# Economic Monitoring Report to the Ad Hoc Liaison Committee

June 2, 2020



WORLD BANK GROUP
THE WORLD BANK IBRD • IDA | IFC International Finance Corporation | MIGA Multilateral Investment Guarantee Agency

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## Acronyms

| | |
|---|---|
| AHLC | Ad Hoc Liaison Committee |
| AML/CFT | Anti-Money Laundering and Combating Financing of Terrorism |
| CBRs | Correspondent Banking Relationships |
| DFID | Department for International Development |
| DSL | Digital Subscriber Line |
| FATF | Financial Action Task Force |
| GDP | Gross Domestic Product |
| GoI | Government of Israel |
| GNI | Gross National Income |
| HTS | High Throughput |
| IFRS 9 | International Financial Reporting Standard |
| ICT | Information and Communication Technology |
| ISP | Internet Service Provider |
| ITU | International Telecommunication Union |
| JDECO | Jerusalem District Electricity Company |
| JTC | Joint Telecommunications Committee |
| LGUs | Local Government Units |
| MENA | Middle East and North Africa |
| AML/CFT | Anti-Money Laundering / Combatting Financing of Terrorism |
| MENAFATF | Middle East and North Africa Financial Action Task Force |
| MoF | Ministry of Finance |
| MTIT | Ministry of Telecommunications and Information Technology |
| NCTP | National Cash Transfer Program |
| NEDCO | Northern Electricity Distribution Company |
| NPL | Non-Performing Loans |
| OMR | outside medical referrals |
| PA | Palestinian Authority |
| PalTel | Palestine Telecommunications Company |
| PCBS | Palestinian Central Bureau of Statistics |
| PEFA | Public Expenditure and Financial Accountability |
| PFM | Public Financial Management |
| PMA | Palestine Monetary Authority |
| PPA | Power Purchase Agreement |
| PTRA | Palestinian Telecommunications Regulatory Authority |
| SMEs | Small-Medium Enterprises |
| STEM | Science, Technology, Engineering, and Mathematics |
| TEDCO | Tubas Electricity Distribution Company |
| VAT | Value Added Tax |
| VLP | Virtual Landing Point |

## Executive Summary

1. **The Covid-19 crisis is having a damaging impact on an already constrained economy struggling to emerge from a liquidity crisis in 2019, making the immediate prospects for the Palestinian people difficult.** Necessary measures to contain the Covid-19 crisis have contributed to sharp declines in activity for an economy already facing constraints on movements and access that left it operating well below potential. The constraints have been hollowing out the productive sectors and left the economy reliant on consumption-driven growth. In 2019 this situation was compounded by the liquidity crisis that faced the Palestinian Authority (PA) following the clearance revenue standoff. As a result, real growth in the Palestinian territories in 2019 was a mere 1 percent, with Gaza registering minimal growth following a steep recession in 2018, and growth in the West Bank reaching 1.2 percent - the lowest level since 2003.

2. **For 2020 the prospects depend on how long the Covid-19 containment measures are in place and how quickly the economy responds once they are lifted.** While pre-Covid-19 we had projected 2.5 percent growth in the coming year, we now project a full year decline of at least 7.6 percent, based on a gradual return to normality from the containment, and up to 11 percent in the case of a slower recovery or further restrictions due to another outbreak. In either case, the reduction in per capita income and the rise in unemployment and poverty will be substantial. The outlook will be heavily influenced by the PA's ability to mobilize liquidity for the private sector in the coming months.

3. **The fiscal position of the PA, which was already extremely vulnerable following the liquidity shock in 2019, is now facing a further deterioration in the wake of the Covid-19 crisis.** The liquidity shock that hit the PA in 2019 led to the PA's deficit after aid increasing to around US$800 million or 4.6 percent of GDP. Much of the financing need was filled through the irregular practice of accumulating expenditure arrears, which has meant that the fiscal position is poorly placed to cope with the additional challenges posed by the Covid-19 crisis. The crisis will lead to a substantial reduction in PA revenues in 2020, but will also increase demands for expenditures on health, social assistance, and support for the private sector. The Word Bank estimates that the PA could be facing a financing gap in 2020 of over US$1.5 billion to adequately address these needs. It will be important for the PA to prioritize expenditures and reallocate away from its previous plans to help meet the financing demands. However, even with a significant reallocation of expenditures a sizeable financing gap could be expected. With further domestic borrowing running into limits (see below), the PA could focus its efforts, besides reprioritization, on mobilizing donor resources and working with the Government of Israel (GoI) to address outstanding fiscal leakages as these can be an important source of space. A positive demonstration of the potential to make progress on the fiscal leakages can be drawn from the good coordination that has taken place on health issues in response to Covid-19.

4. **The financial sector withstood the liquidity crisis in 2019, but the Covid-19 crisis has created fresh worries about the exposure of the banking system to the PA, while ongoing concerns about correspondent banking arrangements create risks going forward.** The banking sector's profitability registered an 8 percent decline in 2019, and non-performing loans continued to increase as the liquidity crisis affected the quality of loan portfolios. Moreover, to meet immediate needs the PA increased its direct borrowing from the sector on a temporary basis after abstaining in recent years, and continued borrowing by PA employees increased the overall exposure of the banks to the public sector. In response to the Covid-19 crisis, the PA budget envisages a substantial increase in domestic borrowing that will both increase its direct exposure beyond previously set limits and deprive the private sector of much needed liquidity. It will be important for the PA to take any opportunities to reduce its borrowing to avoid a worrying concentration of risk. In addition, the PA has been taking steps towards upgrading the Palestinian anti-money laundering and combating financing of terrorism (AML/CFT) system in line with international practices. The temporary measures taken by the GoI to protect correspondent banking relationships will expire over the coming year and it is important that longer-term arrangements are successfully implemented.

5. **The challenge posed for the Palestinian economy by the Covid-19 crisis is on top of an already complex situation but, pending a resolution of the broader constraints, the digital economy offers promising opportunities.** While navigating the Covid-19 crisis is the immediate challenge, there should continue to be an eye to longer term economic needs. The full potential of the Palestinian economy will not be achieved until there is an agreement that allows the restrictions on movement and access of goods and people to be lifted. However, the potential of the digital economy to bypass these constraints makes it a promising area for economic development. In chapter II of this report, we explore the challenges and opportunities for expanding digital infrastructure, which provides the foundation of the digital economy.

6. **The development of digital infrastructure in the Palestinian territories faces a range of challenges that need to be resolved bilaterally with Israel, as well as a need for internal reforms.** Restrictions on access to spectrum resources, sites needed for network coverage, and on the import of certain telecom equipment are a major challenge. These have limited Gaza to 2G and the West Bank to 3G networks when other countries are now contemplating 5G, and have also raised the cost of network operations and impeded the launch of new services. These constraints need to be resolved bilaterally with Israel. Internally, no digital economy strategy exists to clarify the vision of the PA in this area, the telecom sector is still governed by an outdated 1996 law and the planned establishment of an independent regulator has not occurred. This has resulted in a lack of responsiveness and transparency to technical and regulatory issues, with a negative impact on consumers in terms of pricing and quality of service.

7. **This report identifies specific reforms that are required to boost access to affordable and good quality broadband and accelerate the growth of the sector.** Firstly, the Joint Telecommunications Committee (JTC) needs to be made a more effective mechanism to resolve bilateral issues between the PA and Israel. The JTC could prioritize the release of spectrum to Palestinian operators, lifting constraints to the import of materials, and creating a level playing field with Israeli operators. Beyond this, there is potential to accelerate expansion of broadband coverage using new technologies and existing infrastructure opportunities to enhance the reliability of connections and reduce their cost. Finally, the PA needs to be more active in advancing the digital economy on the basis of a comprehensive strategy for the sector, which prioritizes passing a new telecommunications law that is aligned with international best practice and establishing an independent regulator for the sector.

8. **In the immediate period the international community needs to do what it can to help the Palestinian economy survive the challenge of the Covid-19 crisis, and it can also help create a supportive environment for reforms.** As indicated above, the PA has few financing options to address the economic and fiscal challenges posed by Covid-19 and increased support from the international community is vital. More generally, the donor community can provide support for the institutional development that is needed in the telecom sector – alongside improvements in other aspects of the PA operations. It can also help with innovative financing schemes that mitigate the political risks, and act as a catalyst for increased private sector investment. More generally, continued budget support is critical to assist the PA through the needed fiscal adjustment and create a stable environment for the private sector. While the PA has made significant fiscal progress with the total deficit (before grants) declining from 19 percent of Gross Domestic Product (GDP) in 2008 to 8 percent in 2019, donor support has also been on a declining path – with aid to the budget falling from around 27 percent of GDP in 2008 to below 4 percent in 2019.

9. **The main body of the report is organized in two chapters and two supporting annexes.** Chapter I focuses on recent economic developments in the real, fiscal and banking sectors, while providing a near-term outlook that highlights critical challenges facing the Palestinian economy. Chapter II looks at the opportunities and constraints facing digital infrastructure in the Palestinian territories, the development of which is critical to the future expansion of the digital economy. It makes short- and long-term recommendations that would allow more digital activity and job creation. Annex 1 assesses the status of the World Bank recommendations to the AHLC meeting over the years, while Annex 2 identifies recent legal and regulatory advancements by the PA in the telecommunications sector.

# Chapter I: Recent Economic Developments

## 1. Economic Growth

10. **Over the last two decades, the Palestinian economy has been driven by large inflows of private and official transfers.** Inflows of official transfers have significantly dropped in recent years, making it more pressing to unlock growth constrained by a difficult business environment. Trade and movement restrictions have created a high risk of disruption in projects or trade and have kept investment levels low, resulting in a bias towards non-traded services which have less potential for productivity growth.

11. **Economic momentum faltered in 2019 and the situation is expected to worsen in 2020 as a result of the COVID-19 pandemic.** Data by the Palestine Central Bureau of Statistics (PCBS) show that the growth of real GDP in the Palestinian territories reached a mere 0.9 percent in 2019 - down from 1.2 percent in 2018. The slowdown was driven by a decline in investment and in public consumption given the PA's fiscal crises which resulted from the clearance revenue standoff. Notably, this outturn is a result of the situation in Gaza registering growth of zero percent following a steep recession in 2018 of minus 3.5 percent,[1] while growth in the West Bank in 2019 was 1.2 percent - the lowest since 2003. Official data is not available yet, there are clear indications that the situation has worsened in 2020 as the COVID-19 outbreak is causing disruptions to economic activity and everyday lives, which is expected to weigh heavily on GDP growth.

12. **The unemployment rate in the Palestinian territories improved in the fourth quarter of 2019 but remained high and is expected to have further increased as a result of the Covid-19 outbreak.** The unemployment rate rose in the first half of 2019 as a result of the slowdown in the economy, reaching 26.8 percent. It then eased to 24 percent in the fourth quarter due to the remission of the clearance revenues standoff. This headline story, however, masks a regional divergence. In Gaza, 42.7 percent of those in the labor force were unemployed in the fourth quarter of 2019. This is an increase of two percentage points over the same quarter of 2018. The situation in the West Bank has been very different with the unemployment rate averaging around 17 percent over recent years but dropping to 13.7 percent in the fourth quarter of 2019.With the Covid-19 outbreak, a large number of workers have lost their jobs especially in sectors that have been mostly affected by social distancing measures such as tourism. Further, it is expected that more than 100,000 Palestinian workers have stopped crossing to Israel for work. Both of these factors are expected to have contributed to an increase in unemployment, especially in the West Bank.

13. **Inflation continued to be subdued in 2019 in the Palestinian territories and is not expected to pick up in 2020.** Overall prices increased by 1.3 percent (year-on-year) in December 2019 and were on average 1.6 percent higher for the entire 2019 compared to average prices of 2018. The Israeli Shekel, which is the main currency in circulation in the Palestinian territories, has continued its appreciation and this had a deflationary effect on the prices of imported goods. In addition, the prices of food products (most of which are produced domestically or in Israel) remained stable in 2019. As a result of the outbreak of Covid-19, almost all commodity prices saw sharp declines during the past three months globally. Hence, inflation is not expected to pick up in 2020.

14. **Going forward, the outlook for the Palestinian economy looks grim especially after the Covid-19 outbreak.** Following two challenging years, the Bank's initial estimate for 2020 was for growth of the Palestinian economy to recover and average about 2.5 percent in 2020. However, as in many other countries around the world, the Palestinian economy has been severely affected by the Covid-19 outbreak. This is because necessary measures to contain the pandemic have contributed to sharp

[1] Israeli measures to increase the number of business permits from Gaza, allowing some dual use items to be imported including cement and expanding the fishing zone have contributed to Gaza's recovery.

declines in economic activity. Continued lack of access to Area C further weakens the economic outlook.[2]

Box 1: Palestinian-Israeli Trade Disagreement

Following the formation of the current PA government in April 2019 there has been a policy of gradual economic disengagement from the Israeli economy.

As one of the first measures in that goal, the PA took a decision in September 2019 to stop purchasing live cattle from Israel and started trying to import calves independently. In recent years, Israeli cattle growers have been selling Palestinians some 140,000 calves annually, which some sources value at US$289,981,150. In response, Israel decided to prevent Palestinians from bringing cattle they imported independently into Gaza and the West Bank (5,000 heads) from Hungary, Portugal, Australia, and France.

In December 2019, Israel and the PA agreed to end the boycott, chiefly because of the rise in consumer prices in the West Bank by an average of NIS5 per kilogram of meat (From NIS50 to NIS55). The two parties agreed that the PA would purchase cattle from Israel but also from abroad, since the Paris protocol enables the PA to directly import cattle from abroad but with a set quota. Nonetheless, Israeli cattle farmers objected to this agreement because it led to lower sales to Palestinians which was costly for the Israel agricultural sector. As a result, the GoI decided on February 2, 2020 to stop importing Palestinian agricultural produce into Israel. On average, Palestinian producers export fruits and vegetables with a value of US$61 million to Israel each year.

In response, on February 3, 2020, the PA, decided to prevent the entry of Israeli products into the Palestinian market. The decision, which banned the entry of Israeli vegetables, fruits, carbonated soft drinks, juices, and mineral water into Palestinian market, was presented as supporting Palestinian farmers' steadfastness and Palestinian national products. Palestinian imports of these items average US$360 million per year, of which 80 percent come from Israel (US$300 million). It was not expected that the ban on carbonated soft drinks, juices, and mineral water would have an impact on the supply in the Palestinian market as local substitutes do exist and manufacturers are able to increase the supply relatively quickly. The ban on the entry of Israeli vegetables and fruits, which average about US$185 million per year, however, would have been more challenging as local supply is not enough to cover the demand.

On February 9, 2020 the GoI banned the export of Palestinian agriculture to Israel and the rest of the world by stopping Palestinian exports via Jordan. According to data provided by the PCBS, agricultural exports to Israel and the rest of the world amounted to US$90 million in recent years. According to local farmers, some of these exports such as potatoes and cucumbers could be redirected towards the local market, but at lower prices, which would have an impact on the profitability of the producers. Other products, however, such as herbs and olive oil are mostly for export and the ban on exports was expected to result in a big hit for these producers affecting their production and employment.

In sum, the trade dispute between the PA and the GoI significantly escalated in recent months before it was resolved on February 20, 2020 with a return to the conditions prevailing on February 1, 2020. The dispute illustrates the price and market volatility facing Palestinian producers and consumers. The ban on the entry of Israeli products, in the short term, could have resulted in shortages in the Palestinian market, price hikes and possibly the development of black markets as smuggling from Israel can take place through Area C. All of these could have had a negative effect on consumer welfare. Further, the ban on exports could have resulted in significant losses for producers whose capacity cannot be fully absorbed by local demand, especially at a time of macroeconomic stress.

[2] http://documents.worldbank.org/curated/en/257131468140639464/Area-C-and-the-future-of-the-Palestinian-economy

15. **Decisive action by the Palestinian Authority to contain the pandemic constrained labor supply, the movement of people and goods, and consumption, therefore having a negative impact on the Palestinian economy.** Since March 5, 2020, when the first cases of the novel coronavirus were confirmed, the PA has acted decisively to prevent its spread. It has announced a state of emergency, initially for a period of one month which was then extended for another month, closing all schools, universities and colleges. A decision was also taken to close off a number of major Palestinian cities where the highest numbers of infections occurred, and instructions were issued to shut down almost all economic activities in the West Bank. Further, the PA has restricted movement between governorates in the West Bank, while Gaza crossings are completely closed for people, except humanitarian cases. These actions are negatively affecting the economy.

16. **At this point, it is not possible to say how long it will take for the economy to recover from the current containment measures.** Our current baseline assumption is that economic disruptions due to Covid-19 could last about four months. This period includes both the formal lockdown period as well as a period of gradual return to regular level of activity. During this period, a sizable share of domestic private consumption that requires social interactions ceases. Under the baseline scenario, the economy is projected to contract by about 7.6 percent. Alternatively, either due to a prolonged period of recovery, or the potential for additional economic disruptions later in the year as a result of another outbreak, a larger contraction of up to minus 11.2 percent could be expected. A modest bounce back is expected in 2021. Notably, the decline in the West Bank is expected to be larger than in Gaza as a big shock will be due to the decline in income from Palestinian workers in Israel, the majority of whom are from the West Bank. Also, the majority of the poorest in Gaza do not rely on labor income but on aid.

Box 2: Estimation methodology of the effect of the Covid-19 outbreak on the Palestinian economy

To estimate the potential impact of the measures, as a first order immediate impact holding everything else constant, we look at the potential loss of demand due to either job losses or cuts in salaries or both in order to proxy the reduction in the aggregate demand. At the end of 2019, the Palestinian labor force survey indicated that there were some 1 million employed individuals, of which 21 percent were employed in the public sector, 66 percent in the private sector, and the remaining 13 percent were employed in Israel. However, given that those employed in Israel have wages that are some 2.3 times higher than the average wages of other employees, we estimate that they account for 30 percent of overall demand while the others account for the remaining 70 percent. Under assumptions based on available information and announcements so far, demand from employees in the public and private is expected to shrink by 25 percent through a combination of job losses, salary reductions or curtailment of spending. Further, the demand coming from workers employed in Israel is estimated to shrink by 50 percent given that only a small fraction continues to be employed in Israel, albeit without the ability to go back to West Bank. Put together, we estimate a reduction in demand of some 30 percent in total. In Gaza, the demand shock is estimated to be 25 percent in both scenarios reflecting potential cuts in public sector wages. There is a very limited number of Gazans employed in Israel.

17. **The economic decline is expected to have a negative impact on standards of living and wellbeing**. Even prior to the Covid-19 pandemic, around a quarter of Palestinians lived below the poverty line: 53 percent in Gaza, and 14 percent in the West Bank. According to preliminary estimates, it is expected that the share of poor households will increase to 30 percent in the West Bank and to 64 percent in Gaza. The impact is expected to be larger in the West Bank due to a substantial reduction in the wage income of workers that can no longer travel to Israel.[3] Also, in the West Bank, the share of households that hold public jobs and whose income is not expected to be affected is lower than in Gaza. Finally, the West Bank has a lower share of non-labor income, in particular aid, among the poorest.

[3] Notably, cooperation between the GoI and the PA has succeeded in allowing some Palestinian workers to continue working in Israel during the outbreak. The overall number, however, was much less than in previous months.

*Table 1: Palestinian territories: Selected Macroeconomic Indicators*

| | | | | Est. | Forecast | | |
|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| **Real economy, annual percent change, unless indicated otherwise** | | | | | | | |
| Nominal GDP | 10.3 | 4.7 | 0.9 | 4.8 | -11.2 | 5.3 | 2.5 |
| Real GDP | 8.9 | 1.4 | 1.2 | 0.9 | -7.6 | 5.1 | 2.7 |
| GDP per capita (nominal) | 7.1 | 1.9 | -1.7 | 2.1 | -13.4 | 2.7 | -0.3 |
| | | | | | | | |
| Contributions to Real GDP Growth | | | | | | | |
| Private Consumption (growth) | 9.9 | -1.1 | 1.1 | 4.2 | -5.5 | 3.5 | 2.5 |
| Gross Fixed Investment (growth) | 10.9 | 6.9 | 2.5 | -1.9 | -33.5 | 17.8 | 1.7 |
| Exports (growth) | -1.6 | 13.9 | 2.5 | 1.8 | -0.9 | 1.8 | 2.3 |
| Imports (growth) | 2.0 | 1.3 | 4.5 | 1.4 | -8.5 | 3.1 | 2.1 |
| | | | | | | | |
| Unemployment Rate (ILO Definition) | 26.9 | 25.7 | 26.2 | 24.0 | 27.8 | 27.6 | 27.5 |
| | | | | | | | |
| GDP Deflator | 1.3 | 3.2 | -0.3 | 3.8 | -3.9 | 0.2 | -0.2 |
| CPI (year-average) | -1.0 | 0.0 | 1.2 | 0.8 | -1.0 | 0.7 | 0.9 |
| | | | | | | | |
| **Fiscal Account, percent of GDP unless otherwise indicated** | | | | | | | |
| Expenditures | 30.2 | 29.7 | 27.8 | 27.6 | 30.1 | 29.4 | 29.4 |
| Revenues | 28.1 | 26.6 | 25.2 | 23.1 | 21.6 | 24.8 | 24.9 |
| General Government Balance (after grants) | -2.1 | -3.2 | -2.5 | -4.6 | -8.5 | -4.6 | -4.5 |
| General Government Debt, ex. arrears | 16.1 | 15.8 | 14.5 | 16.7 | 23.1 | 23.0 | 22.6 |
| | | | | | | | |
| **Balance of Payments, percent of GDP unless indicated otherwise** | | | | | | | |
| Current Account Balance | -12.6 | -9.7 | -10.2 | -8.7 | -11.3 | -8.3 | -7.1 |
| Imports, Goods and Services | 49.5 | 50.0 | 53.6 | 52.2 | 53.9 | 53.4 | 54.2 |
| Exports, Goods and Services | 15.5 | 16.7 | 17.8 | 17.5 | 19.5 | 19.2 | 19.5 |
| Net Foreign Direct Investment | -2.2 | -1.4 | -1.4 | -0.8 | -0.9 | -0.8 | -0.8 |
| Gross Reserves | 2.0 | 2.8 | 3.3 | 3.3 | 3.8 | 3.8 | 3.9 |
| External Government Debt | 6.8 | 6.5 | 6.3 | 7.8 | 10.3 | 9.8 | 9.5 |
| Terms of Trade (growth) | -1.0 | -5.4 | -1.6 | 9.9 | 0.1 | 0.7 | -0.2 |
| | | | | | | | |
| **Memorandum items:** | | | | | | | |
| GDP nominal (US$ million) | 15,405 | 16,128 | 16,277 | 17,059 | 15,154 | 15,961 | 16,352 |

Source: PCBS and MoF for history, WB Staff for estimates and forecasts.
Note: Due to prevailing uncertainty, projections for 2020 are done on cash and commitment basis.

## 2. Public Finance

### *Fiscal Performance in 2019*

18. **A major liquidity shock dominated the PA's 2019 fiscal situation, even though clearance revenue[4] flows resumed last August**. The differences between the PA and the Government of Israel on additional deductions from clearance revenues on account of PA payments to prisoners, averaging around NIS42 million (US$12 million) per month, continue to be unresolved. However, clearance revenue flows have resumed after the PA decided to accept two large transfers from the GoI: the first in the amount of NIS2.3 billion in August, and the second in the amount of NIS1.6 billion in October, according to data published by the MoF. With these transfers, revenues collected on behalf of the PA over the stand-off period (March-August 2019) have almost been fully remitted, minus the additional deductions.

19. **Public revenues dropped in 2019 due to a decline in domestic collections.** Ministry of Finance (MoF) data show that domestic tax collections dropped by 8.8 percent in 2019 mainly due to the uncertainty created by the fiscal crisis. Non-tax collections also declined by 17.4 percent due to lower license payments received by the PA and health and equalization fees transferred by the GoI, when compared to 2018.[5] Clearance revenues grew by 1.5 percent, despite the additional Israeli deductions, mainly driven by petroleum excise receipts which increased following an increase in fuel imports to Gaza from Israel as shipments from Egypt are no longer forthcoming. The increase in clearance revenues was not enough to offset the steep decline in domestic collections resulting in a decline in total public revenues by 3.6 percent.

20. **Growth in public spending exceeded 5.4 percent in 2019, year-on-year, on a commitment basis**. It was driven by: (1) an increase in the wage bill -the largest spending item- by 3.5 percent due to annual increases and a rise in the share of Gaza's wage bill as some of the cuts in the salaries of public employees in the Strip that started in 2018 were reversed to align the treatment of Gaza employees with those in the West Bank, (2) an increase in transfers by 6.7 percent due to additional pension payments to around 20 thousand public servants that have joined an early retirement plan proposed by the PA, and (3) a rise in net lending by 17.7 percent due to a one-off deduction made by the GoI in August 2019 in the amount of US$55 million to offset electricity debt owed by the Jerusalem Distribution Electricity Company (JDECO) to the Israeli supplier.

21. **As a result, the PA's total deficit amounted to US$1.4 billion in 2019 while aid received was much less reaching US590 million,[6] resulting in a financing gap exceeding US$800 million**. In response, the PA had to accrue arrears and resort to domestic borrowing to make ends meet. Gross arrears accumulated in 2019 exceeded US$900 million, but some of those were repaid as clearance revenue transfers resumed later in the year reducing the 2019 stock to US$490 million. The PA's stock of domestic debt jumped to US$1.8 billion in August 2019 but was then significantly reduced as clearance revenues started flowing again, and reached US$1.58 billion, as of December 2019.

### *Fiscal Outlook*

#### 2020 budget

22. **The PA passed an emergency budget for 2020, taking into consideration the impact of Covid-19 on public finances**. The budget projects a reduction in public revenues of 30 percent in 2020 compared to 2019 from the decline in economic activity. On the expenditure side, the budget projects a 5 percent increase compared to 2019 mainly driven by the wage bill and higher social spending. Put together the total deficit is expected to reach US$2.7 billion – almost 90 percent higher than in

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[4] VAT and import duties are collected by the GoI on behalf of the PA and transferred monthly.

[5] In 2018, the Palestine Telecommunications Group (PALTEL) made a license payment in the amount of NIS107 million in January and another one in the amount of NIS122 million in June. The GoI made a transfer in the amount of NIS165 million in June 2018 covering health and equalization fees collected from Palestinian workers.

[6] The amount of grant assistance for 2019 has been adjusted compared to that provided by the MoF in order to present the figure on a commitment basis.

2019. To finance the deficit, the budget assumes that US$637 million will be received in aid, while US$617 million is to be borrowed from local banks. This leaves about US$1.4 billion with unidentified financing.

*Table 2: The Palestinian Authority's 2020 budget and percent changes compared to 2019 actuals*

| Item | 2020 budget | | 2019 actuals | | Y-o-Y change in NIS |
|---|---|---|---|---|---|
| | NISm | US$m | NISm | US$m | % |
| Revenues | 8358 | 2388 | 11882 | 3324 | -30 |
| Recurrent expenditure | 16387 | 4682 | 15649 | 4377 | 5 |
| **Recurrent balance** | **-8029** | **-2294** | **-3768** | **-1054** | **113** |
| Development spending | 1400 | 400 | 1215 | 340 | 15 |
| **Total balance** | **-9429** | **-2694** | **-4983** | **-1394** | **89** |
| financing | 9429 | 2694 | 4983 | 1394 | 89 |
| Budget support | 1509 | 431 | 1777 | 497 | -15 |
| Development financing | 720 | 206 | 333 | 93 | 116 |
| Net domestic bank financing | 2160 | 617 | 1795 | 502 | 20 |
| other | 5040 | 1440 | 1078 | 302 | 368 |

Source: PA MoF

### World Bank projections

23. **Separate from the PA projections, the World Bank has estimated the immediate effect of the Covid-19 pandemic on public finances and also projects a sizeable, albeit lower financing gap.** The PA's revenues are expected to drop in 2020 given the slowdown in economic activity, with a reduction of about 15 percent year-on-year expected if the pace of recovery is moderate. The revenue decline estimated by the World Bank is lower compared to what is assumed by the PA budget, which contributes to the lower financing gap. Also, based on the cash plan that was announced by the PA following the adoption of the budget, monthly recurrent spending is expected to be reduced to NIS1.1 billion (US$314 million) during the period of the crisis. The cash plan focuses on maintaining wages and transfers while cutting operational and development spending. The PA has also announced additional emergency medical spending in the amount of US$137 million to cover medical costs related to the Covid-19 crises. The rationing assumed by the cash plan is expected to offset the increase in medical spending resulting in public expenditure being maintained at its 2019 level, in contrast to the increase assumed by the 2020 budget. Put together, the Bank estimates that the PA's total deficit could reach US$1.6 billion in 2020. The recently signed agreement with the GoI to transfer to the PA a loan in the amount of NIS800 million (US$230 million) in clearance revenue advances would provide much needed financing, reducing the financing need. Despite the difficult circumstances, identified support to the budget for 2020, according to the PA, is estimated to be US$377 million - the lowest in two decades. Taking into consideration the clearance revenue loan and external financing would result in a financing gap after aid of US$1 billion.

24. **To assist households and businesses that have been mostly hit by the Covid-19 outbreak, the World Bank recommends additional spending beyond the budget plans.** In addition to the emergency medical plan announced by the PA, the World Bank recommends assistance to the affected households in the amount of US$127 million, to employ Cash for Work (C4W) schemes to provide employment opportunities to the youth in the amount of US$46 million, to provide wage subsidies to suffering businesses in the amount of US$280 million and also provide support to Local Government Units of about US$20 million. Altogether, this would require an increase in the PA's spending by US$473 million, further widening the financing need to US$1.5 billion in 2020.

25. **Given the lack of policy tools and the limited fiscal space, the PA's options to deal with the crises are limited.** The PA cannot issue sovereign bonds or increase external borrowing, and relies heavily on borrowing from local banks, which is approaching prudential limits. As a result, the PA has to consider options to increase the existing envelope through postponing non-essential expenditures and reprioritizing spending in a way that allows social assistance to be provided to the poorest families, and critical liquidity support to small and medium enterprises (SMEs), while also maintaining priority public services. Given that the PA has included some rationing measures in its cash plan focusing on operational and development spending, areas where reprioritization can still be considered concern the wage bill and transfers to nonessential sectors (i.e. universities, NGOs), especially those that have not been operational during the Covid-19 outbreak. In fact, the Prime

Minister has already issued a decision dated April 27, 2020 to reallocate part of the salaries of public employees, while protecting those that make NIS2000 per month and below. The absolute majority of public employees are in the higher quintiles of the income distribution, according to PCBS data, and their job security is maintained amid the crises. Reallocating part of their salaries to support other members of society who have fallen into poverty could be done while taking into consideration the need to also protect those that have continued to work, including health workers and security employees, while maintaining a sufficient source of income to the rest of public servants. Given that the wage bill is the PA's largest spending item, such a reallocation could bring about significant savings that could provide a lifeline for the neediest families. It should also be understood that as this approach would redirect rather than reduce the total government expenditure it should not have a negative effect on activity. If such measures are applied for four months, fiscal savings by the PA could reach US$369 million, reducing the financing need to US$1.1 billion.

26. **Actions by the PA alone will not be enough to cover the fiscal needs, and more drastic delays in public spending would be harmful given the large impact that public spending has on the economy.** Some financing (US$200 million) may be available from the domestic banking sector, without reaching the limit set by the PMA for public borrowing. However, this would be viewed a last resort given that crowding out the private sector and adding more stress to the banking sector, which is still recovering from the 2019 crises, could be highly damaging.

*Table 3: The Palestinian Authority's public finances, 2020 (WB projections)*

| Item | US$ million |
|---|---|
| **Budget deficit (including additional medical spending)** | **-1639** |
| Clearance revenue loan by GoI | 230 |
| Identified budget support | 377 |
| **Financing gap** | **-1032** |
| **Additional covid-19 spending** | **473** |
| CTP support to existing households | 41 |
| CTP support new households | 86 |
| C4W scheme | 46 |
| Support to businesses | 280 |
| Local government services | 20 |
| **Financing gap after additional covid-19 spending** | **-1505** |
| **Savings from reprioritization measures if applied for 4 months** | **369** |
| 50% reallocation from wage bill | 348 |
| 5% reduction in transfers to non-essential sectors | **21** |
| **Financing gap after reprioritization measures** | **-1136** |

Source: World Bank staff estimates.

27. **As a result, working diligently with development partners would help the PA secure additional funds and raise budget support**. The traditional donors are proposing to provide US$377 million. There are efforts being made to increase the overall resources available, and to reallocate from projects to budget support. But, even if the resources were doubled, they would only make a partial contribution to the gap. Substantial increases in support from outside this group will be important if the donor community is to make a significant contribution closing the financing gap.

28. **Cooperation by the Government of Israel is key for bridging the financing gap and facilitating the entrance of supplies, and steps taken so far have been encouraging.** Further easing the import of restrictions to allow the entrance of medical supplies, testing kits and medicine, especially to Gaza, will significantly help the PA deal with the crisis, especially with the recent increase in the number of cases in Gaza. On the fiscal side, the GoI can also play an important role through providing financial support by addressing some of the fiscal leakage that remain outstanding. In fact, the GoI has already transferred to the PA in March about US$34 million which is a highly commendable step.[7] Current discussions about transferring VAT leakage on goods imported by

[7] According to the GoI, this payment was not meant to offset fiscal leakages, but rather a settlement of an issue where previously there was disagreement between the two sides.

Gaza, estimated at US$24 million per year, would be helpful but not enough to make a dent in the financing need.

29. **The recently signed agreement with the GoI to transfer to the PA a loan in the amount of NIS800 million (US$230 million) in clearance revenue advances will provide much needed financing**. The loan will be provided at a 1 percent interest rate and in monthly installments to top up actual earnings of clearance revenues by the PA and maintain a floor of US$143 million. The monthly top-ups will take place until the loan is fully used, or for four months, whichever comes first.

30. **More can be done by the GoI in the short term to support the PA's finances**. Under the 1995 interim agreement, the Israeli civil administration is expected to collect revenues from businesses operating in Area C and remit them to the PA.[8] Even though the Israeli civil administration collects these funds, they have not been transferred to the PA. These funds are estimated to amount to hundreds of millions of shekels[9] and could significantly ease the PA's fiscal stress during these difficult times.[10] Further, the PA reports that the GoI currently retains NIS500 million (US$143 million) in Allenby Bridge exit fees that should be transferred to the PA. This would provide much needed quick financing in these difficult times. The GoI mentions, however, that no agreement has been reached in this regard yet. Another option could be tapping into a fund where Israeli employers have been automatically deducting 2.5 percent of the Palestinian workers' salaries to account for their sick days, and which is managed by the Israeli Population and Immigration Authority. The fund currently has around NIS515 million (US$150 million). Releasing some of these funds to the workers would ease their economic hardship and reduce the fiscal demands on the PA.[11] Given that most of these workers do not own bank accounts and are usually paid in cash, transferring the funds directly to them is not a plausible option. A mechanism could be put in place whereby the GoI transfers some of these funds to the PA MoF. The funds could then be ringfenced and transferred through the Ministry of Labor to the workers in monthly installments.

31. **In the medium term, cooperation by the GoI to implement institutional measures to reduce fiscal leakages would significantly help the PA's finances become more sustainable**. Required actions include putting in place a mechanism to electronically link the VAT systems of both authorities to exchange real time information on all purchases being made. This will inform each tax authority about the actual amount of VAT paid by its registered businesses rather than what was reported to it, and hence reduce fiscal leakages. Furthermore, renegotiating the 3 percent handling fee charged by the GoI to handle Palestinian imports could further mitigate the PA's trade related fiscal losses as this fee is considered extremely high.[12]

32. **If the external parties cannot collectively provide the needed resources, the PA will be forced to severely cut spending impacting basic service delivery and resulting in a much deeper economic contraction than discussed in the note.** Lack of additional financing would also force the PA to scale back medical and social expenditures in response to the crisis increasing the hardship. Neither option is desirable and will have severe implications for both the livelihood of vulnerable households, the depth of the recession, and the speed with which the economy will emerge from the Covid-19 impact. The extent of the economic malaise that results would increase the demands for future support but could also raise broader security and operational challenges.

33. **Beyond the immediate priorities, it is important to note that to maintain the provision of services and provide a conducive environment for the development of the private sector, the**

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[8]See Annex III, Appendix I, Article 8, Paragraph 2 (a), 2(b) and Article 18, Paragraph (4) of the Interim Agreement on the West Bank and the Gaza Strip, Washington, D.C., September 28, 1995 (the Interim Agreement).

[9] See: http://www.haaretz.com/israel-seizing-hundreds-of-millions-of-shekels-meant-for-palestinian-services-1.947

[10] According to the GoI, these funds are used to implement projects that benefit the residents of Area C.

[11] According to the GoI, a panel has been formed to discuss the potential uses of the fund, subject to the various legal requirements.

[12] For more information, see: http://documents.worldbank.org/curated/en/780371468179658043/main-report

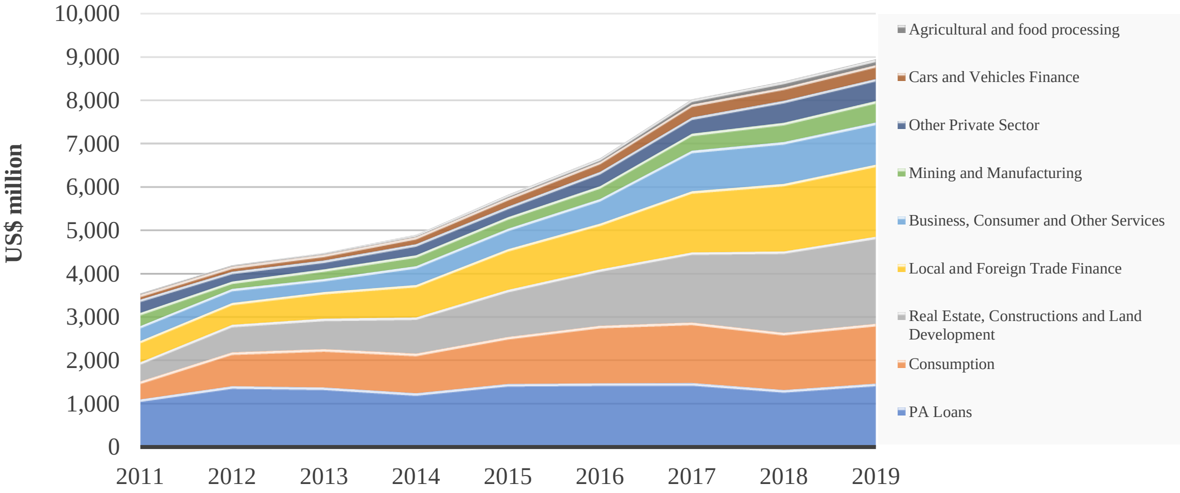
**fiscal position needs to be more sustainable.** The unreliable funding of some services, and the high level of payment arrears to private sector suppliers is inhibiting the development of the economy. Going forward, to support a more sustainable fiscal position that would enable the PA to withstand such shocks, the fairness, effectiveness and efficiency of public spending need to be improved. On the expenditure side focus should be on reforming the generous public pension system, and untargeted transfers that result in significant support to those connected to the PA at the expense of other, often more needy parts of the society. Better managing health referrals is a priority. There is also a case for reorganizing the civil service arrangements to establish a more responsive and efficient public sector. Digital technology could be central to reforming the provision of government services.

## 3. Money and Banking

34. **The impact of the liquidity shock in 2019 had a clear effect on the performance of the Palestinian banking sector.** According to data by the Palestine Monetary Authority, the banking sector's profitability in 2019 registered further decline: profits registered an 8 percent decline when compared to 2018; return on equity dropped to 8.3 percent (from 9.4 percent in 2018), the lowest in recent years; return on assets dropped below the one percent mark, to 0.95 percent (from 1.15 percent in 2018). In addition to the economic slowdown, the decline in profitability is partially driven by new reporting requirements implemented under the International Financial Reporting Standard (IFRS 9). Total net assets grew by 10 percent in 2019 year-on-year, reaching US$17.2 billion. After a slowdown during 2018, direct credit exceeded US$9 billion. The growth in deposits slightly exceeded growth in credit, resulting in a net decline in the overall credit-to-deposit ratio, down to 67 percent in 2019, compared to 70 percent 2018. Overall growth in direct credit in 2019 exceeded growth in 2018, partially driven by the growth in domestic public debt – a result of the fiscal shock. The bulk of new lending was concentrated in real-estate development and trade finance, while consumer loans maintained a downward trajectory for the second year in a row. The negative impact of the recent fiscal crisis on the quality of loan portfolios across the banking sector continued to materialize in key financial indicators. Both non-performing loans (NPLs) and classified loans have maintained an upwards trajectory from 2018, respectively growing by approximately 40 and 10 percent by the end of 2019. The NPL ratio (which represents the percentage of nonperforming loans out of all direct loans), reached 4 percent for the first time in years – signaling a deterioration in the quality of loan portfolios. While this NPL ratio remains moderate given the context, discussions with several local banks indicated that the NPL ratio has been dampened due to the temporary forbearance implemented for PA employees based on PMA guidance issued during 2019. The growth in the NPL ratio likely represents the delayed impact expected to materialize in the aftermath of the 2019 crisis, through further deterioration in the quality of SMEs and consumer loan portfolios, particularly for banks with a substantial exposure to PA employees.

35. **The Palestinian Financial Sector entered the Covid-19 crisis while still in recovery from the liquidity shock of 2019.** Temporary forbearance measures issued from March to September of 2019 had only recently been repealed when the PMA issued a new temporary moratorium on debt repayment in response to Covid-19, starting March 2020. Their impact on the banking sector is still significant. Available information suggests that the Palestinian financial sector entered the Covid-19 crisis with already limited liquidity or capital buffers. This limits its potential counter-cyclical role, creating a challenge for the authorities when managing the financial implications of this crisis. It also reinforces the importance of deeper coordination between the PMA and the industry to explore realistic and impactful options to respond to the crisis and suggests that focused interventions are the main option. With the current slowdown in economic activities and PA revenue, the financial sector is likely to face a further rise in NPLs (especially for SME portfolios), flat or negative deposit growth, and higher provisions. The PMA recently announced a new SME lending scheme, partially financed through reserves, to inject liquidity into the market at a capped interest rate using existing bank channels.

*Figure 1: Distribution of credit facilities by economic sector*



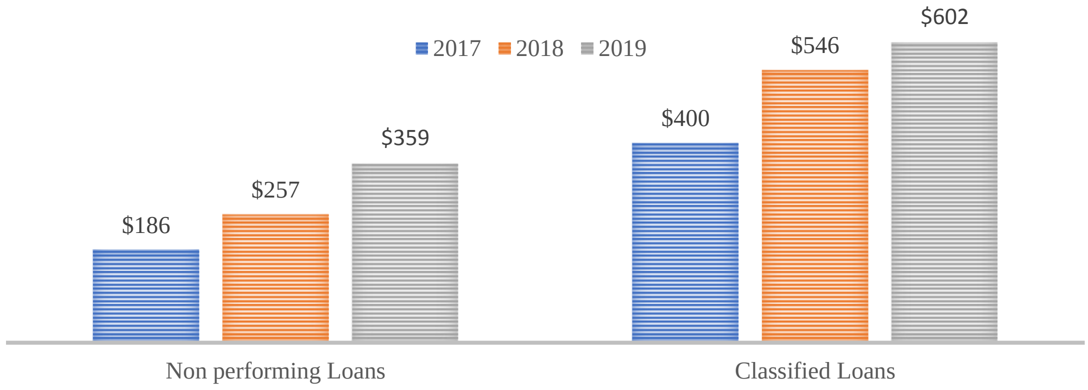

*Source*: Palestine Monetary Authority.

36. **The rising exposure of the banking system to the PA through domestic public debt creates significant risks to the stability of the financial sector.** With the local authorities not issuing treasury bonds, borrowing from local banks is a major source of public finance. In light of the growing challenges faced by the PA over the past decade, the banking sector's credit exposure to the public sector has been a cause of unease. Reliance on bank financing grew steadily in recent years – at times exceeding the exposure limits set by the PMA – raising concerns over credit concentration risk despite the increase in risk weight for domestic public debt in 2019 (from 10 to 15 percent). In 2017 and 2018, exposure to the PA stabilized at approximately US$1.3 - 1.4 billion - less than 20 percent of all lending by the banking system. Notably, the moderation in PA exposure also reflects an increase in bank capital, not just the nominal decline in the stock of PA loans. The above-mentioned downward trend of domestic public debt was reversed in 2019, peaking at US$1.8 billion, settling at US$1.55 billion by the close of 2019, and is expected to rise in 2020 as the PA budget envisages up to US$600 million of additional borrowing from domestic banks in the wake of Covid-19. The banking sector's indirect exposure to the PA remains substantial due to borrowing by PA employees. (using future PA salary as collateral). This has been steadily growing since 2014, reaching US$1.6 billion by 2019. When combined, the PA and public employees accounted for over US$3 billion, or 35 percent of total gross credit, prior to the Covid-19 crisis. The pre-existing level of stress in the Palestinian banking sector means that it has limited buffers to absorb large shocks or play a significant counter-cyclical role. As a result, Palestinian policymakers must carefully balance fiscal, monetary and financial considerations. The high credit exposure of the financial sector to the public sector presents a source of considerable vulnerability. Any substantial increase in PA borrowing to the banking sector would present potential significant downside risks, including jeopardizing the stability of the financial sector due to excessive credit concentration, and draining the remaining available – and limited – bank liquidity from potential private sector borrowers.

37. **The PMA and Financial Follow-up Unit[13] have been taking steps towards upgrading the Palestinian anti-money laundering and combating financing of terrorism (AML/CFT) system to be more in line with international practices**. The authorities have been making steady progress towards upgrading integrity standards across the financial sector. In 2018, the local authorities conducted their first self-assessment with the aim of enhancing the ability of relevant AML/CFT stakeholders towards identifying, assessing, understanding, and mitigating the money laundering

[13] This corresponds to the Palestinian Financial Intelligence Unit.

*Figure 2: Growth in non-performing and classified loans (US$ million)*




*Source:* Palestine Monetary Authority.

and terrorism financing risks they face. This exercise was coordinated by the Financial Follow-up Unit and the PMA, with participation from the Ministries of Finance, Justice, Interior, and Foreign Affairs, the Public Prosecutor's Office, Customs Services, and other relevant stakeholders. The assessment was officially endorsed by the Palestinian Cabinet in October 2018, followed by the adoption of the national AML/CFT strategy by the Cabinet in November 2018. Other improvements on AML/CFT internal controls are currently under implementation, including reforms to governance and reporting procedures, and the incorporation of a risk-based approach within financial institutions. This represents a step towards the commitment to and implementation of the Financial Action Task Force AML/CFT standard conditions of the West Bank and Gaza membership of the Middle East and North Africa Financial Action Task Force (MENA-FATF). MENA-FATF's first mutual evaluation of West Bank and Gaza is planned in 2020.[14]

38. **Despite the progress being made by the PA on AML/CFT issues, the potential negative impact of de-risking by Israeli banks remains a cause for concern.** Citing money-laundering and financing of terrorism concerns, key Israeli banks signaled plans to limit or terminate correspondent banking services to Palestinian banks in 2016. Such termination of correspondent banking relationships (CBRs) by Israeli banks could have significant economic impact due to the highly interlinked structure of the two banking systems, and the use of the Israeli Shekel as the primary currency in the Palestinian economy. In January 2017, the GoI approved temporary indemnity and immunity coverage for Israeli banks working with Palestinian banks, thereby taking on part of the risks, to alleviate the potential for immediate disruptions to CBRs between the two banking systems. The temporary immunity and indemnity letters are set to expire in June 2020 and February 2021, respectively. Given the narrow window of time, a short-term resolution to the June 2020 deadline is expected to be reached subject to deliberations between the authorities, in order to avoid CBR disruptions. A recent military order issued by the GoI (in effect May 9, 2020), has raised further risks of disruptions due to its potential implications for banks processing PA transfers. After reports of several banks taking steps to suspend accounts used for the transfers, the Prime Minister issued a statement indicating that discussions are ongoing with the PMO, PMA, and banks, to identify viable options. A longer-term arrangement would provide more predictability to the Palestinian banking sector.

[14] Subject to travel restrictions related to Covid-19.

# Chapter II: Digital infrastructure in the Palestinian territories

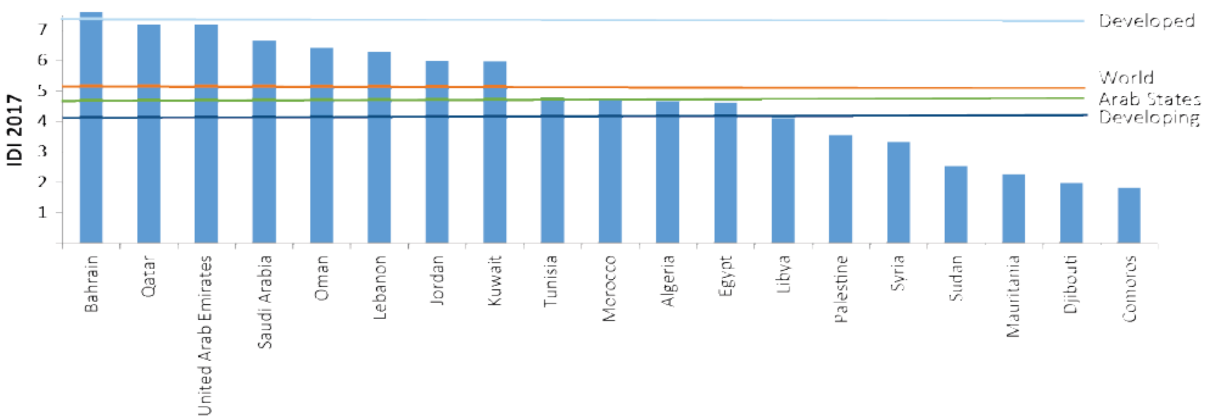
## 1. Introduction

**39. With the Palestinian economy struggling to grow and generate the jobs needed for a growing population, the digital economy has the potential to play an important role.** The opportunities apply to all countries but are of particular relevance in an environment where the physical movements of goods and people are constrained. This chapter examines some of the institutional and access challenges facing the digital infrastructure in the Palestinian territories, and identifies key steps needed to develop the sector.

## 2. Digital development in the Palestinian territories

**40. A vibrant, inclusive and safe digital economy can bring shared prosperity and reduced poverty through inclusive growth and job creation, in areas where economic activity may be limited by the political environment.** Digital technologies are transforming lives, businesses, and governments through the creation of new industries and the transformation of existing ones, more and better jobs, and improved government services for citizens. In the Palestinian territories, the digital economy has the potential to unleash job growth and opportunities in a region plagued by political instability with a difficult macroeconomic context. Broadband uptake and the adoption of digital platforms[15] can help to foster economic growth and improve social cohesion by connecting people to digital marketplaces and Information and Communication Technology (ICT) services. However, the Palestinian territories rank (123rd) well below the average compared to other Arab States or developing countries in the Information and Communication Technology (ICT) Development Index. The Palestinian territories are a heavily populated area (approximately 4.8 million people), with a large youth population and with a youth unemployment rate of approximately 37 percent, higher than the regional average of 26.2 percent in the Middle East and North Africa (MENA) region. As of 2019, the Palestinian territories have 3,000 STEM[16] graduates per year who can benefit from a digital economy.

*Figure 3: ICT Development Index Values, Arab Region 2017*




*Source:* International Telecommunications Union (ITU), 2017

[15] Digital platforms are at the core of the digital economy. By underpinning digital transactions and connections, these systems, applications and services can transform the way people, governments, businesses and civil society interact with each other in all aspects of life. They can help create economies of scale and network effects, where additional users can create an exponential increase in value from other users, including the data they generate.
[16] Science, Technology, Engineering and Mathematics.

41. **There is a growing momentum and a sense of urgency inside the Palestinian territories to avoid being left behind in digital transformation and fully embrace the benefits of digital development to foster economic growth and create better job opportunities.** The PA's National Policy Agenda: Putting Citizens First (2017-22) identifies digital transformation and the digital economy as a top priority to achieve a strong, inclusive, and sustainable economy. In 2017, mobile technologies and services generated 4 percent of GDP in the MENA region, a contribution that amounted to just under US$165 billion of economic value added.[17] Telecommunications is one of the key service sectors. Accounting for 7 percent of GDP,[18] the ICT sector in the Palestinian territories already plays an important role and has the potential to grow markedly into a full-fledged digital economy with increased demand from sectors such as agriculture, health, education, and government services. Constraints to Palestinian operators have been estimated to cause revenue losses of up to 3 percent of GDP from 2013 to 2015. As for the budget shortfall for the PA, it would have been up to US$184 million over the same period.[19] Despite the current constraints of the telecommunications sector, private sector stakeholders in the Palestinian territories foresee growth opportunities translating into investment plans in broadband and wireless networks. As of now, the entire digital infrastructure of the Palestinian territories is developed through the private sector. Industry experts expect investment incentives will remain strong for private sector led growth, since the current relatively low broadband penetration should translate into steady demand growth.

42. **A key challenge to foster the emergence of a vibrant, dynamic and safe digital economy in the Palestinian territories is to rapidly develop the digital infrastructure - the foundation for a digital economy as it provides the universal, affordable and good quality broadband internet connectivity required for digital applications and services.** Due to national and bilateral challenges, it is unlikely that the Palestinian territories will reach the World Bank Marrakesh 2021[20] threshold of doubling the 2016 baseline or reach 20 percent broadband penetration rate, which would lay the foundations for achieving universal and affordable access to good quality broadband internet by 2030. Mobile broadband (3G) services were only deployed in the Palestinian territories in January 2018, contributing to one of the lowest mobile broadband penetration rates in MENA, of 5.39 percent at end-2018. The Palestinian territories were among the last places in the Middle East to launch 3G – and even then, only in the West Bank[21]. The way forward will need to take into consideration both market strengths and weaknesses, as well as the underlying key bottlenecks to accelerate universal, affordable and good quality broadband. While under existing agreements the PA has the right to build and operate an independent telecommunications infrastructure along with the right to establish its own telecom policies, Israel has decision-making power over the frequency spectrum. Palestinian operators face import and construction restrictions and market competition from Israeli operators, who can offer 4G and LTE and have an estimated 20 percent mobile broadband market share in the West Bank. The International Telecommunication Union's (ITU) Radiocommunications Conference held in Sharm el-Sheikh in November 2019 passed Resolution 12, which called for a process to deploy 3G technology and establish an adequate timeframe for the allocation of 4G and 5G frequencies for Palestinian operators.

43. The report will now look at the state of the different aspects of digital infrastructure (broadband, spectrum, IT equipment), the challenges in each area and the lack of an enabling policy and regulatory environment for digital infrastructure.

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[17] Source: GSMA – Mobile Economy Middle East and North Africa 2018. https://www.4yfn.com/wp-content/uploads/2018/12/2018-11-26-Mobile-Economy-Middle-East-North-Africa-2018.pdf

[18] Source: OGAnalysis 2019.

[19] http://documents.worldbank.org/curated/en/993031473856114803/pdf/104263-REVISED-title-a-little-different-WP-P150798-NOW-OUO-9.pdf .

[20] During the World Bank Group (WBG) 2018 Annual Meetings in Bali, Senior Management of the WBG announced its intent to lead a global initiative in Africa and the Middle East to double broadband connectivity by 2021 and reach full coverage by 2030.

[21] 3G connections at the end of the period, expressed as a percentage share of the total market population, source GSMA https://data.gsmaintelligence.com/data/custom-metrics-search

*Access and affordability of fixed and mobile broadband*

44. **Digital infrastructure is foundational to the development of the digital economy, as it allows citizens, businesses and governments to connect online and stay digitally-enabled**. Despite the current limiting environment, the Palestinian territories have made strides in the mobile sector, with 99 percent of the population having access to mobile voice (2G) networks, above the average penetration rate of 90.9 percent in countries with similar GDP. Furthermore, about 52 percent of the population is covered by 3G networks[22]. Internet usage has also increased by 40 percent in 5 years, with 65 percent of the population having access to the Internet in 2017. By 2019, market penetration of 2G connections stood at 73 percent while 3G connections reached 12 percent, and total mobile connections neared 86 percent.[23]

45. **Fixed broadband.** High-speed Internet access is still in the nascent stages of development, with about 8 fixed-broadband subscriptions per 100 inhabitants per the International Telecommunication Union (ITU) in 2018, while the total number of mobile subscriptions reached 4.3 million[24] as of early 2019 in the Palestinian territories. Fixed broadband access is available through DSL[25] technology, installed by Palestine Telecommunications Company (PalTel), which has a monopoly over fixed-line telecommunications service provision, over the existing copper local loop. PalTel provides internet services both directly and via a subsidiary ISP, Hadara, while it also resells its services to private ISPs. Meanwhile, the cost of broadband remains high in proportion to per capita but comparable to other countries in the region. However, cost disparities also exist between Gaza and the West Bank. This is mostly due to the restrictions imposed by Israel, which significantly increase the market costs for Palestinian operators and limits the radio spectrum in the Palestinian territories.

46. **Mobile broadband.** The Palestinian territories are following the regional trend to adopt mobile broadband services and connections through Wi-Fi hotspots, given the general lack of fixed broadband infrastructure. The mobile broadband market is slightly more competitive than the fixed broadband market, with the two Palestinian operators Jawwal (PalTel's subsidiary) and Ooredoo Palestine (former Wataniya Mobile Palestine). In the West Bank, Palestinian operators can provide 3G services. This explains the recent upsurge in mobile broadband penetration as Jawwal and Ooredoo deployed 3G networks in early 2018 following the narrow allocation of frequency bands by Israel for access to a national mobile broadband 3G network[26]. In Gaza, the situation is complex and 3G is still not available to Palestinian providers due to Israeli spectrum restrictions. However, Palestinians that can access Israeli networks (due to their proximity[27]) are able to receive 3G network and 4G/LTE when available from Israeli operators. A similar pattern is seen in the West Bank in terms of access to 4G/LTE.

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[22] Network coverage, by population, 3G, Q1 2019 – Source Menatech Benchmark. Note that coverage does not translate automatically into penetration, especially at the beginning of deployment of a new standard. 3G coverage was only introduced in the West Bank in 2018. Although coverage is 52 percent, the penetration rate, i.e. the percentage of people actually using 3G services, was only 5.39 percent at the end of 2018,

[23] GSMA Intelligence (2020).

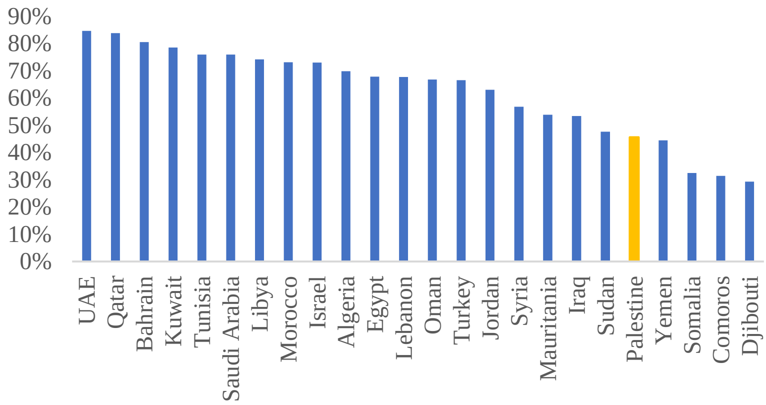
[24] This number includes multi SIM mobile subscriptions and represents the total number of unique SIM cards (or phone numbers, where SIM cards are not used), excluding cellular IoT, that have been registered on the mobile network at the end of the period." Note that mobile subscriptions (or connections) differ from subscribers such that a unique subscriber can have multiple connections.

[25] DSL Stands for "Digital Subscriber Line." DSL is a communications medium used to transfer digital signals over standard telephone lines. Along with cable Internet, DSL is one of the most popular ways ISPs provide broadband Internet access.

[26] The launch of 3G networks in the West Bank by the two main mobile operators was a long-awaited step for the Palestinian telecommunications sector. An agreement was signed in 2015 between Israel and the PA, but the allocation of radio frequencies for 3G deployment was delayed and Ooredoo and Jawwal were only able to announce the launch of their 3G network in the West Bank in January 2018.

[27] It is estimated that about 600,000 Palestinians are connected to Israeli providers through prepaid SIM cards.

*Figure 4: MENA unique mobile subscriber penetration by country (Q4 2019)*




*Source:* GSMA Intelligence, 2020

### *Challenges to digital infrastructure expansion to be addressed*

47. **There are several key external challenges to address to be able to deliver on universal, affordable and good quality broadband access in the Palestinian territories**. Those challenges concern restrictions on building infrastructure, spectrum allocation for 3G/4G and 5G mobile broadband, ICT equipment imports and deployment, and rights of way in Area C. Palestinian operators need to go through Israeli companies to access international submarine cables. Most of the digital infrastructure value chain is impacted by the bilateral relationship with Israel and the resolutions reached by the Joint Technical Committee (JTC).[28]

48. **Challenges in expanding the coverage of broadband networks and in ICT equipment imports and deployment.** Restrictions on building cellular infrastructure in Area C have limited the ability of Palestinian mobile operators to serve Palestinian residents. The restrictions on telecom equipment entering the Palestinian territories impact the launch of new ICT services as well as the capacity enhancement of the broadband networks. This includes core network equipment (Mobile exchanges, HLRs, RNC/BSC nodes, and Packet core equipment) and Ethernet and enterprise networking technologies planned for construction. The enforcement of import restrictions on select dual-use goods and material has been estimated to account for a 4.5 percent loss in aggregate output value in the West Bank over the 2008–2012 period, as well as a disproportionate fall in wages in dual-use input intensive sectors.[29]

49. **Challenges in accessing spectrum resources as highlighted during the World Radiocommunication Conference (Sharm el-Sheikh, 2019)[30].** The Palestinian mobile sector remains at a significant competitive disadvantage due to spectrum scarcity. The launch of Ooredoo Palestine's 2G network in Gaza (October 2017) and Ooredoo and Jawwal's respective 3G networks in the West Bank has done little to ease past restrictions. These milestones took place only after several years of bottlenecks and delays, putting the sector behind regional counterparts and at a large technological and economic disadvantage. As of today, spectrum scarcity continues to impose a heavy burden on Palestinian mobile operators. A narrow bandwidth: (i) leads to higher deployment cost as additional sites are needed to cope with the increase in traffic, (ii) limits the number of customers a mobile operator can serve, (iii) leads to high pricing to end-users and lastly (iv) prevents the development of a 4G/LTE system and 5G in the future. The pressure on spectrum will increase drastically in the coming years, making this issue more and more difficult. Operators in the Palestinian territories have not been assigned 4G frequencies consistent with assignments in other

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[28] The Joint Technical Committee was established in 1994 after the Oslo Accords as a technical (non-political) platform to address bilateral issues in telecommunications, but it has not met systematically nor regularly since its inception.

[29] Amodio, Baccini and Di Maio 2016.

[30] Resolution 12 (REV.WRC-19)

Region 1 countries.[31] Allocation of 5G spectrum is anticipated in the coming months in Israel following the call for bids in February 2020. . If the frequencies in the 700 MHz band, 2600 MHz band, and 3500-3800 MHz band are not made available to Palestinian operators[32], they run the risk of having their markets eroded below sustainable levels as the demand for broadband increases. This would severely impact and restrict the development of the Palestinian telecommunications sector. Without access to sufficient spectrum bandwidth for 4G and 5G frequencies, Palestinian mobile network operators cannot compete in the delivery of mobile services.

50. **The lack of a sound policy and regulatory environment in the Palestinian territories to enable digital infrastructure would also need to be addressed**. The telecom sector is still governed by the outdated Telecommunications Law No. 3 of 1996 and no digital economy strategy exists to clarify the vision of the PA in the sector. The Ministry of Telecommunications and Information Technology (MTIT) has been engaged since 2005 in drafting a legal and regulatory framework aligned with international best practice, including the establishment of the independent Palestinian Telecommunications Regulatory Authority (PTRA). Yet political instability hindered the MTIT's plans to have the PTRA up and running by the end of 2010. Ten years later, the law has yet to be approved. This results in: (i) a lack of responsiveness in addressing sector-specific technical and legal issues; (ii) a negative impact on the transparency of the licensing process, which has left both telecom operators dissatisfied; and (iii) an absence of regulation vis-à-vis Paltel's dominant position and therefore negative impact on consumers in terms of prices and quality of service. More recently, the MTIT has completed a first draft of a new telecommunications law. It is expected that the new law could go for final review and approval by the end of 2020 (see Annex 2).

## 3. Recommendations to boost access to affordable and good quality broadband

51. The following recommendations can help boost access to affordable and good quality broadband in the Palestinian territories and accelerate the growth of the ICT sector.

*Reforming the Joint Technical Committee (JTC) to take immediate action on key bilateral issues impeding the development potential of the telecom sector in the Palestinian territories*

52. Better implemented through a revised JTC, the existing bilateral agreements provide a sound basis to create a telecom sector in the Palestinian territories comparable to other countries in the region. The mechanisms for the functioning of the revised JTC could be reviewed to build greater trust and efficiency, and allow progress to be made on:

– Establishing a clear and reasonable time-frame for allocation of adequate 4G frequencies (and ultimately 5G) for the Palestinian operators, based on the Palestinian requirements as submitted to the recent JTC meetings held in October 2019 and March 2020 (per Sharm el-Sheikh Resolution 12 -REV.WRC-19);

– Mitigating the effect of Israeli mobile activity presence in the West Bank (*e.g.* micro-cells with a smaller coverage radius can limit the coverage compared to macro-cells);[33]

– Amending the current broad-based restrictions on ICT equipment that have restricted the ability of Palestinian telecom companies to introduce new technologies and operate efficiently. This would involve taking a risk-based approach to imports that recognizes the capacity of the companies to ensure that the equipment is used for commercial purposes and would not represent a security risk;

[31] Region 1 comprises Europe, Africa, the former Soviet Union, Mongolia, and the Middle East west of the Persian Gulf, including Iraq.
[32] Especially as other bands popular for deployment of LTE like the 1800MHz, the 2100MHz and other sub 1GHz bands are already fully utilized.
[33] The signal from facilities established in settlements by Israeli telecommunications operators reaches adjacent parts of the West Bank. As a result, 600,000 Palestinians connect to Israeli providers via pre-paid SIM cards.

– Allowing access to infrastructure, and transmission sites in Area C that would facilitate the efficient provision of communications services to the Palestinian population.

*Accelerating the Set Up of an independent telecom sector regulator in the Palestinian territories and the Update of the telecoms/ICT Legal and Regulatory Framework*

53. The establishment of the Palestinian Telecommunications Regulatory Authority as the independent sector regulator needs to be completed. This would align the Palestinian territories with international best practice and will provide the private sector with a more predictable regulatory environment, as it will ensure that regulatory decisions are made based on economic analysis and public consultations with stakeholders. This would also increase the attractiveness of the Palestinian territories to national and international investors seeking predictability, legal certainty and the rule of law.

54. The telecoms/ICT sector still relies on the 1996 legislation. The overall national legal and regulatory framework needs to be revised and strengthened with the finalization and adoption of a new telecommunications law, including new generation ICT provisions, aligned with international best practices, benefitting from prior consultation with sector stakeholders, and with the benefit of final consumers in mind.

*Seizing opportunities to accelerate expansion of broadband infrastructure coverage*

55. **International connectivity – Implementing a Virtual Landing Point**. There is a possibility of building on the already existing Internet Exchange Point (IXP) to implement a Virtual Landing Point (VLP) to enhance the reliability of the Palestinian territories' international bandwidth capacity and to decrease costs of accessing the submarine fiber optic cables to connect to the Internet. The current IXP is located in MTIT's headquarters but it is not being utilized. Setting up a VLP enables a landlocked country to set up an equivalent physical landing point of the undersea cables. The VLP would be designed to house a termination point for international connectivity providers and which would allow the operators and Internet service providers in the Palestinian territories to interconnect on a non-discriminatory basis.

56. **National fiber optic backbone - Leveraging the Jerusalem District Electricity Company's (JDECO's) excess fiber optic capacity**. The Palestinian territories are one of the most densely inhabited regions in the world at 800 people per sq. km, as well as being one of the smallest territories in the world. Given the rapid growth and drop in cost in recent years of terrestrial fiber optic infrastructure, the Palestinian territories' size and demographics make it feasible to build out a comprehensive terrestrial fiber infrastructure at a comparatively low cost-per-household. An immediate opportunity would be to encourage the development and utilization of fiber over the grid and to leverage on JDECO's excess fiber optic capacity. JDECO has equipped more than 400 kilometers of its distribution network in Jerusalem, Ramallah, Jericho and Bethlehem. This underground and aerial optical fiber network is used for the management of power substations and has high-performance features that could deliver powerful products to be marketed to retail operators.

57. **Last mile connectivity - Prioritizing access to unlicensed spectrum**. There is an opportunity to capitalize on the remarkable growth and success of Wi-Fi technologies for connecting end-users (individuals, businesses and governments). Wi-Fi manufacturers are leading the world in the development of low-cost broadband wireless technologies. Use of those technologies, which in many countries is limited to the 2.4GHz and 5.8GHz bands, could help ease the current spectrum restrictions.

58. **Last mile connectivity - Satellite connectivity**. Satellite connectivity is entering a new phase with the deployment of High Throughput (HTS) satellites around the world capable of delivering broadband capacity at sustainable prices. Consideration could be given to what HTS satellites currently serve the region and what is planned for launch within 24 months. The use of an HTS satellite with local Wi-Fi distribution is a plausible strategy for rural access.

*Adopting a Strategic plan for the Digital Economy in the Palestinian territories*

**59.** The PA understands that the opportunities offered by the digital economy are growing, and the stakes for the Palestinian territories are considerable. The latest strategic plan for e-government was adopted in 2005 and is largely outdated. There is a need for the PA to define a strategy for the digital economy with a view to maximizing its benefits for the business, people and government.

# Annex I: Stocktaking of World Bank recommendations to the AHLC meetings over the years

61. **The Palestinian economic outlook is worrying, and bold actions are needed by all parties to get the Palestinian economy out of its deteriorating trajectory.** A number of necessary actions have been identified in previous reports by the World Bank to the AHLC meeting, but implementation has been limited. In the World Bank's September 2016 report to the AHLC, a stocktaking of all previous World Bank recommendations to the meeting was conducted. This exercise was intended to provide a baseline for evaluating progress in achieving the Palestinian territories' development priorities. In addition, it was hoped that it would galvanize the reform efforts of all parties to address the immediate need while setting in place reforms that will deliver over time. In this report, the stock take is updated to show progress since April 2019 using the same three pillars: (1) fiscal sustainability, (2) economic development, and (3) Gaza reconstruction and recovery.

## A. Fiscal Sustainability

62. **The PA's spending is understandably expected to increase in the short term to fight the Covid-19 outbreak, but once the crisis eases the PA needs to start addressing a number of long-standing areas of ineffective expenditure for long term fiscal sustainability**. In particular, they need to adopt a comprehensive plan for civil service reform that looks at inefficiencies and overstaffing – especially in the West Bank. Parametric reforms are also needed to support the public pension system's sustainability. Progress has been made on steps to control electricity net lending – although the problem is increasing with other utility payments, mainly water and sewerage.

63. The Ministry of Health has introduced five interventions to better understand trends and cost drivers, and better control spending on outside medical referrals (OMRs). The interventions are:

a. A digitalized system to monitor OMR that is already in use and will be further refined over the next 18 months.

b. The National Price Reference (NPR), a tool to bundle hospital services and get better prices which is being piloted and evaluated in five hospitals (Ahli, Najah National University, Makassed, Augusta Victoria Hospital and St. John).

c. An MOU with 18 hospitals with negotiated agreements to utilize economies of scale and deliver better cost-efficiency.

d. An indefinite suspension of new OMRs to Israeli hospitals (only those already being taken care of by these hospitals will continue).

e. New agreements with hospitals in Jordan and Egypt for all new OMRs needs.

64. **Domestic revenue collections dropped in 2019 as a result of the clearance revenue standoff and are expected to further decline in 2020 due to the Covid-19 crisis, but away from these shocks comprehensive efforts are still needed to get revenues close to their potential.** Despite strong performance in 2018 due to administrative measures introduced to widen the tax base, the PA's revenues declined in 2019 as a result of the impact that the clearance revenue standoff had on economic activity, and hence tax collection. The Covid-19 crisis is also expected to weigh heavily on revenue generation as economic activity slows down. Regardless these crises, however, tax avoidance is still widespread, particularly amongst high earning professionals, and the PA needs to focus efforts on this group of taxpayers. Progress has been made on updating public fees and charges with a notable recent decision to increase the license fee for petrol stations. Further, the PA and the Government of Jordan have recently agreed to further cooperation on customs through electronically linking both customs systems, which is expected to significantly reduce smuggling.

65. **Payments made by the GoI in 2020 to the PA to offset fiscal leakages have been encouraging, but a more systematic approach to fully eliminate these losses is yet to be adopted.** Efforts should focus on implementing existing agreements that provide for full information sharing on trade that takes place between both parties, including Israeli sales to Gaza. The parties could also reach an agreement regarding the sharing of Allenby bridge exit fees. Talks have been underway for some time between the GoI and the PA to initiate the introduction of bonded warehouses for Palestinian imports and the transfer of some customs authority to the PA over the coming years. Even though there were encouraging talks about exempting fuel taxes from the clearance process, this never materialized as these taxes are still collected by the GoI and then transferred to the PA after deducting a 3 percent handling fee.

66. **The PA is continuing to make progress on improving the public financial management (PFM) system.** The PA has a comprehensive PFM strategy, which has been updated to incorporate the findings of the recently completed PEFA assessment. A World Bank funded project is providing support with a focus on budget execution, reporting and procurement. A highlight is the catch up on implementation of the procurement law with the Higher Council for Public Procurement Policy now resourced, the single procurement portal operational, new standard bidding documents approved by the Council of Ministers, capacity building program of the procurement workforce launched and the operationalization of the complaint mechanism underway. Progress has also been made on addressing the major delays in the production and audit of financial statements. The audit of the 2012 financial statements was completed in 2017, and the 2013 financial statements' audit was completed in 2018. The 2014 and 2015 audits were finished in November 2019, and the 2016 and 2017 financial statements having been submitted to the State Audit and Administrative Control Bureau for joint audit in 2019. In line with the PFM strategy progress has been made to improve accounting procedures, and expenditure controls are being strengthened with the introduction of a new commitment control system. In addition, the functional design of a new payroll system is complete, and the EU is planning to procure a new payroll system based on the design that will allow the PA to better manage its payroll. A new DFID funded PFM project has also started supporting the PA. It is focusing on budget management, revenue administration, and improving the policy development / planning processes led from the Prime Minister's Office.

67. **Budget support from donors has significantly declined in recent years and funds remain insufficient to close the large financing gap.** As a share of GDP, aid to the budget fell from 27 percent in 2008 to below 4 percent in 2019 and expected to remain around the same level in 2020.

## B. Economic Development

68. **The constraints on movement, access and trade continue to be the main impediment to economic growth in the Palestinian territories.** Access to Area C remains key to Palestinian economic development. Further progress has been made on the piloting of door to door transport through the West Bank crossings with the initial Hebron pilot being extended to Nablus and Qalquilia regions, however the current scope of this activity remains limited. There has been some easing on the movement of people in and out of Gaza with up to 5000 businessman cards now authorized of which 3500 have been issued. The long list of dual use items key for the development of the economy and whose access is restricted has been updated but not significantly eased. With time, and as more incentives are in place to promote compliance, access to dual use items should be based on a risk-based criterion rather than a blanket base approach. For instance, all Palestinian businesses that have established a strong track record of their ability to safely and securely handle hazardous materials and dual-use goods should be granted access to these goods without the need for cumbersome licensing procedures. Encouragingly, the GoI has granted one off permits for certain items in recent months, particularly in Gaza. The fishing zone in Gaza has been extended to 15 nautical miles although this is sometimes reduced as a response to security incidents.

69. **At a domestic level, the PA has initiated steps to reduce the cost of doing business and improve the business climate, but these have yet to be fully implemented.** The Ministry of National Economy is consulting with the public on the revised draft of the Companies Law and is aiming to have the new law in place before the end of 2020. Similarly, a draft competition law has been prepared although it has yet to be introduced. With support from the World Bank, the PA has also updated the Law of Crafts and Industries of 1953 to facilitate business licensing through simplifying the approval process and reducing the cost. The amendments took effect from 1 January 2019 and the focus is now on removing administrative obstacles to faster processing of the licenses. To establish strategic and policy oversight of institutions in land administration, the Cabinet adopted a draft Amendment to the Palestine Land Authority (PLA) Laws. The amendment calls for the establishment of a Board of Directors that would oversee the operations of the PLA and would facilitate increased transparency in the land sector in line with the ongoing reform process. Further, land registration is proceeding well in the West Bank under the mandate and direction of the Land Water Settlement Commission (LWSC) in cooperation with the local government units.

70. **Progress in the energy sector continues at a slow pace.** The interim Power Purchase Agreement (PPA) between the GoI and the PA continues to be successfully implemented. Based on this agreement, the Palestinian Electricity Transmission Company (PETL) is supplying electricity from the Israeli Electricity Company (IEC) through Jenin substation to Northern and Tubas Distribution Companies (NEDCO and TEDCO). The same infrastructure is also allowing PETL to provide solar energy, supplied by two independent power producers (IPPs) in the Northern West Bank. PETL is building a good payment record under the interim and solar PPAs. Building on the Jenin interim PPA, discussions are underway to sign similar agreements to energize the remaining three high-voltage substations. This is crucial to alleviate supply constraints being seen across the West Bank. The recent settlement of JDECO debt has opened the door for improved management of the existing debt and elevated the urgent need for the PA and JDECO actions to reduce further accumulation of debt. The Palestinian Energy and Natural Resources Authority (PENRA) is implementing reform measures that are starting to improve collection and payment related performance. A Revenue Protection Program, along with updated management information systems is being rolled out to the distribution companies in the West Bank and Gaza. Improvements in the sector continue to be hampered by a lack of progress in other areas - particularly those related to electricity infrastructure in Area C. Diversification of electricity supply from other neighboring countries and distribution grid reinforcements are needed to enable stable supply but are hindered primarily by problems of land access. Restrictions of access and construction in Area C are major obstacles to strengthening the energy supply and sustainability through renewable IPPs and interconnections. The need for a comprehensive energy action plan for Gaza to enable increased supply, improved operations and institutional reforms is urgent. Recent discussions on pursuing an institutional review and audit of energy sector finances in Gaza is a welcome development, which requires coordinated efforts and support by all parties as a priority measure.

## C. Gaza Reconstruction and Recovery

*71.* **Most physical damages after the last Gaza war have been fixed, except for housing, but recovery needs remain significant and the shortfall of donor funds is a critical obstacle.** Good progress has been made in most sectors, with physical damages repaired. However, not all the fully damaged houses have been replaced and recovery needs that go beyond physical destruction remain large. Inadequate donor funding is a critical constraint to completion of the housing reconstruction. There has been progress in accelerating materials entry through the Gaza Reconstruction Mechanism (GRM), particularly cement, but some materials remain in short supply and delays in approval and delivery prevail, particularly for more complex infrastructure projects.

*Table 4: Summary of World Bank recommendations to AHLC meetings*

| Actions | Responsible Party | Progress as of Sept 2016 | Progress as of June 2020 |
|---|---|---|---|
| **FISCAL SUSTAINABILITY** | | | |
| **Expenditures** | | | |
| Control the oversized wage bill | PA | | |
| Control medical referrals to Israel | PA | | |
| Control medical referrals to local facilities | PA | | |
| Implement administrative reforms for the pension system | PA | | |
| Implement parametric reforms to restore the pension system's sustainability | PA | | |
| Reduce the size of net lending | PA | | |
| **Revenues** | | | |
| Enhance the PA's tax effectiveness in Gaza | PA | | |
| Increase the number of registered large taxpayers | PA | | |
| Strengthen legislation to penalize non-compliant taxpayers | PA | | |
| Revise government fees and charges upwards | PA | | |
| Transfer to the PA fiscal losses accumulated over the years | GoI | | |
| Implement institutional measures to reduce fiscal losses on clearance revenues | PA and GoI | | |
| **Public Financial Management** | | | |
| Improve budget preparation procedures | PA | | |
| Align budget execution with available resources | PA | | |
| Clear the backlog of outstanding financial statements | PA | | |
| - 2012-2015 | | | |
| - 2016-2018 | | | |
| Develop systems for monitoring and reporting expenditure arrears | PA | | |
| **Budget support** | | | |
| Provide sizeable, predictable and timely support to the PA's budget | Donors | | |
| **ECONOMIC DEVELOPMENT** | | | |
| **Area C** | | | |
| Expand spatial plans for Palestinian villages in Area C | GoI | | |
| Increase number of building permits approved in Area C | GoI | | |
| Grant approval to Palestinian business projects in Area C | GoI | | |
| **The Gaza economy** | | | |
| Allow exports out of Gaza to reach pre-2007 level | GoI | | |
| Significantly reduce items on restricted dual use list for Gaza | GoI | | |
| Create a unified legal system in the West Bank and Gaza | PA | | |
| **The business climate** | | | |
| Adopt the Secured Transactions Law & establish a movable asset registry | PA | | |
| Adopt the new Companies Law & the Competition Law | PA | | |
| Accelerate land registration in Areas A and B | PA | | |
| Improve access to finance for SMEs | PA | | |

| Actions | Responsible Party | Progress as of Sept 2016 | Progress as of June 2020 |
|---|---|---|---|
| Reform the education system to bridge gap between graduates' skills and labor market needs | PA | | |
| **Securing energy for development** | | | |
| Sign an interim PPA to energize the Jenin substation | GoI and PA | | |
| PETL operating on commercial basis | PA | | |
| Diversify electricity supply | GoI and PA | | |
| **Access to dual use items** | | | |
| Making the process to import dual use goods more transparent | GoI | | |
| Allow access to potent fertilizers in the West Bank | GoI | | |
| Facilitate access to machinery in the West Bank | GoI | | |
| Adopt a risk-based approach in the West Bank and Gaza to control Dual use items | GoI | | |
| Meet international standards for controlling and regulating dual use goods | GoI and PA | | |
| **GAZA RECONSTRUCTION AND RECOVERY** | | | |
| Complete a DNA to guide reconstruction and recovery | PA | | |
| Establish and monitor timeline indicators for review and approval of dual use items | GoI | | |
| Include delivery monitoring in GRM system | GoI and PA | | |
| Establish Gaza import mechanism able to handle long-term recovery needs | GoI and PA | | |
| **Gaza Development**[34] | | | |
| Streamline trade procedures at commercial crossing and expand capacity | GoI | | |
| Expand Gaza's fishing zone | GoI | | |
| Implement donor-financed labor-intensive projects | PA, GoI, donors | | |

**Legend**

On track

Some progress achieved

No progress

[34] These are additional recommendations that were made in the World Bank's March 2018 report to the AHLC.

# Annex II: Legal and regulatory advancements in the telecommunications sector

Recent legal and regulatory advancements in the telecommunications sector include: (1) Telecommunications Market Analysis and Price Regulation in Palestine, (2) Mobile Number Portability, and lastly (3) E-Transactions Law.

1. **Telecommunications Market Analysis and Price Regulation in Palestine**. The launch of a "Telecommunications Market Analysis ad Price Regulation in Palestine" public consultation followed the review and analysis of wholesale and retail telecommunications that was conducted by MTIT in the first half of 2016, under the assistance of the ITU. This exercise needs to be understood in a context where there is a renewed interest from ISPs to invest in their own infrastructure and some may have the financial capacity to do so. In this case, an access model based on wholesale inputs could potentially be operationalized, aiming at a more robust and self-sustained competition in the retail broadband services market.

2. **Mobile Number Portability**. A consultation on the implementation of Mobile Number Portability (MNP) has been conducted since 2016 to allow Wataniya to compete with Paltel and attract customers that are willing to switch operators but fear the loss of their mobile number. The MTIT finally issued the MNP regulation in August 2019, which forces licensees to make available Mobile Number Portability for every mobile number that it assigns to an end user. This will allow customers to switch providers and keep their numbers.

3. **E-Transactions Law**. The PA is updating its E-Transactions Law, which will potentially cover the legal framework for a future e-signature Certificate Authority. The existing E-Transactions Law, adopted in 2017, covers electronic services and e-payments. In 2017, a cybercrime law was adopted, and an information security policy document based on ISO 27001 developed. An Information Security Management System (ISMS) was approved in 2012 and is currently being updated. A committee containing an expert from the Estonian government and several government ministries is currently reviewing both policy documents.