0	14.86
2011	FATEN	0.94	2.08	0	0	0	0	0.94	0	0.94	0	0	0	0	0.94
2008/ 2009/ 2010/ 2011/ 2012/ 2013/ 2014	National Bank WB	0	0	0	0	0.00	0	0.00	0	0	0	0	0	0	0
2014	Palestine Fund	0	0	3.00	0	0	0	3.00	0	0	0.50	0	0	0	0.50
1998	SEF Arab Concret	0.80	0	0	0	0	0	0.80	0	0.80	0	0	0	0	0.80
2009/ 2011/ 2012	Wataniya WestBan	46.00	10.92	3.81	0	0	0	49.81	9.20	30.00	1.91	0	0	0	31.91
Total Portfolio		47.74	12.98	18.25	0	94.87	0	160.86	9.20	31.74	13.80	0	3.47	0	49.01