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MULTILATERAL INVESTMENT GUARANTEE AGENCY

ASSISTANCE STRATEGY

FY 18-21

for

THE WEST BANK AND GAZA

November 6, 2017

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

Middle East and North Africa Strategy Unit
International Finance Corporation

MIGA Operations
The Multilateral Investment Guarantee Agency

Currency Equivalents (As of November 6, 2017)
Currency Unit = New Israeli Shekel
US$1.00 = 3.51 New Israeli Shekel

ABBREVIATIONS AND ACRONYMS

ASA	Advisory Services and Analytics
AFD	Agence Française de Développement
AHLC	Ad Hoc Liaison Committee
AML	Anti-Money Laundering
CAFEF	Conflict Affected and Fragile Economies Facility
CB	Citizen Budget
CCSA	Cross Cutting Solution Areas
CFT	Combating the Financing of Terrorism
CMWU	Coastal Municipalities Water Utility
COGAT	Coordinator of Government Activities in the Territories
DfID	Department for International Development
DIB	Development Impact Bond
DISCO	Distribution Companies
DPG	Development Policy Grant
EC	European Commission
EU	European Union
ESPIP	Electricity Sector Performance Improvement Project
F4J	Finance for Jobs (project)
FCV	Fragility, Conflict and Violence
GDP	Gross Domestic Product
GIE	Gaza Industrial Estate
GoI	Government of Israel
GTFP	Global Trade Finance Program
HR	Human Resources
IBRD	International Bank for Reconstruction and Development
ICT	Information and Communications Technology
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
IPP	Independent Power Producer
LGPA	Local Government Performance Assessment
MDLF	Municipal Development and Lending Fund
MNA	Middle East and North Africa
MIGA	Multilateral Investment Guarantee Agency
MOFA	Ministry of Foreign Affairs
MOH	Ministry of Health
MOU	Memorandum of Understanding
MSME	Micro, Small and Medium Enterprises
NGEST	Northern Gaza Emergency Sewage Treatment project
NGO	Non-Governmental Organization
NPA	Palestinian National Policy Agenda
PA	Palestinian Authority
PEFA	Public Expenditure and Financial Accountability
PENRA	Palestine Energy and Natural Resources Authority
PERC	Palestinian Electricity Regulatory Council
PETL	The Palestinian Energy Transmission Company Limited
PFM	Public Financial Management
PID TF	Palestinian Infrastructure Development Trust Fund
PLA	Palestinian Land Authority
PMA	Palestinian Monetary Authority
PPIAF	Public-Private Infrastructure Advisory Facility
PPP	Public-Private Partnership
PRDP TF	Palestinian Recovery and Development Trust Fund
PSEF	Private Sector Enhancement Facility
SAACB	State Audit and Administrative Control Bureau
SME	Small and Medium Enterprises
STEM	Science, Technology, Engineering, and Mathematics
TA	Technical Assistance

TFGWB	Trust Fund for Gaza and the West Bank	VAT	Value Added Tax
UN	United Nations	WBG	World Bank Group
UNWRA	United Nations Relief and Works Agency for Palestine Refugees in the Near East	WDR	World Development Report
USAID	United States Agency for International Development	WHO	World Health Organization

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A. INTRODUCTION

1. **This document outlines the World Bank Group (WBG) Assistance Strategy for the West Bank and Gaza during FY18-21, developed jointly by the World Bank, IFC and MIGA.** It reports on the program's implementation experience during the previous Assistance Strategy period (FY15-16) until the present. It proposes a shift in the Palestinian development architecture to encourage and leverage more private sector contributions to support growth and job creation for the benefit of a wide cross section of the population.

2. **Only a final status agreement would bring rapid and sustained economic growth to the West Bank and Gaza.** The Palestinian people face an increasingly uncertain political environment, and an economy that is failing to generate the jobs and incomes that are needed to improve living standards. Restrictions on trade and access to resources are leading to a continuing decline in the productive base of the economy, and the share of manufacturing in the economy has halved in the last twenty-five years, while agriculture is only one third of its previous size. Job creation needs to be at the forefront of any strategic development plan. Unemployment is now approaching 30 percent on average, and there are indications that poverty is becoming more widespread. The West Bank and Gaza has some of the highest unemployment rates globally, with youth (age 15-29) unemployment at 39 percent, including 58 percent in Gaza. Only 16 percent of youth have fully transitioned into the labor market.

3. **More needs to be done now to invigorate private sector development and create an environment for dynamic and inclusive job creation ahead of a final resolution.** The 2011 World Development Report on Conflict Security and Development highlights the importance of job creation in preventing relapses into conflict. Creating a conducive environment for private investment in the productive sectors of the economy is critical. The Palestinian economy needs to generate the jobs and incomes to improve living standards without which there is every risk of a relapse into conflict. Restrictions on trade and the access to resources in the West Bank, along with a decade long blockade of Gaza have hollowed-out the productive base. Crumbling basic infrastructure and frequent interruption of key services, such as water and electricity, curtail businesses' ability to operate and drive-up production cost. Attempts to commercialize infrastructure services have largely failed. Investors are wary of accumulating arrears and lack trust in the financial discipline along the value chain. The economy is import-dependent with imports over three times the size of exports and a trade deficit close to 40 percent (one of the highest in the world). Investment rates have been low with the bulk channeled into relatively unproductive activities that generate insufficient employment. A deliberate change of direction is needed to prevent further deterioration of the economic outlook because its absence will foment an already highly combustible social situation.

4. **For an economy of this size, a sustainable growth path depends on a domestic private sector that can compete in regional and global markets and increase its export of goods and services.** Creating a conducive environment for private investment in the productive sectors of the economy is critical. Increased investment can enhance the capacity of the economy, inspire entrepreneurial effort, and generate the jobs that are needed—especially for the large number of unemployed youth and women. This requires expanding the scope of WBG assistance from working primarily with the Palestinian Authority (PA) to working with all parts of the economy—especially the private sector—and all parts of the World Bank Group (WBG) to join forces on private sector development. This expanded scope will be operationalized by the Maximizing Finance for Development approach with respect to the WBG interventions. It will take some time before these efforts yield their full benefits and the enhanced private sector activity begins generating jobs. Engaging a broader set of stakeholders, the proposed Assistance Strategy will cover four years instead of two years.

5. **The proposed Assistance Strategy outlines a shift in the World Bank Group engagement in the West Bank and Gaza, with an augmented focus on stimulating an environment for dynamic and**

inclusive private sector growth. This will be achieved through sectoral reforms and institutional strengthening and by helping to mitigate the residual risks faced by investors in an uncertain and fragile environment. Institutional strengthening, so that a future Palestinian state could deliver services to its citizens, had been the emphasis of the WBG and international community in their support of the West Bank and Gaza. It has helped build institutional capacity from a low base and improve basic service delivery at the local level, but efforts at building an enabling environment for private sector development need to be deepened.

6. **The primary objective of the proposed strategy is to support private sector investments and job creation.** Following the Maximizing Finance for Development approach, the proposed interventions would include:

- **Support to critical reforms** that will address bottlenecks preventing the emergence of private sector enterprises, investments and jobs (including business environment, skills, trade and integration in regional markets, infrastructure, and financial sector); and
- **Support to the realization of private projects**, including integrated support from the WBG in structuring projects, leveraging financing from private sector actors, and making available de-risking instruments (including political risk insurance and blended finance) to make these transactions possible.

This will be achieved through two parallel tracks:

1) *Track 1: Leveraging existing trust funds administered by the World Bank, IFC, and MIGA* to support the new strategy and complementarity approach. In the West Bank and in Gaza, IFC's experience has been to achieve leverage ratios of 1:3 with their trust fund.
2) *Track 2: Setting up of a new Private Sector Enhancement Facility (PSEF) following the discussion of the proposed Assistance Strategy for the West Bank and Gaza by the WBG Board of Executive Directors*. The World Bank will provide seed funding to the PSEF from the Bank-administered Trust Fund for Gaza and the West Bank ($20 million initially) and will also seek additional donor contributions to the new facility. The PSEF will be scalable should progress in the peace process be accompanied by an increase in availability of funding. The aim would be to reach a 1:5 leverage ratio as the facility is scaled up.

7. **Beyond efforts to support the private sector, a strong focus on shared prosperity and the bottom 40 percent will be critical in a deteriorating status quo that requires renewing the social contract via better (public) service provisions and social protection**. Strengthening institutions' accountability and capability for building public trust will be a priority, aiming to support the creation of coalitions for renewed reform such as the Ministry of Social Development's awareness building of the citizen budget. Engagement will cover Gaza and the West Bank, but the program in Gaza, where the PA currently has limited reach, will focus heavily on targeting and protecting the vulnerable, including through delivery of basic services.

8. **In implementing the proposed strategy, risks are high.** The results of the World Bank Group strategy will continue to be hindered by: the complicated Israeli-Palestinian relationship; the divide between Gaza and the West Bank that the most recent reconciliation effort is trying to bridge; and the broader constraints on the business environment in Gaza and the West Bank. Beyond these contextual issues, the strategy itself represents a fundamental shift of attention to the private sector, which may face resistance from those seeking benefits of a contained business environment. Moreover, results—including in terms of job generation—may take time to materialize as investors hesitate to carry out new investments in a fluid and fragile political setting despite progress on the various policy and institutional fronts, availability of de-risking tools and direct support in the preparation of transactions. There is also a risk that the private sector investors benefitting most from new opportunities will remain concentrated and could stymie the growth opportunities for small businesses. A resurgence of conflict would jeopardize progress. On the other hand, rapid advances in the reconciliation and peace process would have the potential to significantly accelerate

results in terms of job creation and growth—and could be accompanied by a scale-up of the proposed interventions in support of private sector activity, including the PSEF.

B. Political Context

9. **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 residents; however, its security powers were limited 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 with a final-status agreement by the year 2000—but the agreement remains in force.

10. **Several peace processes were initiated but none so far have been successful.** Israel-Palestinian peace negotiations have remained stalled since the US-led initiative ("Kerry peace talks") ended unsuccessfully in 2014. The Egyptian initiative of May 2016 petered out and the January 2017 Paris Summit hosted by France did not result in any break-through. Following the entrance of a new U.S. administration in 2017, the peace process has been re-prioritized. The U.S. Special Representative for International Negotiations attended the May and September 2017 meetings of the Ad Hoc Liaison Committee—comprised of the PA, Government of Israel (GoI), the UN, IMF, World Bank and other donors—in Brussels and New York, respectively, building momentum toward a potential new round of final-status negotiations.

11. **The Palestinian polity remains divided, with a current ongoing reconciliation effort.** *Fatah*, the political party headed by President Abbas, constitutes the Ramallah-based Palestinian Authority, while *Hamas* has formed the *de facto* authority in Gaza. The political division and strife between Gaza and the West Bank since 2007 has prevented policy coordination and resulted in two parallel regulatory frameworks thus fragmenting the already limited economic space. Service delivery in Gaza has been 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. The Ramallah-based PA increasingly demonstrated its unwillingness to indirectly support the *de facto* authority in Gaza. The Egyptian government has facilitated the most recent reconciliation attempts between the Palestinian polities. Media reports point to strong efforts at reconciliation by *Fatah* and *Hamas* at a scale not seen in recent years. On November 1, 2017, the Palestinian Authority resumed control, for the first time in 10 years, of the border crossings between Gaza and Egypt / Israel. The World Bank Group, alongside the international community, is monitoring the situation closely.

12. **The human costs of Gaza's political isolation have been enormous.** Numerous conflicts and the blockade on Gaza have created a humanitarian crisis and dramatically worsened the development challenges. Gaza's two million residents are confined to an area of 160 sq. km and are not able to travel beyond this area without permits from the GoI or Egypt. Unemployment in Gaza is among the highest in the world. Poverty in Gaza is also very high even though nearly 80 percent of Gaza's residents receive some aid. The inadequacy of electricity supply (less than half of Gaza's needs) is exacerbated by the dearth of alternative fuels caused by the blockade; firewood and gas are very scarce, while liquid fuel is costly and not easily available to many of Gaza's residents. The shortage of electricity in Gaza is severely restricting the access of two million people to critical medical care with hospitals facing power outages; this shortage is also affecting the pumping and distribution of potable water. Gaza's aquifer, its sole source of fresh water, is overdrawn by 200 percent and suffering from seawater intrusion. Consequently, only 5 to 10 percent of aquifer water in Gaza is drinkable. Only a small portion of sewage gets treated and untreated sewage (about 100 million liters per day) ends up in the Mediterranean Sea—resulting in a very high incidence of water-related diseases. This forces Gaza residents to rely on expensive back-up diesel generators and potable water from private tanker trucks.

C. ECONOMIC CONTEXT

13. **The Palestinian economy is suffering from volatile and unsustainable growth.** The structure of the economy has substantially deteriorated since the 1990s. For instance, the manufacturing sector, which is usually one of the key drivers of export-led growth, has largely stagnated and its share in GDP has dropped from 19 percent in 1994 to 11 percent in 2015. The share of the agriculture sector has also declined from 12 to 4 percent over the same period. In relative terms, most growth occurred in public sector services over the past two decades. Private investment levels, averaging about 15 percent of GDP in recent years, have been low and concentrated in low productivity activities less affected by political risk. Palestinian exports are focused largely on low value-added products and services, and their share in the economy has been low and stagnant at 17 to 18 percent. The substantial amounts of financial assistance from the international community received over the last two decades have so far helped mitigate the impact of the restrictions on growth, but aid has significantly declined in recent years (from 32 percent of GDP in 2008 to about 6 percent of GDP in 2016) and cannot continue to substitute for lack of progress in the contribution of the private sector to growth, fiscal revenues, and jobs.

14. **Since the 2014 war in Gaza, the economy has grown slowly, driven by unsustainable factors.** The severe economic impact of the war pushed the Palestinian economy into recession in 2014. Since then, the economy has rebounded with real GDP growth reaching 3.5 percent in 2015 and an estimated 4.1 percent in 2016. Drivers of the recent growth, however, are not sustainable. The latest figures by the Palestinian Central Bureau of Statistics (PCBS) show that growth in the Gaza Strip reached 7.7 percent in 2016 driven by a surge in construction activity following an increase in the amount of construction materials entering the Strip. In the West Bank, the economy is estimated to have expanded by 3 percent mainly due to an increase in household consumption financed by bank loans.

15. **The number of unemployed has been on the increase.** Over the last two decades, the number of Palestinians in the labor force increased by 800,000, while 500,000 additional formal jobs were created by the private and public sectors. As a result, the number of unemployed increased significantly, resulting in an extremely high unemployment rate, fluctuating between 20 and 31 percent over the post-Oslo period. This poses risks for peace and stability in the sub-region. Most recent data for the second quarter of 2017 show that the unemployment rate has recently been on the rise in both Gaza and the West Bank reaching an average of 29 percent. In the West Bank, it reached 21 percent by end-June 2017 despite an increase in the number of Palestinians residents working in Israel and the settlements. In Gaza, it increased to 44 percent mainly due to a deceleration in reconstructions activities.

16. **The Palestinian labor market suffers from structural problems of inclusion particularly for young people and women.** Currently, only 41 percent of those aged between 15 and 29 are active in the labor market, reflecting high pessimism regarding employment prospects. Despite a low participation rate, unemployment amongst this category reached 30 percent in the second quarter of 2017 in the West Bank and a staggering 62 percent in Gaza. Another concern in the Palestinian labor market is related to dramatic differences in labor force participation by gender. The male participation rate reached 72 percent in 2017 (not far from the average in other lower-middle-income countries), while women have long been underrepresented in the Palestinian labor market with recent participation rates of 19 percent—compared to an average of 39 percent in comparators. Anecdotal evidence indicates that mobility restrictions and cultural norms play a key a role in keeping women outside the labor market. Hence, most women are left with very limited opportunities in their localities discouraging them from joining the labor force. Data also confirms that higher education does not improve employment opportunities for women in the Palestinian territories, while it does for men. In fact, 50 percent of women holding bachelor degrees and higher certificates are unemployed compared to less than ten percent of women with lower educational attainment.

17. **The fiscal position is fragile, with constrained revenue collections and poor expenditure composition leading to a significant deficit and a large financing gap.** PA revenue potential is depressed by movement and access restrictions. For example, the inability of Palestinians to exploit economic opportunities in Area C, has been estimated by the Bank as reducing potential GDP by up to $3.5 billion per year, and potential revenue by up to $800 million a year. Low tax effectiveness in Gaza and weak revenue administration in the West Bank also affect the PA's revenue potential. On the expenditure side, the wage bill has been bloated by a combination of remuneration levels that are significantly higher than in the private sector for the majority of employees, and excessive employment in the security, health and education sectors. The pension system is also overly generous and unsustainable. The Bank forecasts the total deficit to be over 10 percent of GDP in 2017, which with declining donor support is leading to an estimated financing gap of almost $800 million. This poses a significant risk to the economy.

18. **Even though the Palestinian economy has made progress towards the WBG twin goals of eradicating extreme poverty and boosting shared prosperity in a sustainable manner, challenges remain both on poverty and inequality.** Poverty rates have been volatile during 2004-2011(the latest period where numbers are available), rising sharply during each period of conflict and recovering slowly thereafter. According to the basic needs poverty line, 25.8 percent of the population lived in poverty in 2011 (latest data available). Poverty rates in Gaza are higher and more volatile than in the West Bank. A GINI coefficient of 40.3 percent indicates a significant level of income inequality in the Palestinian territories.

Box 1: Priorities identified in the Bank's 2017 West Bank and Gaza Inclusive Diagnostic Note (IDN)

This IDN identifies three priority areas for the WBG interventions to support the PA which include: (i) business climate and jobs; (ii) institutions and service delivery; and (iii) mitigating macroeconomic distortions. These are areas where there are actions under the PA's control with the potential to strengthen economic and social outcomes—but where the impact would be much larger if the external constraint was also relaxed.

Regarding the business climate, Palestinian firms face formidable constraints to investment and job creation. Productive investments are inhibited by a patchwork regulatory climate which has been vulnerable to capture by vested interests. The PA is pursuing efforts to modernize the legal and regulatory frameworks related to economic and commercial legislation and reduce the cost of doing business. It is particularly important to continue to align the legal and regulatory environments in Gaza and the West Bank. Businesses report access to land as one of their major impediments. While this issue fundamentally stems from the lack of access to Area C, it has been made worse by delayed land registration reforms in the Palestinian controlled areas.

Regarding institutions and service delivery, the PA's understandable focus on public sector employment as a backstop for a weak economy and in meeting the wage bill to maintain stability has undermined the ability to create a performance culture in the public sector. Infrastructure investment, operation, and maintenance has become entangled in the dysfunctional intergovernmental fiscal transfers between the PA and municipalities (the "net lending problem"), with the result that these critical sectors lack creditworthy players who can attract private investment.

Finally, macroeconomic distortions relate to the spending composition of the PA (i.e. the dominance of recurrent spending), the structural deficit, and links between the balance sheet of the banking system and PA finances. The large share of the wage bill (and closely linked deficit to the pension system) crowds out the space for investment spending, especially investments with large positive externalities and social benefits which would be consistent with the Maximizing Finance for Development approach. The structural deficit endangers the fiscal stability of the PA and creates protracted payment risk for private sector entities dealing with the PA.

According to the latest available data, income of the bottom 40 percent of the Palestinian population has been growing at the same rate as the rest of the distribution. Hence, income levels of the less privileged have not become closer to those earned by the rest of the population, resulting in stagnant shared prosperity. Given that poverty is highly correlated with labor market outcomes, and with the unemployment rate on the rise in recent years, it is assumed that poverty levels in the Palestinian territories have increased since

2011, especially in Gaza. Job creation can play an important role in the fight to help eradicate poverty and boost shared prosperity in the West Bank and in Gaza.

19. **Given the stalled peace process and unresolved internal challenges, the near-term economic outlook for the Palestinian territories remains worrying with projected growth levels insufficient to improve living standards.** Under a baseline scenario which assumes that the current Israeli restrictions remain in place and there is no improvement in the domestic economic and political environment, real GDP growth of the economy is projected to reach 3 percent in 2017: 2.7 percent in the West Bank and 4 percent in Gaza. This growth level implies a near stagnation in real per capita income and an increase in unemployment. Moreover, downside risks remain significant. In Gaza, more setbacks to the reconstruction process are possible. The resumption of armed conflict cannot be ruled out and if this happens, the Gaza economy is expected to slip back into recession. Also, recent fiscal measures by the PA in Gaza to reduce its payroll and electricity related spending may have severe social implications that can lead to unrest. As for the outcome in the West Bank, it may be worse than expected if the decline in donor support exceeds current projections. Also, with the ongoing political tensions, clashes may arise again resulting in elevated security risks that could negatively impact economic activity.

Box 2. Special arrangements enable the World Bank Group's assistance to the West Bank and Gaza.

The Bank-administered Trust Fund for Gaza and the West Bank (TFGWB) finances grants to the West Bank and Gaza. The TFGWB was established in 1993 and replenished from the IBRD surplus, with each transfer requiring approval from the Board of Governors. The sixteenth replenishment, by $55 million, of the TFGWB was adopted by the World Bank's Board of Governors on September 8, 2017. The Replenishment Request provided details of how the TFGWB was established and its current arrangements.

IFC began investing after the Oslo accord of 1993. In 1997, MIGA established the West Bank and Gaza Investment Guarantee Trust Fund (TF), which offers both foreign and local investors coverage against political risks. To date, the MIGA TF has supported nine projects, which have created a significant number of direct and indirect jobs. The Fund's $26 million capacity has largely been committed and no new guarantee contracts can be issued after December 2017, as stipulated in the Fund's guidelines, unless it is extended. Since the West Bank and Gaza is not a member of MIGA, the agency can only engage there via donor-funded trust funds.

The Bank leverages development partners' complementary financing, including through: (i) the Palestinian Reform and Development Plan Trust Fund (PRDP-TF), which has provided budget support to the PA since 2008; (ii) the Partnership for Infrastructure Development Multi-Donor Trust Fund (PID MDTF), which was established in FY13 to improve the coverage, quality, and sustainability of infrastructure through financial and technical assistance to the PA in the water, urban development, and energy sectors; and (iii) the Government of Norway's contributions, channeled through the World Bank, in support of aid coordination activities and a number of economic and sector work outputs in the Bank's program since 2002.

D. Challenges to a Private Sector-Led Growth and Jobs Strategy

20. **Private investment levels in the Palestinian economy have been low at around 15 percent of GDP in recent years**, far below most middle-income economies. Moreover, it is concentrated in the less productive non-tradable sector, including internal trade activities and residential constructions. Foreign Direct Investment (FDI) inflows, which are positively correlated with productivity growth, have been only around 1 percent of GDP on average over the last decade. Raising domestic savings rates, broadening their base, and lengthening their term structure, would support investment in the productive sectors of the economy. Over the past decade, Palestinian private savings have been on a declining path (the lowest in MENA during 2000-2014). Since 2009, private savings as a percentage of GDP has been mostly negative (recording -7.9 percent in 2014).

21. **Long-lasting Israeli restrictions on movement, access and trade are important impediments to private sector activity and job generation in the Palestinian territories**. The World Bank estimates that alleviating restrictions imposed by the Government of Israel could raise real GDP by some 36 percent in the West Bank and 40 percent in Gaza by 2025. Restrictions on access to resources, particularly those in Area C, have severely constrained economic activity in the West Bank. The removal of Israeli restrictions on Area C could bring about additional cumulative growth for the West Bank economy equal to 33 percent by 2025. Restrictions on trade have severely limited export-led growth, critical for a small economy, and hence hampered development of the private sector. Most Palestinian imports and exports pass through Israeli ports, and incurred security delays can increase costs by an average of $538 per shipment. Relaxing the dual use list (list of goods destined to the West Bank or Gaza that can have both civil and military uses) would bring about additional cumulative growth of 6 percent to the West Bank economy by 2025, with a bigger impact of about 11 percent in Gaza. Lifting the blockade would open Gaza up for critical trade needed to rebuild its infrastructure and economy, and could lead to additional cumulative growth in the range of 32 percent by 2025 for the Gaza's economy.

22. **A weak domestic business climate is also a major obstacle for private sector activity and development.** Productive investments are inhibited by a patchwork regulatory climate which has been vulnerable to capture by vested interests. The West Bank and Gaza rank 140th out of 189 economies in the 2017 *Doing Business* report. Legal differences always existed between the West Bank and Gaza and have been exacerbated by different legislation enacted by the PA and Hamas since 2007, creating many internal inconsistencies. Given the severe land constraints, limited land registration and unclear property rights even within Palestinian-controlled areas are a major challenge for urban / housing and business development. Currently, only 30 percent of land in the West Bank is registered with a clear title. Although access to finance is not seen as an impediment for large firms, it continues to be a challenge for small and medium Enterprises (SMEs) and informal firms. SMEs suffer from power cuts and costly back-up arrangements to secure critical basic services, particularly in Gaza. The World Bank estimates that Palestinian Authority-led reforms could generate additional cumulative growth in the range of 24 percent in the West Bank by 2025, and even higher at 30 percent in Gaza due to a lower base effect.

23. **The workforce does not offer the skills that businesses want, with high unemployment among educated youth and women.** The education system is failing to match skills to the needs of the labor market. Universities in the West Bank and in Gaza do not produce graduates well equipped with skills required by the private sector, and developing skills of the existing workforce are critical for increasing the productivity and competitiveness of businesses. Youth face serious employment challenges upon graduation from the education system. Unemployment rates among graduates from both university and secondary education institutions are above 60 percent at the age of graduation (23 years old for those with university and 18 for secondary education diplomas). In the West Bank, the proportion of jobless male youth reaches 33 percent by age 23 (with 20 percent unemployed and 14 percent inactive). The situation is severe in Gaza where unemployment reaches 35 percent among male youth by age 26. The overall rate of female employment is 19 percent, which is remarkably low even when compared to the MNA average of 22 percent in 2014, one of the lowest regional rates in the developing world. The slow education to work transition in the West Bank and Gaza is symptomatic of the labor market that is characterized by the low absorptive capacity of the private sector and little access to job opportunities abroad. The gap between working-age male and female labor market participation rates over the last decade has widened and reached 54 percent in 2015.

24. **The Palestinian economy is dependent on regional trade.** Comprising 57 percent of GDP, imports are almost 3.2 times the volume of exports, which comprised 18 percent of GDP in 2016. This implies an external trade deficit of close to 40 percent of GDP—one of the highest in the world. The absolute majority of trade is concentrated with a single trading partner—Israel. Israel accounts for 63 percent of imports and 79 percent of exports for the West Bank and Gaza. A gravity model of trade between the

Palestinian economy and the rest of the world suggests that based on its size, income, and proximity to large markets (e.g., Israel, Europe and the Gulf States), Palestinian exports could be twice their current levels.

25. **Imperfect institutional frameworks and inadequate financial discipline are a major obstacle to service delivery and have been discouraging private sector participation.** Stronger operational and financial performance is needed of institutions, including for front line service providers (i.e., local government units) such as municipalities, joint service councils and village councils, to make them sustainable. The private sector lacks confidence in the transparency and stability of government policy and in the financial viability of front line service providers and their accounting and financial management standards. Coordinated efforts at the central level have yet to be implemented to correct the current inter-governmental fiscal architecture. Current incentives continue to encourage the accumulation of inter-agency arrears and cross-subsidies that divert resources from revenue-generating basic services. Such practices undermine the private sector's trust to invest in infrastructure services with the potential to be commercially viable.

26. **Inadequate resources such as water and power supply and deficiencies in the institutional framework regulating these sectors are holding back economic development.** The Oslo agreement severely limits the population's access to water in the West Bank. Incomplete water sector reform and distorted financing arrangements aggravate the prevailing water crisis, resulting in increasing technical and commercial losses. Citizens and business face growing water shortages, particularly during the summer months and in marginalized areas. Improving water security also requires more reliable and lower cost energy solutions, including solar power, natural gas, and greater electricity supply from the Israel Electric Corporation. Independent power providers (IPP) will demand reliable commercial agreements with sufficient assurances that their cost would be covered. This will require considerable improvement in financial discipline to manage cash flow in the sector. In Gaza, the power plant operated with imported diesel is inefficient, has never recovered from the damage caused during the wars, and the distribution system for imported power has deteriorated. Any efforts to expand, develop, or simply maintain existing businesses would require substantial investment in both the water and energy sectors.

Box 3. Creditworthiness and payment discipline along the electricity supply chain

Palestinian electricity distributors have a poor payment record to their main supplier, the Israel Electric Corporation (IEC). However, a September 2016 agreement between the GoI and the PA settled past debt and paved the way for improvements in the energy sector. A key determinant of the success of the new electricity agreement will be the ability of the Palestinian Electricity Transmission Company Ltd. (PETL) to pay for 100 percent of the power purchased from IEC. In turn, electricity distribution companies (DISCOs), local government units, and end consumers will need to follow-suit along the value chain. This requires major cultural and behavioral change and a strong commitment from the PA and PENRA to increase accountability and enhance transparency in the electricity revenue cycle.

27. **Financial sector bottlenecks are impeding the utilization of local banking and non-banking services.** Banks are unable to transform short-term customer deposits into longer-term loan assets, stifling the ability of borrowers to invest in infrastructure. With regards to bankruptcy and debt settlement issues, the West Bank and Gaza is among countries ranked last on the Ease of Doing Business Resolving Insolvency indicator. The financial sector is plagued by excess liquidity and cash accumulation, as well as microfinance and financial inclusion issues.

E. Implementation Experience of the Previous Assistance Strategy

28. The World Bank Group's previous FY15-16 Assistance Strategy for the West Bank and Gaza was discussed by the WBG Board in October 2014.

29. **Institution strengthening in support of service delivery has been the central plank of World Bank assistance.** The World Bank has helped build public financial management (PFM) capacity from a low base and improve some basic service delivery at the local level, but it did little to help build an enabling environment for private sector development. The strategy emphasized public financial management to ensure that fiscal space was created to deliver public services, and strengthen local governments to make them more accountable and responsive in delivering services. Support for PFM was essential to assure donors that the resources were well spent and for them to continue their support. However, despite a gradual but continuous improvement in institution building and governance between 2003 and 2010, the West Bank and Gaza's performance has worsened since 2011 in key areas such as government effectiveness, voice and accountability and regulatory quality based on the Worldwide Governance Indicators.

30. **The World Bank started supporting the private sector during the previous Assistance Strategy's implementation period.** Support for the private sector was largely the IFC's domain until 2008 when the Bank began a more focused analysis of constraints to private sector development, while the MIGA-managed Trust Fund, established in 1997, has become increasingly active since 2010. The World Bank approved a project (*Government Services for Business Development*) in 2013 for the Palestinian

Box 4. Results of the previous Assistance Strategy

The previous Assistance Strategy has achieved mixed results.

Institutional reforms supporting front line service agencies were more successful than those at the center of the PA. Municipalities improved their performance against 16 good governance performance indicators, including in the application of social accountability measures. On the other hand, there was delay in preparing the PA's financial statements, the rate of land transactions processed by the Palestinian Land Authority's offices was much slower than anticipated, and the PA's single portal public procurement website was not functional.

The previous program's interventions to support private-sector-led growth that increases employment opportunities were modest, but had a positive impact. Jobs for women were created in marginalized rural communities along the Abraham Path, the targeted number of MSME borrowers was reached and MIGA supported job-creating industries by guaranteeing projects against political risks.

The progress of infrastructure projects in Gaza receiving IFC and World Bank support was slow. The reconstruction of the electricity distribution network damaged by the 2014 war in Gaza experienced significant implementation delays. The expansion of telecom services did not fully materialize due to Israeli delays in authorizing the cellular spectrum. The North Gaza sewage treatment plant is not yet operational, and wastewater from the North Gaza Strip remains untreated.

Ministry of National Economy to improve the business environment. However, due to challenges in the institutional framework within the project's operating environment, it was closed in 2016. The WBG then supported the PA's private sector development policies through its development policy grants (DPGs), supporting actions such as a new leasing and secured transaction laws and a movable assets registry. In the realm of public-private partnerships (PPP), the *Southern West Bank Solid Waste Management Project* assisted local authorities in the Hebron and Bethlehem governorates to contract operation of a newly constructed sanitary landfill to a private company with specific performance benchmarks against which payments were released. The ongoing *Municipal Development Project*, now entering its third phase, has the objective to assist municipalities achieving creditworthiness to mobilize commercial financing and more actively engage the private sector in municipal service delivery.

31. **Falling levels of overall aid and increasing unemployment levels highlight the urgent need to do more to establish the enabling conditions for the private sector to flourish and find new ways of**

leveraging resources. A lesson from the WDR on Fragility, Conflict and Violence was for the international community to assure less volatility in financing. Yet, between 2014 and 2016, the estimated bilateral and multilateral aid to the West Bank and Gaza decreased from $3.4 billion to $2.8 billion, as reported by donors and multilateral agencies. This mirrors the decreasing trend for direct budget support (from $919 million in 2014 to $579 million in 2016) and for humanitarian aid (from $927 million in 2014 to $646 million in 2016), as stated by the Palestinian Ministry of Finance and Planning and the Financial Tracking Service, respectively. Donors' support channeled through the World Bank is also declining. The Bank's current investment portfolio of $211.8 million (from the TFGWB, the World Bank-administered State and Peace Building Fund, and the Global Partnership for Output-Based Aid) is complemented by donor co-financing and parallel financing amounting to less than twice the amount of World Bank assistance, down from four times at the beginning of the previous strategy's period (November 2014). The Palestinian Recovery and Development Plan Multi-Donor Trust Fund channels donors' budget support (recently from Australia, France, Japan, Norway, the United Kingdom, and Kuwait) to the PA to implement policies supported by the Bank's DPG. Donors' budget support channeled through this trust fund declined from an average of $200 million annually during 2010-13 to $157 million in 2014 and $60 million in 2016. New contributions to the Partnership for Infrastructure Development Multi-Donor Trust Fund have slowed down since a peak after the 2014 war in Gaza.

32. **The World Bank Group's analytical and advisory work has remained a core part of the strategy and has been playing an important role in highlighting critical constraints to improving economic performance.** The consultations during the preparation of this strategy have highlighted that WBG's previous analytical and advisory work supported agenda setting and was valued by all stakeholders. A wide range of advisory services and analytics (ASAs) were undertaken, with a mix of reports, policy notes, and technical assistance that included:

a) Reports to the Ad Hoc Liaison Committee (AHLC), which covered economic developments and included specific assessments of the revenue sharing arrangements between the Palestinian Authority and the Government of Israel, and the need for the PA and GoI to facilitate increased private sector investment to meet future energy demands.

b) An assessment of the relative impact that changes in quantitative restrictions and domestic reforms could have on the performance of the economy.

c) A telecommunications sector assessment that quantified the contribution of telecommunications as a source of economic growth and job creation if restrictions on the access to spectrum were eased.

d) A review of trade policy with immediate steps to reduce the burden of transaction costs.

e) Technical assistance for business environment reform supported the preparation of some elements of a new companies' law, business process reengineering, and regulatory streamlining.

f) A public expenditure review that offered specific policy measures to enhance value for money for public expenditures in the areas of civil service employment, health, pensions, and inter-governmental fiscal relations, while also reducing the size of the fiscal deficit.

g) Institutional arrangements to improve efficiency and accountability of basic service provision, including water and sanitation services.

h) A study on the causes, and possible remedies, to low female labor force participation.

i) A household survey to assess service delivery outcomes across key public services in all local authorities in the West Bank and Gaza—and to recommend improvements for the performance of local governments.

j) The Bank's *Electricity Sector's Contribution to Net Lending* and *Securing Energy for Development* laid the foundation for the PA's reforms that are opening the door to private investments in infrastructure.

k) An SME taskforce—established with the organizers of the SME banking conference, including the Palestine Monetary Authority—resulted in regulatory incentives to increase lending to SMEs.

l) IFC's Women's Entrepreneurship Program (Mini-MBA) that provided the training tools and methodology and developed the concept of Non-Banking Financial Services (NBFS) through banks.

m) IFC's risk management and strategic engagement with *Faten*, a microfinance institution, supported increased outreach to new market segment—mainly small businesses—and the establishment of a risk management function.

n) The enactment of the leasing and secured transaction laws—supporting increased access to finance for SMEs—which contributed to progress reflected in the 2018 Doing Business indicators.

F. PROPOSED PROGRAM

Box 5. Guiding principles of World Bank Group Engagement

The WBG exercises a technical mandate in an intensely political environment. As it has since 1993, the WBG program will continue to focus on laying the foundation for a future Palestinian state by relying on its comparative advantages—grasp of longer term development issues, convening influence with development partners and private sector, and technical expertise in sectors. The WBG's apolitical mandate helps while coordinating with the GoI, and in the upcoming strategy period the Bank intends to further strengthen its relationship with GoI.

The MNA regional strategy will guide the program. The WBG will help level the playing field for the private sector to participate in the anticipated activity, and strengthen institutions so that resources are freed up to deliver services and protect the most vulnerable. The program will support Palestinian integration into regional initiatives and markets to help create jobs. These regional initiatives may include supporting cooperation the PA has with the GoI if it means lessening constraints and creating increased opportunities for the Palestinian economy.

Carefully calibrated donor coordination will be especially important to the achievement of results in the upcoming strategy period. Recent steps to strengthen donor coordination provide an opportunity to improve communication between the PA and donors to leverage donor resources and improve the effectiveness of sector interventions. The WBG has led a reform of the local aid coordination systems that had become cumbersome and ineffective as a tool for PA and donors' decision making. The new systems, being introduced in mid-2017, have the potential to bring together the PA, donors, and private sector and civil society representatives in smaller sector working groups to address the strategic challenges faced by each sector. In addition, the Bank and the UN have established a forum for strategic aid policy discussion amongst donors. Resources from the IBRD-funded Trust Fund for Gaza and the West Bank are highly constrained and working through these new coordination systems provides an opportunity to better leverage resources for priority interventions.

33. The proposed program will represent a major shift of emphasis towards supporting the growth of private sector activity, including in job creating enterprises and infrastructure. This will entail support to reforms essential to the emergence of private sector activity (Pillar 1), as well as to the identification, structuring and financing of transactions, and providing mitigation of risks and blended finance essential to their realization (Pillar 2). Finally, the program will seek to address the needs of the vulnerable and strengthen institutions for improved citizen-centered service delivery (Pillar 3). Going into the new strategy period, only 2 percent of the World Bank's own resources, among its current portfolio of 21 projects, are directly supporting the emergence of private sector activity, while 19 percent of the Bank's resources are supporting upstream institutional reforms that will improve the private sector enabling environment and attract private capital. We expect that by the end of FY18, 16 percent of the Bank's resources will be directly supporting the emergence of private sector activity and 30 percent supporting upstream institutional reforms that will improve the private sector enabling environment. Closure of existing projects in the portfolio and entry of new projects supporting above pillars such as the proposed *Innovative Private Sector Development Project* (FY18), will further align the portfolio with the private sector focus of assistance. Future projects in the municipal and water sectors where the Bank is very active will be selected carefully and only those

aligned to the principles of Maximizing Finance for Development will be supported. The World Bank will continue to analyze sector issues in areas where grant financing will need to be reduced.

Box 6. Implementing an augmented focus on facilitating private sector development

The proposed program's strengthened focus on job generation will be achieved through several channels.

- Institution strengthening efforts will continue to be a significant part of the World Bank Group's program. But its purpose—oriented to the Maximizing Finance for Development approach to mobilizing private finance for development—will be to address market failures and create space for the private sector's entry.
- Analytical work will play a significant role in the Assistance Strategy's pivot to support the private sector. Building on the analysis of growth and job prospects and the trade policy study, value chain analysis and exploration of innovative private sector financing options will help direct development partners' assistance. Technical assistance for Doing Business indicators, including at the local level, will address bottlenecks while a proposed *Improving Public Financial Management* project will directly support confidence-building actions by the PA.
- The Private Sector Enhancement Facility discussed under Pillar 2 will use the Bank Group's own and donor contributions for risk mitigation and blended finance instruments that can leverage private investments.
- The Bank's DPG, which leverages significant donor funding through the Bank-administered PRDP Trust Fund, will support the PA's policy actions to strengthen the operating environment for businesses (movable assets registry, Companies Law) and upstream reform of public institutions that provide confidence to the private sector (ensuring the financial viability of energy and water sector entities). The DPG is proposed in the amount of $30 million to channel more funds towards private sector development efforts.
- The Bank's investment program will further strengthen support to improving the operational and financial performance of basic public service provision to ensure citizens and private companies receive key services and scarce public resources are spent in the most efficient way, and that improved financial discipline can allow sustainable private investments to develop.
- In contrast with the previous assistance strategies' two-year horizon, the proposed Assistance Strategy will have a four-year horizon to enable the direction change. After two years, at the mid-point of the strategy period, there will be a performance and learning review of the program.

34. **The strategy outlined below is aligned with the Palestinian National Policy Agenda (2017-22) which focuses on investing in human capital, "Putting Citizens First," and on private sector development as the key to job creation and economic growth.** The first pillar focuses on stimulating an environment for dynamic and inclusive private sector growth for job creation, while the second pillar aims at accelerating the realization of specific private projects. The third pillar will help strengthen public institutions with a sharper focus on assuring that the most vulnerable are targeted and protected, and that public institutions are strengthened through improved accountability, transparency, and performance. 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.

Pillar 1. Setting the conditions for increased private sector investments and job creation

35. **The overarching objective under Pillar 1 will be to create conditions that enable greater private sector activity and job creation including through sectoral reforms and institutional strengthening.** To this end, the World Bank Group will collaborate across five areas of engagement:
(i) reform of the business environment; (ii) building skills for the private sector's labor market needs; (iii) improvements in trade and increased ties to regional market; (iv) sectoral and institutional reforms for encouraging private investments in infrastructure; and (v) financial sector reforms for increased access to finance and markets.

Table 1. Pillar 1 outcomes and areas of engagement

Proposed Outcome	**Private sector investments and jobs increased as a result of upstream reform**
	1. Business environment reform
	2. Building skills for the private sector's labor market needs
	3. Improved trade and increased ties to regional markets
	4. Sectoral and institutional reforms for encouraging private investments in infrastructure
	5. Financial sector reforms for increased access to finance and markets

1. Business environment reform

36. Cumbersome policies and regulations stifle business enterprise and innovation. Decisive and strategic reforms can help improve the enabling environment for investors and entrepreneurs.

37. **Improvements of the business environment will be sought through the World Bank's financing, investments, technical assistance and IFC advisory services.** Through the proposed *Fiscal Stability and Business Environment Development Policy Grant ($30 million)*, the World Bank is helping the Ministry of National Economy (MoNE) establish and implement a moveable asset registry, and helping the Ministry of Health and MoNE amend the Law of Craft and Industries of 1953 that will modernize and improve the business licensing system. The ongoing *Integrated Cities and Urban Development Project ($5 million)* provides strategic planning assistance to foster private sector development in the urban agglomerations of Hebron, Nablus, Bethlehem, Ramallah, and Gaza City. Building on the Bank's Business Environment Reform TA, the proposed *Innovative Private Sector Development Project* will target reforms to business licensing and construction permits in the West Bank and Gaza Through the same operation, the World Bank will also engage in new diagnostics that rigorously assess MSMEs' access to finance issues, determine the effect that liquidity, financial sector technical capacity, uncertainty from political constraints, electricity blackouts, the regulatory environment, and uneven competition (i.e., arbitrariness and capture) are having on MSMEs. The World Bank's technical assistance will further assist the PA to identify costs of the current land registration system and opportunities from reforming the land administration sector.

2. Building skills for the private sector's labor market needs

38. The current education system does not offer the training that businesses require, which is a key reason for the high unemployment rates among educated youth and women. Marked gender differences exist in labor market participation even though females outperform males in their educational outcomes.

39. **The World Bank will scale-up its support to the PA in developing a Palestinian workforce that meets the needs of the private sector.** The Bank's ongoing *Finance for Jobs* series of projects is piloting a development impact bond (DIB) to incentivize private investment for enhancing the skills of the workforce for improved job outcomes—not only more jobs, but higher quality, sustainable jobs. The WBG and the PA will act as outcome funders of the DIB, paying the private investors back for their financing,

including a return on their investment, if the specified development outcome is achieved for the targeted 2,000 youth (18-29 years old) that enter the training program.

40. **Analytical work is planned to explore and identify untapped opportunities for job creation, especially among youth.** The *Additional Financing for the Education to Work Transition* builds on the progress of the Quality Improvement Fund to continue combating the mismatch in skills of recent university graduates compared to the skills demanded by employers. Additionally, it will help create strategic partnerships between tertiary education institutions and employers, as well as strengthen the development of entrepreneurship and soft skills that would ultimately improve the employability of the graduates.

Box 7. The Future of Work for Women in the West Bank and Gaza

Start-ups have the potential to become a dynamic source of employment for young workers, including women. Gaza Sky Geeks, a seed accelerator that was founded in 2011 with a $90,000 grant from Google, provides mentorship and support to start-ups in Gaza to help grow the local tech industry. Fifty percent of the start-ups mentored are female-founded with a target now set to 80 percent in an effort to compensate for the current gender gap in the tech world. To further increase the number of girls and women, Gaza Sky Geeks offers small transportation stipends to enable access to the incubation office. The organization supports efforts to introduce young women to coding and web development skills—all with the hope of integrating even more women into what is becoming a rapidly growing industry across the Palestinian territories.

Worldwide, the solar photovoltaic (PV) sector remains the largest renewable energy employer. The recently approved *Electricity Sector Performance Improvement Project* aims to increase women's awareness about productive uses of solar power. With the support of ESMAP, the project will promote women's entrepreneurship and other types of income-generating activities by providing business, technical solar system repairs skills and access to credit training to female-head of households and SMEs benefiting from the rooftop solar program to be piloted as part of its component 3.

Similar prospects for jobs creation are also being explored across Bank operations. The Country Gender Action Plan for West Bank and Gaza (C-GAP FY18-20) assesses how projects are addressing gender and outlines concrete steps for moving the agenda forward to increase female labor force participation rates and level the economic playing field between women and men.

41. **The World Bank Group will, in addition, focus on supporting the emergence of a stronger ecosystem of entrepreneurs, including women.** The proposed *Innovative Private Sector Development Project* will explore ways to target support to women entrepreneurs and social enterprise development. Considering the abundance of Palestinian unemployed engineering and technology graduates, the development of outsourcing hubs that would create short to medium-term job opportunities for youth could improve access to markets and skill-building. As part of the ongoing *Abraham Path Project*, more women will be trained as tour guides, potentially linking female tour guides with female tourists, who represent slightly more than half of the tourists currently visiting the Path. With the support from the *Finance for Jobs I Project*, the entrepreneurship ecosystem matching grant will support early stage startups and funds in mobilizing venture capital investment, while improving the number and quality of investment-ready entrepreneurship initiatives. Through IFC's *Banking on Women* investment and advisory, women entrepreneurs will be able to get training and access collateral-free loans through Bank of Palestine's *Felestinya* program. IFC's investment in the early venture capital fund will help support and expand the business incubators and strengthen the ecosystem to develop young Palestinian entrepreneurs and provide the needed financing and investment tools. IFC will also continue its support to the *Ibtikar* fund for youth entrepreneurs, which is one of the only Palestinian funds bridging the gap between early and middle stage growth.

3. Improved trade and increased ties to regional markets

42. **Given the small size of the Palestinian economy, exports must be one of the key drivers of growth of the private sector.** On the policy side, the World Bank will support the PA in helping put in place trade policy and administration arrangements conducive to private sector activity and job creation, following up on the findings of the World Bank's Trade Policy Note. IFC will continue to help facilitate trade by working with local banks participating in IFC's *Global Trade Finance Program*.

43. **Regional cooperation will also have a major impact on the private sector.** The World Bank Group will support the PA in developing regional linkages. Integration in regional markets, trade with neighboring countries, and technical cooperation with the GoI will help the Palestinian economy and generate private sector opportunities.

44. **The Palestinian Authority relies heavily on Israel for both electricity and fuel imports (more than 95 percent of overall supply).** The ongoing *Electricity Sector Performance Improvement Project* and *Energy Sector Programmatic TA* help further develop and implement the power purchase agreements between the Palestinian Energy Transmission Company Limited (PETL) and the Israeli Electric Corporation, and set the institutional and financial discipline conditions for its success and for the emergence of private IPPs.

45. **With major water supply and sanitation infrastructure deficits and inefficiencies, water scarcity is a major concern.** To address these challenges, water sharing agreements are under development among Israel, Jordan, and the PA. The World Bank and IFC will continue to support an ongoing and highly innovative project among the PA, Israel, and Jordan that would create fresh water in Jordan by desalinating Red Sea water and transferring the brine to the Dead Sea, generating private sector opportunities. An MoU signed in December 2013 proposes the sale of 30 million cubic meters of water each year by *Mekorot* (the Israeli national water company) to the Palestinian Water Authority. Additional water imports from Israel and increased private sector water purification capacity will be supported to address the Gaza water crisis in the short to medium term.

46. **Business' access to regional and international markets will be enhanced**. There is potential for the entrepreneurship ecosystem to have better linkages to the Jordanian ecosystem, including through Information and Communications Technology (ICT); the World Bank Group will look for opportunities to support such links. The early stage venture capital fund supported by IFC is expected to facilitate regional linkages. Under the proposed *Innovative Private Sector Development Project*, the World Bank would explore interventions that could catalyze Palestinian business linkages with Israeli businesses that possess strong knowledge, technology, and access to the Israeli ecosystem. Such linkages could facilitate technology and skill transfer to the local population.

4. Sectoral and institutional reforms for encouraging private investments in infrastructure

47. Inadequate financial discipline in the public sector has been a major obstacle to private sector participation at all levels of the government, including for utilities. The lack of creditworthiness of public sector counterparties, or broken revenue streams from a distorted or dysfunctional collection system with low citizen willingness to pay, is seen as a major risk for potential investors, notably in the development of private sector infrastructure projects.

48. **WBG support to public financial management of the PA is aimed at improving the confidence of the private sector for making investments in the West Bank and Gaza.** The World Bank, in coordination with the IMF, will continue to contribute, through regular policy dialogue, development policy and investment operations and systematic ASA, to an improvement of the PA's fiscal management and PFM. Health sector expenditures will be an important focus, particularly medical referrals abroad. Supported by the ongoing *Health Sector Resilience Project*, the Ministry of Health will renegotiate

contracts for services with outside providers. In pensions, the Bank will work with the PA towards more active management of expenditures—currently amounting to 3 percent of GDP—thus freeing up resources for service delivery. A project under preparation, funded from the TFGWB along with trust fund resources from the EU and Denmark, will help improve the public financial management practices of the Ministry of Finance and Planning.

49. **Under the program, utilities will also be strengthened and their roles and functions clarified to increase their effectiveness, financial discipline, and ability to attract private investments.** In the water sector, a National Water Company will be established and supported by the proposed *Water Sector Development Program* (WSDP) which will target improving water utility performance, including through performance contracts with private operators. In the energy sector, the ongoing *Electricity Sector Performance Improvement Project* (ESPIP) seeks to reinforce the Palestinian Electricity Regulatory Council (PERC). The newly established PETL will need to be considerably strengthened to operate as a single buyer and system operator—purchasing power from regional suppliers, and selling power to the DISCOs based on tariffs set by PERC. For the new power purchase agreement to be implemented successfully, and for sustainable and competitive IPPs to emerge, there is a need for much more disciplined cash management systems in the energy sector in PETL, DISCOs and municipalities. The World Bank's forthcoming *Fiscal Stability and Business Environment DPG* supports strengthening of both front-line service providers and apex-level institutions in the water, energy and health sectors—and additional technical assistance will be provided. Support would be provided to design cash flow management arrangement in the energy sector, escrow and guarantee arrangements and standardized bidding processes for IPPs.

50. **The World Bank Group will also seek to enhance the financial sustainability of municipal services and improve municipalities' financial management systems and processes—a prerequisite for attracting private sector activity.** Transparent and regular fiscal transfers from the apex level to municipalities will improve fiscal stability and reduce net lending. The Bank is supporting an assessment of compatibility between planning, budgeting and accounting by municipalities. The Municipal Development and Lending Fund will gradually evolve into a financial intermediary that facilitates sustainable financing for larger, multi-year municipal investments. Its capacity will develop to assess the credit-worthiness of municipalities that would facilitate access to more commercial financing in the future. The TA to assess the potential of municipal borrowing is currently underway and will make policy recommendations on how to strengthen the regulatory environment and institutional structure to help selected municipalities gain access to the municipal credit market.

51. **World Bank Group assistance with structuring PPPs can help address the significant investment needs at the municipal level.** A review of municipal PPPs indicated strong interest from the private sector, but also the lack of a coordinated and well-managed investment environment—combined with a poor track record of mostly failed ventures, contributing to investor hesitation. Inadequate financial discipline in the public sector has been a major obstacle to private sector participation, whether for private financing or for PPPs at all levels of the government and also for utilities. The successful *Southern West Bank Solid Waste Management Project* at Al Minya Landfill is a notable exception that offers lessons on how collaboration across the World Bank Group can provide integrated solutions to cost-effective service delivery and citizen's participation in monitoring. Under the recently approved *Third Municipal Development Project*, the Bank supports municipalities to partner with private companies in infrastructure projects and service delivery whenever there is commercial viability that can also meet the needs of the people. A PPP framework for municipalities will be developed. The World Bank Group would provide TA support through relevant Bank and IFC Advisory on the development of a PPP framework and the drafting of agreements (including solid waste management, markets, water and renewable energy). IFC and World Bank support would be deployed in a complementary manner to maximize the impact.

5. Financial sector reforms for increased access to finance and markets

52. **World Bank Group support will help resolve financial sector bottlenecks that prevent it from increasing its contribution to private sector development.** Addressing local banks' ability to transform short-term customer deposits into long-term loan assets will address one of the key challenges faced notably by infrastructure investors—that the tenure period on loans in the local banking sector is far too short for the long-term nature of these investments. IFC will deepen its investment and advisory engagements in the banking and microfinance sectors, increase access to finance for MSMEs, with a focus on financial inclusion and women-owned businesses. IFC advisory will support the Palestine Capital Markets Authority and the PA's Ministry of National Economy in the leasing and secured transaction laws to create a more conducive environment for access to finance to MSMEs. IFC will also continue supporting the Corporate Governance work with the Palestine Capital Markets Authority. As part of IFC *Creating Markets Advisory Window*, IFC will seek to support the Palestinian banking sector to expand its product offerings (e.g. Islamic finance) as well as strengthen microfinance as part of the PA's new strategy for the sector. The World Bank is supporting the first PMA anti-money laundering / combating the financing of terrorism (AML / CFT) risk assessment. This will guide policy makers to better identify and address risks and threats to the financial sector. At the same time, the World Bank Group will assist the Palestinian banking sector and firms to mitigate a potential negative impact from de-risking actions by Israeli banks.

Pillar 2. Private Sector Enhancement Facility to realize private sector investments

53. The reforms supported under Pillar 1 above will provide the basis for stronger private sector activity by helping improve the business environment. Over the short term, the WBG will continue to use the existing funds administered by the World Bank, IFC and MIGA and leverage them to support the new strategy and complementarity approach (track 1). In addition, direct support will be needed to help structure bankable projects and mobilize investments. Following Board discussion of FY18-21 Assistance Strategy, the WBG will therefore launch a new Private Sector Enhancement Facility (PSEF) and further define its structure, operations, and governance, including the potential role of MIGA and IFC (track 2).

54. **The PSEF will provide political risk mitigation and other blended finance instruments essential to reach bankability of projects with job generating potential in the high-risk context of the West Bank and Gaza.** The PSEF will include four key components: (1) a project structuring component to help structure a pipeline of private projects and PPPs; (2) a political risk insurance window; (3) a blended finance window; and (4) an investment co-financing grant window. To underline its commitment to the PSEF, the Bank would allocate seed funding to the PSEF, to be used for political risk insurance and blended finance components. The World Bank would propose to transfer $20 million from the TFGWB to the PSEF during FY18 and could consider additional allocations in subsequent years. The objective would be to mobilize additional donor funding alongside the World Bank's contribution. The PSEF would be scalable; should the peace process progress and additional funding be made available, these funds could be channeled, in part, through the proposed political risk insurance, blended finance, and investment co-financing windows to accelerate private sector response, allowing other major projects with private sector participation to be undertaken. While IFC's experience has so far been to achieve a 1:3 leverage ratio between donor funding and private investments, the aim would be to leverage private investments in a 1:5 ratio under the PSEF as the facility is scaled-up.

Table 2. Pillar 2 outcomes and areas of engagement

Proposed Outcome	**Financing mobilized for specific investments and transactions structured**
	1. WBG support for mobilizing investors and structuring specific transactions.
	2. Political risk insurance
	3. Blended finance
	4. Investment co-financing

1. <u>WBG support for mobilizing investors and structuring specific transactions</u>

55. **Under both tracks 1 and 2, the WBG will collaborate in a seamless way to assist in structuring private projects and mobilizing private investment and co-financing.** In the energy sector, the World Bank, working closely with other partners, will support upstream reforms with PETL, municipalities, and distribution companies that will enhance financial discipline and credit-worthiness of counterparts, while IFC will help structure specific demonstration transactions leveraging these reforms. For example, IFC would engage in a PPP advisory to support the Palestinian Energy Authority alongside World Bank support to municipalities and joint service councils in order to develop three solar utilities up to 5 MW each for tendering to the private sector. Beyond solar, IFC will be involved as adviser and arranger of some of the most important opportunities in gas development and large Gas IPPs like the Jenin project. It will also help structure projects in water, desalination, sanitation, manufacturing and municipal PPPs. For all these transactions, IFC will help design appropriate risk allocation, and help mobilize private sector interest through proactive outreach with local and international investors. In this way, IFC will be the "connector" between the funds available from investors (local and international) and opportunities on the ground. Complementary to IFC's role is *Shurook*—implemented by Office of the Quartet—established to identify commercially viable, core infrastructure projects and develop them until they are investor ready. IFC would link to *Shurook* as well as investment funds that focus the private sector on specific opportunities.

2. <u>Political risk insurance</u>

56. **A key constraint to the realization of transactions will continue to be the perception of high political risk to which private projects are exposed.** Risks of highest concern include expropriation, war and civil disturbance, transfer and convertibility, and counterparty risk with public institutions**.** The availability of insurance can increase the number of feasible projects by allaying key concerns of investors, while also reducing the overall cost of financing of these projects**.**

57. **Under track 1, political risk insurance would continue to be made available for private investors through the trust fund administered by MIGA**. A $26 million trust fund administered by MIGA was established in 1997 to mitigate political risk for investors in the West Bank and Gaza (see Box 8 below). It has been highly successful in facilitating projects in the West Bank and Gaza, including in pharmaceuticals, food and beverages, and renewable energy, but is now nearly fully committed, although the funds can be re-used once guarantees expire or are cancelled. MIGA is seeking extension of this trust fund, which otherwise would be scheduled to close end-December 2017.

58. **Under track 2, the new PSEF will be informed by lessons learned from the experience of the MIGA-administered trust fund.** The PSEF will provide political risk insurance for projects that have a positive development impact in the West Bank and Gaza. The scope of the PSEF in this regard would be to cover investors' equity against the risks of expropriation, war and civil disturbance, transfer and convertibility restrictions, as well as breach of contract (including on termination amounts), including for infrastructure projects, such as solar IPPs, where the payment risks are perceived as significant by investors.

Box 8. The West Bank and Gaza Trust Fund administered by MIGA

The Trust Fund was established in 1997 with contributions from Japan, the European Investment Bank (which exited in 2011) and the PA (supported by an IDA credit). The total Trust Fund size is $26 million. It has offered both foreign and local private sector investors insurance against non-commercial risks inherent to their investments, including expropriation, transfer restriction, breach of contract, and war and civil disturbance. Small and medium-sized enterprises supported by the Trust Fund have been mostly in the agribusiness and manufacturing sectors. Their investments have contributed to job creation, including for women. The Trust Fund is now fully committed and its term would expire at the end of December 2017, unless extended. The following are examples of projects supported by the Trust Fund.

In agribusiness, the Trust Fund insured Nakheel Palestine for Agricultural Investment, a plantation of Medjool dates in Jericho in the West Bank. This project is creating 250 direct employment opportunities (40 percent women) and 300 indirect jobs. Nakheel is exporting two-thirds of its produce.

In manufacturing, the Trust Fund has insured the National Beverage Company for the construction and operation of a beverage facility located in the Gaza Industrial Estate. This project is creating 300 direct employment opportunities (30 percent women) and 1,000 indirect jobs. The Trust Fund has also insured Jerashi Flexible Packaging in Bethlehem in the West Bank, which provides packaging services to micro and small-sized enterprises.

EFG for Renewable Energy Company is a renewable energy / manufacturing project insured by the Trust Fund. This commercial biogas plant located in Hebron in the West Bank provides renewable energy and bio fertilizers to local farmers. The plant, the first of its kind in the Palestinian territories, entails substantial knowledge transfer and the creation of around 30 jobs.

In addition to the Trust Fund, MIGA administers the Conflict-Affected and Fragile Economies Facility (CAFEF), set up in 2013 with support from DFID, SIDA and CIDA. CAFEF is open to supporting cross-border investments into the West Bank and Gaza, but it is currently largely committed. Unlike the West Bank and Gaza Trust Fund, CAFEF does not have the ability to support local investors.

3. Blended finance

59. Some projects may need further support to achieve bankability. Blended finance solutions can provide this kind of support. Blended finance can help catalyze private sector investment in potentially high-impact projects that are on the threshold of commercial viability but need some concessional finance to de-risk or help to rebalance the risk-reward profile to attract private sector investors.

60. **Under track 1, blended finance would be made available using the IFC-administered trust fund.** Blended finance refers to a financing package comprised of concessional funding from donor partners and commercial funding provided by IFC, whereby the donor has granted IFC the authority to process and approve investments on its behalf (i.e., delegated authority). Due to the nature and purpose of blended financing, transparency and effective governance are central features of IFC's approach to managing and deploying concessional donor funds alongside its own. All blended finance transactions go through an approval process that is designed to be closely aligned with, but separate from, IFC's own account project approval process. Separate teams manage the funds, with a committee of IFC Senior Management (Blended Finance Committee) approving the amount, use, and structure of these concessional donor funds. Worldwide, IFC's blended finance has supported high-impact projects in priority areas such as climate change since the early 2000s—as well as agribusiness, food security, and SME finance since 2013. Since FY10, IFC has deployed over $560 million of concessional donor funds to support 104 high-impact projects across 56 countries, leveraging $2 billion in IFC financing and $4.6 billion from other private sources.

61. **Under track 2, the new PSEF will build on the experience of the blended finance transactions managed by the IFC.** Blended finance can be structured as concessional debt (senior and mezzanine), as equity (direct investments and private equity), or as risk-sharing / guarantee products with different rates, tenor, security, or rank. They can also be structured as performance-based incentives. Each solution depends on the market barrier that needs to be addressed and the level of risk appetite of the contributed concessional funds. In the West Bank and Gaza, a concessional financing tranche would, for example, be essential to implement the 7 MW rooftop solar project in the Gaza Industrial Estate. Similarly, it is expected that blended finance will be critical to achieve bankability of projects in the pipeline such as desalination, municipal PPPs, and energy projects.

4. Investment co-financing

62. In addition to blended finance, a grant component would also be critical to achieve bankability for some projects with high job generating potential.

63. **Under track 1, the *Finance for Jobs II* project, funded by the TFGWB and approved by the Board in July 2017, would be utilized**. *Finance for Jobs II* has established clear selection criteria and approval processes for grants to potentially commercially-sound, job-creating projects that face limited financing options due to the fragile context and related market failures. The project will soon become effective, and a first investment co-financing grant will be deployed in the 7 MW rooftop solar project at the Gaza Industrial Estate (see Box 9 below).

64. **Under track 2, funding for investment co-financing grants would be scaled up**. A pipeline of private investments has been identified that could benefit from such grants under the new PSEF in tourism, ICT, agribusiness, renewable energy, and light manufacturing. Priority will be given to investments that offer the highest social benefits through job creation.

Box 9. Deploying complementary instruments to help realize projects in West Bank and Gaza—the case of the Gaza Industrial Estate PV Solar Panel Project

A "first mover" investment—the Gaza Industrial Estate (GIE) PV Solar Panel project provides a clear example of the key role that can be played by political risk insurance, blended finance and co-investment grants in the West Bank and Gaza. IFC was critical in helping structure this investment of about $12 million. The project will be funded through sponsor equity ($3 million), an IFC senior loan of approximately $7.2 million (comprising an IFC A-loan of $3.6 million and $3.6 million Blended Finance). In addition, $1.8 million of investment co-financing in the form of a grant will be provided under the F4J project. MIGA is looking to provide political risk insurance.

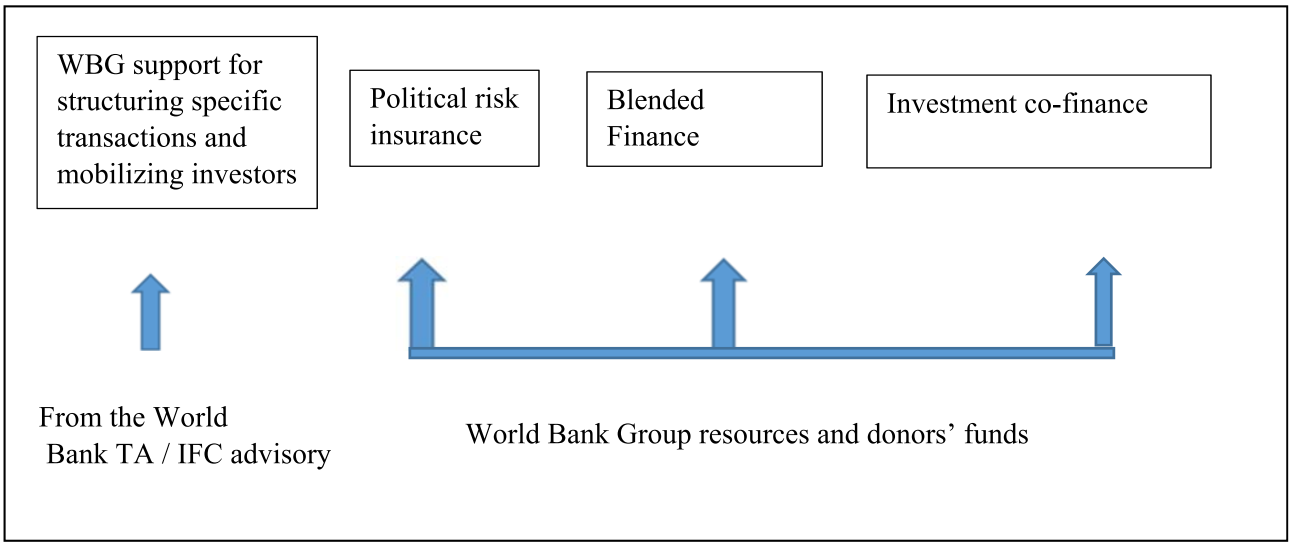
This project will help generate jobs in the industrial estate and have an important demonstration effect in attracting private investment to transformative projects both in the West Bank and in Gaza.

65. Key sectors likely to benefit from the new PSEF include agro-industries, light manufacturing, and the beverage industry as well as infrastructure projects such as solar projects, gas-to-power IPPs, municipal PPPs, and desalination projects. IFC is already involved in each of these sectors which will accelerate the preparation of transactions that will utilize the PSEF facility. Should the peace process and reconciliation between the PA and Gaza progress, this could unleash a substantially increased pipeline of possible PPP projects including desalination, industrial parks, and energy development that could draw on a scaled-up PSEF.

66. The new PSEF will be complementary to other facilities that are attempting to attract private finance for development**.** AFD's guarantee facility, signed with the Bank of Palestine, supports SMEs. The Palestinian Loan Guarantee Facility, a $130 million partial credit guarantee facility funded by OPIC and SIDA, mitigates political and commercial risks to attract private financing in SMEs, renewable energy,

Area C, and Gaza. AFD has set up a $25 million blended finance facility that caters to the renewable sector, while EBRD's plan is to provide $30 million in blended finance to cover financing to the banking sector and green investments such as solar power. Thus, the proposed blended finance window under the PSEF would scale-up resources available for the West Bank and Gaza from other donors and unlock additional opportunities that will be supported by their facilities. The PSEF would also broaden the scope of facilities already available in the West Bank and in Gaza by providing critically-needed grant co-financing and political risk insurance, and would frame its intervention in the context of WBG-supported sector reforms that are essential to the success of private investments.

Figure 1. Private Sector Enhancement Facility



Pillar 3: Addressing the needs of the vulnerable and strengthening institutions for improved citizen-centered service delivery

67. **The World Bank Group will support the PA in *putting citizens first.*** Exacerbated by the uncertain political environment, public institutions struggle to protect all vulnerable populations and sometimes fail to deliver basic services to those in need. Significant challenges also remain to win the public's trust and build confidence of the private sector for future engagement. Through actions under Pillar 1, scarce public resources will be freed-up for targeting the most vulnerable, protecting them in the short-term and improving their livelihoods in the longer term. Engagement under Pillar 3 will cover both Gaza and the West Bank. The program in Gaza will be particularly important in protecting the vulnerable at a critical time by helping ensure that basic services are delivered.

Table 3. Pillar 3 outcomes and areas of engagement

Proposed outcome	**The vulnerable protected and strengthened citizen-centered institutions built**
	1.Social protection
	2.Basic services, including water and sanitation
	3.Citizen engagement in government transparency and accountability

68. **The PA's and donor resources will be used to protect the vulnerable through social protection and essential service delivery, and to strengthen accountability of public institutions through citizen**

engagement. There is room for improvement in the targeting of social safety nets, which can free up benefits to the poorest and build public confidence. Some basic services are still not reaching the most vulnerable, especially in Gaza**.** With major water supply and sanitation infrastructure deficits and inefficiencies, water scarcity is a major concern. Regarding citizen engagement, previous World Bank engagements have been successful in mainstreaming reforms, but in some areas of PA institutions, there is still little opportunity for public accountability. For example, there is no working mechanism for review of the budget by civil society.

1. Social protection

69. **World Bank support will protect the vulnerable through improved targeting of social safety nets, which can free up benefits to the poorest and build public confidence.** The Bank has supported the design and functioning of social safety nets since 2008, and the Cash Transfer Program *in the West Bank and Gaza* is considered one of the most advanced in the MNA region. The Cash Transfer Program has helped refine targeting to extremely poor households along with an exit strategy. Cash injections to poor households have the potential to stimulate investment in the human capital and livelihood opportunities for the family. At the macro level, the injection of cash into the economy functions as a stimulus to economic growth. The recently approved *Social Protection Enhancement Project* contributes to cash benefits and builds upon previous reforms to revise the targeting tool to take into consideration the multi-dimensional aspects of poverty, improve the interoperability of current beneficiaries' database with others, and improve social workers' case management and referral systems. In line with the Ministry of Social Development's strategy to expand services to the vulnerable, WBG is exploring private sector engagement in enhancing corporate social responsibility to create shared value and solve social problems through business solutions. The 2016-2017 World Bank-assisted *Palestine Expenditure and Consumption Survey* (PECS) is ongoing and will help update poverty data for the West Bank and Gaza (the current data only covers the period 2004-2009).

70. **Additional measures will strengthen social protection to the vulnerable** including to early childhood education and support to NGOs and refugees. Analytical work on the benefits of early childhood education will point to the numerous benefits for children such as children's development and wellbeing, better school performance as well as more productive economic trajectories in adulthood. A proposed World Bank grant will support service delivery to the most vulnerable and hard-to-reach population. Building on previous WBG interventions with NGOs / civil society and the UN's experience with refugees, the World Bank is analyzing how marginalized groups can gain social inclusion including a rigorous understanding of the refugee situation in the West Bank and in Gaza. This ASA will identify avenues for addressing the needs of these vulnerable populations, aiming to discover current sustainable practices that can be scaled, including through entrepreneurship.

2. Basic service delivery, including water and sanitation

71. Following a sharp deterioration of access to water services in Gaza over the last decade, there is an impending environmental and public health collapse, as 96 percent of water resources are unfit for use by Gaza's 2 million inhabitants, and only 1 percent of the households in Gaza have access to an improved drinking water source. This deterioration is mainly due to over-exploitation of the Coastal Aquifer, including saline water intrusions and untreated sewage infiltrations (high salinity and nitrate concentration are 6 times higher than the World Health Organization standards). The situation is further aggravated by low levels of treatment of wastewater and sewage. Although 94 percent of households in the West Bank have access to improved drinking water, many localities face severe shortages with water delivered only once every three weeks. Only 73 percent of Gaza households and only 32 percent of households in the West Bank have access to a sewage network, and a large fraction of sewage is disposed without treatment or with only partial treatment.

> **Box 10. Education of children in UNRWA camps for Palestinian refugees**
>
> UNRWA (United Nations Relief and Works Agency for Palestine Refugees in the Near East), established in 1949, runs over 700 elementary and preparatory schools for half a million Palestinian refugee children (half of whom are girls) in the West Bank and Gaza, Jordan, Lebanon, and Syria. Education constitutes UNRWA's largest portfolio but recurrent financial deficits are threatening the smooth operation of UNRWA schools every year.
>
> A few development partners have approached the World Bank to support the education of Palestinian refugee children.
>
> Collaborating with UNRWA will allow the Bank to benefit from UNRWA's experience and share these lessons with other MENA countries where the Bank is supporting education reforms.

72. **Institutional strengthening in the water sector will increase responsiveness in essential service delivery and improve financial sustainability in the sector.** The proposed *Water Sector Development Program* will support the PA's priority in addressing the water crisis, particularly in Gaza, and securing water for the people. The World Bank's comparative advantage will focus on the institutional and economic elements while at the same time supporting investments that improves access to water. The *Water supply, Sanitation and Hygiene* (WASH) diagnostic is helping to establish a benchmark for services at the local level by examining who and where the poor are, the bottom 40 percent of the income distribution, and the level of access and quality of WASH services experienced by the lagging areas as compared to the non-poor. A proposal for seawater desalination is also being supported by the Bank and donor community to assist the PA, with the Bank focusing on improving bulk water distribution infrastructure and reducing technical and financial losses in the network. As well, the World Bank will continue its support under the *Gaza Solid Waste Management Project* and the *Solid Waste Management Output-Based Aid* pilot in the West Bank to support landfill and waste management services.

73. **The program will help local governments become more responsive in delivering clean water and sanitation.** In the West Bank, the WBG will provide ongoing support via the *Hebron Regional Wastewater Management project* of the Hebron Municipality, which will be strengthened to manage the operations and maintenance of the wastewater treatment and reuse plant. During the strategy period (FY18-21), the World Bank's grant assistance will be provided through the ongoing *Second and Third Municipal Development Projects* and the *Local Governance and Services Improvement Program-for-Results*. A programmatic TA, through 2020, will provide necessary implementation support for key reforms in the local government sector supported by these operations. Service delivery outcomes will be measured by assessing the inter-relationship between inputs and outcomes for services delivered by municipalities and villages (solid waste management, water supply, sanitation and local roads). Incentives for improving municipalities' own management will be continuing through grants allocated based on performance, needs, and population. Support to enhancing social accountability and citizen engagement in municipalities will make service delivery more responsive.

3. Citizen engagement

74. Towards strengthening the public's trust in Palestinian institutions, the World Bank Group will support public institutions to be more financially disciplined, accountable, and transparent, while continuing to improve citizen engagement.

75. **Transparency will be increased through World Bank Group support for more inclusive practice of the Citizen Budget (CB).** Although civil society still does not have any input to the budget's formulation, in 2016 AMAN (the local branch of Transparency International) produced a high-quality review of the budget—a positive sign going forward. Building on the experiences of 2016, future versions of the CB will be less heavy and technical, and partner more with civil society for formulation. Timely production of annual financial statements that are audited by the State Audit and Administrative Control

Bureau (SAACB) will help boost stakeholders' confidence. World Bank support will also build on previous and ongoing assistance in areas of the budget cycle such as cash planning, budget execution, control, which will aim to reduce the prevalence of expenditure arrears that create a burden for the private sector. An update of the latest Public Expenditure and Financial Accountability (PEFA) assessment, conducted in 2013, is planned for 2018.

76. **The WBG will support the PA in strengthening citizen engagement.** The Ministry of Social Development (MoSD), among the first PA ministries to disclose its Citizen Budget, is currently working to increase awareness among beneficiaries and build the capacity of MoSD employees working on complaint handling. The ongoing $15 million *Social Protection Enhancement Project,* approved in July 2018, helps facilitate a structured mechanism for citizens' participation in planning, evaluation, and feedback provision as well as broaden and deepen citizen engagement by introducing robust financial transparency and innovations in social accountability. The objective is to ensure that the project's clients are aware of their entitlements, are receiving their entitlement promptly, in full, and with dignity, and that citizens' participation in planning and providing feedback on project activities are facilitated to help develop appropriate solutions. Grievance redress, complaints and feedback mechanisms will be supported across sectors through a coordinated effort to scale-up citizen engagement based on the successful experience in selected sectors, such as social protection and municipal development.

Table 4. Indicative World Bank TFGWB Program, FY18

TFGWB Financed Grants	Amount ($ million)*
Pillar 1:	
Fiscal Stability and Business Environment DPG	30
Improved Public Financial Management	3
Innovative Private Sector Development	6
Pillar 2:	
Private Sector Enhancement Facility	20
Pillar 3:	
Institutional strengthening for transparency / accountability e.g. in the water sector	7

*Allocations reflect projects under preparation that are partially-financed by the fifteenth replenishment of the TFGWB. Some of these may be supplemented by allocations from the World Bank-administered multi-donor Partnership in Infrastructure Development Trust Fund.

G. COMMUNICATION

77. **The World Bank Group will support interaction between stakeholders of this increased private sector focus.** Recent discussions on private investment and commercial financing in the energy sector showed the importance of strengthening the dialog between private sector participants and the PA. A planned forum for businesses' dialog with the PA as well as international and domestic private sector representatives is in the planning stages. It will include the sharing of best practice examples from other countries. Communication efforts will help advertise progress in ongoing sector reforms, which will also raise awareness among investors of new investment opportunities. The World Bank will support technical discussions between Israeli and Palestinian counterparts in areas such as fiscal leakages, electricity, water supply and treatment, waste management, and job creation to highlight challenges. A platform for local entrepreneurs to connect with accelerators and incubators in Israel is under development.

78. **The Bank Group will engage counterparts in the PA and development partners in all stages of preparation of major products.** Multiple channels will help reach out to stakeholders and influencers,

organizing consultations, focus group meetings, media engagement, political analysis and systematic sharing of information, increasing use of social media and the internet. The media and civil society are key channels to encourage public debate and disseminate evidence-based analytical work. The consultations on the proposed Assistance Strategy were held between February and September 2017 in multiple fora with the PA, development partners, civil society, and private sector representatives. During the consultations, the proposed Assistance Strategy received broad support.

H. Risks and Mitigation

79. **The proposed strategy represents a fundamental shift of attention and resource allocation to the private sector—this shift may face resistance from certain stakeholders**, including parts of the Palestinian Authority. Close consultation in the design of the strategy, and throughout implementation, will be critical to mitigate that risk.

Table 5. Risk Ratings

Risk Categories	**Rating (H, S, M or L)**
1. Political and governance	H
2. Macroeconomic	H
3. Sector strategies and policies	H
4. Technical design of project or program	S
5. Institutional capacity for implementation and sustainability	M
6. Fiduciary	H
7. Environment and Social	S
8. Stakeholders	S
9. Other (security)	H
Overall	H

80. **The increased private sector orientation of the Bank Group's program may happen only gradually because the enabling sectoral reforms will take time to introduce in a capacity-constrained environment and taking into account political economy considerations**. There is also the risk that private sector activity will remain concentrated to a few actors. The web of relations / connections that tie elites in the public and private sector closely together may lead to capture and undermine the inclusiveness of the World Bank Group's private sector development effort. Building coalitions for reform will be essential and in this respect—developing a forum for discussing business environment improvement that involves the PA and participation from all parts of the private sector can help maintain the momentum. There is a further risk that lack of donor funding will slow down the proposed orientation towards private sector activity. An innovatively-designed engagement, a well-implemented PSEF, and proactive donor coordination through the PA's private sector working group can help mitigate this risk.

81. **The PA's fiscal position and some areas of PFM may not improve as quickly as needed, placing a risk on private sector confidence that the WBG is helping to build.** 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 economy. Fiscal pressures put at risk the provision of public services by the Palestinian Authority and make structural reforms hard to undertake. While continued donor assistance will be needed in the medium-term timeframe covered by the strategy, this risk will be mitigated by the program's support for the PA's reforms in strengthening tax administration, stronger budget / expenditure planning, and prioritization and coordination within the PA on PFM. The Bank is preparing an operation to strengthen PFM simultaneously with technical assistance, and has received interest from

donors to co-finance this grant. The Bank will also continue to emphasize in all development fora the need for donors to maintain their support, including to the PA budget.

82. **The continued blockade of Gaza and the limited reach of the Ramallah-based authority in Gaza have impeded investment projects from achieving their objectives.** The Bank will liaise with neighboring authorities to bring materials required to implement projects into Gaza. The implementation of the North Gaza Emergency Sewage Treatment project has been significantly delayed because of the difficulty of importing project materials that are classified as "dual use." The PA's lack of authority and reach in Gaza has also impeded the supervision of Bank projects, as recently experienced in the water sector. This requires additional supervision effort for Bank projects in Gaza. A risk scan of the portfolio has identified specific risks to procurement and financial management. Maintaining the good quality of the Bank's operational portfolio located in Gaza has been a challenge, and may require third party supervision or scaling-back of investment projects in Gaza. Should the most recent reconciliation effort succeed, the World Bank Group's activities in Gaza could be scaled-up significantly, in light of the huge needs on the ground.

83. **If the security situation were to deteriorate significantly, the World Bank would move back to supporting emergency operations, and the IFC would turn to advisory projects and the management of the existing investment portfolio.** Actions taken would depend on the specific difficulties encountered and decisions would be in consultation with the PA and other stakeholders. To mitigate the risk of having only one channel through which to implement assistance, the World Bank will work with local authorities, municipalities, utilities, financial intermediaries, and NGOs which could provide additional modes of implementation so that service delivery is less likely to be jeopardized. On the security side, the threat rating is high for the West Bank and very high for Gaza. The resident security specialist is in continuous contact with the UN's security system. The program's Emergency Response and Business Continuity Plan is reviewed and updated frequently. Armored vehicles are used for the WBG's travel in the West Bank, while travel within Gaza is by a two-car convoy. The possibility of a significant downside security scenario remains.

84. **A political agreement with Israel would increase the economic prospects and ease constraints that challenge the World Bank Group's program.** The World Bank Group's global expertise with post-conflict renewal would be mobilized to better serve the ramping-up of engagement that will be needed. In such a scenario, investor confidence will likely be boosted with increased private investment flowing into reconstruction and development. There would be opportunities to scale-up its support to the West Bank and Gaza in areas such as municipal strengthening, water, electricity generation, entrepreneurship support and job creation—helping leverage private sector advantage and resources to bring services closer to the people. Similarly, IFC will look to ramping-up its investments across all sectors, working closely with the World Bank to ensure underlying policy constraints facing the private sector are addressed through PA-led reforms. The World Bank would also support structural and sectoral reforms and help move service delivery to arm's length agencies while prioritizing scarce resources for the most vulnerable. Should progress towards the peace process be unlocked, the proposed Assistance Strategy would be revised to strengthen further development outcomes.

ANNEX 1. RESULTS MONITORING FRAMEWORK

<table>
<tr><th>Outcome Indicators</th><th>World Bank Group Program</th></tr>
<tr><td colspan="2">Pillar 1. Setting the conditions for increased private sector investments and job creation
Proposed outcome: Private sector investments and jobs increased as a result of upstream reform

Development priorities in the PA National Policy Agenda that are supported by the Pillar 1 Proposed Outcomes:
Economic Independence—including policies: Building Palestine's Future Economy, Creating Job Opportunities, Efficient Public Financial Management, From Education to Employment, and Improving Palestine's Business Environment</td></tr>
<tr><td><u>Setting a supportive context for private sector investments</u>
1. Average days to obtain a business license (number)
Baseline: 36.00 (2017)
Target: 15.00 (2021)

2. The Ministry of National Economy (MoNE) has established and implemented the movable assets registry, which allows firms to secure loans and other financing by using movable assets (text)
Baseline: No (2017)
Target: Yes (2018)

3. Jobs created through support of the second Finance for Jobs project (number)
Baseline: 0 (2017)
Target: 1,300.00 (2021)

4. Investment-ready startups in the pipeline for entrepreneurship ecosystem-matching grant (number)
Baseline: 0.00 (2017)
Target: 15.00 (2021)

5. Volume of total trade (import / export) supported by IFC Global Trade Finance Program—targeting mostly MSMEs (millions of US$)
Baseline: 11.2 (2017)
Target: 14.00 (2021)

6. Municipalities and village councils have opened a separate bank account to deposit funds collected from electricity bills to pay the Palestinian Electricity Transmission Company Limited (PETL) (yes / no)
Baseline: No (2017)
Target: Yes (2018)

7. PETL collection rate from distribution companies (percentage)
Baseline: 0.00 (2017)
Target: 85.00 (2021)</td><td><u>Ongoing</u>
-- Bank of Palestine Investment for MSME support (IFC)
-- Education to Work Transition
-- Electricity Sector Performance Improvement
-- Faten Microfinance Investment (IFC)
-- Felestinya Women Entrepreneurs (IFC)
-- Finance for Jobs I and II
-- Global Trade Finance Program (IFC)
-- Ibtikar Fund for Youth Entrepreneurs (IFC)
-- Integrated Cities Urban Development
-- Masar Ibrahim (Abraham Path)
-- Risk Assessment
-- Teacher Education Improvement
-- Third Municipal Development Project
-- Wataniya Telecommunications Project (IFC)

<u>Planned</u>
-- Bank of Palestine Advisory for MSME Support (IFC)
-- Fiscal Stability and Business Environment (DPG)
-- Improve PFM of the PA
-- Innovative Private Sector Development
-- Land Analysis TA
-- Private Sector Enhancement Facility
-- SME Banking for Women Advisory with Bank of Palestine (IFC)</td></tr>
</table>

Outcome Indicators	World Bank Group Program
8. Municipalities with operational and enterprise surplus and no increase in arrears (number) Baseline: 40.00 (2017) Target: 80.00 (2021) 9. Generation capacity from renewable energy projects with WBG engagement (number of MW): Baseline: 0 (2017) Target: [25MW IFC solar + 7MW IFC/World Bank solar at Gaza Industrial Estate] 32.00 (2021) 10. Volume of MSME loans outstanding (millions of US$) Baseline: 349.00 (2017) Target: 400.00 (2021)	-- Water Sector Development Program

Outcome Indicators	World Bank Group Program
Pillar 2. Private Sector Enhancement Facility to realize private sector investments Proposed outcome: Financing mobilized for specific investments and transactions structured Development priorities in the PA National Policy Agenda that are supported by the Pillar 2 Proposed Outcomes: Economic Independence—including policies: *Building Palestine's Future Economy, Creating Job Opportunities*, and *Improving Palestine's Business Environment*	
<u>Risk mitigating instruments and support to demonstration transactions</u> 11. Private Sector Enhancement Facility (PSEF) established and operationalized (yes / no) Baseline: No (2017) Target: Yes (2021) 12. IFC mobilizes private sector capital to finance the Jenin Independent Power Production (yes / no) Baseline: No (2017) Target: Yes (2021) 13. Investment co-financing facility mobilization of private investment in infrastructure (millions of USD) Baseline: 0.00 (2017) Target: 3.00 (2021)	<u>Ongoing</u> -- 7 MW Solar PV Investment at Gaza Industrial Estate (IFC & World Bank) -- Blended Finance (IFC) -- Finance for Jobs II (World Bank Investment Co-financing) -- Political Risk Insurance -- Wataniya Telecommunications Project (IFC) <u>Planned</u> -- 3 5 MW Solar PV Investment (IFC) -- InfraVentures (IFC) -- Jenin IPP (IFC) -- Private Sector Enhancement Facility -- Several Investment and Advisory Service Engagement in Renewables (IFC)

<table>
<tr><th>Outcome Indicators</th><th>World Bank Group Program</th></tr>
<tr><td colspan="2">Pillar 3. Addressing the needs of the vulnerable and strengthening institutions for improved citizen-centered service delivery
Proposed outcome: The vulnerable protected and strengthened citizen-centered institutions built

Development priorities in the PA National Policy Agenda that are supported by the Pillar 3 Proposed Outcomes:
• Social Justice and Rule of Law—including policies: Escaping Poverty & Strengthening Social Protection
• Citizen-Centered Government—including policies: Responsive Local Government & Improving Services to Citizens
• Effective Government—including policies: Strengthening Accountability and Transparency & Effective, Efficient Public Financial Management
• Quality Education for All—including policy: From Education to Employment</td></tr>
<tr><td><u>Donors’ and PA’s scarce public resources invested for service delivery and strengthening accountability</u>
14. Identification of the most vulnerable through enrollment in the social registry (number of households)
Baseline: 0.00 (2017)
Target: 150,000.00 (2021)

15. Beneficiaries of social safety net programs (number of households)
Baseline: 0.00 (2017)
Target: [referral services] 15,000.00 (2021)
Target: [counseling services] 5,000.00 (2021)

16. Case management system (improves targeting and employment outcomes for PA cash transfer program) beneficiaries (number of households)
Baseline: 0.00 (2017)
Target: 130.00 (2021)

17. People benefiting from improved service delivery in World Bank-supported Program villages (number)
Baseline: 0.00 (2017)
Target: 350,000.00 (2021)</td><td><u>Ongoing:</u>
-- Gaza Solid Waste Management
-- Health System Resiliency Strengthening
-- Hebron Reg. Wastewater Management
-- Local Governance & Services Improvement
-- Poverty Analysis and Report
-- Social Protection Enhancement (SPEP)
-- Teacher Education Improvement
-- Municipal Development Projects 2 & 3

<u>Planned:</u>
-- Social Inclusion – Marginalized Groups
-- Water Sector Development Program</td></tr>
</table>

ANNEX 2: DONOR FUNDS THAT COMPLEMENT BANK GRANTS

[Includes Bank financing, donor co-financing, and parallel financing (as reported by TTLs) trust fund contributions by amount]
(*As of 10/31/2017*)

Trust Fund #	Trust Fund Name	Status/Objective	Donors	Net Grant Amount ($)
TF071607/TF072593	Palestinian Recovery and Development Multi-Donor Trust Fund	Ongoing. Budget support for government Reforms	AusAid, Norway (MoFA), UK(DFID), France (MoFA), State of Kuwait, Japan. Canada (CIDA), Finland (MoFA), and Poland are former donors	1,470,658,991
TF071898/TF072778	Partnership for Infrastructure Development Multi-Donor Trust Fund	Ongoing. Provides co-financing to projects related to water supply and sanitation, urban development, and electrification. Also finances analytical and advisory activities.	Croatia, Denmark, Finland, France, Netherlands, Norway, Portugal, Sweden	137,485,067
N/A	Parallel Financing	Ongoing. Support to the Local Governance and Services Improvement	Germany (KfW and GIZ); Belgium (BTC); EU; AFD; UNDP (Austria, Italy and Sweden); Switzerland (SDC)	44,000,000
	Hebron Regional Wastewater	Support to the Hebron Regional Wastewater project	European Commission and Asian Development Bank	32,600,000
N/A	Parallel Financing - NGEST	Ongoing. Support to Northern Gaza Electricity and Sewage Treatment project (NGEST)	European Investment Bank and African Development Bank	32,200,000
N/A	Parallel Financing - Health System Resiliency Strengthening	Ongoing. Support to the Health System Resiliency project.	The European Union and France (AFD)	15,000,000
N/A	Parallel Financing - Second Municipal Development Project	Ongoing. Support to the MDP2 project	Germany (KFW, GIZ), Belgium (BTC), France (AFD), Switzerland, Netherlands (VNG International)	17,800,000
N/A	Parallel Financing - Water Supply and Sewage System Improvement	Ongoing. Support to the Water Supply and Sewage System Improvement Project	Islamic Development Bank (IsDB)	11,100,000
N/A	Parallel Financing - Gaza Electricity Network Rehabilitation	Ongoing. Support to the Gaza Electricity Network Rehabilitation project.	Islamic Development Bank (IsDB)	8,000,000
TF057595	North Gaza Emergency Sewage Treatment	Closed. Support to NGEST project	EU Commission	6,422,136

Trust Fund #	Trust Fund Name	Status/Objective	Donors	Net Grant Amount ($)
TF057109	Belgian Trust Fund for North Gaza Emergency Sewage Treatment	Ongoing. Support to NGEST project	Belgium - Directorate General for Development Cooperation (DGDC)	6,422,136
N/A	Parallel Financing - Palestinian PNGOIV	Ongoing. Support to the Palestinian PNGOIV project.	Agence Française de Développement (AFD)	6,000,000
TF056186	Swedish Trust Fund for North Gaza Emergency Sewage Treatment	Closed. Support to NGEST project	Swedish International Development Cooperation Agency (SIDA)	4,942,904
N/A	Parallel Financing	Closed. Support to the Hebron Regional Wastewater project.	US Agency for International Development	4,820,000
TF016302	Abraham Path	Ongoing. Contribute to job creation and income generation for marginalized rural communities along the Abraham Path in the West Bank, with a particular focus on women and youth, and to capture lessons from piloting job creation through experiential tourism that could be applied in other FCS settings.	State and Peace Building Fund (SPBF)	2,320,000
TF072213	Norway West Bank and Gaza Support Trust Fund	Ongoing. Funds activities to strengthen the analytical base for the development community, enhances donor coordination efforts, and supports the Ad-Hoc Liaison Committee as secretariat	Norway	1,545,723
N/A	Parallel – Water Sector Capacity Building	Ongoing. Support to the Water Sector Capacity Building Project	Agence Française de Développement (AFD)	1,400,000
TF014465	WBG Strategic Partnership on Governance - Governance Advisor	Closed. this activity will focus on three main pillars: (i) improve and upgrade the PFM system, in particular by building on the PEFA to be launched during the first quarter of 2013; (ii) support the PA with developing the Governance agenda in line with the Bank report, especially for public access to information, public procurement, and Anti-Corruption; and (iii) support the PA in managing the civil service reform agenda by building on the main findings and recommendations of the 2011 Bank report, including for streamlining and modernizing the civil service, and integrating the HR management with the payroll systems. This activity will also monitor results of PA delivery on these areas against a results framework.	UK-DFID	725,000

Trust Fund #	Trust Fund Name	Status/Objective	Donors	Net Grant Amount ($)
TF0A2007	SPF Health – Palestine	Ongoing. Part of a programmatic approach that aims to broaden the global knowledge and provide direct support to strengthen the resilience of health service delivery.	State and Peace Building Fund (SPBF)	400,000
TF0A2316	Securing Energy for Development	Ongoing. Supports the preparation of a study to identify pathways toward improving the energy security of West Bank and Gaza, while harnessing the available energy supply for maximum development impact.	Energy Sector Management Assistance Program (ESMAP)	350,000
TF0A1762	Technical Assistance to Establish a Sustainable Municipal Lending Framework	Ongoing. Provides technical assistance and advisory support to the Palestinian Authority and the Municipal Development and Lending Fund (MDLF) to put in place a sustainable municipal lending framework as well as to enable the MDLF to examine the feasibility of establishing a Municipal Lending program in the West Bank and Gaza.	Public-Private Infrastructure Advisory Facility **(**PPIAF)	300,000
TF0A0416	WBAG #B049 Insurance Supervision	Ongoing. To strengthen regulation and supervision of insurance which will help to promote efficient, fair, safe and stable insurance markets for the benefit and protection of the policyholders.	Financial Sector Reform and Strengthening Initiative (FIRST)	297,374
TOTAL				1,804,789,331

ANNEX 3. SELECTED INDICATORS* OF BANK PORTFOLIO PERFORMANCE AND MANAGEMENT

(As of 10/31/2017)

Indicator	FY15	FY16	FY17	FY18
Portfolio Assessment				
Number of Projects Under Implementation [a]	17.0	14.0	14.0	18.0
Average Implementation Period (years) [b]	3.9	4.1	4.5	3.8
Percent of Problem Projects by Number [a, c]	17.6	7.1	21.4	16.7
Percent of Problem Projects by Amount [a, c]	18.9	17.3	8.7	12.3
Percent of Projects at Risk by Number [a, d]	17.6	35.7	42.9	33.3
Percent of Projects at Risk by Amount [a, d]	18.9	46.4	29.8	31.2
FY Disbursement Ratio (%) [e]	29.8	26.2	33.6	14.8
Portfolio Management				
CPPR during the year (yes/no)	Yes	Yes	Yes	Yes
Supervision Resources (total US$)				
Average Supervision (US$/project)				

Memorandum Item	Since FY80	Last Five FYs
Proj Eval by OED by Number	51	9
Proj Eval by OED by Amt (US$ millions)	0.0	0.0
% of OED Projects Rated U or HU by Number	32.0	44.4
% of OED Projects Rated U or HU by Amt		

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the Bank's West Bank and Gaza 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 4. BANK OPERATIONS PORTFOLIO*

(As of 10/31/2017)

Active Projects		ISR Ratings						Difference in Disbursement Between Actual and	
Project ID	Project Name	Development Objectives	Implementation Progress	Approved Fiscal Year	Comm. Grant $ Millions	Cancel.	Undisb.	Orig.	Formally Revised** (a)
P151089	Finance for Jobs	MS	MS	2016	5	0	4.2	0	0
P151089	Finance for Jobs II	#	#	2018	9.5	0	0	0	0
P148600	Electricity Sector Performance Improvement	#	#	2018	4	0	0	0	0
P116199	Gaza Electricity Network Rehab	S	MS	2012	23	0	7	-8	-0.7
P121648	Gaza Solid Waste Management	MS	MU	2014	10	0	8.6	7.4	0
P074595	North Gaza Emergency Sewage Treatment	MS	MS	2005	29.8	0	7.4	14.6	-16.6
P127163	Second Municipal Development Project	S	S	2013	13	0	.47	2.5	--28.3
P111394	Teacher Education Improvement	S	S	2010	8	0	2	-1	0.8
P159258	Third Municipal Development Project	#	#	2018	16	0	0	0	0
P117443	Water Sector Capacity Building	MS	MS	2011	3	0	0	0	0
P150481	Health System Resiliency Strengthening	S	S	2015	8.5	0	4.5	2.0	0
P117449	Hebron Regional Wastewater Mgmt-1	MS	MU	2015	4.5	0	3.8	2.6	0
P150991	Integrated Cities and Urban Developmt	MS	MS	2017	5	0	4.5	0.1	0
P148896	Local Governance & Services Improvemt	S	S	2016	5	0	4	1	0
P160674	Social Protection Enhancement Project	#	#	2018	15	0	0	0	0
P119307	Cash Transfer Program	S	S	2011	20	0	0	-10	0
P101289	Water Supply & Sewage System Improvement	U	U	2013	9.4	1	0.9	0	0
P129861	West Bank & Gaza Ed.-to-Work Transition	S	S	2012	11.5	0	5.1	0.1	0
P132268	OBA Pilot – Gaza Solid Waste Management	S	HS	2013	8.3	0	0	0	0
P147235	Abraham's Path – RE	S	S	2014	3.3	0	.6	0	0
Overall Result					**211.8**	**1.0**	**53.1**	**11.2**	**-43.5**

*Includes TFGWB, SPBF, and GPOBA. No other Bilateral Co-financing.
**Figures in this column do not reflect amounts from the PID Trust Fund.
(a) Intended disbursements to date minus actual disbursements to date as projected ε Appraisal.

ANNEX 5. IFC COMMITTED AND DISBURSED OUTSTANDING INVESTMENT PORTFOLIO

(As of 10/31/2017)

(IN $ MILLION)

		Committed					Disbursed Outstanding				
FY Approval	**Company**	**Loan**	**Equity**	**Quasi Equity**	***GT/RM**	**Participant**	**Loan**	**Equity**	**Quasi Equity**	***GT/RM**	**Participant**
FY14	ABRAAJ PALESTINE	0.00	3.00	0.00	0.00	0.00	0.00	0.50	0.00	0.00	0.00
FY08	Bank of Palestine	0.00	11.44	0.00	0.00	0.00	0.00	11.40	0.00	0.00	0.00
FY16	Bank of Palestine	0.00	0.00	75.00	0.00	0.00	0.00	0.00	50.00	0.00	0.00
FY17	Palestine for Credit and Development	2.50	0.00	0.00	0.00	0.00	2.50	0.00	0.00	0.00	0.00
FY97	SEF ARAB CONCRET	0.80	0.00	0.00	0.00	0.00	0.80	0.00	0.00	0.00	0.00
FY11	WATANIYA WESTBANK	0.00	3.40	0.00	0.00	0.00	0.00	1.50	0.00	0.00	0.00
FY12	WATANIYA WESTBANK	34.75	0.00	0.00	0.00	6.95	19.50	0.00	0.00	0.00	3.75
Total Portfolio:		**38.05**	**17.84**	**75.00**	**0.00**	**6.95**	**22.80**	**13.40**	**50.00**	**0.00**	**3.75**

*Guarantee/Risk Management

ANNEX 6. MIGA'S OUTSTANDING GUARANTEE EXPOSURE IN WEST BANK AND GAZA

(As of 10/31/2017)

Investor Name	Investor Location	Business Sector	Maximum ($USD)
The Palestinian Recycling Company - Tadweer	West Bank and Gaza	Agribusiness	4,530,373
Siraj Fund Management Company	West Bank and Gaza	Manufacturing	1,950,534
Yusor Company for Investments	West Bank and Gaza	Manufacturing	11,835,000
Oosterhof-Holman BioEnergy BV	Netherlands	Manufacturing	769,854
Techno Arabia Traffic Signs LLC	United Arab Emirate	Manufacturing	628,452
Jerashi Printing and Packaging Company	West Bank and Gaza	Manufacturing	942,678
Agropal Investments Co	West Bank and Gaza	Manufacturing	801,276
TOTAL			**21,458,167**