



USAID
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WEST BANK/GAZA

INVESTMENT CLIMATE IMPROVEMENT PROJECT

Final Report 2010-2014

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ACRONYMS

ASYCUDA	Automated system for customs data
CGE	Computable General Equilibrium
CTT	Core Technical Team
DSGE	Dynamic Stochastic General Equilibrium
IPR	Intellectual property rights
IMF	International Monetary Fund
ICI	Investment Climate Improvement Project
IEC	Israel Electric Corporation
IT	Information technology
LTPO	Large Taxpayer Office
MOF	Ministry of Finance
MONNE	Ministry of National Economy
NTF	National Task Force
NET	Net Investment & Services Company
NIS	New Israeli Shekel (currency)
PIPA	Palestinian Investment Promotion Agency
PA	Palestinian Authority
PalTrade	Palestinian Trade Center
PCBS	Palestinian Central Bureau of Statistics
PCCDS	Palestinian Center for Communication and Development Strategies
PMA	Palestinian Monetary Authority
PMOH	Palestinian Ministry of Health
RMS	Revenue Management System
SCSM	Small Calibrated Structural Model
SPS	Sanitary and Phytosanitary
TAT	Technical Advisory Team
TFP	Trade Facilitation Project
VAT	Value-added tax
WBG	West Bank and Gaza
WTO	World Trade Organization

SECTION I. OVERVIEW

A. Context: Implementation of Strategic Frameworks

Political uncertainty and restrictions have inhibited the West Bank and Gaza’s (WBG’s) economic expansion for years. In 2010, unemployment was at an all-time high and the government’s liquidity crisis deepened due to the private sector’s (bank and non-bank) reluctance to finance the public sector. The transfer of customs clearance revenues was either delayed or used to pay outstanding debt to Israel, and donor aid was insufficient to cover the fiscal deficits. Moreover, movement of people and access to goods outside of the Palestinian territories remained unchanged.

Despite this gloomy economic scenario, the government recently appointed forward-looking partners in key ministries who want to take control of the WBG’s economic destiny. Building on that momentum, the Ministry of National Economy (MONE) and Ministry of Finance (MOF) adopted frameworks and recommendations from three multilateral organizations — the World Trade Organization (WTO), the World Bank, and the International Monetary Fund (IMF) — to inspire and implement reform. At the same time, the Palestinian Reform and Development Plan (2014-2016) highlighted the need to place its finances in order, reduce dependency on external aid, and create an institutional environment conducive to private sector growth.

B. USAID’s Investment Climate Improvement (ICI) Project

USAID designed the ICI Project to support the Palestinian economy in moving toward a more sustainable fiscal position through a) improved revenue generation and b) adoption of policies and legislation that promote private sector development. Financed under the General Business Trade and Investment II indefinite quantity contract awarded to Chemonics International, ICI began in September 2010 and concluded in September 2014, providing approximately \$18.65 million in assistance.

ICI comprised two project components, policy reform and fiscal reform. The policy reform component was divided into two sub-components: preparing the Palestinian Authority (PA) to achieve WTO observer status and improving the business-enabling environment. Additionally, through grants and subcontracts, ICI implemented four crosscutting activities: a grants program, gender-related activities, a public information and outreach campaign, and institutional capacity building and training. Throughout the project, ICI’s main partners were the MONE and MOF. The project also provided targeted assistance to 12 nongovernmental organizations (NGOs) and private companies through its grants program. ICI collaborated intermittently with the Ramallah Municipality and other municipal agencies, the engineer syndicates, Civil Defense, the Palestinian Monetary Authority (PMA), the Palestinian Capital Market Authority, the Palestinian Land Authority, and the Palestinian Investment Promotion Agency (PIPA). In the final year of project operations, ICI supported the Ministry of Health, the Palestinian Electricity Transmission Company, the Palestinian Energy Authority, and the Ministry of Local Government. In addition to these organizations, ICI extended its reach to other ministries, organizations, and individuals

Achieving Long-Lasting Impact

“Despite the rapidly changing environment in the West Bank and Gaza and the consequent shifting priorities, ICI has achieved a measurable and long-lasting impact for the Palestinian economy.”

-Fadi Abdellatif, Contracting Officer’s Representative (COR), USAID

in nearly all of the West Bank's regions to achieve project goals (see Exhibit 1).

Exhibit 2 below summarizes the project's main outcomes. Despite government strikes, partners who were often non-responsive, and a full project shutdown in the first year due to funding uncertainties, the ICI team is proud to have met three of its project objectives, and is confident that the fourth will be met in the very near future.

1. The PA will be fully prepared for observer status in the WTO. – *Achieved*
2. The Palestinian private sector will be equipped to participate with the PA to fulfill WTO accession requirements. – *Achieved*
3. PA revenues will increase progressively, reducing the large gap between PA fiscal revenues and expenditures. – *Achieved*
4. The Palestinian ranking in the World Bank's Doing Business Indicators will improve.
 - Will likely be achieved in future Doing Business reports.

To accomplish these goals, ICI first organized working groups with the National Task Force (NTF) and Technical Advisory Team (TAT) to lead the WTO effort. The NTF, comprising representatives from the public and private sectors and the TAT, included 45 PA government officials who developed a roadmap for WTO permanent observer status. ICI helped draft 37 key pieces of legislation, three of which were focused on helping the PA comply with WTO guidelines, such as the Intellectual Property Rights (IPR) Law. One-third of the ICI grants awarded directly helped this subcomponent attain its project objectives. During these activities, a public outreach campaign indicated that public awareness of the WTO had increased by 38 percent.

ICI helped the PA government complete the World Bank's Doing Business reforms, which led to an improved 2014 score (published in 2013): 138 out of 189 economies as compared to 145 out of 189 in 2013 (a lower score reflects greater ease in doing business). For the current 2015 report (published in October 2014), ICI and its counterparts were disappointed in the slip in overall score to 143 (out of 189). The important reforms that were made during the project were not reflected due to the World Bank's recent change in ranking methodology, the changing scores of other economies, and the fact that the World Bank often requires one to two years for its staff to verify reforms claimed by a country.

Exhibit 1. Areas Served by ICI

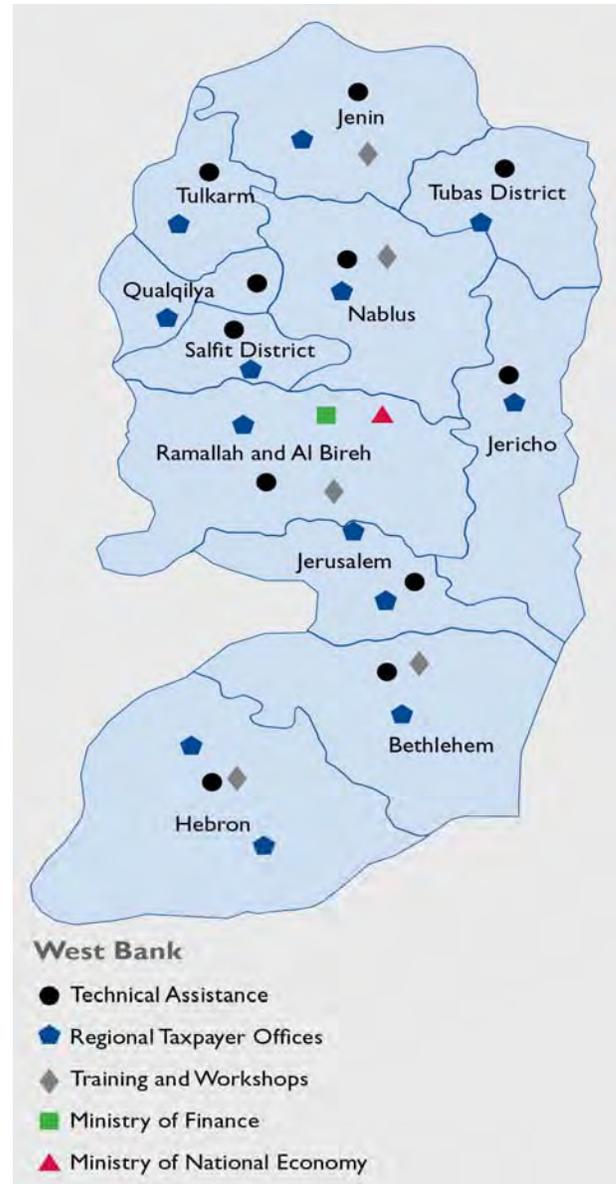
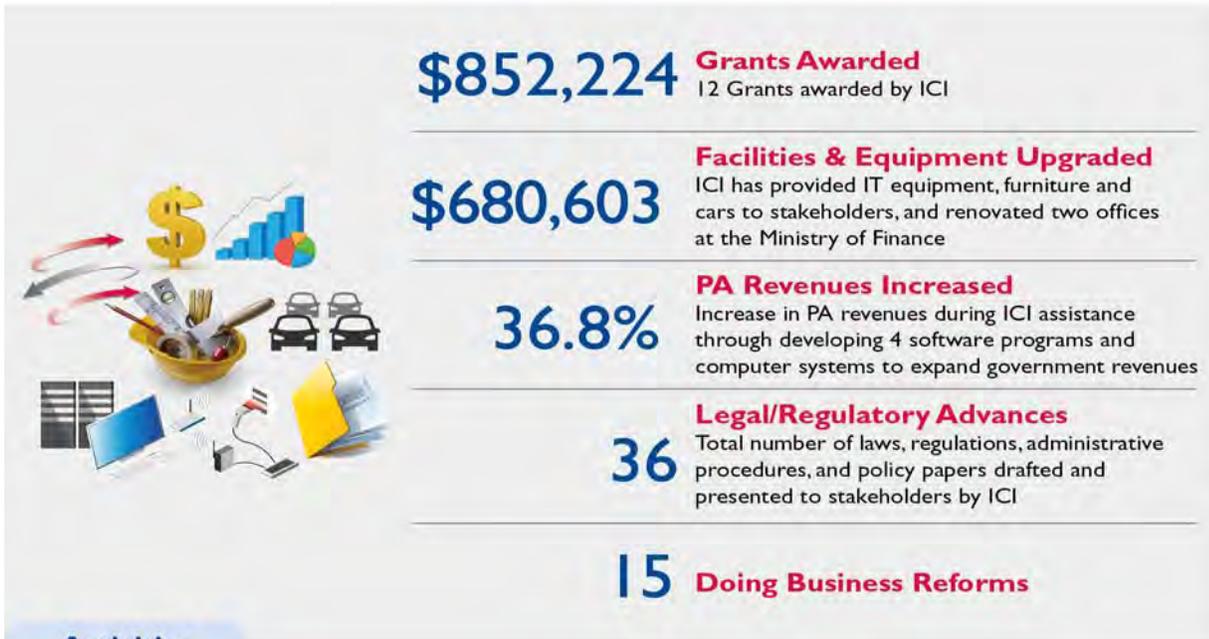


Exhibit 2. ICI in Numbers



Activities



1,814

Total unique participants in events

1,425



389

164

Events



Includes training, workshops, focus groups, round-tables, symposium



89

Training Events



5

Study Tours



Jordan, Luxembourg, Turkey, Morocco, Switzerland

Public Outreach

14%

Awareness Increase after Campaign

Increased understanding about obligation to pay taxes



38%

Awareness increase after campaign

Increased awareness about WTO



17%

Awareness increase after campaign

Increased awareness about Intellectual Property Rights



109,855

Materials disseminated

Brochures, pamphlets, booklets, banners



4,916

Radio spots



134

Newspaper placements



Notwithstanding, ICI's support to PA tax reforms were recognized in the 2015 report, causing a 28-place improvement in Paying Taxes from 79 to 51 in the world.

In the 2015 Report, a new indicator was also introduced: the Distance to Frontier

Score. This score aids in assessing the absolute level of regulatory performance and how it improves over time. The score measures the distance of each economy to the "frontier," which represents the best performance observed on each of the indicators across all economies in the Doing Business sample since 2005. This allows stakeholders to see the gap between a particular economy's performance and the best performance at any point in time, and to assess the absolute change in the economy's regulatory environment over time as measured by Doing Business. West Bank/Gaza improved their score 0.62 percent from last year, and 2.07 percent since 2010.

As a result of information technology (IT) initiatives, including the design and implementation of the Revenue Management System (RMS), the creation and adoption of an interface between the PA and Israeli Customs, and technical assistance provided to the Large Taxpayer Office (LTPO), ICI contributed to the government's 37 percent increase in total net revenue during the project's four years of implementation.

As a result of the cumulative fiscal and policy reform initiatives supported by ICI, in 2015 the PA will collect \$182 million more in tax revenues than would have been collected absent these reforms. Based on economic modeling simulations completed by the MONE, the World Bank business enabling environment and WTO reforms will contribute an additional \$1.407 million to the Palestinian economy in 2015. This increased GDP benefits the economy through increased investment and employment, and also benefits the PA with much needed incremental tax revenues to addresses the public sector deficit.

Exhibit 3. Economic Impact of ICI Activities in WBG Incremental GDP Growth

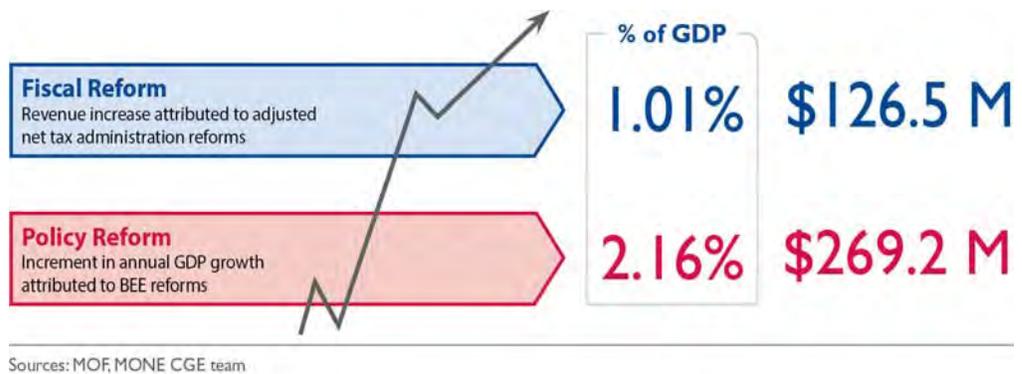
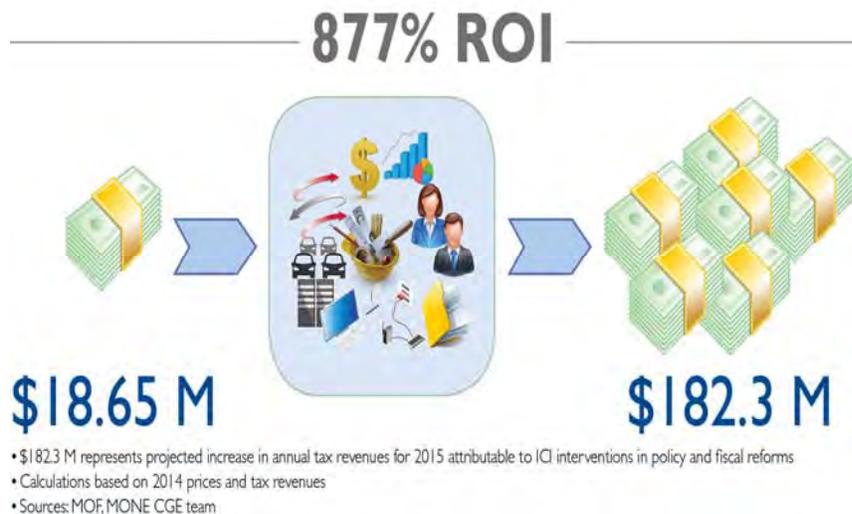


Exhibit 4. ROI/Leverage



Likewise, removing unnecessary governmental procedures reduces transaction costs for private sector production. The methodology for these calculations can be found in the Annex I.

Although the numbers may seem high - they represent an 877 percent annual return on USAID’s four-year investment of \$18.23 million - ICI was conservative in the assumptions and used official statistics from the MOF, MONE, and Palestinian Central Bureau of Statistics (PCBS). Moreover, the economic modeling simulations were based solely on those fiscal and policy reforms that ICI directly supported and were adopted by the PA. Following this brief introduction, sections II, III, and IV of this report highlight success stories from ICI’s two components and its grants program. Section V contains lessons learned and recommendations. Project activities, performance indicators, and links to project videos are included in a separate document.

SECTION II. POLICY REFORM

A. Overview: World Trade Organization and World Bank Offer Reform Models

At the project’s onset, several developments created a unique opportunity for the team to address long-standing shortcomings in the enabling environment for private sector activity. These developments included the appointment of reform-oriented ministers in the Ministry of National Economy and other ministries, the PA’s strong desire to include WTO accession in its framework for legal reform and institution building, and significant room for improvement in the World Bank’s Doing Business scores. To that end, using the WTO and World Bank as a reform framework became the cornerstone of ICI’s policy component strategy. Specifically, ICI set goals to prepare the PA to become technically compliant to achieve WTO observer status and to raise the World Bank’s Doing Business scores. While the WTO-related goal was met, the overall Doing Business score deteriorated despite the accomplishment of significant reforms.

**The PA and WTO:
Observer Status vs. Membership**

The formal application made by the PA for WTO observer status reflects its desire to accede to this organization in the future and to actively participate in the multilateral trading system. From a strict legal point of view, the PA as established by the Israeli-Palestinian accords of the 1990s does not satisfy the formal criteria for candidacy of WTO membership. Once accorded observer status, the PA will have five years to negotiate membership while attending meetings and reviewing WTO documents. Many governments, including the PA, undertake reform in their foreign trade regime in anticipation of the accession process and request observer status. Due to changing U.S. Government priorities, technical assistance for ongoing WTO support was eliminated in the project’s final year.

Exhibit 5. WTO and World Bank



The process of becoming technically prepared for WTO observer status required a combination of legal reform, capacity-building activities in key ministries, and intense efforts to raise stakeholders’ awareness of WTO and its benefits to the Palestinian economy. ICI first established a public-private sector institutional framework to drive the process, and then focused on key legislation that would need revision to comply with WTO rules. As IPR is an important issue in global trade,

ICI allocated resources to improve that law, including upgrading the IPR Directorate at the MONE and conducting awareness campaigns to inform stakeholders of IPR’s importance to business and investors.

Exhibit 6. IPR Awareness



ICI staff used a similar approach to improve the World Bank’s Doing Business scores, setting up a team of public and private sector members. They chose five topics and later added a sixth based on criteria that did not require excessive legal reform, as this would have stalled the process given the absence of an active Legislative Council. The team focused its efforts on business process reengineering to reduce the cost, number of procedures, and time required to complete an action, such as starting a new business. Team members, including primary stakeholders at the MONE, quickly discovered that of greatest importance to the reform process was the methodology used to make improvements. Early results of this approach resulted in the 2014 overall score (published in 2013) improved

from 145 to 138 (out of 189 economies) from the previous year. Even though the World Bank’s Doing Business simulator results suggested great improvement to the overall WBG 2015 ranking, the recently published results (October 2014) showed a slight overall worsening from 138 to 143 (out of 189 economies). It is important to note that simulations are static – they are unable to take into account improvements that other countries will make, as well as the fact that the World Bank must verify all reforms claimed by a country — a process that can take up to two years. Moreover, the World Bank changed its methodology this year, details of which were not made available to the PA or others, and revised 2014 scores that did not alter the overall score but did alter those of some topics. Nonetheless, the PA accomplished significant reforms with ICI assistance, some of which are captured in rankings of individual topics (such as Paying Taxes) and some of which are expected in the near future. Section C below provides additional detail on achievements made with ICI assistance.

Another important success for ICI’s policy component included developing and implementing two mathematical models — Computable General Equilibrium (CGE) and Dynamic Stochastic General Equilibrium (DSGE) — for the PA. Through ICI assistance, the MONE identified and led representatives from six government ministries in learning how to build the CGE model and use it to evaluate alternative scenarios of macroeconomic growth. As a result of this activity’s success, the PMA requested additional assistance to model specific scenarios for monetary policy, such as shocks to the economy caused by interest rate and technology changes. This will allow officials to make more informed decisions based on analytical research and understand economic options as they emerge, such as the effects of changes in trade and fiscal policy. For details on these two models, see Section D below.

Reforms Matter More than Rankings

In addition to the PA, many governments are deeply disappointed at having their overall Doing Business scores decrease in spite of absolute increases in reform. For example, during a public meeting in which the 2015 scores were released, a vocal Chilean contingent demanded to know why they had lost their top Latin American Reformer label to Colombia. World Bank officials responded that their Bankruptcy Law was not enacted until October 2014 – well after the June 2014 cutoff for the 2015 report. This case is similar to that of the PA for this particular topic, and other topics for which significant efforts were made that will not be reflected in the score for many months. World Bank officials appealed to the audience by saying, “Don’t worry about the rankings”.

Apart from these three successes, ICI provided legal advice in other business-related laws, such as the Debt Resolution Law, Industrial Property Rights Law, Companies Law, and Commercial Agents Law, to improve trade and the enabling environment. The project also funded an online compendium of investment-related laws to promote trade and investment in the PA.

B. The Palestinian Authority is Technically Prepared for WTO Observer Status

The most recent National Development Plan (2014-2016) spells out an economic policy agenda and actions to improve the WBG's macroeconomic and fiscal framework, thereby improving the overall welfare of the Palestinian population. It also highlights the PA's commitment to expand bilateral and multilateral cooperation and integrate itself into the international community and global economy. In this regard, the Palestinian government seeks trade and cooperation agreements with potential trade partners and encourages the private sector to take advantage of existing agreements.

"Prepared" for WTO Observer Status

"Solely because of ICI, the PA is now prepared for WTO observership."
-Fadi Abdellatif, COR, USAID

Following that directive, the PA has taken important steps to create a trade and investment framework consistent with the WTO, which will promote the competitive development of domestic business and lay the groundwork for integration in international financial and trading networks. The PA recognized that many laws required revision to comply with WTO guidelines; it also understood the need to raise the private sector's and general public's awareness of the benefits of becoming WTO compliant.

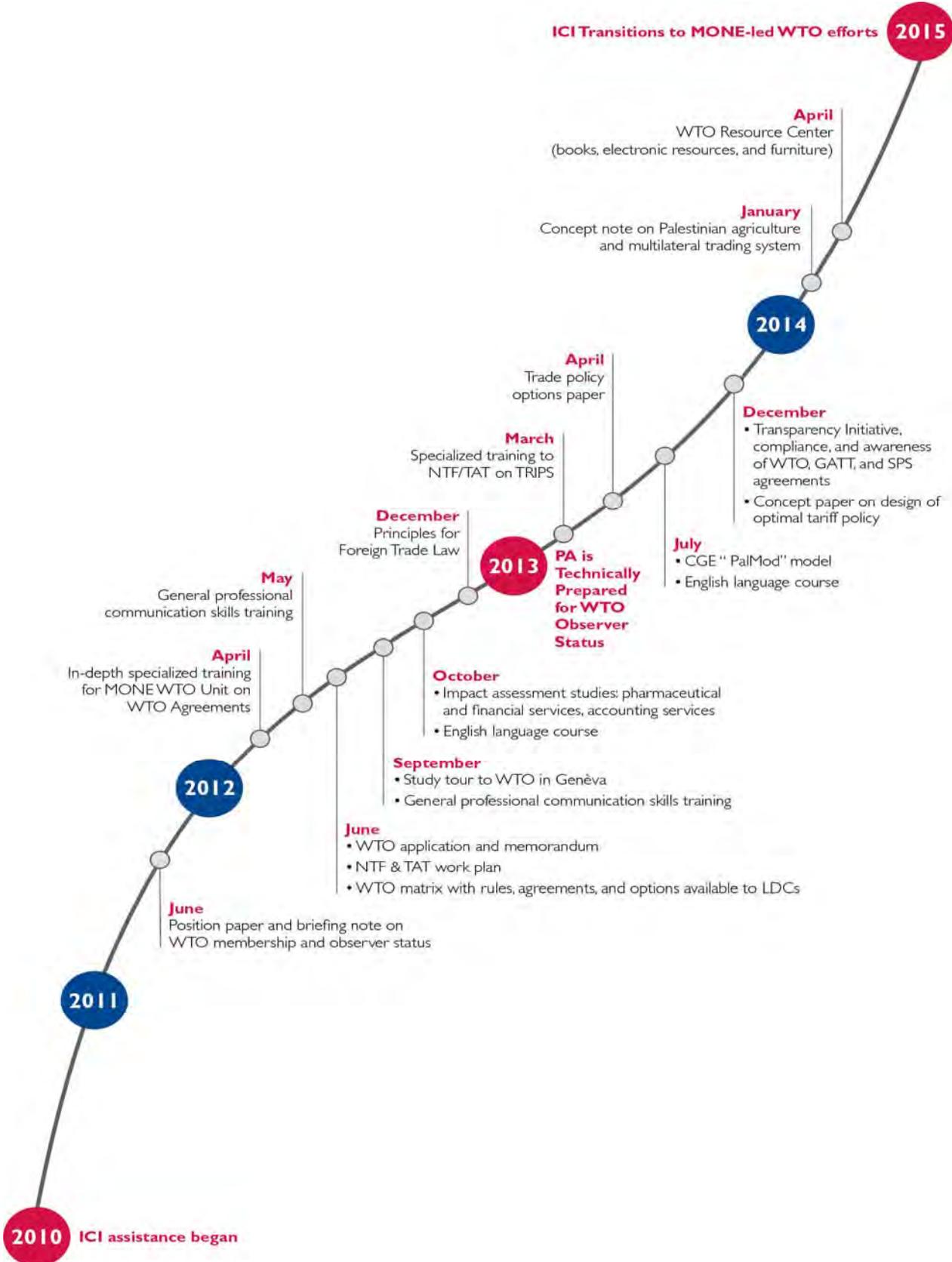
USAID set out to accomplish these goals through ICI by establishing working relationships with the NTF, TAT, and the WTO unit. The NTF, established by the Council of Ministers in 2010, is structured as a consultative institution to prepare for WTO accession. NTF members make recommendations to the Minister of the National Economy, who in turn defers, when necessary, to the Council of Ministers for final decisions. TAT members represent the public and private sectors and undertake analytical and technical work to support the NTF. The WTO unit, created in 2011 by the MONE as the secretariat for NTF and TAT, advises the Minister of National Economy on WTO matters.

The NTF adopted a two-track approach. First, it proposed a roadmap toward permanent WTO observer status. Second, it undertook activities leading to the implementation of a Palestinian WTO-compatible trade regime. Both tracks required ICI support to improve the trade policy regime, build trade-related institutional capacity, and improve stakeholders' knowledge of the economy and WTO. Given that WTO observer status is a first step in the accession process, if granted, the PA would attend formal WTO meetings and review documents before negotiations begin. To support the PA's eventual application, ICI sought out WTO-specific legal advice on how to approach the PA application. Later, ICI provided experts to review and analyze laws, such as the Debt Resolution Law, Foreign Trade Law, and Trade Remedies Law. In 2012, the project supported a study tour for five NTF and TAT members to attend the WTO's 2012 Public Forum in Geneva, where they participated in workshops and sessions on the multilateral trade system. ICI also provided technical experts to prepare policy and concept papers on WTO-related issues, such as trade in services, agriculture, and customs. In the future, the MONE plans to form special working groups to tackle sector-specific issues affecting Palestinian trade.

Raising Awareness of IPR

"ICI was an excellent project. It helped us to understand the needs of IPR and where we are going. Before ICI, no one knew about IPR in Palestine. After our awareness campaign, we received many questions about registering trademarks and a lot more applications."
-Ali Thoquan, Acting Director of IPR Directorate, MONE

Exhibit 7. ICI WTO-Related Activities



Additionally, as part of improving Palestinian trade policy, ICI designed an IPR initiative that combined legal reform, training, and awareness-raising on intellectual property. Working with the IPR directorate at the MONE and grantees, ICI helped to draft a law on intellectual property rights and implement an IPR awareness campaign. Roundtables in Ramallah, Nablus, and Hebron spurred debate and discussion between the public and private sectors on IPR issues. ICI also delivered specialized training to ministry staff on trademarks, patents, copyrights, and unfair competition.

In addition, ICI established a WTO Resource Center in the MONE, which is open to the public. The project procured publications and books on the WTO and related subjects, and contracted a company to develop library software for archiving and cataloguing books. They then trained staff and connected the new system to public libraries throughout the PA. ICI also procured IT and non-IT equipment for use by the WTO unit and covered the annual subscription in the Hein Online, a website focusing on WTO accessions.

Challenges. ICI faced several challenges while delivering policy assistance. Convening two teams (NTF and TAT) was especially difficult, because the large number of technical team members (80) slowed down the decision-making process. Given that both the public and private sectors were involved, ICI often found it difficult to resolve competing issues. Finally, given the political sensitivity of the PA and WTO, certain activities, such as the trade policy conference, did not move forward as planned. Shifting government priorities and leadership changes within key ministries also led to changes in levels of commitment. Nonetheless, ICI adapted to these shifting priorities and consistently communicated with its key stakeholders. As a result, the PA is now technically prepared to move forward with its WTO application for permanent observer status.

Next steps. Should the PA proceed with WTO accession by submitting its application for permanent observer status, it will require additional assistance to fully understand the options under the Sanitary and Phytosanitary (SPS) Agreement, Trade in IPR Agreement, and General Agreement on Trade-in Services. The CGE model, referred to as “PalMod,” would also benefit from specific instruction on how to evaluate policy, fiscal, and trade scenarios, including impact analyses of WTO accession. This model is described in greater detail in sub-section D below. Additional training on how to analyze negotiating options should be delivered to the group at the MONE who would actually negotiate at the WTO. Further legal support would support revisions to the Commercial Code and technical regulations related to certain sectors, such as agriculture and pharmaceuticals. Finally, the PA requires a clearly articulated and comprehensive foreign trade policy — hopefully one that will come about as a result of this targeted USAID assistance.

C. Tax Reforms Recognized in 2015, but Other Reforms Miss Doing Business Survey

With the adoption of the World Bank’s Doing Business report as a framework for regulatory reform, and despite the disappointment in the lack of progress in the overall WBDB ranking, the ICI team is optimistic about the future of the Palestinian economy if the Ministry of National Economy continues to implement the new reforms. In fact, notwithstanding extraordinary external challenges the Palestinian government and its people have realized that by implementing reforms —especially those that do not require lengthy legislative approval — they have control over their economy and can produce new and improved jobs. The 2014 Doing Business report ranked the WBG as 138 out of 189 economies, as compared to 145 out of 189 economies in the previous year. Even though the MONE’s simulations

showed that the overall score for the 2015 report would have improved, methodological changes and reforms implemented after the Doing Business survey contributed to the final score published in October 2014 of 143 (out of 189). The actual score for the overall reforms and 10 individual topics depends on the performance of other economies as well as on the World Bank’s recently-changed methodology, in which verification is based on implemented laws and regulations (or formal commitment to them) and practice of claimed improvements. Therefore, many of the PA’s reforms will not appear until at least the 2016 WBDB Report. Exhibit 8 shows reforms implemented under ICI and ongoing reforms under World Bank Doing Business topics.

Exhibit 8. World Bank Doing Business Reforms

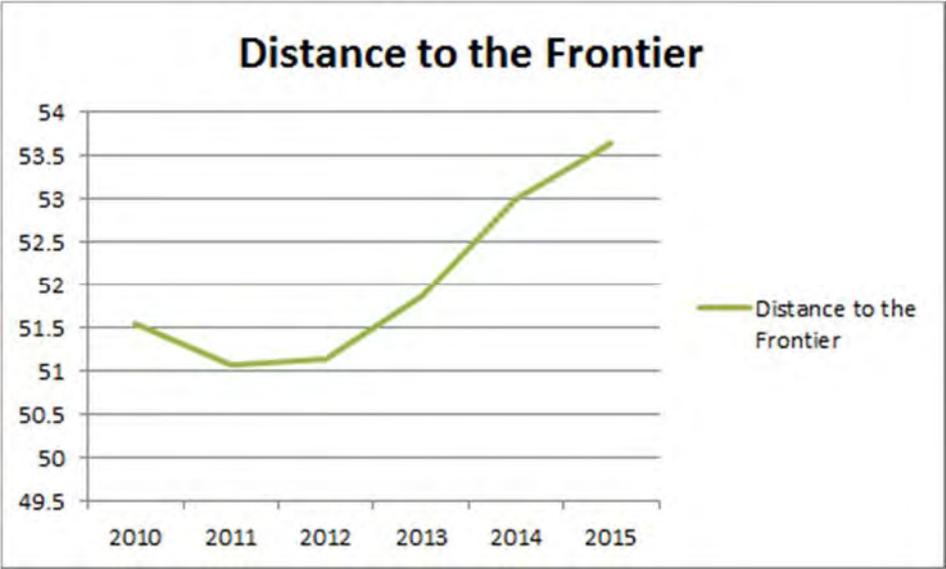
Topic	Reforms Implemented during ICI	Ongoing Reforms
Starting a Business	<ul style="list-style-type: none"> • Procedures and time reduced • Change to minimum capital requirement (MCR) • Business registration certificates issued after registration requirements are met (before MCR is paid) 	<ul style="list-style-type: none"> • Standardizing and simplifying document requirements so that the assistance of a lawyer is not required • Creating online document submission system
Dealing with Construction Permits	<ul style="list-style-type: none"> • Procedures and time reduced • “No objection” letter no longer required from Water and Sewer Company • Concrete casting permit is electronically shared with municipality for approval, thereby expediting certain processes 	<ul style="list-style-type: none"> • Further improvements in time, procedures, and costs
Registering Property	<ul style="list-style-type: none"> • Procedures reduced • New software corrected administrative inefficiencies • Applicants no longer required to interact directly with Council of Ministers for purchase permit • Land Authority now handles administrative tasks due to upgraded filing systems 	<ul style="list-style-type: none"> • New IT systems will support ongoing improvements
Paying Taxes	<ul style="list-style-type: none"> • Monthly income tax payments replaced by 1 annual advance payment or 4 quarterly installments • Time reduced • Discount incentives now available with early payments • Administrative efficiencies gained with Revenue Management System (RMS) 	<ul style="list-style-type: none"> • Additional streamlining in procedures in time and procedures expected with RMS
Getting Credit	<ul style="list-style-type: none"> • Leasing law enacted • Improvement on depth of credit indicator • Limited improvement made to legal rights index 	<ul style="list-style-type: none"> • Improvement to legal rights index
Resolving Insolvency	<ul style="list-style-type: none"> • Companies Draft Law merged with new Debt Resolution Law 	<ul style="list-style-type: none"> • New combined law ready to be passed

Exhibit 9. Annual Savings from WBG Reforms

Topics	Estimated Cost Savings as a Result of Reforms (NIS)
Starting a Business	1,156,004
Dealing with Construction Permits	5,172,245
Registering Property	1,977,428
Paying Taxes	21,157,796
Getting Electricity	141,475
Total in NIS	29,604,947
Exchange Rate	3.4072
Total in U.S. Dollars	\$8,688,937

While the Doing Business rankings are important for policy reform visibility, the much better ranking system is the distance to frontier (DTF) ranking, also published in the report, which demonstrates absolute performance over time compared to the best practice globally. As you can see from Figure 1 below, by this measure the West Bank and Gaza has improved annually each of the past four years. This is the data that the World Bank Doing Business team uses in presenting the information to individual countries because they have no control over what other countries are doing/implementing. We can hope for more rapid progress, but the direction of change has been consistent and positive.

Figure 1 - West Bank and Gaza Progress on Distance to Frontier (DTF) Score



Despite the change in World Bank methodology to calculate Doing Business scores, the report has introduced new ways to implement reforms in economies across the globe, which the PA and the private sector have adopted with the support of ICI. As a first step, ICI helped to establish the Core Technical Team (CTT), whose initial task was to design a comprehensive strategy that identified priorities to improve the WBG’s ranking. With representatives from the public and private sectors and organized by the MONE, the CTT initially chose to focus on five topics in the Doing Business report: starting a business, dealing with construction permits, registering property, getting credit, and paying taxes. Later, the CTT added two topics: getting electricity and resolving insolvency. The potential to remove

bottlenecks in a reasonably short timeframe was the main criteria for topics, as the CTT hoped to jump-start the reform process and significantly improve the WBG’s overall Doing Business score.

Study Tour Reveals Best Practices

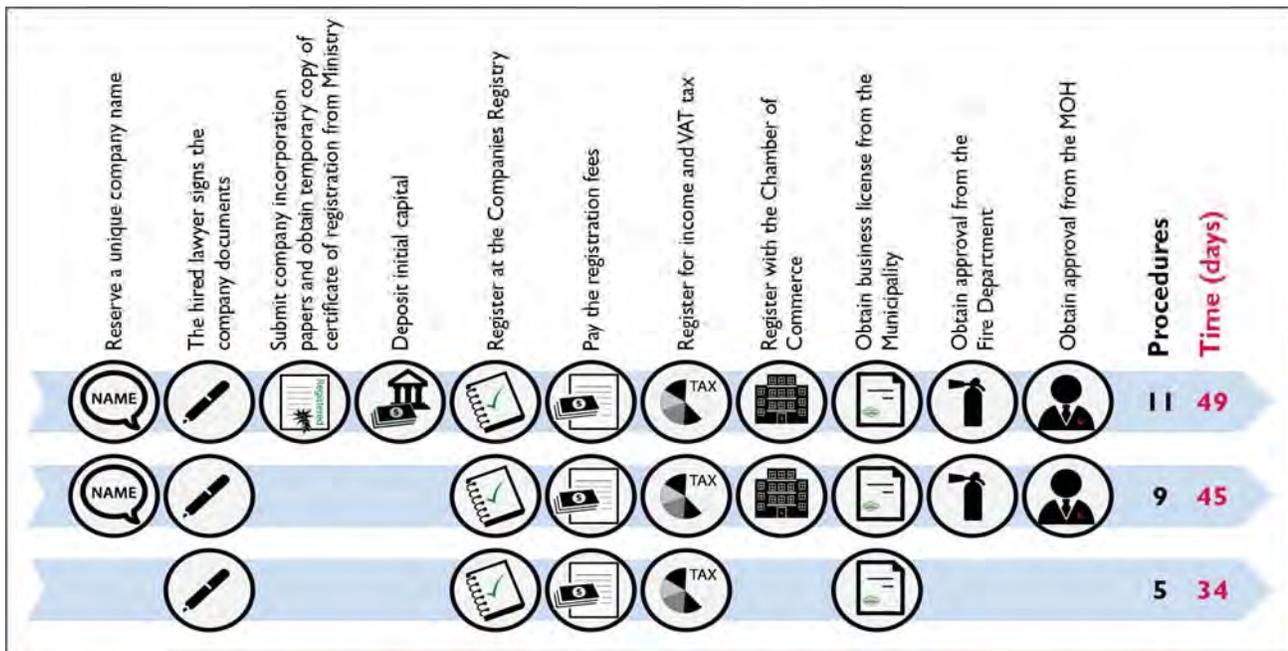
“As a result of our study tour to Turkey, we saw that a true dialogue had formed between the public and private sectors under the umbrella of the prime minister’s office. The Turkish study tour has opened our eyes and we want to adopt further international best practices to improve our competitiveness.”

-Imad Jalad, head, CTT

Despite the strategy to focus on quick wins, ICI and the CTT carefully planned their next steps, as each of the Doing Business topics contains certain indicators, two of which are always procedures (measured by number) and time (measured by days or hours). Additional indicators vary by topic. For the registering property topic in the WBG, the indicator of “cost” (measured by percentage of property value) is also included. To choose indicators corresponding to each topic, ICI focused on the number of procedures and time required to complete them. (For details, choose “West Bank and Gaza” in www.doingbusiness.org and click on a topic like “Registering Property.”)

To a great extent, the success of the WBG’s reforms is due to business process reengineering, which resulted in significant time savings. However, without the CTT’s institutional framework, it is doubtful that many of these reforms would have occurred. For example, CTT members convinced key stakeholders to work together and change their way of doing business. They also convinced key agencies of the benefits of reform (rather than simply highlighting a need to improve World Bank scores). Thus, one of ICI’s key recommendations is to institutionalize the CTT within the Office of the Prime Minister or Deputy Prime Minister (a recommendation echoed by the head of the CTT) to ensure its sustainability. The CTT could also benefit from additional training to understand how to monetize reforms and undertake impact analysis.

Exhibit 10. In Practice, Starting a Business Now Takes Less Time



Starting a business. This topic examines the ease of establishing a new formal sector business enterprise. The assumption in the new Doing Business methodology that is reflected in the most recent 2015 scores

is that the new enterprise will be organized as a “private limited liability company” for all economies under review, and in the case of the WBG’s economy, that it will be located in Ramallah. Regardless of the World Bank’s assumptions as to the location of the business, similar reforms will be implemented throughout the PA. Despite the decline in the current ranking under this topic, the CTT has made significant progress in this area. Overall, in current practice there are five procedures required for starting a business, down from nine as reported in the 2015 report. Furthermore, the amount of time in current practice is 34 days, which represents a decrease of 10 days reported in the 2015 report. Of great importance is a change to the minimum capital requirement for starting new businesses; previously, this payment was required to establish a business, but now it is not required until three months after the business is established. In addition, business registration certificates, which were previously issued after the MCR had been paid, are now issued after all registration conditions have been met. Apart from advocating for this important change, ICI drafted the Companies’ Controller circular to announce the reform (a World Bank requirement). It is hoped that these reforms will be reflected in an improved score in 2016 for this topic.

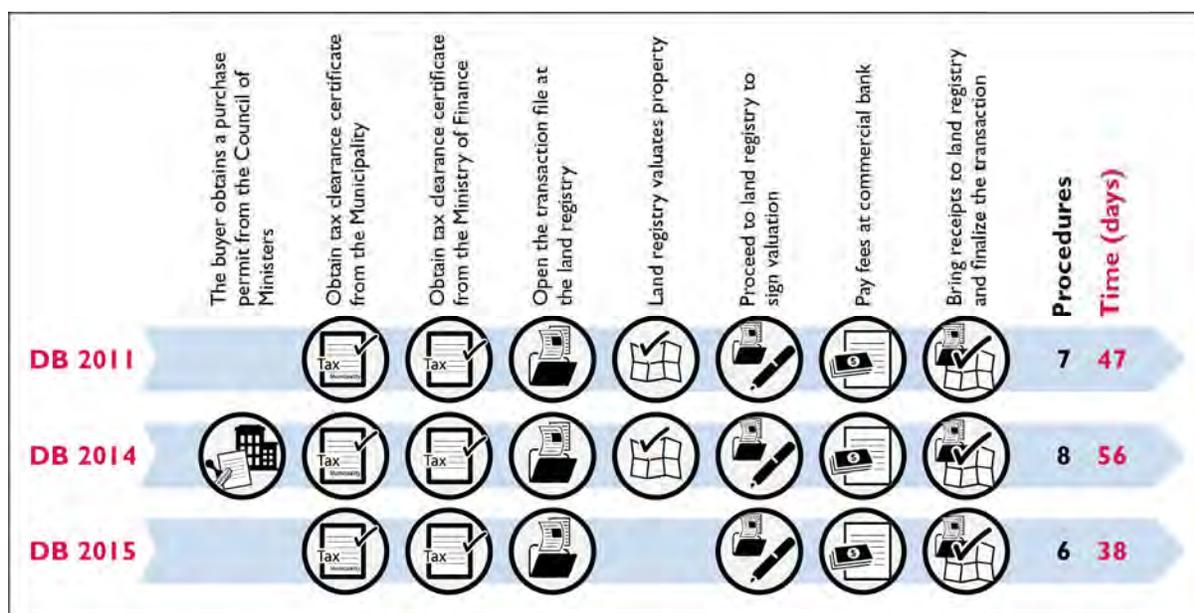
Legal ground for these reform measures has been established by issuing formal circulars and letters of commitment to identify and explain streamlining measures by the Companies’ Controller Office at the MONE, the Chamber of Commerce for Ramallah and Al-Bireh governorates, the MOF, and the Ramallah Municipality. The Companies’ Controller is working on additional reforms, such as standardizing and simplifying document requirements so that the assistance of a lawyer is not required and creating an online document submission system. Apart from saving time and money, these reforms will allow the Companies’ Controller to focus on company performance. They will also encourage private investment and stimulate business creation in the formal sector.

Exhibit 11. Dealing with Construction Permits



Dealing with construction permits. This topic measures the ease of dealing with construction permits for a two-story commercial warehouse located, in the WBG’s case, in Ramallah. Again, improvements will be applied to all construction permits throughout the PA, as applicable. Procedures measure the number of interactions required between the builder and external officials to obtain permission to build, carry out inspection during construction, and connect to utilities (except electricity). In addition, procedures measure the process of obtaining permission to use the warehouse and registering it with the property registration agency, if required. The CTT encouraged collaboration among stakeholders in the construction sector (primarily Ramallah Municipality and the Engineers’ Syndicate) to reduce the number of procedures from 18 to 12 in current practice (15 as published in the 2015 report) and the number of days from 87 to 51 in current practice (82 as published in the 2015 report). Most of this business reengineering occurred at the municipality level. The municipal office now handles most of the eliminated procedures.

Exhibit 12. Registering Property



Registering property. The CTT and ICI embarked on an aggressive path to improve the WBG’s score for registering property. Although the new scores held almost steady, future ranking for this topic should improve due to savings in time. Most of the improvement will be in terms of time (38 days in practice versus 56 days as reported in 2015 scores), as the result of the Land Authority circular that eliminated two procedures and the new registration software that corrected administrative inefficiencies. The new IT systems will support ongoing improvements in the property registration process (however, the need to ensure that Palestinian land remains available to Palestinians makes this more challenging). Applicants are no longer required to interact directly with the Council of Ministers to obtain a purchase permit, and the Land Authority now handles administrative tasks thanks to its upgraded filing systems.

Paying taxes. A new MOF regulation eliminated the need for monthly income tax payments. Businesses are now given the option to make one annual advance payment or four quarterly installments. At the end

of the year, the taxpayer is required to file a return and pay any underpayments. In practice and as reported in the 2015 Doing Business report, this regulation reduced the number of tax payments from 39 to 28 and the associated time from 170 hours to 162 hours. Additionally, the MOF issued announcements in late 2013 and early 2014 to encourage businesses to make advance payments and take advantage of discount incentives. The regulation reduces the advance payments required by at least eight payments depending on whether the annual or quarterly advance payment option is chosen. This development, in addition to other efficiencies achieved with the new RMS (implemented with the support of ICI), will continue to reduce the time required to make tax payments.

Getting credit. The World Bank uses two indices — depth of credit and strength of legal rights index — to compute the score for this topic. Both indices are measured according to “yes/no” answers to questions. Unfortunately, the legal rights index has brought the WBG’s overall score down in the past. However, in January 2014, the president signed a leasing law published in the Official Gazette. As a result of this law, the Secured Transaction Law No. (46) of 1953, and the Execution Law No. (23) of 2005, the WBG can now record six “yes” answers, compared to one in the previous reporting period under the strength of legal rights index. The depth of credit indicator will also include an additional positive answer, raising the total to five out of six as a result of the PMA’s clarification of its information policy. As confirmed by an IMF consultant, the PMA distributes historical credit information for more than two years, which is in line with other economies ranking the highest on this indicator. Despite expectations for great improvement in this topic, the 2014 score was changed to reflect a dramatic improvement for that year (that score was originally 165 and then revised to 111). The score for this topic, as published in 2015, fell slightly to 116. Notwithstanding the score, the passage of the two laws marks important reforms in this topic, and more importantly, to the Palestinian economy.

Exhibit 13. Paying Taxes



Resolving insolvency. During 2012, the World Bank changed the title of the Closing a Business topic to Resolving Insolvency, keeping essentially the same indicators. The lowest possible ranking for this topic (189) in 2013 and 2014 is based on the time, cost, and outcome of insolvency proceedings against a local company. In efforts to improve the practices associated with this topic, the CTT has coordinated with the Higher Judicial Council to obtain more information on the PA’s bankruptcy practice, with particular focus on bankruptcy cases raised or settled in the past five years. The World Bank’s methodology states, “If an economy had zero cases a year over the past five years involving a judicial reorganization, judicial liquidation, or debt enforcement procedure (foreclosure), the economy receives a ‘no practice’ ranking. This means that creditors are unlikely to recover their money through a formal legal process (in or out of court). The recovery rate for ‘no practice’ economies is zero.” The CTT raised the following argument with the World Bank’s technical team: If there is a court case in the West Bank, then the economy should not be ranked as zero, but rather as an economy that has a practice in place. It is hoped that the World Bank’s technical team will review this justification for the 2016 DB report. In addition to advising the CTT on this topic, the ICI policy team contracted legal experts to draft a new

Debt Resolution Law in compliance with international standards and best practices. During the last few months of ICI, the MONE requested ICI assistance to revise the Companies Draft Law and merge it with the new Debt Resolution Law. The combined new draft is ready for implementation. After its enactment, the law will establish the appropriate legal practice and help to improve the PA's ranking in this topic.

Challenges. ICI and the CTT worked in close collaboration to decide on a strategy focusing on administrative rather than legal reforms. Some legal reform was still required to improve Doing Business scores and technically prepare the PA for WTO observer status. Legal work on a new Debt Resolution Law, for example, was required to stimulate discussion about the bankruptcy process and pave the way for future legal reform (which is important for private sector development). As far as implementing non-legal reforms, process reengineering was a tedious process. Many organizations were reluctant to forfeit processes or revise regulations due to a potential loss of control or job security. Others simply did not understand the benefits of change. Like all reform processes, engaging and informing the private sector is a critical step to ensure success. In order to assure the new streamlined processes become the norm, the private sector must be assured the change is real; they must see the impact in their daily lives and operations. Similarly, as part of the Doing Business methodology, the private sector must confirm that the reforms have positively impacted and improved efficiencies. Thus, the CTT must communicate to the extent of nearly over-communicating.

Next steps. Improving the WBG's overall Doing Business ranking and scores will require sustained effort over time, although, as discussed above, it is the reform process and end result that really matter most. As noted, it took some time for the CTT and its counterparts to take advantage of the World Bank's new ways of doing business, rather than merely focusing on the Doing Business report scores. With the assistance of ICI, the Palestinian government and private sector have made important improvements in doing business. However, as mentioned above sustained reform will have a better chance with institutionalization of the CTT within the Office of the Prime Minister or Deputy Prime Minister (as stated by the head of the CTT himself). The CTT could also benefit from additional training on monetizing reforms and impact analysis. In addition, the CTT could benefit from ongoing conversations with the World Bank's Doing Business team to further understand World Bank expectations and methodologies and put them into practice, especially for low-scoring topics. These conversations should take place well in advance of annual surveys.

Next year (2016) the WBDB team will introduce even more significant changes to a number of indicators — adding new dimensions to capture overall regulatory quality and efficiency. This will result in additional major changes in ranks — in many cases not related to any actual changes in policies taking place that year.

D. Tools are in Place to Help Understand Policy Scenarios

CGE model. Since its establishment in 1994, the PA has used incomprehensive, fragmented information from different resources to design its economic, social, and policy plans. This disjointed system has inhibited staff from monitoring the economy and assessing the impact of shocks, policy measures, and alternative macroeconomic scenarios. Government officials recognized the need to build evidence-based policymaking and analysis capacities to create policies that achieve macroeconomic stability, stimulate domestic investment, and attract foreign direct investment through sound macroeconomic management. ICI responded to this need by helping the PA develop a CGE model, called "PalMod," which simulates the workings of a market economy and its key players (such as producers, consumers, workers,

government officials, and foreign trading partners). CGE modeling is a proven technique that captures economy-wide impacts of policy changes through input-output and social accounting matrix analysis. Economic policymakers can use these models to conduct policy simulations by changing a policy variable, such as a change in the value-added tax (VAT) rate, and tracing its effects on key economic players before an actual policy action is taken. A major advantage of the CGE model is its rich data and ability to upload the latest statistics from the Palestinian Central Bureau of Statistics. Simulations generated from the system are based on up-to-date figures and strong microeconomic foundations.

ICI helped to establish a working group comprising 25 professionals representing six PA authorities: the MONE, MOF, Ministry of Labor, Ministry of Planning and Development, Palestinian Central Bureau of Statistics, and Palestine Monetary Authority. Staff from other institutions in the PA were also trained to use PalMod. During the first part of the training, participants analyzed the structure of the Palestinian economy using the national accounts system and Palestinian social accounting matrix. During the second part, participants focused on policy analysis. Although some participants chose to leave the training early due to lack of interest or the complexity of the subject matter, a core group remained. This group continues to use the CGE model today for advanced policy analysis.

<p style="text-align: center;">Inspiring Through Training</p> <p>“As a result of the CGE model training, I started studying for a master’s degree in economics!” — <i>Soha Awadallah, former head of WTO unit and PalMod member</i></p>
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Training participants worked in groups to run three policy simulations, which were presented to key decision-makers in the PA and USAID. The results are highlighted in Exhibit 14 (below). Each scenario has important implications for economic growth; they show that PalMod can be used to undertake detailed impact and scenario analysis of the 16 sectors covered (including agriculture, financial services, and communication services). Because PalMod has the inter-industry details from input-output, supply, and use tables, the model allows for behavioral responses to housing and consumer prices, wages, and production costs. The model is steady-state, generating counterfactual analysis and accounting for behavioral responses to domestic and external shocks.

Exhibit 14. PalMod Modeling Results (Percentage Change Relative to Baseline)

Macroeconomic Variable/Scenario	Scenario One: 1 Percentage Point in Domestic VAT Rate <i>a/</i>	Scenario Two: 20 Percent Increase in Tariffs <i>b/</i>	Scenario Three: 50 Percent Decrease in Transaction Costs <i>c/</i>
GDP at Constant Market Prices	-0.11	-1.62	+27.33
Real Consumption	-0.24	-2.36	+24.44
Real Investment	-1.17	-13.48	+48.12
Real Net Export (E-M)	-0.56	-6.31	+16.14
Conclusions	Even though revenue would increase by 0.25 percent, overall economic activity and consumption would reduce slightly. This policy might be useful if the government needed additional revenue sources without imposing too much burden on the economy.	The main positive effect of this policy would be an increase in tax revenues by 0.4 percent. However, prices for consumers, investors, and companies that use imported goods in the production process would increase. This would lead to a decline in demand for imports and an increase in production costs for companies. The government needs to consider this policy with great caution.	A decrease in costs would lead to major positive economic impacts. The Palestinian population's welfare and living standards would increase dramatically and employment would be stimulated. These results indicate the vital importance of the peace process for the Palestinian economy.
<p><i>a/</i>: Scenario 1 represents a 6.7 percent increase above the statutory VAT rate of 15 percent. <i>b/</i>: Scenario 2 represents an across-the-board increase in import tariffs for all countries except Israel. <i>c/</i>: Scenario 3 represents transaction costs on imports, exports, domestic sales, production, and labor as a result of restrictions imposed by Israel.</p>			

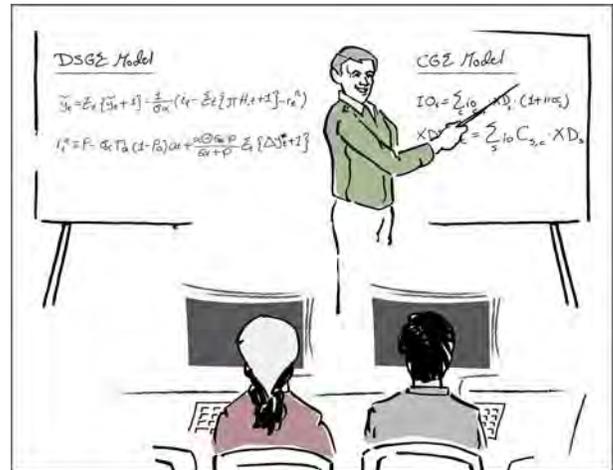
Next steps. This project should be considered as a first step in building the capacity of the PA to develop evidence-based policies. Implementation of the following recommendations would further strengthen this capacity:

- Setting up a specialized unit to institutionalize analytical policy support work
- Providing advanced capacity-building services to PA staff
- Building a dynamic version of the CGE model
- Disaggregating the household into income groups to analyze income distribution/poverty issues
- Developing the labor market block of the CGE model
- Disaggregating trade partners to make the CGE model more effective for trade policy analysis

DSGE models. Not long after the successful completion of the CGE modeling activity, the PMA requested macroeconomic analysis capacity building to support its monetary policymaking. Because the Palestinian economy is based on Israeli currency, the PMA is unable to issue its own legal tender and therefore has no independent monetary policy functionality. Despite this limitation, the PMA still plays the role of a central bank; as such, it would be beneficial to define its monetary policy strategy for policymakers. The PMA requested assistance to supplement its econometric model and financial forecast software with additional mathematical models to understand monetary policy and the effects of fluctuating inflation and GDP. Such models are standard analytical tools used by central banks in developed and transition economies as well as in international organizations.

Exhibit 15. Macroeconomic Models

Over a two-month period, a modeling expert led the PMA policy team to explore choices in monetary strategies, estimation techniques, and open-source software solutions. Similar to the CGE modeling technical assistance, the expert introduced a new way of analytical thinking that differed from traditional methods relying on off-the-shelf software. The expert based the training on economic theory and adapted three prototype models to the needs of the Palestinian economy, referring often to case studies in Thailand’s and Israel’s central banks. Prototype models included the IMF’s Forecasting and Policy Analysis System, a real business cycle model, and a DSGE model.



Taking a DSGE model as an example, the PMA modeling team learned about the model’s underlying economic theory, defined equations for the model, and chose the Dynare/Octave open-source software. They programmed the equations and estimated the economic effects of unexpected shifts in interest rates and technology (as measured by the growth rate of labor productivity). Exhibit 16 below shows the team’s findings.

Exhibit 16. DSGE Model Simulation Results for One-Time, One-Standard Deviation (Upward) Shocks

Effects of Nominal Interest Rate Shock on the Palestinian Economy	Effects of Technology Shock to Total Factor Productivity
<ul style="list-style-type: none"> Temporarily creates a positive deviation of the nominal and real interest rates from their equilibrium levels. This effect gradually fades away and disappears between five and ten periods Creates a temporary negative output gap Has a negative temporary effect on inflation 	<ul style="list-style-type: none"> Temporarily increases the level of total factor productivity, which would fade away very slowly because of the high persistence of this shock Has a negative effect on the output gap and the inflation gap Temporarily brings the nominal and real interest rates below their equilibrium levels

Next steps. The key result of this modeling technical assistance was to establish the foundation for developing and using DSGE models in the PMA. ICI’s assistance introduced core SCSM and DSGE models, both of which are well suited for a small, open economy. The core SCSM model was calibrated and estimated; the core DSGE model was only calibrated with parameterization based on international experience and country characteristics.

The PMA could benefit from further developing these models to integrate them in current and future analysis and forecasting rounds. For example, the SCSM model could be extended to include estimation of interest rate and exchange rate effects and a more explicit foreign block. It could then be combined with the PMA’s analysis of potential output. This framework, which relates potential output to total factor productivity and aspects of the labor market and capital accumulation, could be reformulated from an annual to quarterly basis. This would give the PMA a modern, comprehensive framework to analyze and forecast economic activity and inflation simultaneously and on a quarterly basis — providing a useful complement to the current quarterly short-term reduced form equations used by the PMA.

The core DSGE model could be expanded to include additional variables and sectors on a step-by-step basis. During the consecutive steps, the model could be calibrated (giving more attention to the

parameterization) and estimated using quarterly data. In each step, the model should remain close to theory and international practices in small, open economies. With development, the model could be used as a framework to analyze questions the PMA may receive as a future central bank with monetary policy responsibility. Questions may relate to managing a flexible exchange rate regime, targeting CPI inflation versus domestic inflation, and implementing strict versus flexible inflation targeting.

E. Other Policy Support Strengthens ICI Objectives

Improved transparency and access to legal information. ICI created and funded a new online compendium of commercial laws in collaboration with the MONE and PIPA. The compendium will function as a central repository of business-related laws and regulations (available in Arabic and English) for local and foreign entrepreneurs considering investing in the West Bank who need timely, up-to-date information on legal requirements to operate effectively. In addition, the compendium will help the PA meet the WTO's requirement of submitting relevant laws in English. For details, see www.legal.pipa.ps.

Exhibit 17. PIPA



Legislative support and training. ICI provided extensive support to the MONE's Legal Affairs Directorate. During a workshop, staff discussed the need to plan properly, draft a financial and economic policy to support legislative proposals, set the ministry's priorities in the legislative agenda, and consult public and private sector stakeholders. ICI worked with participants to create an implementation calendar, set priorities, and establish a legislation tracker to show legislative proposals' statuses in the PA approval and enactment process.

Preparing the PA for WTO/SPS compliance. In cooperation with the MONE's WTO unit, the Ministry of Health, and the Ministry of Agriculture, ICI prepared and finalized a scope of work for an SPS assessment activity. The scope of work focuses on regulatory aspects, including identifying institutional gaps and needs, and a roadmap to ensure that reforms comply with WTO/SPS rules. Due to a change in programming priorities, this activity was placed on hold.

MONE services guide. The ICI Project team revised, translated, designed, and printed approximately 500 copies of the MONE's services guide and provided an electronic copy to post on the ministry's website. The guide helps foreign investors understand the registration and licensing requirements for ministry services, such as starting a business or protecting intellectual property.

Concept papers. ICI developed a concept paper on tariff policy that served as a roadmap for establishing a Palestinian national tariff schedule. The paper analyzed the current tariff schedule that governs Palestinian imports and highlighted areas for further assessment for an autonomous Palestinian trade policy. ICI also developed a concept paper on Palestinian agriculture and the multilateral trading system.

Commercial Agents Law. ICI legal experts drafted the Commercial Agents Law to promote movement of goods, protect local commercial agents and distributors, and resolve issues related to registering commercial agents. The draft law is compliant with international standards.

e-Transactions legislation. ICI consultants reviewed and advised on provisions in draft legislation concerning e-approvals and e-commerce law and regulation. When adopted, this legislation will streamline the company registration process.

Master’s degree program in international trade law and policy. The Al-Quds University Board approved ICI’s proposed master’s degree program and initiated planning for the course curriculum and proposed trade policy institute. ICI also received an unsolicited funding and technical assistance request from the An-Najah National University to restructure two of its master’s programs — one in law and one in finance and business. The university sought to incorporate trade-related courses into its curricula and obtain ICI support for creating a research institute on IPR. These activities were not implemented due to other programming priorities.

Review of the functional specification document. ICI technical experts revised the functional specification document to implement the PMA’s national payment switch. The switch is based on Smart-Vista products to support online and offline financial processing of Visa, MasterCard, and local proprietary Palestinian magnetic strip standard plastic cards, transitioning from a cash-based economy to an electronic-payment economy.

Companies Law. ICI, in collaboration with MONE’s Legal Affairs Directorate, updated the draft Companies Law that had been pending with the Cabinet. ICI developed the Legislative Memoranda and incorporated final comments from the private sector in accordance with the PA legislative process. The draft law follows international and regional best practices, especially following the best examples of companies and commercial legislation in the Middle East Region, and incorporates policies regarding debt resolution.

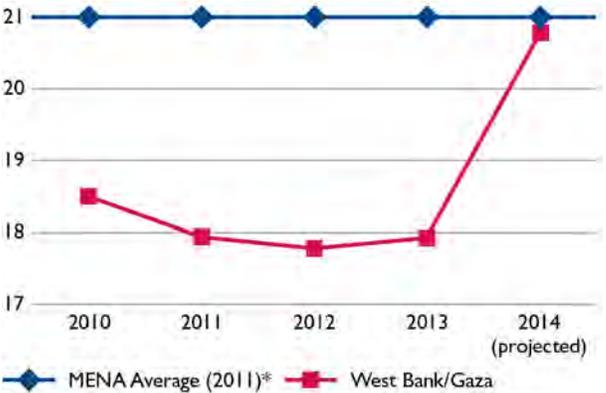
SECTION III. FISCAL REFORM

A. Overview: IMF Assessment Provides Focus

Similar to the strategy endorsed by the ICI policy component, the project’s fiscal component adopted the recommendations of an international organization — in this case, the IMF — as its basis for fiscal reform. In coordination with other donors, the ICI fiscal team developed and implemented action plans to mobilize revenue and improve financial management.

The fiscal component’s overarching objective was to generate revenue by enhancing the MOF’s services. Accordingly, the project designed activities to improve the ministry’s IT system and integrate the revenue administrative structure. Revamping the IT system was an aggressive institutional and technical undertaking. ICI supported the design and implementation of the first phase of the revenue management system (RMS) and made significant

Exhibit 18. Net Tax Effort as Percent of GDP



*Includes non-oil-exporting countries: Egypt (16.7%), Israel (29.6%), Jordan (14.9%), Lebanon (16.8%), Tunisia (25.5%), Morocco (24.3%). Source - World Bank

progress in the second phase. At the same time, it strengthened the large taxpayer office (LTPO) and built on the recently completed interface between PA and Israeli Customs to reduce customs evasion.

During its last year of operations, ICI extended its assistance to the Ministry of Health, automating the hospital referral authorization and invoicing processes vis-a-vis Israeli hospitals and establishing fixed-price contracting for hospital services. ICI also provided assistance to the Energy and National Resources Authority, Palestinian Electricity Transmission Company, and Ministry of Local Government to enforce timely payment of electricity bills. By ICI closeout, the PA's net revenues had substantially improved. Using the tax effort methodology promoted by the World Bank, the PA's tax effort or percentage of GDP grew from 18 percent to 21 percent during the past year. When compared to other non-oil exporting countries in the Middle East/North Africa (MENA) region, the PA's tax effort is now within the MENA average.

Apart from automation efforts, ICI organized taxpayer awareness campaigns to educate businesses and citizens about the benefits of paying taxes and how to pay them. The project tailored the campaigns to three audiences: MOF staff, auditors and accountants, and taxpayers. ICI also organized training sessions throughout the West Bank on new auditing procedures and tax legislation, with a focus on the integration of the PA revenue administration.

Exhibit 19. Paying Taxes Awareness Campaign



B. Automation Increases Revenue

RMS. In the past, the MOF recorded tax registration and declaration data on hard-copy forms and keyed the data into remote terminals, which were connected to a database in Israel. The MOF provided the system, referred to as *Sha'am*, on a commercial basis for an annual subscription fee. Essentially, *Sha'am* was established as a storage and DOS retrieval system with limited capability to analyze data or support other tax administration operations (e.g., payments, collections, audit, enforcement, taxpayer services, appeals, or trade invoices). All information, including taxpayer names, was transliterated into Hebrew, rendering the system unusable by most PA tax administration personnel. It lacked the capability to store third-party information or record notes by tax administration officials. It was also inoperative during Israeli official holidays.

Apart from storage and retrieval functions, the PA used *Sha'am* to support reimbursement claims for VAT collected by the Israeli MOF from Palestinian traders purchasing from Israeli suppliers (under the terms of the 1994 Oslo Accords). Each month, the Israeli MOF checked whether the Palestinian traders were registered as taxpayers in the WBG. Because many traders were not registered or incorrectly registered in *Sha'am*, a large number of these claims were rejected, exacerbating the PA's fiscal crisis.

The MOF, in collaboration with ICI, determined that a new RMS should be developed in several phases over a four-year period. The ministry wanted the full operating system to support all essential revenue administration functions and to be flexible, integrated, user-friendly, and accessible to all revenue staff. The ministry signed a 10-year contract with a local developer, BISAN Systems Ltd., to design the system. ICI offered technical experts and purchased hardware, such as servers, scanners, barcode readers, check readers, printers, and personal computers, for staff working in MOF tax directorates.

Phase I. The first phase of developing the RMS, which began in early 2013, was to replace *Sha'am* and two other independent systems (the tax payment and check processing system and the unified invoice processing system for trade with Israel) with a Palestinian system housed in the MOF. Phase I was designed to support existing tax forms and establish user-friendly mechanisms allowing the RMS to support new tax forms in the future. Phase I became operational in January 2014, and the *Sha'am* contract with Israel was not renewed. Between September and November 2013, ICI assisted the MOF in training all revenue staff on the RMS. The 13 regional tax offices across the West Bank now use RMS to manage VAT and income tax files.

Phase I improved the accounting side of tax functions, which was necessary to establish the core system yet insufficient because it did not

Requirements for RMS Development Phases

- Supports English and Arabic
- Is centralized using a single login
- Creates scalable solutions to allow reasonable growth in terms of infrastructure and functionality
- Expands the tax base
- Eliminates the use of paper
- Has 99.999 percent availability
- Provides an audit trail traceable by user and workstation
- Respects current privacy laws
- Provides secure access to application
- Uses triggers for unauthorized attempts
- Incorporates password expiration
- Limits login attempts

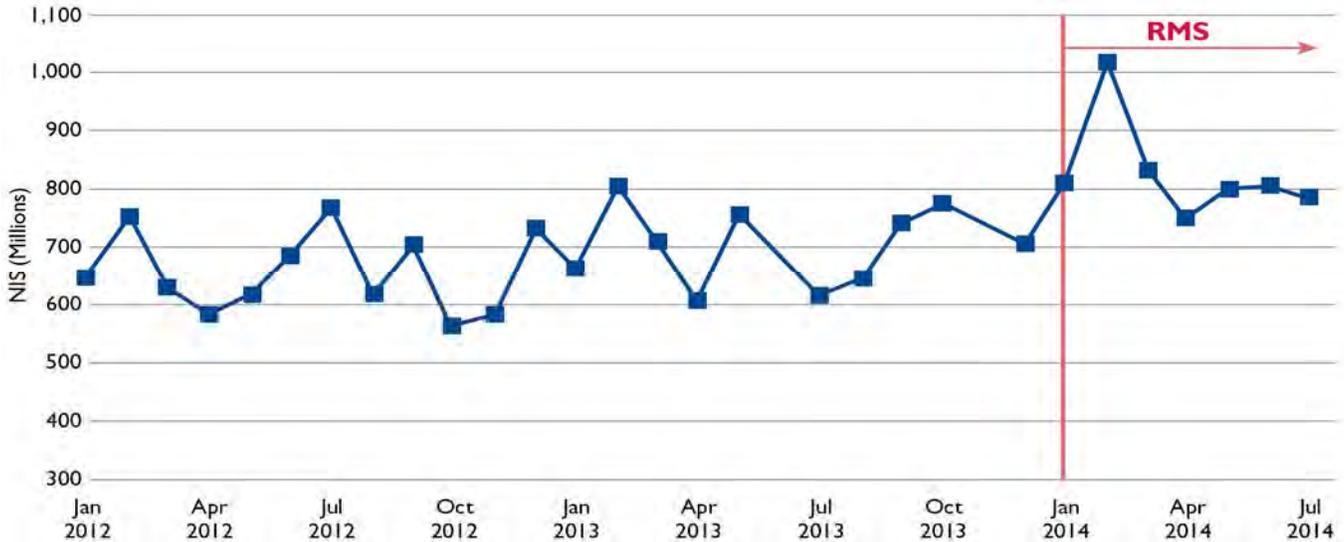
A Real Partnership

"The RMS is an amazing success. A year and a half ago, it was impossible to project that it could be done in the time given. We are very grateful to USAID and ICI. We planned and designed everything together. It was not just someone who simply gave us money. We had a real partnership and were in the same boat. That's what made the RMS a real success story."

-Suleiman Amarneh, Director General, IT, MOF

include compliance modules. While the core system was programmed, the MOF launched an extensive campaign to register businesses trading with Israel. As expected, the improved taxpayer registration data in the RMS produced an immediate payoff in terms of increased VAT remittances. In time, more accurate registration data from the RMS will contribute to improved post-clearance audits of import shipments and domestic VAT and income tax collection.

Exhibit 20. Increase in Total Net Revenues as a Result of the RMS



Phase II. In early 2014, ICI continued to work with the MOF to design the functional requirements for the RMS’ first four compliance modules, working toward a modern tax operating system based on international best practices. Phase II includes automating debt collection and identifying non-filers, as well as e-filing unified invoices, VAT and income tax, and payroll withholding declarations. These new modules will assist the ministry in processing tax declarations, collecting delinquent payments, pursuing enforcement actions, and handling appeals cases and related activities. The ministry’s software development contractor began the detailed design and programming of these modules in May 2014 and expects to complete them by December 2014. The ministry established interfaces with other ministries, including the ministries of transportation, interior, national economy, and customs. At the same time, ICI purchased additional hardware to support Phase II, which was delivered during the project’s last two quarters. ICI continued to train staff on using the system for specific revenue functions and conducted awareness workshops for auditors and accountants.

Better Tax Administration

“We very much appreciate all the efforts of ICI staff. We had a wonderful cooperation and are very grateful to USAID. The results will be a wonderful tax administration, all because of ICI.”

-Bashar Abaza, Director of Tax Systems and Automation, MOF

The future of RMS. ICI prepared and submitted a strategy report for further development of the RMS. The strategy covers three and a half years and is divided into seven, six-month sub-phases, labeled Phase 2.1 through Phase 2.7. During ICI’s last year, the system developer completed programming for modules in Phases 2.1 and 2.2, as discussed above. A detailed list of programming requirements, standard operating procedures, and computer software and hardware needed to implement Phases 2.3 to 2.7 were included in the RMS strategy report.

LTPO. As the first office in the MOF to unify VAT and income tax operations, the LTPO facilitated file audits and minimized part of the administrative burden on taxpayers, who are now able to visit one office rather than two. The LTPO administers VAT and income tax collection for the largest businesses in the West Bank (generating more than 10 million NIS in sales or revenue). In 2013, the LTPO served 320 of the largest taxpayers, whose revenues accounted for approximately 50 percent of the PA’s tax revenues. This is normal for this type of economy.

Before ICI, any expansion of the LTPO caseload was limited due to its small office space, inadequate number of staff with limited capacity, and lack of vehicles for field visits outside of Ramallah. At the request of the MOF, ICI assisted in upgrading the LTPO’s office space, training staff, and providing office equipment, hardware, and vehicles. USAID’s Palestinian Authority Capacity Enhancement Project (PACE), also implemented by Chemonics International, had first redesigned the LTPO’s office space in

Exhibit 21. RMS, Phases I and II

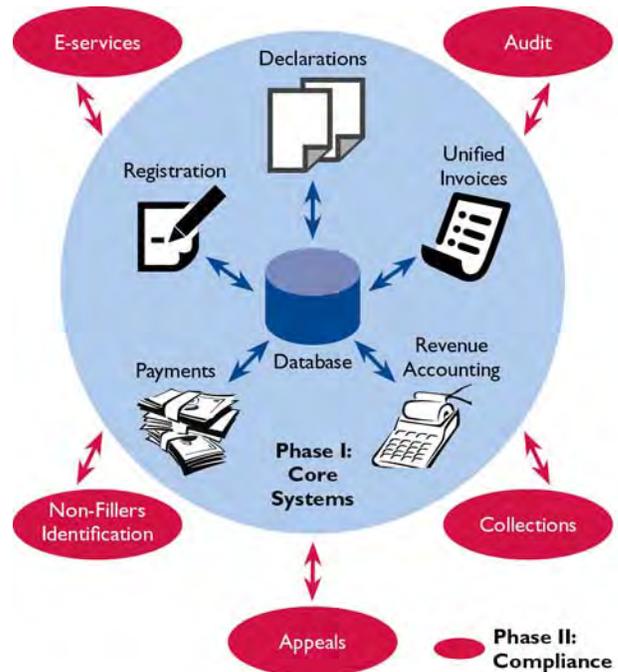
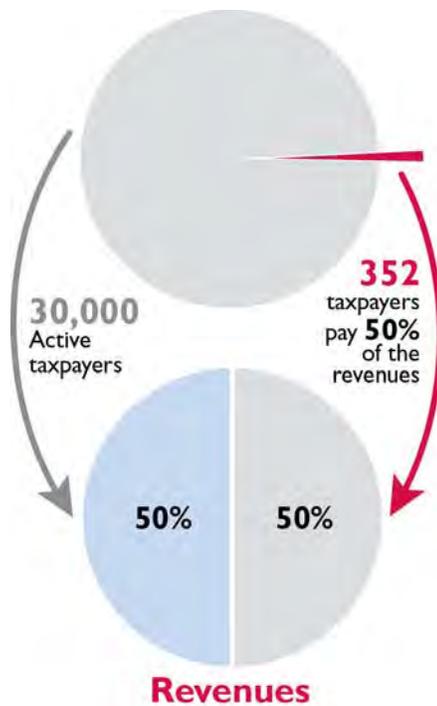


Exhibit 22. LTPO Revenues



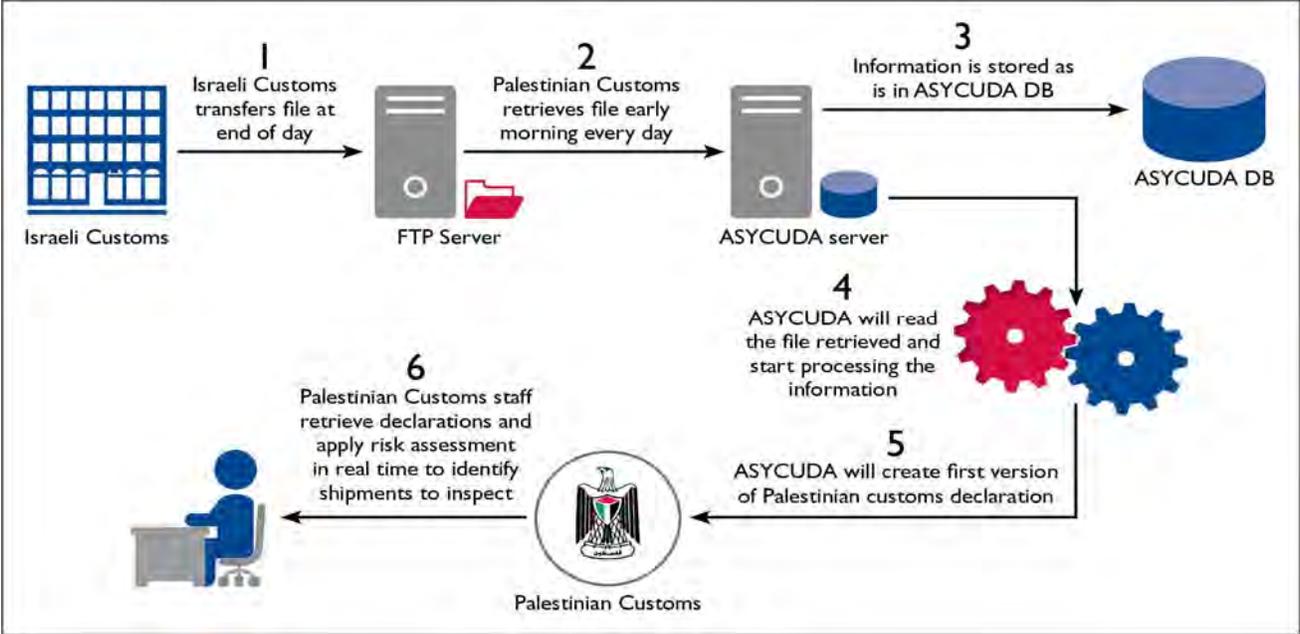
2011. Afterward, the MOF requested that ICI reconfigure the space by adding three offices to house six additional tax auditors (two have been hired). As a result, the LTPO’s caseload expanded by 50 companies. ICI also invited local and international experts to assist in developing LTPO staff capacity through on-the-job training and advanced training on specific topics. In addition, ICI purchased vehicles and laptops for tax collectors travelling outside of Ramallah. This combination of activities enabled the MOF to broaden its tax base and effectively manage its large taxpayers.

Challenges. ICI allocated substantial staff time to reorganize the MOF’s revenue functions along functional lines as opposed to tax types — a major IMF priority. The new structure was intended to eliminate duplication in registration, audit, and collections. The Cabinet approved the reorganization plan. However, it was placed on hold by new MOF management. Likewise, the updated Draft Unified Tax Procedures Law and VAT Law were placed on hold. At the start of 2014, the registration function was unified as part of RMS implementation. As ICI drew to a close, ministry and USAID officials started to discuss similar collections and auditing initiatives, starting with a pilot in the LTPO.

Next steps. The LTPO plans to expand its taxpayer base in the near future. In addition to the revenue criteria currently in use, the office wants to include all public shareholder companies and financial

institutions with a new threshold ceiling for sales and revenue. An estimated 100 companies will meet such criteria and could potentially be added to LTPO’s caseload. If implemented, the increase in tax revenues would likely be substantial. According to government officials, tax payments for companies under the purview of the LTPO are typically one-and-a-half times higher than if they had been working with another office. In terms of future technical assistance, the French government has offered advanced training in risk management and financial analysis.

Exhibit 23. Data Interface Between Israeli and Palestinian Customs



Customs. Under the terms of the Paris Protocol, the PA and Israel form a single customs envelope. Goods imported into the WBG enter through Israeli international borders, ports, and airports. Duties and fees are collected by Israeli customs and transferred to the PA as part of a monthly clearance process. Until recently, PA customs keyed data manually into the Automated System for Customs Data (ASYCUDA) system to create PA import declarations, which were then checked to some degree against Israeli declarations. Apart from the absence of automation, this checking process was often delayed because most goods had already been released into the market.

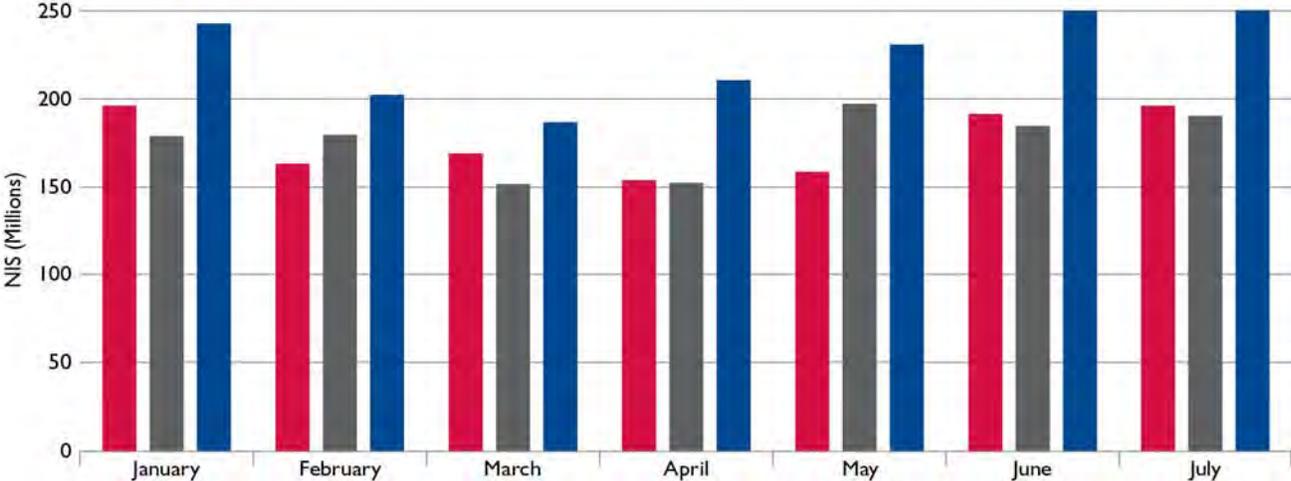
The need for a comprehensive, real-time data link between PA and Israeli Customs became necessary for the PA to accurately track imports and exports and increase revenues. After several years of discussion, and with the assistance of USAID’s former Trade Facilitation Project (TFP), PA and Israeli Customs agreed to a daily transfer providing more than 40 fields of data (as opposed to 12 fields before the link) for each declaration of goods imported into the WBG. Beginning in September 2013, ICI took over this function from TFP, developing software to integrate shipment data with the ASYCUDA system to detect and control customs evasion.

ICI first worked with a customs expert to conduct a needs assessment. Then, it hired a programmer to design an interface allowing data to be imported into the ASYCUDA system from the Israeli MALAM system via XML format conversion. Once converted via the interface, declaration information was sent to regional PA offices according to importers’ addresses. A regional officer then clicked on the file,

which the interface converted to ASYCUDA, and issued a PA customs declaration. There are many advantages to this new system. PA importers no longer need to visit regional offices to submit declarations in person, and the new system forces unregistered importers to register, bringing trade into formal channels. The implications for PA customs and revenue are substantial. The Risk Management Unit can use the customs data to construct models that profile and identify suspect declarations. This information can be used by the Post Clearance Audit Unit to investigate problematic declarations and follow up in a timely manner.

Challenges. Political challenges between PA and Israeli Customs resulted in more than five years of discussion at all government levels. TFP estimated that the interface had the potential to yield \$4.2 million to \$6.4 million a month in extra revenue when fully operational and to reduce business compliance costs by 30 percent. In addition to a loss of revenue on the Israeli side, another contentious aspect was that PA and Israeli Customs had to agree to share the same information on Palestinian imports. With this interface now in place, the information exchange will help Israel and the WBG jointly manage trade, reduce fraud and smuggling, and address areas of joint concern. This activity is an important first step in building a more equal trade management partnership.

Exhibit 24. Total Customs Revenue, Quarterly (NIS Million) 2012–2014



Next steps. The current ASYCUDA system should be upgraded to version 2.2 and linked to the RMS. Additional ASYCUDA updates would strengthen the customs side of the system, such as valuation for used cars, which account for approximately 35 percent of all PA imports (by value). From an organizational point of view, the MOF stated that at least 500 additional importers should be registered per month in ASYCUDA. On the other hand, data on personal goods imports registered by Israeli Customs are not needed by PA Customs and are not necessary for the ASYCUDA system. Connecting the system to other countries’ customs systems, such as those in Jordan, will reduce customs evasion.

Health referrals. In its final year of implementation, ICI expanded its scope of work to address the negative fiscal impact of Israel charging Palestinians higher rates for medical treatment, as well as unauthorized charges, such as hospital fees and convenience fees. Israeli hospitals send their monthly expense invoices for Palestinian patients to the Israeli MOF, which then deducts the total amount of charges from the customs clearance remittances to Palestine. While the exact number of Palestinian patients served by the Israeli system is unknown, the Palestinian Ministry of Health reported that it

refers approximately 60,000 patients per year for treatment to hospitals and clinics in Palestine and also to those outside of the PA, principally in Israel, Egypt, and Jordan.

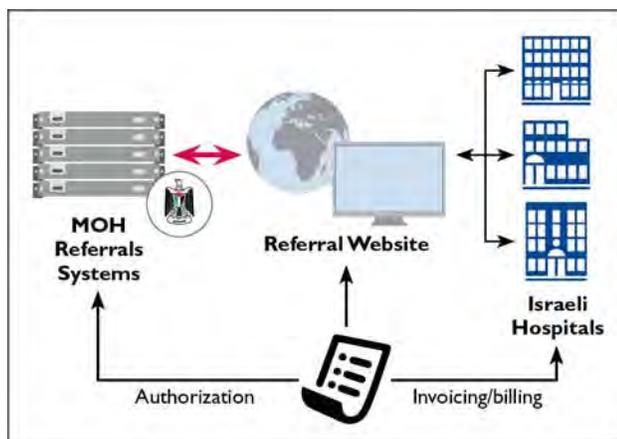
Currently, patient referral authorizations are transmitted from the Palestinian MOF to Israeli hospitals manually or via fax using a referral form, and are then followed up by telephone. Some hospitals treat Palestinian emergency patients beyond the 48-hour period without any notification to the Palestinian Ministry of Health. Others perform procedures on referred patients that were not specifically authorized or that exceed the amount of authorized cost. In

Patient Referral Website

“The website was a brilliant idea of ICI. We did not even think about it. The website has allowed us to have some sort of control over the referrals through this new communication system.”
 — Anan Masri, Deputy Minister of Health

all cases, monthly invoices are sent by hospitals to the Israeli Ministry of Health and then forwarded to the Israeli MOF for deduction from clearance revenues without prior review by the PA. In addition, invoices forwarded by some hospitals are not fully explained or documented. For example, it is unclear in some cases which procedures were performed, or whether the hospital collected and credited the required patient co-payment amount. There are many consequences to this system, including lack of transparency due to dependence on the Israeli system, high expenses, and consequent low reimbursement. Other consequences include overcharges and excess manual processing time.

Exhibit 25. Hospital Referrals Website Improves Transparency, Efficiency, and Likely Revenue Gains



To reduce the deductions for medical treatment without sacrificing quality of care, ICI agreed to support the Palestinian Ministry of Health (PMOH) by developing a website or e-system for patient referral and assisting in fixed-price contracts with Israeli hospitals to buy specific health services. The website transmits treatment authorization information, treatment invoices, and related correspondence using scanned documents and electronic data files. Data files include patient information and invoices from hospitals for review by the Palestinian Ministry of Health, as well as basic statistical reports on website usage. The e-system will later track the number of patients referred by the PMOH to Israeli hospitals. In the first phase of this initiative, ICI developed the website and trained users and administrators in the

PMOH. One hospital, Hadassa, will be piloting the e-system in the fall of 2014.

For the fixed-price contract initiative with Israeli hospitals, ICI hired a subcontractor to draft a request for proposals for Israeli hospitals, asking for fixed-prices services based on diagnostic-related groups. The subcontractor also drafted terms and conditions for a contract to procure medical services from hospitals in Israel and beyond. Developing an agreed upon price list, in addition to the terms and conditions of the services and the payment process, will enable the PA to more closely monitor the cost of the health referrals to external hospitals and to assure costs stay within the amount approved by the PA. This work was successfully completed and has been accepted by the Ministry of Health and MOF. After the contract is signed and the website is being used, the PMOH will launch the RFQ tender process to solicit price schedules from each of the Israeli hospitals. Simultaneously, the PMOH will

continue to roll out the e-system to individual hospitals. Impact will be evident within months of implementing the e-system within all of the hospitals. The most significant monetary impact will be evident upon implementation of the contracts and new pricing structures within the hospitals.

Next steps. Future work funded by the PA or community could focus on expanding the patient referral website to include more functions and incorporate hospitals in Palestine and elsewhere. The PA or community could enter technical and legal negotiations with hospitals after the bids have been received.

C. Other Fiscal Support Strengthens ICI Objectives

Integration and reorganization of revenue administration. Pursuant to an IMF recommendation and international best practices, in mid-2013 the MOF began to reorganize the revenue administration along functional lines (e.g., processing, auditing, collections, taxpayer service, and appeals) to replace the current structure based on source of revenue (e.g., customs, income tax, and VAT). This would eliminate duplication in key functions, such as registration, auditing, and collections, and boost efficiency. ICI experts assisted the head of the Tax Council in developing the new structure and collaborated with the ministry's change management team to develop flowcharts highlighting the revised tax administration processes, including delegation matrices and finalized job and office descriptions. The reorganization plan was approved by the Cabinet and was then put on hold pending enabling legislation. ICI also arranged for the change management team to visit the Moroccan MOF to understand what unifying VAT and income tax under one administration could look like.

At the same time, ICI provided a regionally based legal drafting expert to research and draft a new administrative law to establish a unified tax and customs authority. In May 2013, President Mahmoud Abbas signed the Law by Decree on The General Commission of Public Revenues of 2013. The new law establishes a unified Revenue Commission within the MOF that collects all tax revenues, customs revenues, and non-tax revenues and grants collected by the ministry. The law was placed on hold until the new minister, appointed in June 2013, had reviewed and revised the proposed structure and tax laws. The proposal is still on hold.

Unified Tax Procedures Law and VAT Law. ICI assisted the MOF in analyzing the VAT Law, drafting revised VAT Law regulations, and preparing an updated draft of the Unified Tax Procedures Law. That Unified Law incorporates international best practices to establish administrative procedures applied to VAT, income tax, and other taxes administered at the national level (i.e. property tax). The new law will also establish legal authority for reorganizing the tax administration along functional lines, strengthening the revenue authority's enforcement powers, and identifying taxpayer rights. The final draft was expected in fall 2013, with public review and enactment planned for the end of the year. However, a change in the ministry's top management resulted in a postponement of the internal review. ICI arranged a study tour for the Income Tax Court judges to visit Jordan and see first-hand the Jordanian Tax Court's experience in dealing with tax files.

Self-assessment. In response to the IMF's recommendation to implement a self-assessment for income tax, ICI created five different self-assessment forms. Project staff and consultants led workshops on how to use the forms, working with the Palestinian Association for Public Accountants and the Accountants Union. The forms were also incorporated into Phase I of the RMS, and the LTPO now uses the forms. Lastly, ICI prepared an audit manual for auditors to unify their procedures, which supports the self-

assessment's implementation.

Ramallah Taxpayer Service Center. ICI renovated office space in the Ramallah Tax Office to house a new taxpayer service center, which serves as a one-stop shop for VAT, income tax, and customs services for taxpayers in Ramallah. Launched in June 2013, the center has greatly assisted the revenue unification process, facilitated unified tax registration, increased tax awareness, and clarified payment procedures. Moreover, the center uses the new RMS to access customer accounts and track requests. Providing a higher level of service delivery to taxpayers is a critical element of the PA's efforts to narrow the budget deficit and assure sustainable government services.

Electricity services. Due to mounting electricity bills, ICI issued a subcontract to a local web developer to build an e-system to monitor and ideally control electricity payments from municipalities and electricity distribution companies. A recent Cabinet decision required these entities to report to the MOF on any payments to the Israel Electricity Corporation (IEC) within three working days. The website will track the payment cycles, and detect delayed payments to the IEC, enabling the PA to offset the debt with revenues collected on behalf of the municipalities. The website's launch was announced in August during a workshop for electricity distribution companies and major municipalities.

SECTION IV. GRANTS ENGAGE THE PRIVATE SECTOR IN REFORM

The ICI Project grants program helped to strengthen Palestinian businesses, which in turn engaged local businesses in the economic reform process. During a nine-month period, ICI staff evaluated 100 grant applications submitted by 70 organizations and awarded \$852,224 to 12 organizations. Grantees carried out capacity-building and awareness-raising activities to reinforce both project components. For details on grantees and their achievements, see the video link below.

One grantee, the International Chamber of Commerce, assessed the impact of WTO accession on Palestinian pharmaceutical sector and financial sector growth. Among other findings, their survey highlighted a 66 percent increase in public awareness of the WTO. The Palestinian Association of Certified Public Accountants also trained accountants and auditors on VAT, international financial reporting standards, tax-related laws, and tax management. As a result, 248 participants demonstrated an increased understanding of tax issues. In addition, the Palestinian Solar and Sustainable Energy Society received a grant to improve investment prospects for on-grid electricity from renewable solar energy sources and to advocate for a business-friendly renewable energy law. The society created a database of Palestinian companies working on renewable energy, held a conference on the topic, led awareness workshops and meetings, and promoted investment in renewable solar energy through advertising and print media. Likewise, the Palestinian Center for Communication and Development Strategies (PCCDS) led a workshop for 79 business women in Hebron, focused on basic business management skills. As an outcome of the PCCDS initiatives 75 women registered their businesses in the North Hebron Chamber of Commerce, and 93 percent of the women increased their business acumen, learning about areas such as investment laws and investment opportunities for women in the Palestinian market.

The grants were an excellent use of funds because they allowed the private sector to engage with hundreds of Palestinian professionals, business owners, and citizens while promoting the project's goals. Two grantees, Net Investment & Services Company (NET) and Palestinian Trade Center (PalTrade),

were particularly effective in meeting grant objectives and leveraging their USAID experience.

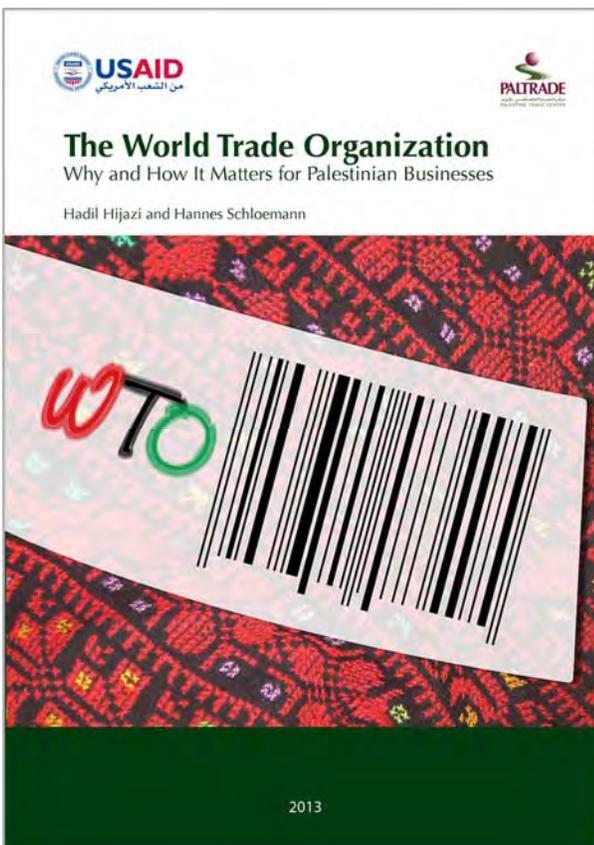
NET. A private company specializing in consulting, training, media, and communications, NET trained Palestinian judges and attorneys on copyrights, trademarks, and patents to improve their understanding, use, and protection of IPR. NET also raised public awareness of IPR via a media campaign that highlighted the training and its positive results. In collaboration with the Tallinn Law School of Estonia, NET invited three Estonian trainers to Ramallah, Hebron, and Nablus to teach eight local trainers and 38 Palestinian judges about IPR. In turn, the eight local trainers held courses for another 127 attorneys. Guest speakers included representatives from the IPR Directorate at the MONE, who explained IPR protection under Palestinian law. For more information on NET, please refer to their website at <http://www.netgroup-pal.net/en/>.

In addition to television, social media, print, and radio outreach, NET partnered with an overseas university, Tallinn University of Technology, to offer scholarships for IPR legal training to six participants. The university also made its online case studies available to grant participants. This was the first partnership between the university and a Palestinian organization, illustrating how a grantee can leverage USAID funds to obtain short-term technical training from an international partner and build relationships for future long-term collaboration.

Exhibit 26. Partnership Between NET and TUT



Exhibit 27. WTO Book



NET offered several recommendations that could be undertaken by additional USAID assistance, many of which focused on “localizing” IPR issues in the PA and the region. Recommendations included:

- Targeting regional case studies that would be useful and relevant to the PA by arranging study tours or exchange workshops for judges and attorneys
- Developing a syllabus on Palestinian IPR laws in cooperation with local universities and collaborating with Palestinian universities to incorporate mandatory IPR courses in their curricula
- Reinforcing the concept of a law and advocacy legal clinic specialized in IPR cases to benefit attorneys during their training periods and enhance their IPR knowledge
- Developing and publishing an online and hard-copy IPR booklet for Palestinian audiences, stakeholders, and beneficiaries to guide readers on IPR registration and rights protection

PalTrade. A non-profit organization that develops and

sustainably increases Palestinian exports to drive a competitive, globally connected economy, PalTrade has partnered with USAID on several projects in the WBG. PalTrade’s grant served to increase the private sector’s, media’s, academia’s, and general public’s awareness of the implications, benefits, and mechanics of WTO accession. To learn more about PalTrade, please refer to their website at www.paltrade.org.

According to PalTrade representatives, they conducted their awareness campaign between January and June 2013 — a time when the general public was not interested in hearing about the WTO. The private sector also had limited knowledge of the WTO and the potential impact, whether positive or negative, that WTO accession would have on business operations. PalTrade had to create interest in the topic by offering pertinent information about the WTO, such as how the Palestinian economy could benefit despite its customs arrangement with Israel; the differences between observer status and membership; the role of the business community, academia, and media in forming trade policy; and other legal issues that would need to be analyzed before WTO accession.

PalTrade designed 17 workshops in 10 governorates across the West Bank to elevate public debate on international trade issues and discuss the media’s role in generating knowledge about issues affecting the Palestinian economy, including the WTO. PalTrade also designed and carried out a media campaign using talk shows, radio, newspapers, and social media to reach an estimated 300 private sector representatives, 10 journalists, 10 academics, and 2,000 members of the general public. As a result of these activities, PalTrade raised awareness of the WTO’s benefits among Palestinian businesses, media, and academics by 20 percent.

Important lessons learned from this grant can be carried forward for future donor-funded work on international trade, such as:

- Television talk shows and radio spots would be more effective during trade negotiations
- Social media is a useful and effective tool
- Journalists (television and print) would benefit from specialized training on international trade, particularly on the WTO
- Integrating the WTO and international trade topics into academic curricula would raise public awareness further
- Sector-specific and topic-specific (i.e. trade in services) training and awareness campaigns should be the next steps for a similar grant or effort

Building on Awareness Successes

“We consider this grant as very important for different stakeholders. It is imperative to continue awareness efforts to build on what was achieved, because opinions and awareness will be different in the future than in this first round.”

-Hanan Taha-Rayyan, Chief Executive Officer, PalTrade

Exhibit 28. ICI Grants Program

ICI Project Area	Grantee	Grantee Activity	Impact of Grant
Raising Awareness of the WTO and Building Trade Capacity	International Chamber of Commerce in Palestine	Assessed impact of WTO accession on pharmaceutical and financial sectors; conducted workshop to present results	A 66 percent increase in the private sector's awareness of the WTO
	NET	Provided IPR training throughout the West Bank, conducted a media campaign, and leveraged funds for scholarships	Built capacity of 173 judges and attorneys, raised awareness of IPR, and secured scholarships
	PalTrade	Conducted a media promotion campaign and 17 workshops	A 20 percent increase in the private sector's awareness of the implications, benefits, and mechanics of WTO accession
	The Palestinian American Chamber of Commerce	Prepared policy papers on international trade issues affecting Palestinian businesses, conducted workshops on advocacy and policy reform, and organized an enabling environment conference	A 10 percent increase in membership
Improving the Business Environment	Palestinian Association of Certified Public Accountants	Trained accountants and auditors on VAT; international financial reporting standards; customs, company, and income tax laws; and tax management	248 participants demonstrated a better understanding of tax issues
	Palestinian Center for Communication and Development Strategies	Led workshops on business management and product packaging and organized a bazaar	75 women registered their businesses in the North Hebron Chamber of Commerce; a 93 percent increase in business knowledge among women who owned businesses
	Palestinian Federation of Industries	Reorganized the federation according to international best practices, concluded a barcode study to enhance Palestinian business operations, and conducted a trade policy study	Once adopted, bar coding will improve inventory management and sales and strengthen the private sector's competitiveness
	The Palestinian IT Association	Members received advocacy training and prepared position papers and workshops on IPR laws and the ICT sector, telecommunication regulatory activation, and ICT business enabling environment	A 5 percent increase in understanding of advocacy issues
Strengthening Investment	Al-Ayyam Press, Printing, Publishing, & Distribution Co.	Prepared quarterly investment briefings; conducted economic research in Palestine and presented the results	Raised awareness of changes in the Palestinian economy
	Hebron Chamber of Commerce	Launched an online investment databank	2,500 website "hits" within first month of launch
	Palestinian Businessmen's Association	Conducted a field survey of investment determinants, focusing on small-to-medium enterprises; presented the results	29 business people increased their awareness of investment determinants
	Palestinian Solar and Sustainable Energy Society	Study done and organized conferences, workshops, and public meetings on renewable energy in Palestine	Raised awareness of investment prospects for renewable energy in Palestine

SECTION V. LESSONS LEARNED AND RECOMMENDATIONS

ICI achieved substantial, long-lasting results by building capacity across the PA, preparing the private and public sectors for WTO observer status, improving the WBG's Doing Business score, and building and instilling systems to generate much-needed revenue. Lessons learned during ICI include:

The WBG's geopolitical context requires "Plans A, B, and C" for project implementation. Given the PA's shifting priorities and levels of commitment (and consequent USAID funding implications), the project team needed to develop administrative and communication systems at project start and continually update them to maintain the initial program design. Shifting priorities also required considerable planning effort and flexibility when implementing project activities.

Relationships matter now more than ever. With an often unpredictable working environment, the ICI team needed to continually build and maintain relationships with key stakeholders. For example, ICI subcomponent teams delivered several presentations on ICI whenever a minister or key counterpart changed. This strategy kept partners informed, maintained stakeholder buy-in, and ensured the continuity of program delivery. The success of the RMS is a shining example of this collaboration; MOF officials felt they had developed a true partnership with ICI and led the RMS initiative with ICI's full support.

It's not about scores and membership — it's about jobs and the economy. The ICI team and their counterparts gained more ground when they emphasized the methodology and potential gains of the reform process (especially at the mid-management level) rather than focusing on the framework driving the changes and gaming a constantly changing methodology. Accordingly, public outreach campaigns focused on culture change, such as achieving international standards to improve competitiveness, rather than focusing on attaining WTO observer status.

Sometimes it's necessary to achieve immediate impact. Due to the absence of an active Legislative Council, and the fact that laws could only be passed by decree of the President and under urgent conditions, the ICI team often focused on administrative and procedural reforms that would register quick wins (i.e. topics chosen for the World Bank's Doing Business indicators). Other legal reforms, such as legislation requiring redrafting or changes to become WTO compliant, could not be avoided. These legal reforms have yet to be enacted; the PA is ready to do so when the Legislative Council reconvenes or the President passes them by decree.

Study tours to appropriate benchmark economies provide a good return on investment. For example, as a result of its study tour to Turkey, the MONE's CTT is advocating to institutionalize their efforts in the Office of the Prime Minister, ensuring sustainability for this key ICI activity.

Academic institutions add great value, as they are more effective in connecting with students than the government or private sector. Although ICI achieved important gains in all of its project areas, young beneficiaries of similar USAID assistance could benefit from closer ties to universities and other academic institutions in the future.

In the early stages of considering access to an international trade agreement, it is important to seek basic advice from international experts. After an expert worked with the MONE during ICI's first year, the PA accepted her advice to shift its strategy from having a separate customs envelope to undertaking reforms within the flexibility of the WTO. This change inspired a new attitude within the MONE — it began to look for ways to help itself, independent of its geographical neighbors.

Grants are an effective way to engage multiple institutions and hundreds of people across the WBG. The project's grants program was integral to carrying out ICI's outreach campaigns and training programs. From an operational point of view, ICI staff found that simplified grants should contain capacity-building activities for grantees in terms of grant administration. Several grantees discovered that the most effective way to raise awareness was via direct contact with people (i.e. workshops) and direct interaction with academic and media representatives.

Assess the “who, what, why, where, and how” when confronting an obstacle. Finding the answers to these questions can identify the root causes (e.g., politics, processes, or procedures) behind stalled decision-making. When ICI staff identified the “who, what, why, where, and how” of an obstacle, they could decide who was in the best position to equip decision-makers with the relevant information they needed in a timely manner. Engaging the deputy prime minister, minister of finance, and minister of national economy during significant delays or roadblocks was particularly effective.

Leverage regional capacity. Rather than focus solely on expatriate short-term consultants, ICI also relied on regional expertise from Jordan. In addition to their fluency in Arabic, Jordanian experts shed light on Jordan's reform efforts, which were directly relevant to the PA's reform efforts, given their similar legal/regulatory framework and commercial ties. ICI organized a study tour to Jordan and hired a Jordanian subcontractor to revise key legislation in the PA.

ANNEX I

Economic Impact of ICI's Interventions

- A. Fiscal Reforms – Impact Calculations
 - a) Net Tax/GDP – in \$ and in %
 - b) Change in adjusted net tax, (adjusted to focus calculations on the taxes ICI worked on) in relation to GDP between 2011 and 2014 (increase in GDP attributed to improved tax collection)
 - c) Change in net tax (above) minus the tax policy changes (tax rate changes). This calculation is important as it removes the increase in tax revenue collection attributed to the increase in tax rates.

- B. Policy Reforms
 - a) Impact of WTO reforms, CGE simulation #1 – CGE team and WTO unit defining the methodology to measure potential impact – the exercise will project impact on the 2015 economy.
 - b) Impact of BEE reforms, CGE simulation #2 – ICI and CGE team measured the change in production or transaction cost measured by the number of days associated with the 10 categories of reforms measured by WBDB team – the exercise will project impact on the 2015 economy. Note that only 7 of the 10 WBDB indicators can be measured in days, so the percentage reduction in days (percentage reduction in transaction costs) will be multiplied by 7/10ths or 70% to make sure proper weight is given to the reforms.
 - c) Combine CGE simulation #1 and #2 for a #3 scenario – Note: We want to see the impact of each subcomponent for our records, (show the math), but will most likely only reference #3 in the final report (ideally this combined simulation will be run, but if the CGE team is unable to run the combined effects, the results from the first two will be added together).

- C. Combined Fiscal and Policy Reforms and Impact
 - a) Use 0% assumption as the 2015 GDP baseline “growth”
 - b) Assume the fiscal reforms impact on the economy will be the same as calculated for 2011-2014 and calculate the effects on the GDP for 2015
 - c) Add the additional impact to GDP after the policy reforms
 - d) Sum of a, b, and c immediately above is the cumulative ICI impact on the economy

Return on USAID's Investment in the WBG economy through ICI: Simply divide each of the totals above in categories A, B, and C by the respective ICI investments, as outlined in the task order contract.